COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT	)	
OF GAS RATES OF COLUMBIA GAS	)	CASE NO. 2013-00167
OF KENTUCKY, INC.	)	

VOLUME 2

FILING REQUIREMENTS

Columbia Gas of Kentucky, Inc.
Case 2013-00167
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Volume 2

Columbia Gas of Kentucky, Inc.
CASE NO. 2013-00167
Forecasted Test Period Filing Requirements
Filing Requirement #(16)12-l

Description of Filing Requirement:

The annual report to shareholders or members and the statistical supplements covering the most recent two (2) years from the application filing date;

Response:

The annual report to shareholders includes Form 10-K. Please refer to the attached for reports from 2011 and 2012.

Responsible Witness:

S. Mark Katko

801 EAST 86TH AVENUE
MERRILLVILLE, IN 46410
WWW.NISOURCE.COM

BUILDING

NYSE: NI

A BALANCED, DIVERSE PORTFOLIO OF REGULATED BUSINESSES

A COMPELLING INVESTMENT OPPORTUNITY

- Balanced, diverse portfolio of regulated businesses
- Disciplined operational, commercial, regulatory and financial execution
- Highly predictable revenue streams
- Substantial inventory of infrastructure-focused growth investments
- Secure, attractive dividend

A BALANCED FOUR-PART PLAN

- Gas Transmission, Storage and Midstream Expansion
- Infrastructure Modernization Programs Synched with Regulatory Initiatives
- Financial Management
- Cost & Process Management

2012 WORLD'S MOST ETHICAL COMPANIES WWW.ETHISPHERE.COM

In March 2012, NiSource was named one of the World's Most Ethical Companies by the Ethisphere Institute. The achievement is in recognition of NiSource's commitment to ethical leadership, compliance practices and corporate social responsibility.

STOCKHOLDER

This document contains forward-looking statements. For a discussion of factors that could cause actual results to differ materially from those contained in such statements, please see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the NiSource Inc. annual report on Form 10-K included herein.

NiSource Inc. common stock is listed and traded on the New York Stock Exchange under the symbol NI. The shares are listed in financial stock quotations as NISOURCE. As of December 31, 2011, NiSource Inc. had 30,663 registered common stockholders.

Anticipated Dividend Record and Payment Dates

NiSource Common Stock

04-30-12	05-18-12
07-31-12	08-20-12
10-31-12	11-20-12
02-04-13	02-20-13

Common Stock Dividend Declared
The Board of Directors, effective January 27, 2012, has declared a quarterly dividend of $0.23 per share, equivalent to $0.92 per share on an annual basis.

Investor and Financial Information
Financial analysts and investment professionals should direct written and telephone inquiries to NiSource Investor Relations at 801 E. 86th Ave., Merrillville, IN 46410 or (219) 647-6209.

Copies of NiSource's financial reports are available by writing or calling the Investor Relations department at the address or phone number listed above. The materials are also available at www.nisource.com.

Stockholder Services
Questions about stockholder accounts, stock certificates, transfer of shares, dividend payments, automatic dividend reinvestment and stock purchase plan and electronic deposit may be directed to Computershare Shareowner Services LLC at the following:

Computershare Shareowner Services LLC
P.O. Box 358015
Pittsburgh, PA 15252-8015
or
480 Washington Boulevard
Jersey City, NJ 07310-1900

(888) 884-7790

TDD for Hearing Impaired
(800) 231-5469

Foreign Stockholders
(201) 680-6578

TDD Foreign Stockholders
(201) 680-6610

www.bnymellon.com/shareowner/equityaccess

On June 8, 2011, NiSource's Chief Executive Officer submitted to the New York Stock Exchange ("NYSE") an annual certification stating that as of that date he was not aware of any violation by the company of the New York Stock Exchange's corporate governance listing standards, as required by Section 303A.12(a) of the NYSE's Listed Company Manual. NiSource's Chief Executive Officer and Chief Financial Officer have provided certifications to the U.S. Securities and Exchange Commission as required by Section 302 of the Sarbanes-Oxley Act of 2002. These certifications are included as Exhibits 31.1 and 31.2 to the company's 10-K for the year ended December 31, 2011.

Stockholder Inquiries	Analyst Inquiries	Media Inquiries
Computershare Shareowner Services	Investor Relations	Communications
(888) 884-7790	(219) 647-6209	(219) 647-5581

FELLOW SHAREHOLDERS:

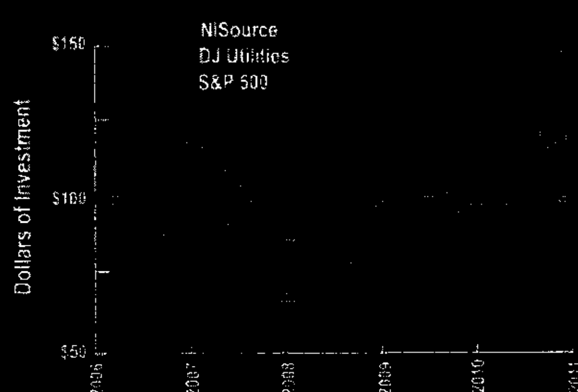
For NiSource, 2011 was a year of significant achievement, groundbreaking performance and industry-leading growth in shareholder value.

Through consistent execution of our balanced, well-established business strategy, the NiSource Team continued **building long-term, sustainable value** for our customers, investors and other key stakeholders.

- **We delivered on NiSource's financial commitments for the fifth consecutive year,** producing 2011 net operating earnings per share of $1.35 (non-GAAP),* [illegible] guidance range.
- **We led the industry in building shareholder value,** generating a total return of 40 percent, significantly outperforming the broader market and utility indices for the third straight year.
- **We continued building a deep inventory of accretive infrastructure investment opportunities,** driving more than [illegible] 2011 capital investments, and a record [illegible] capital program.
- **We strengthened our financial foundation** by reducing financing costs, extending our debt maturity profile, and managing liabilities – including our pension.
- **And we delivered on our core commitments** to provide our customers safe, reliable and affordable energy, while maintaining a strong and secure dividend, stable investment-grade credit ratings and long-term, sustainable earnings growth.

At the heart of NiSource's success is our balanced strategy of executing stakeholder-focused commercial and regulatory initiatives, paired with disciplined and accretive capital investments. This straightforward approach has enabled NiSource to more than triple its market capitalization over the past three years, from about $2 billion in the first quarter of 2009 to more than [illegible] billion.

*For a reconciliation to GAAP, see Schedule 1 of NiSource's February 1, 2012 earnings release.



2011	130.76	118.96	98.74
2010	92.44	102.24	96.70
2009	76.21	97.17	84.04
2008	50.20	86.35	66.47
2007	81.75	119.67	105.49
2006	100.0	100.0	100.0

PERFORMANCE

NiSource's 2011 performance ranked first among all companies in the Dow Jones Utility Average.

That's an impressive achievement, but as you will see in this year's annual report, we have our sights set even higher. Our Team is committed to building a world-class company – one that will consistently deliver value to all of our stakeholders for years to come.

AT R.M. SCHAHFER GENERATING STATION

NIPSCO is on track to install new clean-air equipment at its largest electric generating facility, part of an $850 million environmental investment stream.

LANDMARK INDIANA ACHIEVEMENTS

It's fitting that we begin our overview of NiSource's 2011 performance in Indiana, where our combined gas and electric utility, Northern Indiana Public Service Company (NIPSCO), executed on its comprehensive **Powering Indiana** strategy – to engage customers and community leaders, improve performance and reliability, modernize customer programs and rate designs, and create a stable earnings platform to support long-term investment and growth.

At the forefront of NIPSCO's 2011 achievements was the settlement – and subsequent Indiana Utility Regulatory Commission (IURC) approval – of the company's landmark electric rate case. The settlement, developed in close collaboration with stakeholders and approved by the IURC without modification, sets the stage for ongoing investments in customer service, reliability and environmental stewardship.

NIPSCO also remained on track with the first phase of a major environmental investment program that will upgrade clean-air technology at the company's electric generating facilities, create hundreds of project-related jobs, and keep NIPSCO at the forefront of compliance with current and anticipated future environmental standards.

ELECTRIC VEHICLES

NIPSCO is installing new publicly available charging stations for electric vehicles, including this model built in Indiana.

The first of these environmental investments, involving new flue gas desulfurization equipment (scrubbers) at NIPSCO's R.M. Schahfer Generating Station, is on budget and scheduled for completion by the end of 2013. Additional investments – all part of an approximately $850 million program over the balance of the decade – will involve more facility improvements, the installation of new publicly available electric vehicle charging stations, the addition of fleet vehicles with hybrid or electric technology, and the conservation of environmentally sensitive areas.

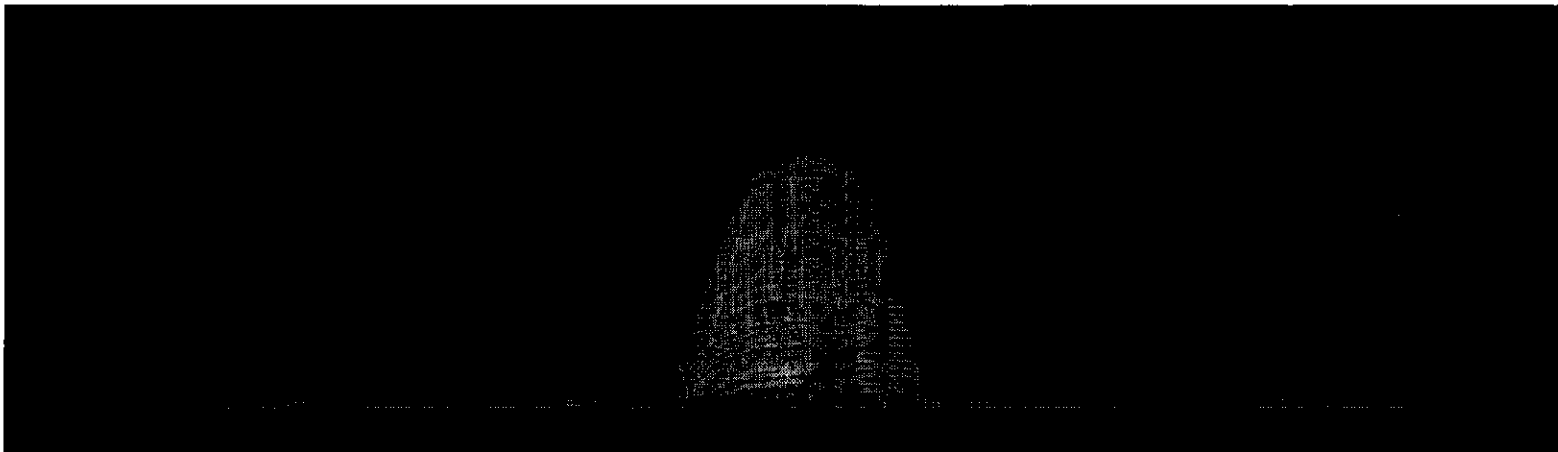
On the customer service front, NIPSCO continued to make improvements in operations performance and customer

BUILDING

satisfaction, while significantly expanding its electric conservation and energy efficiency programs. These new programs will complement similar natural gas programs that have helped NIPSCO customers reduce their energy costs by millions of dollars over the last several years.

Looking to the future, NIPSCO will play a key role in a multi-state initiative to strengthen the Midwest region's electric transmission grid. This effort includes a major investment to construct a new 100-mile, 345-kilavolt transmission line in northern Indiana.

Without question, 2011 was a "break-out" year for NIPSCO, and its future has never looked brighter. Working in close partnership with its customers, communities and other key stakeholders, the NIPSCO Team is fully committed to achieving its vision of building Indiana's premier utility.



ENVIRONMENTAL INVESTMENTS

In January 2011, NIPSCO embarked on a series of environmental improvements that together amount to an investment of approximately $850 million. These investments are designed to clean the air and create economic- and job-related benefits in northern Indiana. The first – and most significant – investment is the installation of flue gas desulfurization equipment at the company's R.M. Schahfer Generating Station in Wheatfield, Ind.

OVERALL ENVIRONMENTAL INVESTMENTS

- Investing approximately $850 million in environmental technology over the next six to eight years
- Reducing generation emissions by 80 percent from 2010 levels
- Helping maintain the region's current EPA attainment designation
- Positioning NIPSCO to comply with U.S. Environmental Protection Agency emission standards

ABOUT SCHAHFER GENERATING STATION

- NIPSCO's largest generating station, built between 1976-1986
- Station Net Capacity – 1,780 MW
- Four coal-fired generating units; two natural gas peaking units
- Produces enough electricity to supply 1.6 million average households
- Approximately 3,900 acres of land – 600 acres donated to the Nature Conservancy

SCHAHFER FLUE GAS DESULFURIZATION INSTALLATION

- Largest project in NIPSCO history
- $510 million investment over four years
- Adding 20 full-time NIPSCO jobs
- $66 million in construction wages paid
- 1.8 million hours of local labor
- 499-foot chimney stacks
- 1.1 million feet of electric cable
- Enough steel to build seven Boeing 747 aircrafts
- 5,000 cement truck loads
- On schedule and on budget

SHALE-DRIVEN TRANSMISSION, STORAGE AND MIDSTREAM GROWTH

CLENDENIN COMPRESSOR STATION

A significant portion of NGT&S' capital investment program for 2012 is targeted at value-adding growth opportunities in and around the shale gas production plays.

At NiSource Gas Transmission & Storage (NGT&S), CEO Jimmy Staton and Team are intently focused on developing and deploying a robust, comprehensive strategy for meeting customer needs and maximizing the value of our extensive pipeline and storage assets – including our very attractive position in the Marcellus and Utica shale production regions.

For 2012, we expect to invest about $430 million in capital projects at NGT&S, a more than 40 percent increase over 2011. A very significant portion of our 2012 capital program is targeted at value-adding growth opportunities in and around the shale gas production plays. In addition, our Team will continue capturing organic growth opportunities that leverage our core Columbia Gas Transmission, Columbia Gulf Transmission and related pipeline systems.

The Team is off to a great start with the recent announcement of a new supply-driven project to install and operate about 90 miles of pipeline facilities in western Pennsylvania. Anchored by a major producer, this $145 million project will have an initial capacity of about 300,000 dekatherms per day and provide interconnects with multiple interstate pipelines. Work is well underway and the project is scheduled to be in service later this year.

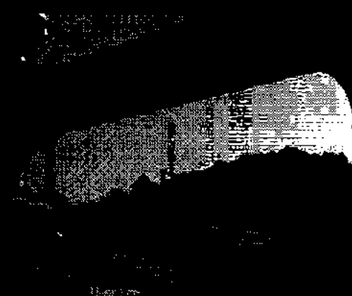
Shale production also is driving expansion of the Millennium Pipeline, 47.5 percent owned by NiSource. Pending Federal Energy Regulatory Commission (FERC) approval, Millennium is creating new firm capacity with the addition of more than 12,000 horsepower of compression in Orange County, NY. The expansion represents an investment of nearly $45 million for the partnership and is anticipated to be in-service in November 2012.

The NGT&S Team also is making progress in leveraging our extensive mineral rights position in the developing Utica shale production area, where we estimate NiSource has approximately 100,000 to 200,000 prospective acres available for lease to producers. The pace of drilling activity in the Utica is expected to accelerate in 2012, especially in the so-called "wet" areas of the play, where wells produce a valuable mixture of natural gas and heavier hydrocarbons such as ethane.

NGT&S is actively engaged in discussions with a number of producers to optimize the value of our Utica acreage position, in particular in the eastern part of the play. As we develop and execute our minerals strategy, our focus will be on capturing opportunities that enhance the long-term value of our assets, offer accretive investment opportunities and create long-term shareholder value.

The NGT&S Team also is in the process of developing a long-term program to modernize its transmission and storage system. Similar to the modernization programs in place at our gas utilities, this effort would enhance the reliability and flexibility of our core Columbia Gas Transmission system, ensuring continued safe and reliable service while positioning the company to meet anticipated regulatory requirements.

We are discussing the plan – which is expected to involve an investment of about $4 billion over a 10- to 15-year period – with customers and other key stakeholders. This long-term modernization effort offers numerous customer, environmental and economic benefits, while at the same time supporting ongoing growth for the company.



SHALE GAS OPPORTUNITY

The production of gas and oil from shale reserves is a game changer for the entire nation. End-use customers get the benefits of lower natural gas prices and a domestically available, clean energy resource. Other related businesses, like the chemical and plastics industries, also benefit from the associated gas and petroleum production. And, local economies get a much-needed boost from job growth and significant economic development investments.

The opportunities for NiSource are significant, as our existing pipeline assets overlay two of the largest shale production areas: the Utica and Marcellus. Our vast natural gas pipeline and storage system extends throughout much of the Marcellus and Utica play, providing opportunities to transport new supplies of natural gas to processing centers and end users.

Extending this potential is NiSource's 100,000 to 200,000 acres in the Utica shale that have production lease potential. This acreage position also enables significant long-term midstream and downstream infrastructure investment.

This trifecta of opportunity – minerals, midstream and traditional pipeline projects – positions NiSource to capture immediate and long-term revenue-generating opportunities from increased shale production.

Consistent with our overall approach, our strategy will be to use our lease position to secure additional gas production that is supportive of firm downstream gas transportation investments. These investments will likely include processing facilities and interconnections, as well as expansion and reconfiguration of our existing facilities.

Our NGT&S business remains a centerpiece of our balanced portfolio with significant opportunities to grow earnings predictably over the long term. The initiatives underway at NGT&S position us to remain responsive to our customers and other stakeholders, while ensuring the safety, flexibility and reliability of our system now and in the future.

INDUSTRY-LEADING GAS DISTRIBUTION PROGRAMS

In 2011, our NiSource Gas Distribution (NGD) Teams continued to execute on an industry-leading series of long-term infrastructure modernization and replacement programs paired with stakeholder-focused regulatory and customer programs.

We invested nearly $320 million in these modernization programs in 2011 to ensure safe and reliable service. In 2012, we will continue at a similar pace as part of our more than $4 billion plus modernization program spanning the next 20 years.

Our NGD Team also continues to pursue complementary strategies to help customers save money on their energy bills through reduced energy usage and other assistance initiatives. For example, during 2011, Columbia Gas of Ohio received approval from the Public Utilities Commission of Ohio to extend and expand its energy efficiency programs for an additional five years. Over the life of the programs, we estimate customers will save up to $300 million through reduced energy usage.

On the regulatory and legislative front, our Teams continued to make steady progress during 2011. For example, in October, the Pennsylvania Public Utility Commission issued a final order in Columbia Gas of Pennsylvania's base rate case, authorizing an annual revenue increase of $17 million. As part of the order, the Commission also authorized a new residential rate design with a higher minimum monthly charge, including a fixed customer charge and usage allowance.

Also in Pennsylvania, in early February of this year, the General Assembly enacted a law that will support investment in Pennsylvania's energy infrastructure, create jobs and help

MANAGEMENT

PRESIDENT & CHIEF EXECUTIVE OFFICER

EXECUTIVE VICE PRESIDENT &
CHIEF FINANCIAL OFFICER

EXECUTIVE VICE PRESIDENT &
CHIEF LEGAL OFFICER

EXECUTIVE VICE PRESIDENT & GROUP CEO
GAS TRANSMISSION & STORAGE & NIPSCO

SENIOR VICE PRESIDENT
HUMAN RESOURCES

SENIOR VICE PRESIDENT
CORPORATE AFFAIRS

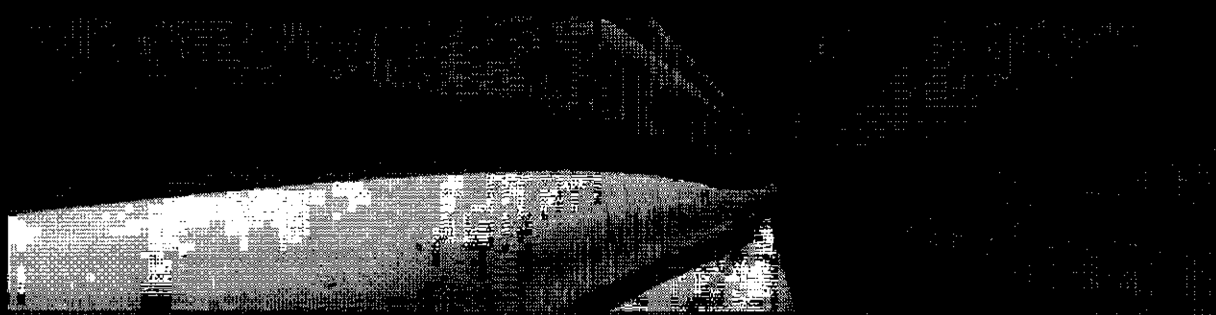
SENIOR VICE PRESIDENT &
CHIEF INFORMATION OFFICER

VICE PRESIDENT
AUDIT

manage customer energy costs. This came on the heels of landmark legislation enacted in Ohio last May. Among other things, the Ohio legislation helps modernize the way natural gas utilities are regulated and encourages infrastructure investment in the state. Consistent with regulatory and legislative efforts across all of our businesses, our NGD teams played a key role in the effort to develop and enact these statutes.

In Virginia, Columbia Gas of Virginia received regulatory approval of an application under the Commonwealth's SAVE Act (Steps to Advance Virginia's Energy Plan) for accelerated recovery of certain infrastructure modernization investments. Over the next five years, we expect to invest more than $100 million under this program.

NGD's ongoing infrastructure modernization programs continue to benefit customers and communities, as well as NiSource shareholders. The Team's consistent, collaborative approach has served us well as we execute on this core long-term strategy.



INFRASTRUCTURE MODERNIZATION INITIATIVES

Starting nearly three years ago, NiSource Gas Distribution launched a $4+ billion infrastructure modernization initiative. The initiative is designed to ensure the safe and reliable delivery of natural gas to our customers, while providing additional earnings opportunities for the company.

This modernization includes replacing aging pipelines with more corrosion-resistant materials, including coated steel and plastic, as well as the installation of automated meter readers.

The largest modernization programs across the NiSource footprint are located in Ohio, Pennsylvania and Massachusetts. Other programs are moving ahead in Kentucky, Virginia and Maryland.

In Ohio alone, the $1.8 billion, 25-year planned investment is anticipated to create or support up to 1,485 annualized jobs over the duration of the project.* The bulk of jobs will be created in the non-utility areas such as the construction sector, retail and restaurant sectors and plastics and technical services sectors.

Ohio and local government revenues will increase by more than $200 million over the project life. Local government wage taxes will amount to nearly $50 million and state government revenues based on income, commercial activity and sales taxes will amount to more than $160 million.

Across NiSource's entire footprint, similar economic development and job creation opportunities are being created and will continue for the next two decades.

*Data based on an economic impact study completed by Kleinhenz & Associates

2011 ACCOMPLISHMENTS

- NiSource Leads Dow Jones Utility Index in Total Shareholder Return
- Capital Investment Program Exceeds $1.1 Billion; Record $1.4 Billion Program in 2012
- $850 Million Environmental Investment Program Launched in Indiana
- NIPSCO Electric Rate Settlement Approved
- Columbia Gas of Pennsylvania and Columbia Gulf Rate Case Settlements Approved
- Nearly $320 Million Invested in NiSource Gas Distribution Modernization Programs
- NGT&S Announced 100,000 to 200,000 Acres in Utica Shale Area May Hold Production Lease Potential

BUILDING FROM A STRONG FINANCIAL FOOTING

The foundation of NiSource's infrastructure investment-driven growth platform is a thoughtful, disciplined financial strategy.

During 2011, Chief Financial Officer Steve Smith and his Team further strengthened NiSource's financial profile through a series of strategic transactions designed to reduce financing costs, extend our debt maturity profile, and manage liabilities, including our pension obligations.

These transactions included:

- Issuing a total of $900 million of long-term notes;
- Completing a $250 million debt tender offer;
- Launching a $500 million commercial paper program; and
- Renewing our $1.5 billion revolving credit facility for an additional four years.

I am also pleased to report that in late 2011 and early in 2012, NiSource's stable investment-grade credit ratings were again affirmed by Moody's, Fitch and Standard and Poor's. As I have noted in the past, a stable investment-grade credit rating is an essential element of our balanced business plan.

Over the last several years, we have demonstrated our commitment to a strong and secure dividend. Looking to the future, NiSource's Board of Directors is currently reviewing the company's dividend policy, with the objective of resuming sustainable dividend growth at the earliest appropriate date. We expect to be in a position to communicate our prospective policy and timetable later this year.

GROWING EARNINGS & SHAREHOLDER VALUE IN 2012

Our balanced plan and focused execution have enabled NiSource to outline a robust growth plan for 2012.

Our announced non-GAAP net operating earnings outlook for 2012 is $1.40 to $1.50 per share, which at the midpoint represents nearly a 7.5 percent increase over 2011 earnings.

And, as I noted above, helping fuel this and future growth will be our record $1.4 billion capital investment program. That plan reflects an increase of almost 25 percent over 2011, with the largest increases relating to the deep inventory of value-adding projects at NGT&S and our electric business. These and other investments will serve to enhance the long-term value of our assets for the benefit of our customers, shareholders and other key stakeholders.

As our 2011 results attest and our 2012 commitments confirm, the NiSource Team is building a consistent track record of delivering on our promises. Looking forward to 2012 – with the engagement of our nearly 8,000 employees and the strong support of our Board of Directors – I am convinced that we have the strategy, the resources and the capabilities to continue to deliver on those commitments, and to build **North America's Premier Regulated Energy Company.**

Thank you for your continued interest in and support of NiSource.

Robert C. Skaggs, Jr.
President & CEO
NiSource Inc.

SHAREHOLDER VALUE IN 2011

- Total Shareholder Return: 40 percent
- Capital Investment Program: $1.13B
- Share Price Appreciation: 35 percent
- Year-End Net Available Liquidity: $364M
- 2012 Capital Investment Program: $1.4B
- Reduced Financing Costs, Extended the Company's Debt Maturity Profile
- Growth, Environmental, Modernization Investments On Schedule and On Budget
- Significant Shale Opportunities – Midstream, Minerals and Traditional Pipeline Opportunities

OF DIRECTORS

CHAIRMAN OF THE BOARD
NISOURCE INC.

PRESIDENT
R.A. ABDOO & CO. LLC

CHAIRMAN
UNIVERSITIES RESEARCH ASSOCIATION

RETIRED SENIOR VICE PRESIDENT,
FINANCE & CFO
CONOCOPHILLIPS

PRINCIPAL
SERRAFIX

RETIRED EXECUTIVE VICE PRESIDENT & CFO
DRESSER, INC.

RETIRED CHAIRMAN, PRESIDENT & CEO
RAYONIER, INC.

SENIOR VICE PRESIDENT, QUALITY
ALSTOM POWER

PRESIDENT & CEO
NISOURCE INC.

CHAIRMAN
LENNOX INTERNATIONAL, INC.

PRESIDENT & CEO
CATHOLIC RELIEF SERVICES

LETTER FROM THE CHAIRMAN

2011 unquestionably was a year of significant achievement for NiSource shareholders, the customers and communities we serve, as well as the entire team.

By successfully executing on its balanced business plan, NiSource is positioned to step up its game a notch – maybe even two – this year. The pinnacle of this accomplishment is the $1.4 billion capital investment program outlined for 2012.

Underpinning NiSource's plan is a solid governance model and an engaged and active Board of Directors. As a group, we take very seriously our role as stewards of your investment, and we are committed to the principles of integrity, transparency and independence. These commitments remain absolute as NiSource advances along its growth plans.

In 2011 we welcomed the newest member of NiSource's Board, Sigmund Cornelius. Sig's leadership and financial experience at ConocoPhillips will be a great asset as NiSource continues to execute on its long-term, investment-driven growth strategy.

In addition, it is with sincere gratitude that I acknowledge the significant contributions of retiring board member, and friend, Dr. Steven Beering. For 25 years we have served together on NiSource's board, and his dedication and commitment to the company and its employees have proven invaluable. On behalf of the entire Board, I extend our deep appreciation to Steve for his contributions and many years of service.

I'm pleased to add that, given the anticipated long-term earnings growth enabled by the company's infrastructure investment-driven strategy, the Board is evaluating plans to resume growth of NiSource's dividend, with an announcement anticipated later this year. This – among countless other examples – is a noteworthy demonstration of the Board's confidence in management's plan and vision for building North America's Premier Regulated Energy Company and sustainable shareholder value.

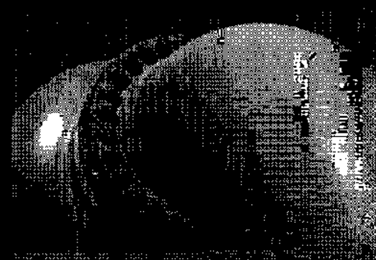
As we move forward through 2012, I can assure you that the Board will continue to maintain a high level of engagement with management and, together with Bob and his team, will test and validate the company's strategies and plans on an ongoing basis. We are confident the company will continue to deliver on its commitments to you and our other key stakeholders.

Thank you for your continuing support of OUR company.

Sincerely,

Ian M. Rolland

Ian M. Rolland
Chairman of the Board
NiSource Inc.



BUILDING

NYSE: NI

ELECTRIC OPERATIONS

GAS DISTRIBUTION

GAS TRANSMISSION & STORAGE

A BALANCED, DIVERSE PORTFOLIO OF REGULATED BUSINESSES

NiSource

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OTHER INFORMATION

NISOURCE CORPORATE PROFILE

NISOURCE INC. (NYSE:NI) is an energy holding company with headquarters in Merrillville, IN. Our companies provide natural gas, electricity, and other products and services to approximately 3.8 million customers located within the high-demand energy corridor that runs from the Gulf Coast through the Midwest to New England. Our business strategy is focused on our core, rate-regulated, asset-based businesses which generate substantially all of our operating income.

ELECTRIC OPERATIONS

- More than 450,000 industrial, commercial and residential electric customers in a stable marketplace
- Environmentally compliant fleet of electric generation facilities
- Total generating capability of approximately 3,300 megawatts
- Recent successful resolution of base rate case
- Record environmental investments at coal-fired electric generation facilities – a nearly $850 million environmental investment program

GAS TRANSMISSION & STORAGE

- 15,000 mile network of interstate natural gas pipelines
- One of the nation's largest market area storage systems
- Unparalleled strategic footprint in the Marcellus and Utica Shale production region
- Deep inventory of attractive investment opportunities
- Opportunity to implement a long-term pipeline system modernization program

GAS DISTRIBUTION

- One of the nation's largest natural gas distribution operations serving more than 3.3 million customers
- Established best-in-class platform for sustainable earnings growth through:
    - A comprehensive long-term infrastructure-investment program
    - Responsive customer programs
    - Creative regulatory approaches

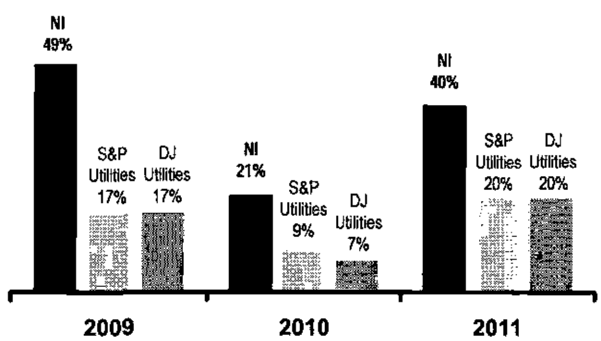
FINANCIAL HIGHLIGHTS (12/31/2011)

Stock Price	$23.81
Common Shares Outstanding	281.9M
Annual Dividend	$0.92
Market Capitalization	$6.71B

STABLE CREDIT RATINGS

S&P	BBB-
Moody's	Baa3
Fitch	BBB-

TOTAL SHAREHOLDER RETURN *



* Stock Appreciation + Annual Dividend (Indices are average)

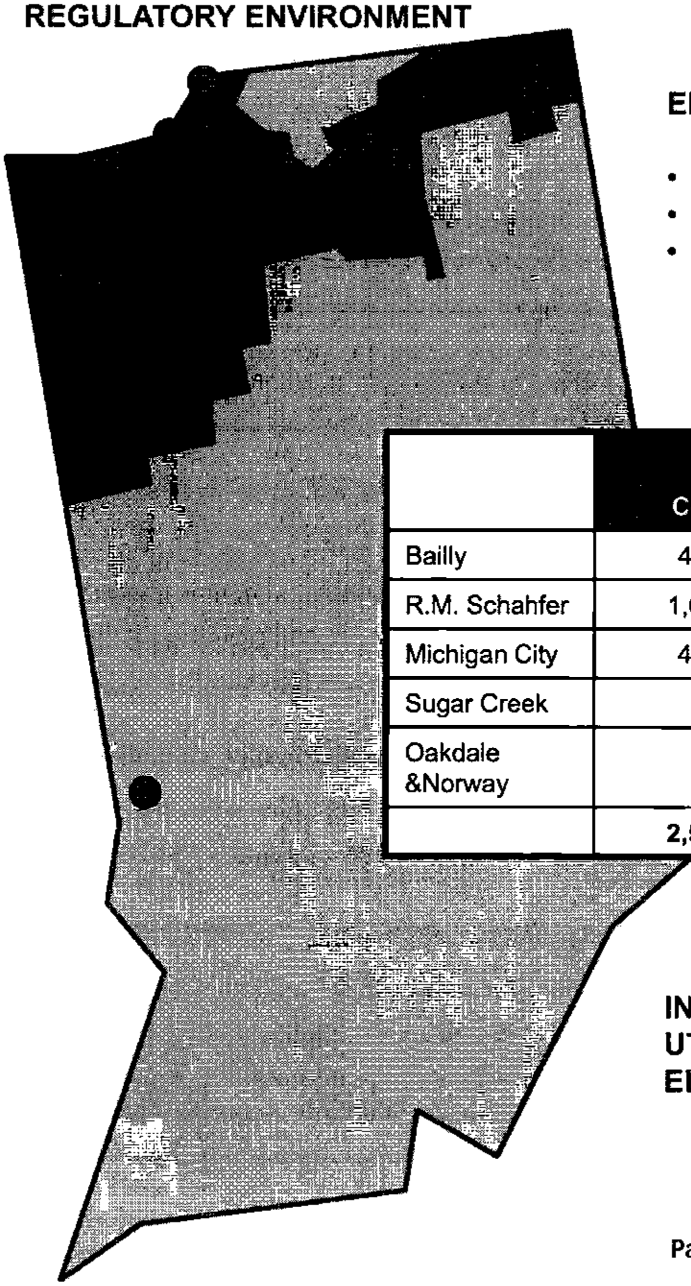
NISOURCE ELECTRIC OPERATIONS

NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana Public Service Company (NIPSCO) to approximately 458,000 customers in 20 counties in northern Indiana. NIPSCO owns and operates four electric generating stations with a total generating capacity of approximately 3,300MW (78% coal, 22% natural gas). NIPSCO's transmission system consists of 2,800 circuit miles interconnecting with five neighboring electric utilities.

At the forefront of NIPSCO's achievements for 2011 was the settlement and subsequent approval, without modification, of its landmark electric rate case, which sets the stage for ongoing investments in customer service, reliability, and environmental stewardship in Indiana.

NIPSCO electric is currently executing on more than $850 million of revenue producing environmental investment opportunities.

CONSTRUCTIVE REGULATORY ENVIRONMENT



ELECTRIC DISTRIBUTION & TRANSMISSION

- 458,000 Electric Customers
- 10,000 Mile of Electric Distribution
- 2,800 Miles of Electric Transmission

ELECTRIC GENERATION

	Capacity (MW)			
	Coal	Natural Gas	Hydro	Total
Bailly	480	31	-	511
R.M. Schahfer	1,625	155	-	1,780
Michigan City	469	-	-	469
Sugar Creek	-	535	-	535
Oakdale &Norway	-	-	10	10
	2,574	**721**	**10**	**3,305**

INDIANA'S LARGEST COMBINATION UTILITY & SECOND LARGEST ELECTRIC COMPANY

NISOURCE GAS TRANSMISSION & STORAGE

NiSource Gas Transmission & Storage (NGT&S) operates an interstate natural gas transmission and storage system that transports natural gas through its 15,000 miles of pipeline, and stores natural gas in its 37 market area storage fields with a capacity of approximately 640 Bcf. The NGT&S companies service customers in more than 15 states. From the Gulf Coast to the Midwest, Mid-Atlantic, and Northeast, the system connects premium natural gas supplies with some of the nation's strongest energy markets.

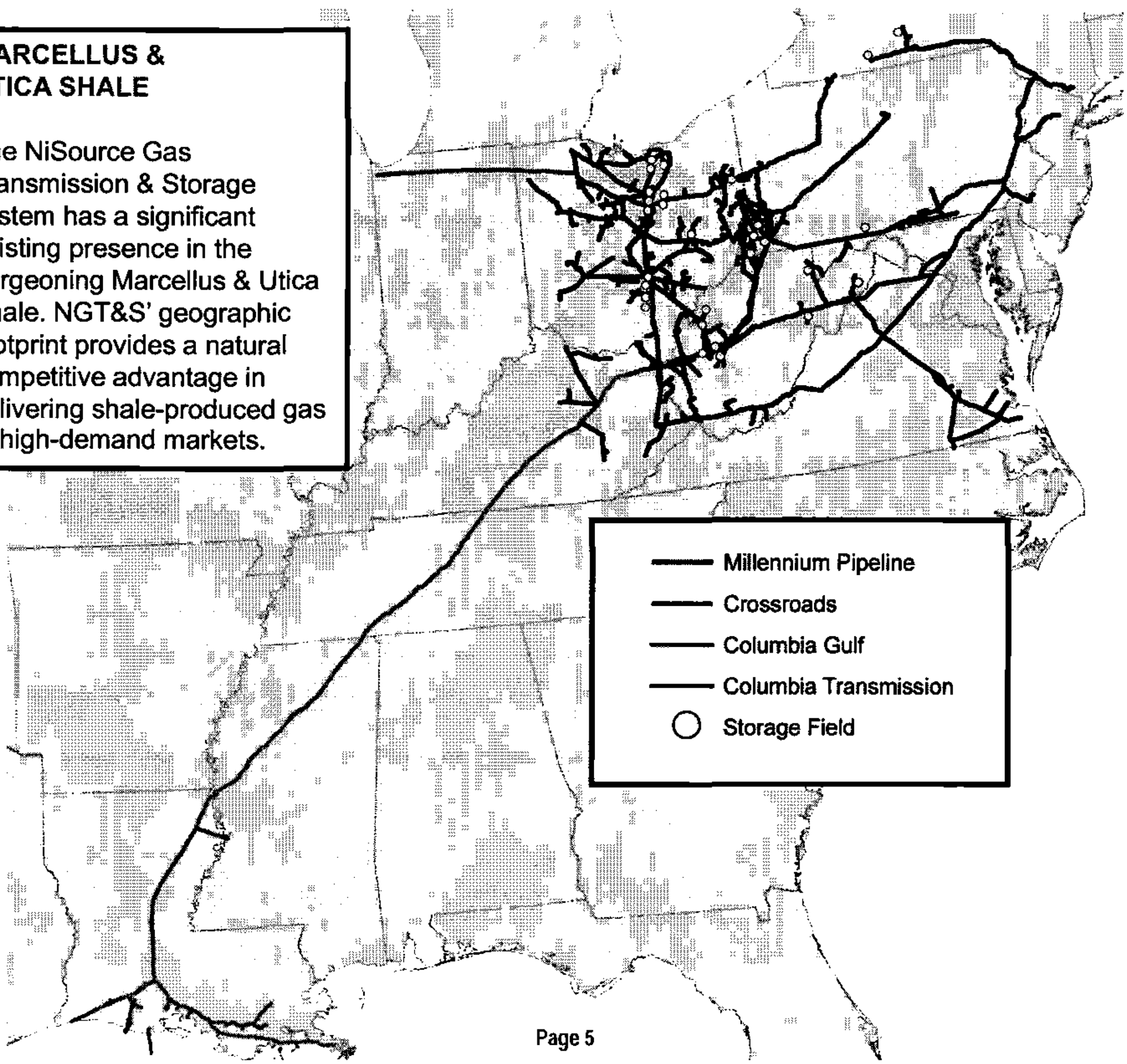
More than one trillion cubic feet of natural gas flows through NGT&S' pipeline and storage systems each year, providing competitively priced, clean energy for millions of homes, businesses and industries.

NGT&S's presence in the Marcellus & Utica Shale region provides significant opportunities to invest in gathering, processing, and transmission infrastructure.

The NGT&S Team is developing a long-term, multi-billion dollar program to modernize its transmission and storage system. The plan is expected to involve investments of about $4 billion over 10 to 15 years.

MARCELLUS & UTICA SHALE

The NiSource Gas Transmission & Storage system has a significant existing presence in the burgeoning Marcellus & Utica Shale. NGT&S' geographic footprint provides a natural competitive advantage in delivering shale-produced gas to high-demand markets.



NISOURCE GAS DISTRIBUTION

Our natural gas distribution operations serve more than 3.3 million customers in seven states and operate approximately 58,000 miles of pipeline. Under the banner of "Columbia Gas," NiSource owns six distribution subsidiaries that provide clean and affordable natural gas to approximately 2.5 million residential, commercial and industrial customers in Ohio, Pennsylvania, Maryland, Virginia, Kentucky and Massachusetts. NiSource also distributes natural gas to approximately 795,000 customers in Indiana through our Northern Indiana Public Service Company (NIPSCO) subsidiary.

NiSource gas distribution companies have established a best-in-class regulatory platform that focuses on de-risking earnings and synching long-term replacement programs with complementary regulatory recovery mechanisms.

The NiSource Gas Distribution Team continues to execute on an industry-leading series of long-term infrastructure modernization and replacement programs, which will total more than $4 billion over the next 10 – 15 years.

COLUMBIA GAS OF OHIO
- Largest Natural Gas Provider in Ohio
- 1.4 Million Customers; 19,000+ Miles of Pipe

COLUMBIA GAS OF PENNSYLVANIA
- 3rd Largest Natural Gas Provider in Pennsylvania
- 413,000 Customers; 7,400 Miles of Pipe

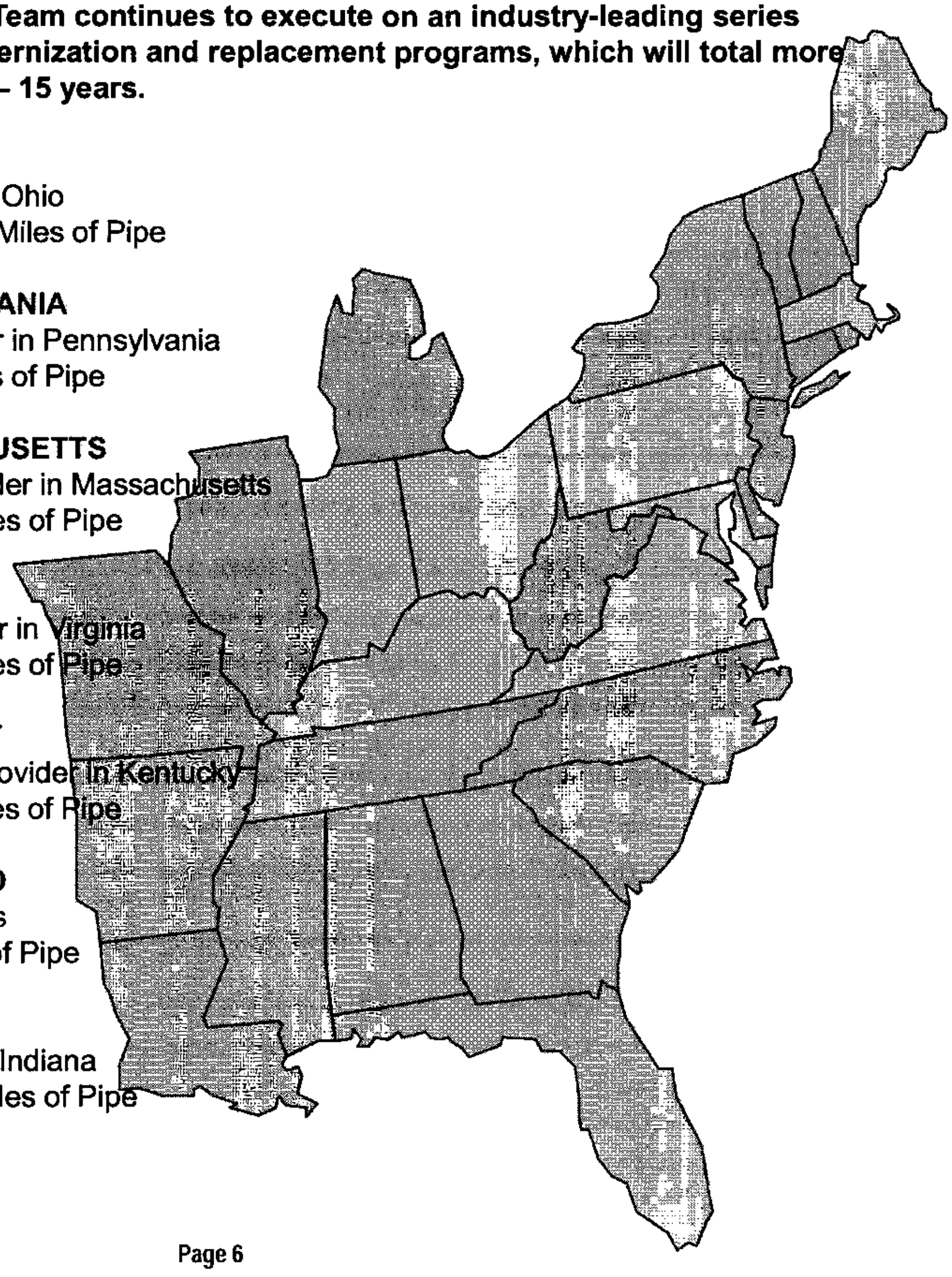
COLUMBIA GAS OF MASSACHUSETTS
- Largest Natural Gas-Only Provider in Massachusetts
- 300,000 Customers; 4,800+ Miles of Pipe

COLUMBIA GAS OF VIRGINIA
- 2nd Largest Natural Gas Provider in Virginia
- 240,000 Customers; 4,800+ Miles of Pipe

COLUMBIA GAS OF KENTUCKY
- 2nd Largest Natural Gas-Only Provider in Kentucky
- 142,000 Customers; 2,500+ Miles of Pipe

COLUMBIA GAS OF MARYLAND
- Complementary to PA Operations
- 33,000 Customers; 750+ Miles of Pipe

NIPSCO GAS
- Largest Natural Gas Provider in Indiana
- 795,000 Customers; 17,000+ Miles of Pipe



SELECT FINANCIAL DATA

Year Ended December 31, (in millions, except per share amounts)		**2011**	2010	2009
Operating Earnings (Non-GAAP) *				
Gas Distribution Operations		**438.8**	342.6	328.8
Gas Transmission and Storage Operations		**360.1**	376.8	408.3
Electric Operations		**203.0**	217.0	162.5
Corporate and Other Operations		**(40.6)**	(21.1)	(19.8)
Consolidated		**961.3**	915.3	879.8
Net Property Plant and Equipment				
Gas Distribution Operations		**4,937.9**	4,525.3	4,286.1
Gas Transmission and Storage Operations		**3,208.3**	3,080.1	3,010.4
Electric Operations		**3,063.4**	3,066.2	3,000.0
Common Utility, Non-Utility & Other		**203.2**	159.9	95.6
Construction Work in Process		**387.3**	265.5	295.9
Total Net PP&E		**11,800.1**	11,097.0	10,688.0
	2012E			
Capital Expenditures				
Gas Distribution Operations	**533.0**	**539.4**	409.7	343.2
System Growth	**82.5**	**81.5**	94.1	86.1
Tracked *	**317.0**	**317.4**	200.4	174.9
Maintenance & Other	**133.5**	**140.5**	115.2	82.2
Gas Transmission and Storage Operations	**431.6**	**301.5**	302.0	287.4
System Growth	**221.0**	**81.5**	152.4	171.2
Maintenance & Other	**210.6**	**220.0**	149.6	116.2
Electric Operations	[illegible]	[illegible]	[illegible]	162.6
System Growth	**25.3**	**28.0**	25.8	32.7
Tracked	**235.3**	**111.1**	7.4	-
Maintenance & Other	**153.0**	**128.6**	157.1	129.9
Corporate and Other Operations	[illegible]	**22.2**	9.6	[illegible]
Consolidated	**1,400.0**	**1,130.8**	911.6	798.6
Common Stock Trading				
High		**$ 23.97**	$ 17.96	$ 15.82
Low		**$ 17.71**	$ 14.13	$ 7.79
Close		**$ 23.81**	$ 17.62	$ 15.38
Average Daily Trading Volume (millions)		**3.01**	2.81	3.26
Other Data				
Market Capitalization		**6,711**	4,914	4,214
P/E **		**17.67**	14.47	14.37
Dividends Paid per Common Share		**$ 0.92**	$ 0.92	$ 0.92
Dividend Yield on Common Stock (at December 31)		**3.9%**	5.2%	6.0%
Book Value of Common Stock		**$ 17.78**	$ 17.66	$ 17.55
Shares Outstanding at the End of the Year (in thousands)		**281,854**	278,855	276,638
Number of Common Shareholders		**30,663**	32,313	34,299
Total Number of Employees		**7,957**	7,604	7,616

* Includes CPA infrastructure programs of $99 million, $111.9 million, $51.1 million, and $40.9 million for 2012E, 2011 2010, and 2009, respectively.

** Based on 2011 operating earnings EPS

STATEMENTS OF CONSOLIDATED INCOME (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)	**2011**	2010	2009
Net Revenues			
Gas Distribution	**$ 2,927.6**	$ 3,097.4	$ 3,296.2
Gas Transportation and Storage	**1,354.6**	1,261.4	1,239.6
Electric	**1,420.2**	1,367.5	1,244.6
Other	**92.5**	92.0	55.6
Gross Revenues	**5,794.9**	5,818.3	5,836.0
Cost of Sales (excluding depreciation and amortization)	**2,334.0**	2,379.2	2,495.1
Total Net Revenues	**3,460.9**	3,439.1	3,340.9
Operating Expenses			
Operation and maintenance	**1,488.5**	1,417.6	1,359.4
Operation and maintenance - trackers	**194.3**	239.7	247.2
Depreciation and amortization	**524.1**	584.7	580.5
Depreciation and amortization - trackers	**14.1**	12.4	8.6
Other taxes	**212.6**	207.1	199.1
Other taxes - trackers	**80.6**	77.3	81.3
Total Operating Expenses	**2,514.2**	2,538.8	2,476.1
Equity Earnings in Unconsolidated Affiliates	**14.6**	15.0	16.0
Operating Earnings	**961.3**	915.3	880.8
Other Income (Deductions)			
Interest expense, net	**(376.8)**	(392.3)	(399.3)
Other, net	**(7.3)**	3.8	(1.4)
Operating Earnings From Continuing Operations Before Income Taxes	**577.2**	526.8	480.1
Income Taxes	**199.4**	188.6	185.0
Prior Year Net Adjustments			0.7
Net Operating Earnings from Continuing Operations	**377.8**	338.2	294.4

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[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]		[illegible]	[illegible]
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[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
Loss on early extinguishment of debt	[illegible]	[illegible]	[illegible]
Tax effect of above items and other income tax adjustments	42.9	42.0	[illegible]
Total items excluded from net operating earnings	(74.0)	(53.0)	[illegible]

GAAP Income from Continuing Operations	**$ 303.8**	$ 285.2	$ 229.8

Basic Net Operating Earnings Per Share from Continuing Operations	**1.35**	1.22	1.07
GAAP Basic Earnings Per Share from Continuing Operations	**1.08**	1.03	0.84

Basic Average Common Shares Outstanding (millions)	**280.4**	277.8	275.1

CONSOLIDATED BALANCE SHEETS

As of December 31, (in millions)	**2011**	2010	2009
ASSETS			
Property, Plant and Equipment			
Utility Plant	**$ 20,337.8**	$ 19,494.9	$ 19,041.1
Accumulated depreciation and amortization	**(8,670.2)**	(8,492.6)	(8,387.1)
Net utility plant	**11,667.6**	11,002.3	10,654.0
Other property, at cost, less accumulated depreciation	**132.5**	94.7	34.0
Net Property, Plant and Equipment	**11,800.1**	11,097.0	10,688.0
Investments and Other Assets			
Assets of discontinued operations and assets held for sale	**0.2**	7.9	14.6
Unconsolidated affiliates	**204.7**	200.9	165.8
Other investments	**150.9**	139.7	129.2
Total Investments and Other Assets	**355.8**	348.5	309.6
Current Assets			
Cash and cash equivalents	**11.5**	9.2	16.4
Restricted cash	**160.6**	202.9	174.7
Accounts receivable	**854.8**	1,079.3	808.6
Income tax receivable	**0.9**	99.0	24.9
Gas inventory	**427.6**	298.2	384.8
Underrecovered gas and fuel costs	**20.7**	120.7	40.2
Materials and supplies, at average cost	**87.6**	83.8	102.3
Electric production fuel, at average cost	**50.9**	46.0	59.9
Price risk management assets	**137.2**	159.5	173.3
Exchange gas receivable	**64.9**	62.7	72.5
Regulatory assets	**169.7**	143.8	238.3
Assets of discontinued operations and assets held for sale	**-**	-	1.4
Prepayments and other	**261.8**	120.8	126.3
Total Current Assets	**2,248.2**	2,425.9	2,223.6
Other Assets			
Price risk management assets	**188.7**	240.3	237.6
Regulatory assets	**1,978.2**	1,648.0	1,644.1
Goodw ill	**3,677.3**	3,677.3	3,677.3
Intangible assets	**297.6**	308.6	319.6
Postretirement and postemployment benefits assets	**31.5**	35.1	19.8
Deferred charges and other	**130.9**	132.7	152.1
Total Other Assets	**6,304.2**	6,042.0	6,050.5
Total Assets	**$ 20,708.3**	$ 19,913.4	$ 19,271.7 *

* Total assets at December 31, 2009 is $9.2 million low er due to prior year adjusments (not presented in the December 31, 2011 10-K).

CONSOLIDATED BALANCE SHEETS – CONT.

As of December 31, (in millions)	**2011**	2010	2009
CAPITALIZATION AND LIABILITIES			
Capitalization			
Common Stockholders' Equity			
Common stock - $0.01 par value, 400,000,000 shares authorized	**$ 2.8**	$ 2.8	$ 2.8
Additional paid-in capital	**4,167.7**	4,103.9	4,057.6
Retained earnings	**917.0**	876.1	865.5
Accumulated other comprehensive income (loss)	**(59.7)**	(57.9)	(45.9)
Treasury stock	**(30.5)**	(27.4)	(25.9)
Total Common Stockholders' Equity	**4,997.3**	4,897.5	4,854.1
Long-term debt, excluding amounts due within one year	**6,267.1**	5,936.1	5,969.1
Total Capitalization	**11,264.4**	10,833.6	10,823.2
Current Liabilities			
Current portion of long-term debt	**327.3**	34.2	719.7
Short-term borrowings	**1,359.4**	1,382.5	103.0
Accounts payable	**434.8**	581.8	502.3
Dividends declared	**-**	0.1	0.2
Customer deposits and credits	**313.6**	318.1	301.2
Taxes accrued	**220.9**	221.1	212.9
Interest accrued	**111.9**	114.4	125.4
Overrecovered gas and fuel costs	**48.9**	21.4	220.4
Price risk management liabilities	**167.8**	173.9	190.1
Exchange gas payable	**168.2**	266.1	222.2
Deferred revenue	**10.1**	6.8	27.3
Regulatory liabilities	**112.0**	92.9	43.8
Accrued liability for postretirement and postemployment benefits	**26.6**	23.3	23.6
Liabilities of discontinued operations and liabilities held for sale	**-**	-	0.6
Legal and environmental reserves	**43.9**	86.0	146.1
Other accruals	**301.0**	343.7	310.8
Total Current Liabilities	**3,646.4**	3,666.3	3,149.6
Other Liabilities and Deferred Credits			
Price risk management liabilities	**138.9**	181.6	170.2
Deferred income taxes	**2,541.9**	2,193.1	2,018.2
Deferred investment tax credits	**29.0**	33.7	39.6
Deferred credits	**78.9**	68.6	72.4
Deferred revenue	**-**	0.3	8.5
Accrued liability for postretirement and postemployment benefits	**953.8**	1,039.6	1,134.2
Liabilities of discontinued operations and liabilities held for sale	**-**	-	6.2
Regulatory liabilities and other removal costs	**1,663.9**	1,595.8	1,558.8
Asset retirement obligations	**146.4**	138.8	138.2
Other noncurrent liabilities	**244.7**	162.0	152.6
Total Other Liabilities and Deferred Credits	**5,797.5**	5,413.5	5,298.9
Commitments and Contingencies	**-**	-	-
Total Capitalization and Liabilities	**$ 20,708.3**	$ 19,913.4	$ 19,271.7 *

* Total capitalization and liabilities at December 31, 2009 is $9.2 million lower due to prior year adjusments (not presented in the December 31, 2011 10-K).

STATEMENTS OF CONSOLIDATED CASH FLOW

Twelve Months Ended December 31, (in millions)	2011	2010	2009
Operating Activities			
Net income	$ **299.1**	$ 282.6	$ 217.0
Adjustments to reconcile net income to net cash from continuing operations:			
Loss on early extinguishment of long-term debt	**53.9**	96.7	4.5
Depreciation and amortization	**538.2**	597.1	589.9
Net changes in price risk management assets and liabilities	**38.1**	(5.5)	(9.1)
Deferred income taxes and investment tax credits	**178.4**	193.9	377.8
Deferred revenue	**2.5**	(20.4)	4.3
Stock compensation expense and 401(k) profit sharing contribution	**39.2**	30.9	9.6
Loss (Gain) on sale of assets	**0.1**	(0.1)	(3.6)
Loss on impairment of assets	**16.7**	2.1	23.3
Income from unconsolidated affiliates	**(13.7)**	(14.8)	(15.1)
Loss (Gain) on disposition of discontinued operations, net of taxes	**-**	(0.1)	2.5
Loss (Income) from discontinued operations, net of taxes	**4.7**	2.7	10.3
Amortization of discount/premium on debt	**8.9**	10.3	13.0
AFUDC Equity	**(2.4)**	(6.1)	(5.4)
Distributions Received from Equity Earnings	**18.8**	12.9	-
Funds from Operations	**1,182.5**	1,182.2	1,219.0
Changes in assets and liabilities:			
Accounts receivable	**219.6**	(243.9)	258.9
Income tax receivable	**98.1**	51.5	(24.9)
Inventories	**(141.8)**	103.3	128.7
Accounts payable	**(154.8)**	37.7	(191.4)
Customer deposits and credits	**(4.5)**	(25.0)	25.3
Taxes accrued	**2.3**	(117.0)	116.2
Interest accrued	**(2.5)**	(10.7)	5.3
(Under) Overrecovered gas and fuel costs	**127.5**	(243.0)	323.4
Exchange gas receivable/payable	**(100.1)**	(14.2)	(10.0)
Other accruals	**33.2**	63.4	(6.8)
Prepayments and other current assets	**(10.2)**	(11.5)	23.9
Regulatory assets/liabilities	**(322.9)**	164.3	105.8
Postretirement and postemployment benefits	**(92.7)**	(146.6)	(49.1)
Deferred credits	**(2.3)**	(2.6)	6.2
Deferred charges and other noncurrent assets	**6.9**	7.9	(21.9)
Other noncurrent liabilities	**82.0**	(13.2)	12.1
Changes in Working Capital	**(262.2)**	(399.6)	701.7
Net Operating Activities from Continuing Operations	**920.3**	782.6	1,920.7
Net Operating Activities from or (used for) Discontinued Operations	**(50.1)**	(57.2)	(254.5)
Net Cash Flows from Operating Activities	**870.2**	725.4	1,666.2
Investing Activities			
Capital expenditures	**(1,125.2)**	(803.8)	(777.2)
Insurance recoveries	**-**	5.0	62.7
Proceeds from disposition of assets	**9.4**	0.5	5.7
Restricted cash (withdrawals) deposits	**42.3**	(28.2)	111.9
Contributions to Equity Investees	**(6.4)**	(87.9)	(26.4)
Distributions from Equity Investees	**-**	23.8	2.9
Other investing activities	**(69.4)**	(53.1)	(42.0)
Net Investing Activities used for Continuing Operations	**(1,149.3)**	(943.7)	(662.4)
Net Investing Activities from or (used for) Discontinued Operations	**-**	0.4	7.6
Net Cash Flows used for Investing Activities	**(1,149.3)**	(943.3)	(654.8)
Financing Activities			
Issuance of long-term debt	**890.0**	244.6	1,460.0
Retirement of long-term debt	**(286.9)**	(977.7)	(1,169.8)
Premiums and other costs to retire debt	**(62.1)**	(93.0)	-
Change in short-term debt	**(23.1)**	1,279.5	(1,060.5)
Issuance of common stock	**24.4**	14.4	10.6
Acquisition of treasury stock	**(3.1)**	(1.5)	(2.6)
Dividends paid - common stock	**(257.8)**	(255.6)	(253.3)
Net Cash Flows from (used for) Financing Activities	**281.4**	210.7	(1,015.6)
Change in cash and cash equivalents from continuing operations	**52.4**	49.6	242.7
Cash (contributions to) reciepts from discontinued operations	**(50.1)**	(56.8)	(246.9)
Cash and cash equivalents at beginning of period	**9.2**	16.4	20.6
Cash and cash equivalents at end of period	$ **11.5**	$ 9.2	$ 16.4

STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

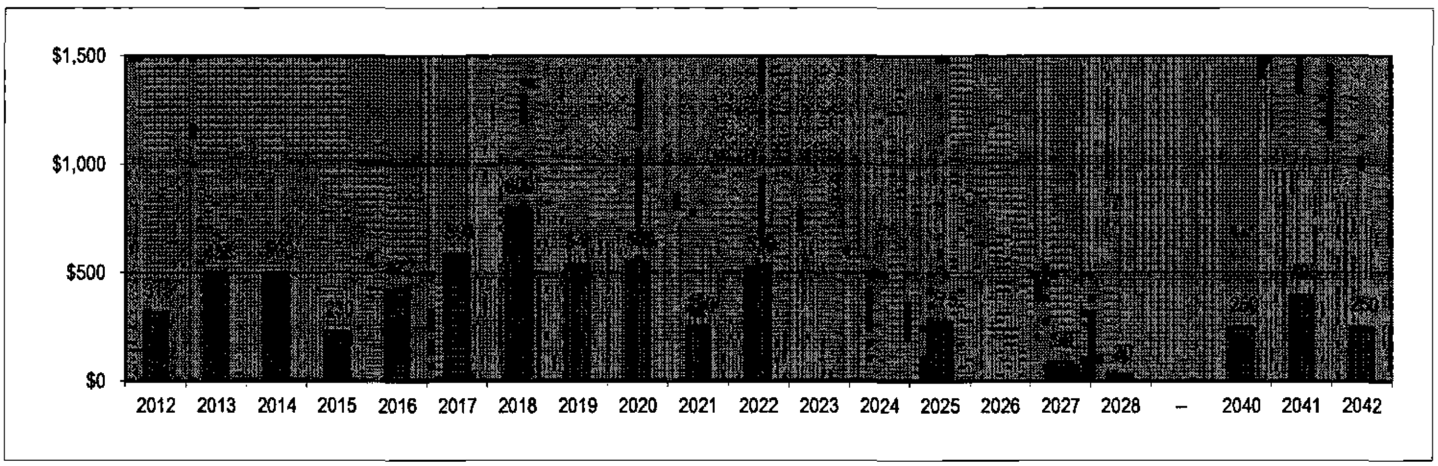
As of December 31, (in millions)	**2011**	2010	2009
NiSource Finance Corp.:			
Long-Term Notes -			
5.21% - due November 28, 2012	$ -	$ 315.0	$ 315.0
6.15% - due March 1, 2013	**420.3**	545.0	545.0
5.40% - due July 15, 2014	**500.0**	500.0	500.0
5.36% - due November 28, 2015	**230.0**	230.0	230.0
10.75% - due March 15, 2016	**201.5**	326.9	600.0
5.41% - due November 28, 2016	**90.0**	90.0	90.0
5.25% - due September 15, 2017	**450.0**	450.0	450.0
6.40% - due March 15, 2018	**800.0**	800.0	800.0
6.80% - due January 15, 2019	**500.0**	500.0	500.0
5.45% - due September 15, 2020	**550.0**	550.0	550.0
4.45% - due December 1, 2021	**250.0**	-	-
6.125% - due March 1, 2022	**500.0**	500.0	500.0
5.89% - due November 28, 2025	**265.0**	265.0	265.0
6.25% - due December 15, 2040	**250.0**	250.0	-
5.95% - due June 15, 2041	**400.0**	-	-
5.80% - due February 1, 2042	**250.0**	-	-
Fair value adjustment of notes for interest rate swap agreements	**56.7**	61.1	47.4
Unamortized premium and discount on long-term debt	**(36.8)**	(32.5)	(36.1)
Total Long-Term debt of NiSource Finance Corp.	**$ 5,676.7**	$ 5,350.5	$ 5,356.3
Northern Indiana Public Service Company:			
Pollution Control Bonds -			
Reoffered interest rates between 5.20% and 5.85%, with a weighted average interest rate of 5.64% and various maturities between June 1, 2013 and April 1, 2019	**$ 244.0**	$ 244.0	$ 244.0
Medium-Term Notes -			
Issued at interest rates between 7.02% and 7.69%, with a weighted average interest rate of 7.45% and various maturities between July 8, 2013 and August 4, 2027	**145.5**	145.5	164.2
Wind Generation Project Notes -			
Variable rate of 3.25% at December 31, 2010 with amounts due at July 1, 2014 and October 28, 2014	**1.7**	2.6	3.5
Unamortized premium and discount on long-term debt	**(0.6)**	(0.7)	(0.8)
Total Long-Term debt of Northern Indiana Public Service Company	**$ 390.6**	$ 391.4	$ 410.9
Columbia of Massachusetts:			
Medium-Term Notes -			
Interest rates between 6.26% and 6.43% with a weighted average interest rate of 6.30% and maturities between December 15, 2025 and February 15, 2028	**$ 40.0**	$ 40.0	$ 48.5
Total Long-Term debt of Bay State Gas Company	**$ 40.0**	$ 40.0	$ 48.5
Columbia Energy Group:			
Subsidiary debt - Capital lease obligations	**2.2**	0.5	0.9
Total Long-Term debt of Columbia Energy Group	**2.2**	0.5	0.9
NiSource Capital Markets, Inc.:			
Senior Notes - 6.78%, due December 1, 2027	**$ 3.0**	$ 3.0	$ 3.0
Medium-term notes -			
Issued at interest rates between 7.82% and 7.99%, with a weighted average interest rate of 7.92% and various maturities between March 27, 2017 and May 5, 2027	**106.0**	106.0	106.0
Total Long-Term debt of NiSource Capital Markets, Inc.	**$ 109.0**	$ 109.0	$ 109.0
NiSource Corporate Services, Inc.:			
Capital Lease Obligations:			
Interest rate of 3.290% due between June 30, 2015 and September 30, 2015	**$ 6.1**	$ -	$ -
Interest rate of 3.264% September 30, 2015	**0.6**	2.3	-
Interest rate of 6.709% due between December 31, 2014 and January 31, 2018	**27.4**	30.1	32.1
Interest rate of 9.840% due June 30, 2015	**0.6**	0.8	0.9
Interest rate of 5.586% due between December 31, 2013 and September 30, 2015	**2.7**	0.8	0.2
Total Long-Term debt of NiSource Corporate Services, Inc.	**$ 37.4**	$ 34.0	$ 33.2
NiSource Development Company, Inc.:			
NDC Douglas Properties - Notes Payable -			
Interest rates between 4.000% and 8.385% with a weighted average interest rate of 6.22% and various maturities between May 1, 2013 and April 1, 2046	**$ 11.2**	$ 10.7	$ 10.3
Total Long-Term debt of NiSource Development Company, Inc.	**$ 11.2**	$ 10.7	$ 10.3
Total Long-Term Debt excluding amount due within one year	**$ 6,267.1**	**$ 5,936.1**	**$ 5,969.1**

SCHEDULE OF CAPITALIZATION

As of December 31, (in millions)		**2011**		2010		2009
CAPITALIZATION						
Current portion of long-term debt		**327.3**		34.2		719.7
Long-term debt, excluding amounts due w ithin one year		**6,267.1**		5,936.1		5,969.1
Total Debt		**6,594.4**		5,970.3		6,688.8
		56.9%		*54.9%*		*58.0%*
Common Stockholders' Equity						
Common stock - $0.01 par value, 400,000,000 shares authorized	**$**	**2.8**	$	2.8	$	2.8
Additional paid-in capital		**4,167.7**		4,103.9		4,057.6
Retained earnings		**917.0**		876.1		849.2
Accumulated other comprehensive income (loss)		**(59.7)**		(57.9)		(45.9)
Treasury stock		**(30.5)**		(27.4)		(25.9)
Total Common Shareholders' Equity		**4,997.3**		4,897.5		4,837.8
		43.1%		*45.1%*		*42.0%*
Total Capitalization	**$**	**11,591.7**	$	10,867.8	$	11,526.6

PROFILE OF LONG-TERM DEBT MATURITIES

As of December 31, 2011 (in millions)



	2011	2010	2009
Weighted Average Maturity (yrs.)	**9.52**	7.94	7.15
Weighted Average Coupon	**6.05%**	6.25%	6.60%

CURRENT SECURITY AND BOND RATINGS

As of December 31, 2011 (in millions)

NiSource Inc. - Senior Unsecured Ratings:

	Rating	Outlook
Moody's	Baa3	Stable
S & P	BBB-	Stable
Fitch	BBB-	Stable

STATEMENTS OF CONSOLIDATED COMMON SHAREHOLDERS' EQUITY & COMPREHENSIVE INCOME (LOSS)

(in millions)	Comprehensive Income	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance December 31, 2008		$ 2.7	$ (23.3)	$ 4,020.3	$ 885.5	$ (172.0)	$ 4,713.2
Comprehensive Income:							
Net Income	$ 217.0				217.0		217.0
Other comprehensive income, net of tax:							
Gain on available for sale securities - Unrealized	2.3					2.3	2.3
Net unrealized gains on derivatives qualifying as cash flow hedg	118.8					118.8	118.8
Unrecognized Pension Benefit and OPEB Costs	5.0					5.0	5.0
Total Comprehensive Income	$ 343.1						
Dividends:							
Common stock					(253.3)		(253.3)
Treasury stock acquired			(2.6)				(2.6)
Issued:							
Common stock issuance		0.1					0.1
Employee stock purchase plan				0.9			0.9
Long-term incentive plan				11.1			11.1
401K and profit sharing				18.1			18.1
Dividend reinvestment plan				6.8			6.8
Amortization of unearned compensation				0.4			0.4
Balance December 31, 2009		$ 2.8	$ (25.9)	$ 4,057.6	$ 849.2	$ (45.9)	$ 4,837.8
Comprehensive Income:							
Net Income	$ 282.6				282.6		282.6
Other comprehensive income, net of tax:							
Gain on available for sale securities - Unrealized	1.1					1.1	1.1
Net unrealized losses on derivatives qualifying as cash flow hed	(13.8)					(13.8)	(13.8)
Unrecognized Pension Benefit and OPEB Costs	0.7					0.7	0.7
Total Comprehensive Income	$ 270.6						
Dividends:							
Common stock					(255.7)		(255.7)
Treasury stock acquired			(1.5)				(1.5)
Issued:							
Employee stock purchase plan				1.1			1.1
Long-term incentive plan				12.1			12.1
401K and profit sharing				24.2			24.2
Dividend reinvestment plan				8.9			8.9
Balance December 31, 2010		$ 2.8	$ (27.4)	$ 4,103.9	$ 876.1	$ (57.9)	$ 4,897.5
Comprehensive Income:							
Net Income	$ 299.1				299.1		299.1
Other comprehensive income, net of tax:							
Gain on available for sale securities - Unrealized	1.2					1.2	1.2
Net unrealized gains on derivatives qualifying as cash flow hedg	3.0					3.0	3.0
Unrecognized Pension Benefit and OPEB Costs	(6.0)					(6.0)	(6.0)
Total Comprehensive Income	$ 297.3						
Dividends:							
Common stock					(258.2)		(258.2)
Treasury stock acquired			(3.1)				(3.1)
Issued:							
Employee stock purchase plan				1.3			1.3
Long-term incentive plan				21.4			21.4
401K and profit sharing				32.0			32.0
Dividend reinvestment plan				8.9			8.9
Balance December 31, 2011		$ 2.8	$ (30.5)	$ 4,167.5	$ 917.0	$ (59.7)	$ 4,997.1

GAS DISTRIBUTION OPERATIONS (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)		**2011**		2010		2009
Net Revenues						
Sales Revenues	$	**3,508.4**	$	3,677.2	$	3,902.3
Less: Cost of gas sold		**1,917.4**		2,065.6		2,293.0
Total Net Revenues		**1,591.0**		1,611.6		1,609.3
Operating Expenses						
Operation and maintenance		**694.5**		699.1		680.5
Operation and maintenance - trackers		**115.7**		170.8		187.3
Depreciation and amortization		**174.0**		239.3		248.1
Other taxes		**87.4**		82.5		82.7
Other taxes - trackers		**80.6**		77.3		81.3
Total Operating Expenses		**1,152.2**		1,269.0		1,279.9
Prior Year Net Adjustments						(0.6)
Operating Earnings	$	**438.8**	$	342.6	$	328.8

[illegible]

GAAP Operating Income	$	**392.8**	$	332.3	$	327.2

	2011	2010	2009
Sales and Transportation (MMDth)			
Residential	**254.5**	258.0	265.2
Commercial	**168.6**	166.8	169.4
Industrial	**431.8**	385.9	335.9
Off System	**62.4**	71.9	59.7
Other	**0.6**	1.0	0.8
Total	**917.9**	883.6	831.0
Weather Adjustment	**12.7**	5.1	1.4
Sales and Transportation Volumes - Excluding Weather	**930.6**	888.7	832.4

	2011	2010	2009
Heating Degree Days	**5,434**	5,547	5,624
Normal Heating Degree Days	**5,633**	5,633	5,633
% Colder (Warmer) than Normal	**(4%)**	(2%)	(0%)

	2011	2010	2009
Customers			
Residential	**3,039,579**	3,039,874	3,032,597
Commercial	**280,521**	281,473	279,144
Industrial	**7,861**	7,668	7,895
Other	**19**	65	79
Total	**3,327,980**	3,329,080	3,319,715

GAS TRANSMISSION AND STORAGE OPERATIONS (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)		**2011**		2010		2009
Net Revenues						
Transportation revenues	$	**776.7**	$	728.4	$	724.6
Storage revenues		**196.1**		198.7		190.8
Other revenues		**32.8**		22.1		15.3
Total Operating Revenues		**1,005.6**		949.2		930.7
Less: Cost of gas sold		**-**		-		-
Total Net Revenues		**1,005.6**		949.2		930.7
Operating Expenses						
Operation and maintenance		**407.7**		339.4		306.1
Operation and maintenance - trackers		**65.8**		59.9		54.3
Depreciation and amortization		**130.0**		130.7		121.5
Other taxes		**56.6**		57.4		55.9
Total Operating Expenses		**660.1**		587.4		537.8
Equity Earnings in Unconsolidated Affiliates		**14.6**		15.0		16.0
Prior Year Net Adjustments						(0.6)
Operating Earnings	$	**360.1**	$	376.8	$	408.3
GAAP Adjustment (items excluded from operating earnings)						
Net Revenues:						
Operating Expenses:						
Restructuring charges		**-**		[illegible]		[illegible]
Transition charges (IBM Agreement)		**-**		[illegible]		[illegible]
Gain (Loss) on sale of assets, asset impairments, other		**(0.1)**		(0.2)		[illegible]
Total items excluded from operating earnings		**(0.1)**		(0.2)		(20.4)
GAAP Operating Income	$	**360.0**	$	376.6	$	387.9

Throughput (MMDth)			
Columbia Transmission	**1,117.5**	1,092.4	1,029.8
Columbia Gulf	**1,048.0**	848.4	894.1
Crossroads Gas Pipeline	**18.7**	25.4	33.9
Intrasegment eliminations	**(548.5)**	(568.7)	(566.4)
Total	**1,635.7**	1,397.5	1,391.4

ELECTRIC OPERATIONS (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)	**2011**	2010	2009
Net Revenues			
Sales Revenues	$ **1,428.4**	$ 1,383.0	$ 1,252.9
Less: Cost of sales	**548.8**	508.3	456.6
Total Net Revenues	**879.6**	874.7	796.3
Operating Expenses			
Operation and maintenance	**392.6**	378.3	372.0
Operation and maintenance - trackers	**12.8**	9.0	5.6
Depreciation and amortization	**200.6**	199.4	197.0
Depreciation and amortization - trackers	**14.1**	12.4	8.6
Other taxes	**56.5**	58.6	50.8
Total Operating Expenses	**676.6**	657.7	634.0
Prior Year Net Adjustments			0.2
Operating Earnings	$ **203.0**	$ 217.0	$ 162.5

[redacted]

GAAP Operating Income	$ **209.5**	$ 220.8	$ 116.9

Sales (Gigawatt Hours)			
Residential	**3,526.5**	3,625.6	3,241.4
Commercial	**3,886.5**	3,919.9	3,833.9
Industrial	**9,257.6**	8,459.0	7,690.9
Wholesale	**651.6**	817.1	600.6
Other	**165.5**	186.4	158.9
Total	**17,487.7**	17,008.0	15,525.7
Weather Adjustment	**(101.1)**	(174.1)	343.4
Sales Volumes - Excluding Weather impacts	**17,386.6**	16,833.9	15,869.1

Cooling Degree Days	**907**	977	515
Normal Cooling Degree Days	**808**	808	814
% Warmer (Colder) than Normal	**12%**	21%	(37%)

Customers			
Residential	**400,567**	400,522	400,016
Commercial	**54,029**	53,877	53,617
Industrial	**2,405**	2,432	2,441
Wholesale	**17**	15	15
Other	**737**	740	746
Total	**457,755**	457,586	456,835

CORPORATE AND OTHER (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)	**2011**	2010	2009
Operating Loss	**$ (40.6)**	$ (21.1)	$ (19.8)
GAAP Adjustment (items excluded from operating earnings)			
Operating Revenues:			
Unregulated gas marketing business	4.5	0.2	23.2
Operating Expenses:			
Unregulated gas marketing business	(5.6)	(2.5)	[illegible]
Restructuring	-	-	(2.0)
Transition charges (IBM Agreement)	-	-	[illegible]
Gain/(Loss) on sale of assets, asset impairments, other	(15.5)	(0.6)	(22.3)
Total items excluded from operating earnings	(16.6)	(2.9)	[illegible]
GAAP Operating Income	**$ (57.2)**	$ (24.0)	$ (32.0)

COMMON STOCKHOLDER – AS OF DECEMBER 31, 2011

Geographical Breakdown of Shareholders

State	Holders	Percent of Total Holders	Shares	Percent of Total Shares
Alabama	125	0.41%	52,634	0.02%
Alaska	26	0.08%	9,092	0.00%
Arizona	389	1.27%	209,498	0.07%
Arkansas	81	0.26%	35,297	0.01%
California	1,400	4.57%	644,107	0.23%
Colorado	300	0.98%	153,131	0.05%
Connecticut	543	1.77%	249,482	0.09%
Delaware	92	0.30%	47,485	0.02%
Dist Col.	66	0.22%	355,755	0.13%
Florida	1,525	4.97%	765,986	0.27%
Georgia	308	1.00%	138,774	0.05%
Hawaii	58	0.19%	22,201	0.01%
Idaho	41	0.13%	18,077	0.01%
Illinois	2,361	7.70%	1,321,095	0.47%
Indiana	7,118	23.21%	6,729,803	2.37%
Iowa	163	0.53%	97,195	0.03%
Kansas	113	0.37%	34,060	0.01%
Kentucky	414	1.35%	159,032	0.06%
Louisiana	200	0.65%	54,643	0.02%
Maine	157	0.51%	57,718	0.02%
Maryland	622	2.03%	237,890	0.08%
Massachusetts	1,406	4.59%	878,957	0.31%
Michigan	961	3.13%	482,257	0.17%
Minnesota	317	1.03%	171,838	0.06%
Mississippi	86	0.28%	31,073	0.01%
Missouri	279	0.91%	133,639	0.05%
Montana	50	0.16%	17,307	0.01%
Nebraska	64	0.21%	30,107	0.01%
Nevada	105	0.34%	98,135	0.03%
New Hampshire	185	0.60%	79,646	0.03%
New Jersey	1,016	3.31%	406,566	0.14%
New Mexico	74	0.24%	36,722	0.01%
New York	1,917	6.25%	257,423,426	90.83%
North Carolina	357	1.16%	121,767	0.04%
North Dakota	26	0.08%	18,989	0.01%
Ohio	2,037	6.64%	697,654	0.25%
Oklahoma	98	0.32%	28,091	0.01%
Oregon	140	0.46%	47,225	0.02%
Pennsylvania	1,391	4.54%	9,808,155	3.46%
Rhode Island	86	0.28%	34,178	0.01%
South Carolina	183	0.60%	51,972	0.02%
South Dakota	39	0.13%	39,243	0.01%
Tennessee	225	0.73%	88,872	0.03%
Texas	848	2.77%	304,727	0.11%
Utah	61	0.20%	19,678	0.01%
Vermont	55	0.18%	20,121	0.01%
Virginia	912	2.97%	327,994	0.12%
Washington	252	0.82%	111,382	0.04%
West Virginia	649	2.12%	173,618	0.06%
Wisconsin	619	2.02%	307,540	0.11%
Wyoming	27	0.09%	8,391	0.00%
Canada	24	0.08%	6,655	0.00%
Other Foreign	72	0.23%	25,528	0.01%
Totals	**30,663**	**100%**	**283,424,408**	**100%**
Less Treasury Shares			(1,570,837)	
Total Shares Outstanding			**281,853,571**	

Common Shareholders - Share Size

	Holders	Percent of Total Holders	Shares	Percent of Total Shares
1 to 33.9	8,602	28.05%	87,145	0.03%
34 to 49.9	1,382	4.51%	56,067	0.02%
50 to 99.9	2,703	8.82%	195,790	0.07%
100 to 300.9	7,525	24.54%	1,382,692	0.49%
301 to 500.9	3,276	10.68%	1,287,714	0.45%
501 to 1000.9	3,526	11.50%	2,546,748	0.90%
1001 and over	3,649	11.90%	277,868,252	98.04%
Totals	**30,663**	**100%**	**283,424,408**	**100%**
Less Treasury Shares			(1,570,837)	
Total Shares Outstanding			**281,853,571**	

Common Shareholders - Category

Holder Category	Holders	Percent of Total Holders	Shares	Percent of Total Shares
Joint Tenants - Survivorship Rights	7,099	23.15%	4,412,822	1.56%
Individual - Female	8,514	27.77%	3,148,761	1.11%
Individual - Male	9,857	32.15%	4,564,230	1.61%
Corporations	164	0.53%	1,898,394	0.67%
Brokers/Depositorie	10	0.03%	257,033,967	90.69%
Nominee	41	0.13%	9,303,662	3.28%
Trusts	4,819	15.72%	2,962,970	1.05%
Miscellaneous	159	0.52%	99,602	0.04%
Totals	**30,663**	**100%**	**283,424,408**	**100%**
Less Treasury Shares			(1,570,837)	
Total Shares Outstanding			**281,853,571**	

NISOURCE BOARD OF DIRECTORS

- Ian M. Rolland, Chairman of the Board, NiSource Inc.
- Richard A. Abdoo, President, R.A. Abdoo & Co. LLC
- Dr. Steven C. Beering, Chairman, Universities Research Association *
- Aristides S. Candris, Senior Advisor, Westinghouse Electric Company **
- Sigmund L. Cornelius, Retired Senior Vice President, Finance & CFO, ConocoPhilips
- Michael E. Jesanis, Principal, Serrafix
- Marty R. Kittrell, Retired EVP and CFO, Dresser, Inc.
- W. Lee Nutter, Retired Chairman, President and CEO, Rayonier, Inc.
- Deborah S. Parker, Senior Vice President of Quality – Environmental, Health and Safety, Alstom Power
- Robert C. Skaggs, Jr., President and CEO, NiSource Inc.
- Teresa A. Taylor, Former Chief Operating Officer, Qwest Communications, Inc. **
- Richard L. Thompson, Lead Director, Lennox International, Inc.
- Dr. Carolyn Y. Woo, President & CEO, Catholic Relief Services

* Retired as NiSource board member effective May 15, 2012

** NiSource board member effective May 15, 2012

NISOURCE EXECUTIVE TEAM

- Robert C. Skaggs, Jr., President and Chief Executive Officer
- Stephen P. Smith, Executive Vice President and Chief Financial Officer
- Carrie J. Hightman, Executive Vice President and Chief Legal Officer
- Jimmy D. Staton, Executive Vice President and Group CEO, Gas Transmission & Storage & NIPSCO
- Joseph Hamrock, Executive Vice President and Group CEO, Gas Distribution ***
- Robert D. Campbell, Senior Vice President, Human Resources
- Glen L. Kettering, Senior Vice President, Corporate Affairs
- Violet G. Sistovaris, Senior Vice President and Chief Information Officer
- Larry J. Francisco, Vice President, Audit

*** Effective May 2, 2012

CONTACT NISOURCE INVESTOR RELATIONS

Glen Kettering *Senior Vice President, Corporate Affairs*
gkettering@nisource.com or 219.647.5765

Randy Hulen *Managing Director, Investor Relations*
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Umair Quraishi *Manager, Investor Relations*
uquraishi@nisource.com or 219.647.4586

CONTACT NISOURCE SHAREHOLDER SERVICES

Penny Kljajic *Senior Stockholder Services Representative*
plkljajic@nisource.com or 219.647.6132

STOCKHOLDER ACCOUNT MAINTENANCE

Computershare Shareowner Services LLC
P.O. Box 358015
Pittsburgh, PA 15252-8015
or
480 Washington Boulevard
Jersey City, NJ 07310-1900

888.884.7790

TDD for Hearing Impaired
800.231.5469

Foreign Stockholders
201.680.6578

TDD Foreign Stockholders
201.680.6610

www.bnymellon.com/shareowner/equityaccess

NISOURCE INC.
801 EAST 86TH AVENUE
MERRILLVILLE, IN 46410
WWW.NISOURCE.COM

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, 2011

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

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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
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, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer ☑	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐

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, 2011, closing price of $20.25 on the New York Stock Exchange) held by non-affiliates was approximately $5,661,012,618.

There were 282,180,170 shares of Common Stock, $0.01 Par Value outstanding as of January 31, 2012.

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 15, 2012.

CONTENTS

Table of Contents

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates	
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
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 L.L.C.
CPRC	Columbia Gas of Pennsylvania 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
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
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 Corporation
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company Inc.
NiSource Midstream	NiSource Midstream Services, L.L.C.
PEI	PEI Holdings, Inc.
Whiting Clean Energy	Whiting Clean Energy, Inc.

Abbreviations	
2010 Health Care Act	The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 signed into law by the President on March 23, 2010 and March 30, 2010, respectively
AFUDC	Allowance for funds used during construction
AICPA	American Institute of Certified Public Accountants
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent
AOCI	Accumulated other comprehensive income
ARP	Alternative Regulatory Plan
ARRs	Auction Revenue Rights
ASC	Accounting Standards Codification
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BPAE	BP Alternative Energy North America, Inc.
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
Ccf	Hundred cubic feet
CARE	Conservation and Ratemaking Efficiency
CCGT	Combined Cycle Gas Turbine

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DEFINED TERMS

CCRs	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
Chesapeake	Chesapeake Appalachia, L.L.C.
CO_2	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
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 generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services
IDEM	Indiana Department of Environmental Management
IFA	Indiana Finance Authority
IFRS	International Financial Reporting Standards
IIG	Indiana Industrial Group
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
MACT	Maximum Achievable Control Technology
Mcf	Million cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
mw	Megawatts
mwh	Megawatts hours
NAAQS	National Ambient Air Quality Standards
NLMK	Novolipetsk Steel
NOV	Notice of Violation
NO_2	Nitrogen dioxide
NOx	Nitrogen oxides
NSR	New Source Review
NYMEX	New York Mercantile Exchange

DEFINED TERMS

OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUCC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PJM	PJM Interconnection is a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.
PM	particulate matter
PPS	Price Protection Service
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RBS	Royal Bank of Scotland PLC
RCRA	Resource Conservation and Recovery Act
RTO	Regional Transmission Organization
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO_2	Sulfur dioxide
Sugar Creek	Sugar Creek electric generating plant
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission
WACOG	Weighted Average Cost of Gas

ITEM 1. BUSINESS

NISOURCE INC.

NiSource (the "Company") 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 on April 14, 1999.

NiSource is one of the nation's largest natural gas distribution companies, 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 Columbia of Massachusetts, a natural gas distribution company serving customers in Massachusetts. NiSource derives substantially all of its revenues and earnings from the operating results of its thirteen direct subsidiaries.

NiSource's business segments are: Gas Distribution Operations; Gas Transmission and Storage Operations; and Electric Operations. Following is a summary of the business for each reporting segment. Refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information for each segment.

Gas Distribution Operations
NiSource's natural gas distribution operations serve more than 3.3 million customers in seven states and operate approximately 58 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 795 thousand customers in northern Indiana. Additionally, NiSource's subsidiary, Columbia Gas of Massachusetts, distributes natural gas to approximately 298 thousand customers in Massachusetts.

Gas Transmission and Storage Operations
NiSource's Gas Transmission and Storage Operations subsidiaries own and operate approximately 15,000 miles of pipeline and operate one of the nation's largest underground natural gas storage systems capable of storing approximately 639 Bcf of natural gas. Through its subsidiaries, Columbia Transmission, Columbia Gulf and Crossroads Pipeline, NiSource owns and operates an interstate pipeline network extending from the Gulf of Mexico to New York and the eastern seaboard. Together, these companies serve customers in 16 northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia.

NiSource's Gas Transmission and Storage Operations continue to develop a range of supply-driven growth initiatives, including mineral leasing and optimization, midstream projects and traditional pipeline expansion opportunities that leverage NiSource's strategically positioned pipeline and storage assets. A number of Gas Transmission and Storage Operations' new growth projects are designed to support increasing Marcellus and Utica Shale production, while the segment also has continued to grow and adapt its system to provide critical transportation and storage services to markets across its high-demand service territory. NiSource Midstream Services is an unregulated business that is a provider of midstream services including gathering, treating, conditioning, processing, compression and liquids handling, as well as managing mineral rights positions in the Marcellus and Utica shale areas.

The Gas Transmission and Storage Operations subsidiaries are also involved in two joint ventures, Millennium and Hardy Storage, which effectively expand their facilities and throughput. Millennium Pipeline, which includes 252 miles of 30-inch-diameter pipe across New York's Southern Tier and lower Hudson Valley, has the capability to transport up to 525,400 Dth per day of natural gas to markets along its route, as well as to the New York City markets through its pipeline interconnections. Millennium is jointly owned by affiliates of NiSource, DTE Energy and National Grid. Hardy Storage, which consists of underground natural gas storage facilities in West Virginia, has a working storage capacity of 12 Bcf and the ability to deliver 176,000 Dth of natural gas per day. Hardy Storage is a joint venture of subsidiaries of Columbia Transmission and Piedmont.

Electric Operations
NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 458 thousand customers in 20 counties in the northern part of Indiana and engages in electric wholesale and transmission transactions. Northern Indiana operates three coal-fired electric generating stations. The three operating

facilities have a net capability of 2,574 mw. Northern Indiana also owns and operates Sugar Creek, a CCGT plant with a 535 mw capacity rating, four gas-fired generating units located at Northern Indiana's coal-fired electric generating stations with a net capability of 203 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,322 mw. Northern Indiana's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,797 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities.

During the year ended December 31, 2011, Northern Indiana generated 83.8% and purchased 16.2% of its electric requirements. Northern Indiana's Mitchell Station, indefinitely shut down in 2002, is not included in the net capacity of the three coal-fired generation stations.

Northern Indiana participates in the MISO transmission service and wholesale energy market. The MISO is a nonprofit organization created in compliance with FERC regulations, to improve the flow of electricity in the regional marketplace and to enhance electric reliability. Additionally, the MISO is responsible for managing the energy markets, managing transmission constraints, managing the day-ahead, real-time and FTR markets and managing the ancillary market. Northern Indiana transferred functional control of its electric transmission assets to the MISO and transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff.

Corporate and Other Operations
During the first quarter of 2010, NiSource made the decision to wind down its unregulated natural gas marketing activities as a part of the Company's long-term strategy of focusing on its core regulated business.

Divestiture of Non-Core Assets
In recent years, NiSource sold certain businesses judged to be non-core to NiSource's strategy. Lake Erie Land, a wholly-owned subsidiary of NiSource, is pursuing the sale of certain real estate assets it owns. NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting its low income housing investments.

Business Strategy
NiSource focuses its business strategy on its core, rate-regulated asset-based businesses with most of its operating income generated from the rate-regulated businesses. With one of the nation's largest natural gas pipelines, one of the largest natural gas distribution networks 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 over 40% of the nation's population and close to 50% of its natural gas 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.

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 purchase gas directly from producers and marketers as an open, competitive market for gas supplies has 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 LDCs. The LDCs 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. The Gas Transmission and Storage Operations compete for transportation customers based on the type of service a customer needs, operating flexibility, available capacity and price under tariff provisions.

Electric Competition . Northern Indiana currently dispatches all power from its plants into the MISO. Transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff.

ITEM 1. BUSINESS

NiSource Inc.

Financing Subsidiary
NiSource Finance is a 100% 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. Prior to 2000, the function of NiSource Finance was performed by Capital Markets. NiSource Finance 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, 2011, NiSource had 7,957 employees of whom 3,295 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, proxy statements, 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, financial condition and cash flows. 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 had total consolidated indebtedness of $7,953.8 million outstanding as of December 31, 2011. 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 with, 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;
- increase vulnerability to general adverse economic and industry conditions; and
- limit the ability of the Company to execute on its growth strategy, which is dependent upon access to capital to fund its substantial investment program.

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. Additionally, a drop in NiSource's credit rating could adversely impact the cost for NiSource to issue new debt securities.

A drop in NiSource's credit rating could adversely impact NiSource's liquidity.

On December 13, 2011, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 18, 2011, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 24, 2011, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. The collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $21.0 million. In addition to agreements with ratings triggers, there are other agreements that contain "adequate assurance" or "material adverse change" provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business. Under Northern Indiana's trade receivables sales program, an event of termination occurs if Northern Indiana's debt rating is withdrawn by either Standard & Poor's or Moody's or falls below BB or Ba2 at either Standard & Poor's or Moody's, respectively. Likewise, under Columbia of Ohio's and Columbia of Pennsylvania's trade receivables sales programs, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

Additionally, as a result of NiSource's participation in certain derivative activities, a credit downgrade could cause NiSource to be required to post substantial collateral in support of past and current transactions. These collateral requirements, combined with other potential negative effects on NiSource's liquidity in the event of a credit downgrade below an investment grade rating, could have a material adverse effect on earnings potential and cash flows. Lastly, a credit downgrade could adversely affect the availability and cost of capital needed to fund the growth investments which are a central element of the Company's long-term business strategy.

ITEM 1A. RISK FACTORS

N I S OURCE I NC .

NiSource may not be able to execute its growth strategy as planned.

Because of changes in the business or regulatory environment, NiSource may not be able to execute its four-part business plan as intended. NiSource's commercial and regulatory initiatives may not achieve planned results; levels of commercial growth and expansion of the gas transmission and storage business may be less than its plan has anticipated; and the actual results of NiSource's financial management of the balance sheet, and process and expense management could deviate materially from planned outcomes.

Adverse economic and market conditions or increases in interest rates could reduce net revenue growth, increase costs, decrease future net income and cash flows and impact capital resources and liquidity needs.

While the national economy is experiencing some recovery from the recent downturn, NiSource cannot predict how robust the recovery will be or whether or not it will be sustained.

Continued sluggishness in the economy impacting NiSource's operating jurisdictions could adversely impact NiSource's ability to grow its customer base and collect revenues from customers, which could reduce net revenue growth and increase operating costs. An increase in the interest rates NiSource pays would adversely affect future net income and cash flows. In addition, NiSource depends on debt to finance its operations, including both working capital and capital expenditures, and would be adversely affected by increases in interest rates. If the current economic recovery remains slow or credit markets again tighten, NiSource's ability to raise additional capital or refinance debt at a reasonable cost could be negatively impacted. Refer to Note 16, "Long-Term Debt," in the Notes to Consolidated Financial Statements for information related to outstanding long-term debt and maturities of that debt.

Capital market performance and other factors may decrease the value of benefit plan assets, which then could require significant additional funding and impact earnings.

The performance of the capital markets affects the value of the assets that are held in trust to satisfy future obligations under defined benefit pension and other postretirement benefit plans. NiSource has significant obligations in these areas and holds significant assets in these trusts. These assets are subject to market fluctuations and may yield uncertain returns, which fall below NiSource's projected rates of return. A decline in the market value of assets may increase the funding requirements of the obligations under the defined benefit pension and other postretirement benefit plans. Additionally, changes in interest rates affect the liabilities under these benefit plans; as interest rates decrease, the liabilities increase, which could potentially increase funding requirements. Further, the funding requirements of the obligations related to these benefits plans may increase due to changes in governmental regulations and participant demographics, including increased numbers of retirements or changes in life expectancy assumptions. Ultimately, significant funding requirements and increased pension expense could negatively impact NiSource's results of operations and financial position.

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

Most 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. These rate reviews determine the energy rates charged to customers and directly impact revenues. NiSource's financial results are dependent on frequent regulatory proceedings in order to ensure timely recovery of costs. Additionally, the costs of complying with future changes in environmental laws and regulations are expected to be significant, and their recovery through rates will be contingent on regulatory approval.

As a result of efforts to introduce market-based competition in certain of the markets where the regulated businesses conduct operations, NiSource may compete with independent marketers for customers. This competition exposes NiSource to the risk that certain stranded costs may not be recoverable and may affect results of NiSource's growth strategy and cash flows.

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ITEM 1A. RISK FACTORS

N I S OURCE I NC .

NiSource's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws and the recognition 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, solid waste, and coal combustion residuals. Compliance with these legal obligations requires NiSource to make 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. Furthermore, if NiSource's subsidiaries fail to comply with environmental laws and regulations or cause 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.

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. Moreover, such costs could materially affect the continued economic viability of one or more of NiSource's facilities.

Because NiSource's operations deal with natural gas and coal fossil fuels, emissions of GHGs are an expected aspect of the business. While NiSource attempts to reduce GHG emissions through efficiency programs, leak detection, and other programs, GHG emissions cannot be entirely eliminated. The current administration has made it clear that it is focused on reducing GHG emissions, through legislation and/or regulation. Imposing statutory or regulatory restrictions and/or costs on GHG emissions could increase NiSource's cost of producing energy, which could impact customer demand or NiSource's profitability. Compliance costs associated with these requirements could also affect NiSource's cash flow. The cost impact of any new or amended GHG legislation or regulations would depend upon the specific requirements enacted and cannot be determined at this time.

Even in instances where legal and regulatory requirements are already known, the original estimates for cleanup and environmental capital projects can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including the nature and extent of contamination, the method of cleanup, the cost of raw materials, contractor costs, and the availability of cost recovery from customers. Changes in costs could affect NiSource's financial position and cash flows.

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, usage 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 costs, thus affecting NiSource's financial results. Lastly, residential and commercial customers' usage has shown to be sensitive to economic conditions and the impact of macro-economic drivers such as unemployment, consumption and consumer confidence, which could also affect NiSource's financial results.

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

Business operations throughout NiSource's service territories have been and may continue to be adversely affected by economic events at the national and local level where it operates. In particular, sales to large industrial customers may be impacted by economic downturns. The U.S. manufacturing industry continues to adjust to changing market conditions including international competition, increasing costs, and fluctuating demand for its products.

ITEM 1A. RISK FACTORS

N I S OURCE I NC .

Fluctuations in the price of energy commodities or their related transportation costs may have a negative impact on NiSource's financial results.

NiSource's electric generating fleet is dependent on coal and natural gas for fuel, and its gas distribution operations purchase and resell much of the natural gas they deliver. These energy commodities are vulnerable to price fluctuations and fluctuations in associated transportation costs. Hedging activities have been deployed in order to offset fluctuations in commodity supply prices and NiSource relies on regulatory recovery mechanisms in the various jurisdictions in order to fully recover the costs incurred in operations. However, while NiSource has historically been successful in recovery of costs related to such commodity prices, there can be no assurance that such costs will be fully recovered through rates in a timely manner. Additionally, increased gas and electricity costs could result in reduced demand from customers as a result of increased conservation activities.

NiSource is exposed to risk that customers will not remit payment for delivered energy or services, and that suppliers or counterparties will not perform under various financial or operating agreements.

NiSource's extension of credit is governed by a Corporate Credit Risk Policy, involves considerable judgment and is based on an evaluation of a customer or counterparty's financial condition, credit history and other factors. Credit risk exposure is monitored by obtaining credit reports and updated financial information for customers and suppliers, and by evaluating the financial status of its banking partners and other counterparties through the use of market-based metrics such as credit default swap pricing levels, and also through traditional credit ratings provided by the major credit rating agencies. Continued adverse economic conditions could increase credit risk and could result in a material adverse effect on NiSource.

NiSource has significant goodwill and definite-lived intangible assets. An impairment of goodwill or definite-lived intangible assets could result in a significant charge to earnings.

In accordance with GAAP, NiSource tests goodwill for impairment at least annually and reviews its definite-lived intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill would also be tested for impairment when factors, examples of which include reduced cash flow estimates, a sustained decline in stock price or market capitalization below book value, indicate that the carrying value may not be recoverable. NiSource would be required to record a charge in the financial statements during the period in which any impairment of the goodwill or definite-lived intangible assets is determined, negatively impacting the results of operations. A significant charge could impact the capitalization ratio covenant under certain financing agreements. A covenant in the four-year revolving credit facility requires NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%. As of December 31, 2011, the ratio was 61.4%.

Changes in taxation and the ability to quantify such changes could adversely affect NiSource's financial results.

NiSource is subject to taxation by the various taxing authorities at the federal, state and local levels where it does business. Legislation or regulation which could affect NiSource's tax burden could be enacted by any of these governmental authorities. NiSource cannot predict the timing or extent of such tax-related developments which could have a negative impact on the financial results. Additionally, NiSource uses its best judgment in attempting to quantify and reserve for these tax obligations. However, a challenge by a taxing authority, NiSource's ability to utilize tax benefits such as carryforwards or tax credits, or a deviation from other tax-related assumptions may cause actual financial results to deviate from previous estimates.

Changes in accounting principles may adversely affect NiSource's financial results.

Future changes in accounting rules, such as IFRS, and associated changes in regulatory accounting may negatively impact the way NiSource records revenues, expenses, assets and liabilities. These changes in accounting standards may adversely affect its financial results.

ITEM 1A. RISK FACTORS

NISOURCE INC.

Transporting and storing natural gas involves numerous risks that may result in accidents and other operating risks and costs.

NiSource's gas distribution and gas transmission and storage activities involve a variety of inherent hazards and operating risks, such as leaks, accidents, including third party damages, and mechanical problems, which could cause substantial financial losses. In addition, these risks could result in serious injury to employees and non-employees, loss of human life, significant damage to property, environmental pollution and impairment of its operations, which in turn could lead to substantial losses to NiSource. In accordance with customary industry practice, NiSource maintains insurance against some, but not all, of these risks and losses. The location of pipelines and storage facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect NiSource's financial position and results of operations.

Aging infrastructure may lead to increased costs and disruptions in operations that could negatively impact NiSource's financial results.

NiSource has risks associated with aging infrastructure assets. The age of these assets may result in replacement, a higher level of maintenance costs and may be susceptible to unscheduled outages despite diligent efforts by NiSource to properly maintain these assets through inspection, scheduled maintenance and capital investment. The failure to operate these assets as desired could result in NiSource's inability to meet firm service obligations, adversely impact revenues, and could result in increased capital expenditures and expenses, which may not be fully recoverable from customers.

Climate change, natural disasters, acts of terrorism, cyber-attacks or other catastrophic events may disrupt operations and reduce the ability to service customers.

A disruption or failure of natural gas transmission, storage or distribution systems or within electric generation, transmission or distribution systems in the event of a major hurricane, tornado, terrorist attack or other catastrophic event could cause delays in completing sales, providing services, or performing other critical functions. NiSource has experienced disruptions in the past from hurricanes and tornadoes and other events of this nature. The cost, availability and sufficiency of insurance for these risks could adversely affect NiSource's results of operations, financial position and cash flows.

There is also a concern that climate change may exacerbate the risks to physical infrastructure associated with heat and extreme weather conditions. Climate change and the costs that may be associated with its impacts have the potential to affect NiSource's business in many ways, including increasing the cost NiSource incurs in providing its products and services, impacting the demand for and consumption of its products and services (due to change in both costs and weather patterns), and affecting the economic health of the regions in which NiSource operates.

Additionally, a security breach of NiSource's information systems could (i) impact the reliability of NiSource's generation, transmission storage and distribution systems and potentially negatively impact NiSource's compliance with certain mandatory reliability standards (ii) subject NiSource to harm associated with theft or inappropriate release of certain types of information such as system operating information or information, personal or otherwise, relating to NiSource's customers or employees, or (iii) impact NiSource's ability to manage NiSource's businesses.

Growing NiSource's business by constructing new pipelines and other facilities subjects NiSource to construction risks and natural gas supply risks.

NiSource Gas Transmission & Storage Operations continues to complete and advance customer-driven growth projects across its system, primarily surrounding the Marcellus and Utica Shale production area in the states of Pennsylvania, Ohio and West Virginia. These growth projects may include constructing or purchasing pipelines and treatment and processing facilities, which subjects NiSource to construction risks and risks that gas supplies will not be available. If NiSource undertakes these projects, it may not be able to complete them on schedule or at the anticipated costs. NiSource may construct or purchase these projects to capture anticipated future growth in production in the region, which may not materialize, and the construction may occur over an extended period of time, and NiSource will not receive material increases in revenue and cash flows until after the completion of the project. NiSource competes for these projects with companies of varying size and financial capabilities, including some that may have advantages competing for natural gas and liquid gas supplies, as well as acquisitions and other business opportunities.

ITEM 1A. RISK FACTORS

NiSource Inc.

Sustained extreme weather conditions may negatively impact NiSource's operations.

NiSource conducts its operations across a wide geographic area subject to varied and potentially extreme weather conditions, which may from time to time persist for sustained periods of time. Despite preventative maintenance efforts, persistent weather related stress on NiSource's infrastructure may reveal weaknesses in its systems not previously known to the Company or otherwise present various operational challenges across all business segments. Although NiSource makes every effort to plan for weather related contingencies, adverse weather may affect its ability to conduct operations in a manner that satisfies customer expectations or contractual obligations. The Company endeavors to minimize such service disruptions, but may not be able to avoid them altogether.

Growing competition in the gas transportation industry could result in the failure by customers to renew existing contracts.

As a consequence of the increase in competition in the industry and the shift in natural gas production areas, end users and LDCs may be reluctant to enter into long-term service contracts. The renewal or replacement of existing contracts with NiSource's customers at rates sufficient to maintain current or projected revenues and cash flows depends on a number of factors beyond its control, including competition from other pipelines, gatherers, the proximity of supplies to the markets, and the price of, and demand for, natural gas. The inability of NiSource to renew, or replace its current contracts as they expire and respond appropriately to changing market conditions could materially impact its financial results.

NiSource is a holding company and is dependent on cash generated by subsidiaries to meet its debt obligations and pay dividends on its common stock.

NiSource is a holding company and conducts its operations primarily through its subsidiaries. Substantially all of NiSource's consolidated assets are held by its subsidiaries. Accordingly, NiSource's ability to meet its debt obligations or pay dividends on its common stock is largely dependent upon cash generated by these subsidiaries. In the event a major subsidiary is not be able to pay dividends or transfer cash flows to NiSource, its ability to service its debt obligations or pay dividends could be negatively affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

NiSource Inc.

Discussed below are the principal properties held by NiSource and its subsidiaries as of December 31, 2011.

Gas Distribution Operations. NiSource's Gas Distribution Operations subsidiaries own and operate a total of 57,717 miles of pipelines and certain related facilities. This includes: (i) for the six distribution companies of its Columbia system, 40,417 miles of pipelines, 1,350 reservoir acres of underground storage, eight storage wells, liquid propane facilities with a capacity of 3.3 million gallons, an LNG facility with a total capacity of 22.3 million gallons and one compressor station with 800 hp of installed capacity, (ii) for its Northern Indiana system, 17,300 miles of pipelines, 27,129 reservoir acres of underground storage, 55 storage wells, one compressor station with a total of 4,000 hp of installed capacity and two LNG facilities with a storage capacity of 53.6 million gallons. The physical properties of the NiSource gas utilities are located throughout Ohio, Indiana, Pennsylvania, Virginia, Kentucky, Maryland, and Massachusetts.

Gas Transmission and Storage Operations. NiSource Gas Transmission and Storage subsidiaries own and operate 15,060 miles of natural gas transmission pipeline. Columbia Transmission owns and leases approximately 775 thousand acres of underground storage, 3,491 storage wells, 11,453 miles of pipeline and 91 compressor stations with 624,179 hp of installed capacity. Columbia Transmission's operations are located in Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia, and West Virginia. Columbia Gulf has 3,405 miles of transmission pipeline and 11 compressor stations with 470,238 hp of installed capacity. Columbia Gulf's operations are located in Kentucky, Louisiana, Mississippi, Tennessee, Texas and Wyoming. 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. NiSource Gas Transmission and Storage Operations' offices are headquartered in Houston, Texas.

Electric Operations. NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 458 thousand customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. Northern Indiana operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,574 mw. Northern Indiana also owns and operates Sugar Creek, a CCGT plant with a 535 mw capacity rating, four gas-fired generating units located at Northern Indiana's coal-fired electric generating stations with a net capability of 203 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,322 mw. Northern Indiana's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,797 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities.

During the year ended December 31, 2011, Northern Indiana generated 83.8% and purchased 16.2 % of its electric requirements. Northern Indiana's Mitchell Station, indefinitely shut down in 2002, is not included in the net capacity of the three coal-fired generation stations.

Corporate and Other Operations. NiSource owns the Southlake Complex, its 325,000 square foot headquarters building located in Merrillville, Indiana, and other residential and development property.

Character of Ownership. The principal offices and properties of NiSource and its subsidiaries are owned 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 routine 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 by NiSource and its subsidiaries, 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

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Majorsville Operations Center – PADEP Notice of Violation

In 1995, Columbia Transmission entered into an AOC with the EPA that requires Columbia Transmission to characterize and remediate environmental contamination at thousands of locations along Columbia Transmission's pipeline system. One of the facilities subject to the AOC is the Majorsville Operations Center, which was remediated under an EPA approved Remedial Action Work Plan in summer 2008. Pursuant to the Remedial Action Work Plan, Columbia Transmission completed a project that stabilized residual oil contained in soils at the site and in sediments in an adjacent stream.

On April 23, 2009, however, the PADEP issued Columbia Transmission an NOV, alleging that the remediation was not effective. The NOV asserts violations of the Pennsylvania Clean Streams Law and the Pennsylvania Solid Waste Management Act and contains a settlement demand in the amount of $1 million. Columbia Transmission is unable to estimate the likelihood or cost of potential penalties or additional remediation at this time.

ITEM 4. Mine Safety Disclosures

NiSource Inc.
Not applicable.

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 and offices held, as of February 1, 2012.

Name	Age	Office(s) Held in Past 5 Years
Robert C. Skaggs, Jr.	57	Chief Executive Officer of NiSource since July 2005.
		President of NiSource since October 2004.
Carrie J. Hightman	54	Executive Vice President and Chief Legal Officer of NiSource since December 2007.
Stephen P. Smith	50	Executive Vice President and Chief Financial Officer of NiSource since August 2008.
		Executive Vice President of NiSource from June 2008 to August 2008.
		Senior Vice President of Shared Services for American Electric Power Company from January 2008 to May 2008.
		Senior Vice President and Treasurer, American Electric Power Company from January 2004 to December 2007.
Jimmy D. Staton	51	Executive Vice President and Group Chief Executive Officer since March 2008.
		Senior Vice President, Gas Delivery, Dominion Resources, Inc. from January 2006 to 2008.
Robert D. Campbell	52	Senior Vice President, Human Resources, of NiSource since May 2006.
Glen L. Kettering	57	Senior Vice President, Corporate Affairs, since March 2006.
Jon D. Veurink	47	Vice President, Controller & Chief Accounting Officer since February 2010.
		Vice President at NiSource Corporate Services Company since October 2009.
		Vice President, Controller & Chief Accounting Officer, Exelon Generation LLC from January 2004 until joining NiSource Corporate Services Company in October 2009.

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 under the symbol "NI." The table below indicates the high and low sales prices of NiSource's common stock, on the composite tape, during the periods indicated.

	2011		2010	
	High	**Low**	High	Low
First Quarter	**19.61**	**17.71**	16.03	14.24
Second Quarter	**20.67**	**18.62**	16.80	14.13
Third Quarter	**22.91**	**17.95**	17.91	14.19
Fourth Quarter	**23.97**	**20.31**	17.96	16.65

As of December 31, 2011, NiSource had 30,663 common stockholders of record and 281,853,571 shares outstanding.

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. NiSource paid quarterly common dividends totaling $0.92 per share for the years ended December 31, 2011, 2010, and 2009. At its January 27, 2012 meeting, the Board declared a quarterly common dividend of $0.23 per share, payable on February 20, 2012 to holders of record on February 6, 2012.

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 6. SELECTED FINANCIAL DATA

NISOURCE INC.

The selected data presented below as of and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 are derived from the Consolidated Financial Statements of NiSource. The data should be read in connection with the Consolidated Financial Statements including the related notes included in Item 8 of this Form 10-K. Certain correcting adjustments have been made to the prior period amounts as discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and as discussed in Item 8, Note 1 to the Consolidated Financial Statements.

Year Ended December 31, (*dollars in millions except per share data*)	2011	2010	2009	2008	2007
Statement of Income Data:					
Gross Revenues					
Gas Distribution	$ 2,917.9	$ 3,094.0	$ 3,296.2	$ 5,171.3	$ 4,347.1
Gas Transportation and Storage	1,354.6	1,261.4	1,239.5	1,132.4	1,089.6
Electric	1,427.7	1,379.3	1,214.2	1,359.7	1,363.8
Other	318.9	679.9	901.7	1,219.5	1,082.0
Total Gross Revenues	6,019.1	6,414.6	6,651.6	8,882.9	7,882.5
Net Revenues (Gross Revenues less Cost of Sales, excluding depreciation and amortization)	3,462.7	3,440.5	3,333.6	3,249.6	3,207.2
Operating Income	905.1	905.7	800.0	907.2	947.3
Income from Continuing Operations	303.8	285.2	229.8	363.2	321.9
Results from Discontinued Operations - net of taxes	(4.7)	(2.6)	(12.8)	(291.6)	18.4
Net Income	299.1	282.6	217.0	71.6	340.3
Balance Sheet Data:					
Total Assets	20,708.3	19,913.4	19,262.5	20,023.7	17,978.1
Capitalization					
Common stockholders' equity	4,997.3	4,897.5	4,837.8	4,713.2	5,068.4
Long-term debt, excluding amounts due within one year	6,267.1	5,936.1	5,969.1	5,945.7	5,596.3
Total Capitalization	$ 11,264.4	$ 10,833.6	$ 10,806.9	$ 10,658.9	$ 10,664.7
Per Share Data:					
Basic Earnings (Loss) Per Share ($)					
Continuing operations	1.08	1.03	0.84	1.33	1.17
Discontinued operations	(0.02)	(0.01)	(0.05)	(1.06)	0.07
Basic Earnings Per Share	1.06	1.02	0.79	0.27	1.24
Diluted Earnings (Loss) Per Share ($)					
Continuing operations	1.05	1.02	0.83	1.32	1.17
Discontinued operations	(0.02)	(0.01)	(0.05)	(1.06)	0.07
Diluted Earnings Per Share	1.03	1.01	0.78	0.26	1.24
Other Data:					
Dividends paid per share ($)	0.92	0.92	0.92	0.92	0.92
Shares outstanding at the end of the year (in thousands)	281,854	278,855	276,638	274,262	274,177
Number of common shareholders	30,663	32,313	34,299	36,194	38,091
Capital expenditures ($ in millions)	1,125.2	803.8	777.2	1,299.9	786.5
Number of employees	7,957	7,604	7,616	7,981	7,607

- On November 14, 2011, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately $125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately $228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which $124.7 million were accepted for purchase. NiSource Finance recorded a $53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

- For 2011 and 2010, Other gross revenues declined due to the decision to wind down the unregulated natural gas marketing activities in the second quarter of 2009 as a part of the Company's long-term strategy of focusing on its core regulated businesses.

- On December 30, 2010, NiSource Finance finalized a cash tender offer for $273.1 million aggregate principal amount of its outstanding 10.75% notes due in 2016. As a result of this tender offer, NiSource Finance incurred $96.7 million in early redemption fees, primarily attributable to early redemption premiums and unamortized discounts and fees, which is recorded as a loss on the early extinguishment of long-term debt reducing income from continuing operations.

ITEM 6. SELECTED FINANCIAL DATA

NiSource Inc.

- For 2009, Gas Distribution and Other gross revenues decreased due to a decline in natural gas commodity prices.
- For 2009, operating income decreased $25.3 million due to pre-tax restructuring charges, net of adjustments.
- For 2008, the Results from Discontinued Operations – net of taxes includes the after tax loss on disposition related to the sales of Whiting Clean Energy, Northern Utilities and Granite State Gas of $32.3 million, $63.3 million and $12.5 million, respectively, and an adjustment of $188.0 million for the Tawney litigation. Refer to the "Liquidity and Capital Resources" section of Item 7 for additional information.
- In the third quarter of 2008, NiSource Development Company sold its interest in JOF Transportation Company to Lehigh Service Corporation for a pre-tax gain of $16.7 million included within Other, net on the Statements of Consolidated Income.
- During the second quarter 2008, Northern Indiana purchased Sugar Creek for $329.7 million, which is included in the above capital expenditures amount for 2008.
- During the fourth quarter of 2007, Whiting Clean Energy redeemed its outstanding long-term notes. The associated redemption premium of $40.6 million was recorded as a loss on early extinguishment of long-term debt.
- In 2007, NiSource adopted the new measurement date provisions of the amended ASC topic for retirement benefits which decreased Total Assets by approximately $80.2 million, decreased Total Liabilities by approximately $76.8 million and decreased total Common stockholders' equity by approximately $3.4 million, net of taxes.

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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, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, the impact of potential new environmental laws or regulations, the results of material litigation, changes in pension funding requirements, changes in general economic, capital and commodity market conditions, and counter-party credit risk, and the matters set forth in Item 1A, "Risk Factors" of this report, 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 in the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England and the generation, transmission and distribution of electricity in Indiana. NiSource generates most 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 sales 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.

For the twelve months ended December 31, 2011, NiSource reported income from continuing operations of $303.8 million, or $1.08 per basic share, compared to $285.2 million, or $1.03 per basic share for the same period in 2010.

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

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Increases in income from continuing operations were due primarily to the following items:

- NiSource's Gas Transmission and Storage Operations' net revenues increased $56.4 million from the same period in 2010, primarily due to higher demand margin revenue as a result of new growth projects. See below for a discussion of growth projects at Gas Transmission and Storage Operations. Additionally, there was an increase due to the net impact of the rate case filing at Columbia Gulf. See below for a discussion of commercial and regulatory initiatives and the expected impact on NiSource.
- Depreciation and amortization decreased $58.9 million primarily as a result of new depreciation rates at Northern Indiana from the implementation of the gas rate case. These rates were put into effect at the end of 2010. Rates for 2012 will be comparable to 2011.
- Loss on early extinguishment of long-term debt decreased $42.8 million in 2011 due to the differences in early redemption fees, primarily attributable to early redemption premiums and unamortized discounts and fees, related to tender offers finalized in the fourth quarter of both 2011 and 2010. See below for a discussion of NiSource's financial management of the balance sheet for more information.

Increases in income from continuing operations were partially offset due to the following items:

- Operation and maintenance expense increased $59.2 million primarily related to additional pension contributions at the Gas Transmission and Storage Operations segment. As provided by its rate cases, GAAP pension expense is deferred to a regulatory asset and pension contributions are recorded to expense. NiSource expects to experience reduced pension costs in 2012 as a result of this contribution. Additionally, during the fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded $35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for more information.
- The effective tax rate increased to 35.0% compared to 32.2% for the comparable period last year. The increase is due to a tax rate change in Indiana in 2011 that lowers the corporate income tax rate from 8.5% to 6.5% over four years beginning on July 1, 2012. In addition, other deferred tax assets and liabilities, primarily deferred tax assets related to Indiana net operating loss carryforward, were required to be reduced to reflect the lower rate at which these temporary differences and tax benefits will be realized. In the second quarter of 2011, NiSource recorded tax expense of $6.8 million to reflect the effect of this rate change. In the third quarter of 2010, NiSource recorded a $15.2 million reduction in income tax expense as a result of a rate case settlement by Columbia of Pennsylvania that required it to flow through certain tax benefits to customers in current rates. NiSource expects to experience benefits related to this issue until January 2014.

These factors and other impacts to the financial results are discussed in more detail within the following discussions of "Results of Operations" and "Results and Discussion of Segment Operations."

Four-Point Platform for Growth
NiSource's four key initiatives to build a platform for long-term, sustainable growth continue to comprise commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and process and expense management.

Commercial and Regulatory Initiatives

Rate Development and Other Regulatory Matters . NiSource is moving forward with regulatory initiatives across several gas distribution company markets, at Northern Indiana, and at Columbia Gulf. Whether through full rate case filings or other approaches, NiSource's goal is to develop strategies that benefit all stakeholders as it addresses changing customer conservation patterns, develops more contemporary pricing structures, and embarks on long-term investment programs to enhance its infrastructure.

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

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On December 28, 2011, the IURC issued an Order approving Northern Indiana's proposed gas energy efficiency programs and budgets, including a conservation program and recovery of all start-up and deferred costs. A three year budget of $42.4 million for these programs was approved. In its Order the IURC recognized that Northern Indiana was one of two utilities in the state in a position to integrate its gas and electric energy efficiency programs throughout its service territory footprint. Northern Indiana is presently working through implementation plans.

On June 1, 2011, Columbia of Virginia filed an application for approval of an infrastructure tracking mechanism pursuant to the Steps to Advance Virginia's Energy ("SAVE") Plan Act. Columbia of Virginia's SAVE Plan provides for recovery of costs associated with the accelerated replacement of certain facilities designed to improve system safety or reliability through a rate rider. The proposed replacement program would result in investments of $20 million per year from 2012 through 2016, as well as covering $2.9 million in investment occurring in 2011. The Staff of the VSCC filed responsive testimony on August 22, 2011 and a public hearing was held on September 7, 2011. The Hearing Examiner issued a Report on October 6, 2011 recommending approval of the SAVE Plan. The VSCC issued an Order on November 28, 2011 approving the SAVE Plan and the associated rider effective December 30, 2011.

On January 14, 2011, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC, seeking a revenue increase of approximately $37.8 million annually. The parties to the case jointly filed a petition for approval of a partial settlement on July 1, 2011. The partial settlement resolved all issues except residential rate design and a challenge to the structure of one of Columbia of Pennsylvania's customer programs. The settlement provides for an annual revenue increase of $17 million. The Pennsylvania PUC issued an order on October 14, 2011 approving the annual revenue increase of $17 million. New rates went into effect on October 18, 2011. The Pennsylvania PUC's ruling increased the minimum residential customer charge from $12.25 to $18.73, which includes an allowance for 20 Ccf of distribution charges. However, the customer pays for gas commodity on all usage.

On November 30, 2010, Columbia of Ohio filed a notice of intent to file an application to adjust rates associated with Rider IRP and Rider DSM. On February 28, 2011, Columbia of Ohio filed its application to adjust rates associated with the IRP and DSM Riders. The DSM Rider tracks and recovers costs associated with Columbia of Ohio's energy efficiency and conservation programs. The application sought to increase the annual revenue from the riders by approximately $24 million. On April 7, 2011, the parties filed a stipulation that settled this case, which was approved as filed by the PUCO on April 27, 2011. The Order allowed Columbia of Ohio to increase its annual revenues by approximately $24 million effective May 1, 2011.

On September 9, 2011, Columbia of Ohio filed an application with PUCO to continue and expand its DSM program. In its application, Columbia of Ohio proposed to spend $20 million annually (adjusted for inflation) on weatherization programs for residential and commercial customers for calendar years 2012 through 2016. Columbia of Ohio will continue to recover program expenses through Rider DSM and has proposed a shared savings incentive not to exceed $3.9 million over the five-year program. By Order dated December 14, 2011, the PUCO approved a stipulation filed in the case.

On October 28, 2010, Columbia Gulf filed a rate case with the FERC, proposing a rate increase and tariff changes. Among other things, the filing proposed a revenue increase of approximately $50 million to cover increases in the cost of services, which included adjustments for operation and maintenance expenses, capital investments, adjustments to depreciation rates and expense, rate of return, and increased federal, state and local taxes. On November 30, 2010, the FERC issued an Order allowing new rates to become effective by May 2011, subject to refund. Columbia Gulf placed new rates into effect, subject to refund, on May 1, 2011. Columbia Gulf and the active parties to the case negotiated a settlement, which was filed with the FERC on September 9, 2011. On September 30, 2011, the Chief Judge severed the issues relating to a contesting party for separate hearing and decision. On October 4, 2011, the Presiding Administrative Law Judge certified the settlement agreement as uncontested to the FERC with severance of the contesting party from the settlement. On November 1, 2011, Columbia Gulf began billing interim rates to customers. On December 1, 2011, the FERC issued an Order approving the settlement without change. The key elements of the settlement, which was a "black box agreement", include: (1) increased base rate to $0.1520 per Dth and (2) establishing a postage stamp rate design. No protests to the Order were filed and therefore, pursuant to the Settlement, the order became final on January 1, 2012 which made the settlement effective on February 1, 2012. On February 2, 2012, the Presiding Administrative Law Judge issued an initial decision granting a joint motion terminating the remaining litigation with the contesting party and allowing it to become a settling party. Refunds of approximately $16 million, accrued as of December 31, 2011, are to be issued before the end of March 2012.

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

NiSource Inc.

On July 18, 2011, Northern Indiana filed with the IURC a settlement in its 2010 Electric Rate Case with the OUCC, Northern Indiana Industrial Group, NLMK Indiana and Indiana Municipal Utilities Group. The settlement agreement limited the proposed base rate impact to the residential customer class to a 4.5% increase. The parties have also agreed to a rate of return of 6.98% based upon a 10.2% return on equity. The settlement also resolves all pending issues related to compliance with the August 25, 2010 Order in the 2008 Electric Rate Case. On December 21, 2011, the IURC issued an Order approving the Settlement Agreement as filed, and new electric base rates became effective on December 27, 2011. On January 20, 2012, the City of Hammond filed an appeal of the IURC's December 21, 2011 Order. That appeal is pending.

On March 22, 2011, Northern Indiana filed a petition with the IURC for a certificate of public convenience and necessity and associated relief for the construction of additional environmental projects required to comply with the NOV consent decree lodged in the United States District Court for the Northern District of Indiana on January 13, 2011. Refer to Note 20-D, "Environmental Matters," for additional information. This petition has since been trifurcated into three separate phases. In terms of Phase I, the evidentiary hearing was held at the IURC on August 31, 2011 addressing the relief regarding (i) the construction of a FGD unit at R.M. Schahfer Generating Station Unit 15 and (ii) a cost estimate increase for the projects approved by the December 29, 2010 Order, which included estimates for a FGD unit at R.M. Schahfer Generating Station Unit 14 and associated common facilities for Units 14 and 15. On December 28, 2011, the IURC issued an order for the Phase I projects estimated to cost $500 million and granting the requested ratemaking and accounting relief associated with these Phase I projects. On November 9, 2011, Northern Indiana filed with the IURC a stipulation and settlement agreement with the OUCC and the Industrial Group resolving all issues regarding the Phase II projects, which includes all remaining projects with the exception of those projects related to Michigan City Generating Station Unit 12. The motion also requested the establishment of and a procedural schedule for a new Phase III for the Unit 12 projects. The evidentiary hearing was held for the Phase II projects at the IURC on December 14, 2011. On February 15, 2012, the IURC approved the stipulation and settlement agreement. The establishment of a Phase III in this proceeding occurred in response to the fact that on October 20, 2011 and October 21, 2011, the OUCC and the Industrial Group, respectively, filed testimony in opposition of the proposed construction of a FGD unit on Michigan City Generating Station Unit 12. On February 14, 2012, the IURC set a procedural schedule for the Phase III projects.

As part of a multi-state effort to strengthen the electric transmission system serving the Midwest, Northern Indiana anticipates making an investment in a new, 100-mile, 345-kilovolt transmission project in northern Indiana. The project, a major new transmission system improvement reviewed and authorized by the MISO, is scheduled to be in service during the latter part of the decade. Northern Indiana has also been identified by the MISO as one of two Transmission Owners to invest in another project. On February 8, 2012, Pioneer Transmission, LLC filed a complaint with the FERC, seeking to obtain 100% of the investment rights in this second project.

Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for a complete discussion of regulatory matters.

Commercial Growth and Expansion of the Gas Transmission and Storage Business

During 2011, Gas Transmission and Storage Operations placed into service strategic growth projects, primarily serving the Marcellus Shale production area. Below is a discussion of these projects as well as projects that are currently on-going.

Majorsville, PA Project. The Gas Transmission and Storage Operations segment executed three separate projects totaling approximately $80 million in the Majorsville, PA vicinity to aggregate Marcellus Shale gas production for downstream transmission. Fully contracted, the pipeline and compression assets allow Gas Transmission and Storage Operations segment to gather and deliver more than 325,000 Dth per day of Marcellus production gas to the Majorsville MarkWest Liberty processing plants developed by MarkWest Liberty Midstream & Resources L.L.C.

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

NiSource Inc.

In 2010, Columbia Transmission received approval from the FERC to refunctionalize certain transmission assets to gathering and transferred these pipeline facilities to a newly formed affiliate, NiSource Midstream Services, LLC. These facilities are included in providing non-FERC jurisdiction gathering services to producers in the Majorsville, PA vicinity. Two of the three projects were completed and placed into service on August 1, 2010, creating an integrated gathering and processing system serving Marcellus production in southwestern Pennsylvania and northern West Virginia. Precedent agreements were executed by anchor shippers in the fourth quarter of 2009, which were superseded by the execution of long-term service agreements in August and September 2010. In the fourth quarter, construction began on the third project on a pipeline to deliver residue gas from the Majorsville MarkWest Liberty processing plant to the Texas Eastern Wind Ridge compressor station in southwestern Pennsylvania to provide significant additional capacity to eastern markets. This project was placed into service in April 2011.

Clendenin Project. Construction began on this approximately $18 million capital project in 2010 to modify existing facilities in the Clendenin, West Virginia area to move Marcellus production to liquid market centers. The Clendenin project provides the Gas Transmission and Storage Operations segment the ability to meet incremental transportation demand of up to 150,000 Dth per day. Long-term firm transportation contracts for 133,100 Dth have been executed, some of which began in the third quarter 2010 and others that began in June 2011.

Line WB Expansion Project. The Gas Transmission and Storage Operations segment expanded its WB system through investment in additional facilities, which provide transportation service on a firm basis from Loudoun, Virginia to Leach, Kentucky. The expansion totaled approximately $14 million, allowing producers to meet incremental transportation demand in the Marcellus/Appalachian Basin. Binding precedent agreements for approximately 175,000 Dth per day of firm transportation capacity were executed, some which began in January 2011. Final construction on all facilities will be completed and placed into service in the first quarter of 2012.

East Lateral Project. In 2010, the Gas Transmission and Storage Operations segment initiated a $5 million project to modify existing facilities on the Columbia Gulf East Lateral to provide firm transportation service for up to 300,000 Dth per day. Firm transportation contracts for 250,000 Dth per day were executed for five-year terms. This FERC-approved project was completed and put into service in May 2011.

Southern Appalachian Project. The Gas Transmission and Storage Operations segment invested nearly $4 million to expand Line SM-116 to transport approximately 38,500 Dth per day on a firm basis as a continuation of its strategy to provide transportation services to producers of Marcellus and Appalachian gas. This additional capacity is supported by executed, binding precedent agreements. These additional facilities were placed in service in April 2011.

Power Plant Generation Project. The Gas Transmission and Storage Operations segment is planning to spend nearly $35 million on an expansion project, which includes new pipeline and modifications to existing compression assets, with Virginia Power Services Energy Corporation, Inc., the energy manager for Virginia Electric Power Company. This project will expand the Columbia Transmission system in order to provide up to nearly 250,000 Dth per day of transportation capacity under a long-term, firm contract. The project is expected to be ready for commercial operations by mid-2014.

Smithfield Project. The Gas Transmission and Storage Operations segment made approximately $14 million of capital investments for modifications to existing pipeline and compressor facilities to accommodate receipt of up to 150,000 Dth per day of additional Marcellus gas from connections near Smithfield, West Virginia and Waynesburg, Pennsylvania. Three anchor shippers agreed to long-term, firm transportation contracts, one contract that began in April 2011 and others that began in August 2011. The project is expected to be fully in service in the first quarter of 2012.

Rimersburg Expansion Project. The Gas Transmission and Storage Operations segment has approved an investment of approximately $6 million for this project that will add capacity to north central Pennsylvania to meet the growing demands of producers in the area. The project will consist of the expansion of Line 134 from the Brinker compressor station to the Iowa regulator, adding approximately 19,000 Dth per day of additional capacity, all of which has been sold through precedent agreements. The project is expected to go into service in the first quarter of 2012.

Pennsylvania Marcellus Pipeline Project. The Gas Transmission and Storage Operations segment has approved an investment of approximately $150 million which will include right-of-way acquisitions and constructing new pipeline with an initial combined capacity of 300,000 Dth per day. Natural gas will initially be sourced from a new third-party processing plant and delivered to Columbia Transmission and two other third-party pipelines in Pennsylvania. The project is expected to be placed in service in late 2012.

Financial Management of the Balance Sheet
NiSource remains committed to maintaining its liquidity position through management of capital spending, working capital and operational requirements, and its financing needs. NiSource has executed on its plan by taking the following actions:

- On November 23, 2011, NiSource Finance issued $250.0 million of 4.45% senior unsecured notes that mature December 1, 2021 and $250.0 million of 5.80% senior unsecured notes that mature February 1, 2042.
- On November 14, 2011, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately $125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately $228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which $124.7 million were accepted for purchase. In accordance with the provisions of ASC 470, *Debt,* NiSource Finance determined the debt issued on November 23, 2011, was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a $53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.
- During July 2011, Northern Indiana redeemed $18.7 million of its medium-term notes, with an average interest rate of 7.30%.
- On June 10, 2011, NiSource Finance issued $400.0 million of 5.95% senior unsecured notes that mature June 15, 2041.
- During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to $500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo.
- On March 3, 2011, NiSource Finance entered into a new $1.5 billion four-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility has a termination date of March 3, 2015 and replaced an existing $1.5 billion five-year credit facility, which would have expired during July 2011.

Credit Ratings . On December 13, 2011, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 18, 2011, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 24, 2011, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Process and Expense Management
Refer to Note 3, "Impairments, Restructuring and Other Charges," in the Notes to Consolidated Financial Statements for information on process and expense management.

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

NiSource Inc.

Ethics and Controls
NiSource has had a long term commitment to providing accurate and complete financial reporting as well as high standards for ethical behavior by its employees. 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 its mandatory ethics training program in which employees at every level throughout the organization participate.

Refer to "Management's Report on Internal Control over Financial Reporting" included in Item 9A.

Results of Operations

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

Income from Continuing Operations and Net Income
For the twelve months ended December 31, 2011, NiSource reported income from continuing operations of $303.8 million, or $1.08 per basic share, compared to $285.2 million, or $1.03 per basic share in 2010. Income from continuing operations for the twelve months ended December 31, 2009 was $229.8 million, or $0.84 per basic share.

Including results from discontinued operations, NiSource reported 2011 net income of $299.1 million, or $1.06 per basic share, 2010 net income of $282.6 million, or $1.02 per basic share, and 2009 net income of $217.0 million, or $0.79 per basic share.

Comparability of line item operating results was impacted by regulatory and tax trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses were offset by increases in net revenues and had essentially no impact on income from continuing operations. A decrease in operating expenses of $40.4 million for the 2011 year was offset by a corresponding decrease to net revenues reflecting these tracked costs. In the 2010 period, a decrease in operating expenses of $7.6 million for trackers was offset by a corresponding decrease to net revenues reflecting recovery of these costs. These changes from 2010 to 2011 were largely attributable to fluctuations in recoveries associated with low income assistance programs.

Immaterial Restatement

As discussed further below, NiSource is making certain correcting adjustments to its historical financial statements for the quarters of 2011 and 2010 and for the years of 2010 and 2009, as well as to other selected financial data for the years 2008 and 2007. NiSource does not believe these corrections are material individually or in the aggregate to its financial condition or its financial results for any reported period. Refer to the tables below for the effects of these corrections on prior periods.

Deferred revenue- In the fourth quarter of 2011, NiSource identified a deferred revenue regulatory asset of $25.2 million that was not recoverable. The impact of the correction in 2010 and 2009 resulted in a decrease in electric revenue of $7.4 million and an increase of $1.0 million, respectively, with an offset to deferred revenue regulatory assets. The remaining decrease in electric revenue of $18.2 million was corrected prior to 2009. The correction reduced electric revenue by a total of $0.6 million for previously reported interim periods in 2011. There was no impact to customers as a result of this correction.

Environmental asset recovery- NiSource recorded an out of period charge of $3.4 million in operation and maintenance expense and $4.6 million in depreciation and amortization expense in the first quarter of 2011 to impair a regulatory environmental asset that was not recoverable, which impairment charge should have been recorded in a prior year. The impact of the correction in 2010 and 2009 resulted in an increase to expense of $1.4 million and $1.0 million, respectively, with an offset to regulatory assets. The remaining increase to expense of $5.6 million was corrected prior to 2009.

OPEB over-reimbursement- In the fourth quarter of 2011, NiSource identified an over-reimbursement of $8.0 million received by NiSource from an insurer related to other post-employment benefits. The impact of the correction in 2010 and 2009 resulted in an increase in operation and maintenance expense of $1.0 million and $1.1 million, respectively, with an offset to other accruals. The remaining increase in expense of $5.4 million was corrected prior to 2009. The correction increased expense by a total of $0.5 million for previously reported interim periods in 2011.

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NISOURCE INC.

Environmental accrual- In the third quarter of 2010, NiSource recorded an out of period reduction to expense of $6.0 million to reduce an environmental liability that was incorrectly recorded in a prior year. To reverse the liability in the proper periods, NiSource recorded an increase in operation and maintenance expense of $6.0 million in 2010 and a decrease of $0.2 million in 2009 with an offset to legal and environmental accruals. The remaining decrease to expense of $5.8 million was corrected prior to 2009.

OPEB regulatory asset- NiSource recorded an out of period charge of $2.4 million in operation and maintenance expense in the second quarter of 2011 to impair a regulatory asset related to OPEB that was not probable of recovery, which impairment charge should have been recorded in a prior year. The impact of the correction in 2010 and 2009 resulted in a decrease to operation and maintenance expense of $0.2 million and an increase of $0.1 million, respectively, with an offset to regulatory assets. The remaining increase to expense of $2.3 million was corrected prior to 2009.

Healthcare claims- In 2008, NiSource recorded an out of period credit of $13.3 million to correct the allocation of healthcare claims expense to active employees and retired participants in its other post-employment benefits. As this error arose in 2007, NiSource is correcting the selected financial data for 2008 and 2007 for the impact of this error.

Unbilled revenue- In 2007, NiSource recorded an out of period charge of $25.5 million to correct an error that arose in prior years in its unbilled electric and gas revenue calculation. NiSource is correcting the selected financial data for 2007 for the impact of this error.

The following tables set forth the effects of the correcting adjustments to Net Income, for the years ended December 31, 2010, 2009, 2008 and 2007 and for the quarterly periods in 2011 and 2010:

	Twelve Months Ended December 31,			
Increase (Decrease) in Net Income	2010	2009	2008	2007
(in millions)				
Previously reported Net Income	$ 292.0	$ 217.7	$ 79.0	$ 321.4
Deferred revenue	(7.4)	1.0	2.7	(5.7)
Environmental asset recovery	(1.4)	(1.0)	(1.2)	(1.8)
OPEB over-reimbursement	(1.0)	(1.1)	(1.2)	(1.1)
Environmental accrual	(6.0)	0.2	1.1	0.5
OPEB regulatory asset	0.2	(0.1)	0.1	0.2
Healthcare claims	-	-	(13.3)	13.3
Unbilled revenue	-	-	-	25.5
Total corrections	(15.6)	(1.0)	(11.8)	30.9
Income taxes	(6.2)	(0.3)	(4.4)	12.0
Corrected Net Income	$ 282.6	$ 217.0	$ 71.6	$ 340.3

	Three Months Ended						
Increase (Decrease) in Net Income	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
(in millions)							
Previously reported Net Income	$ 34.7	$ 38.9	$ 205.2	$ 33.4	$ 33.2	$ 28.1	$ 197.3
Deferred revenue	-	-	(0.6)	(2.1)	(2.4)	(1.0)	(1.9)
Environmental asset recovery	-	-	8.0	(0.5)	(0.3)	(0.3)	(0.3)
OPEB over-reimbursement	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Environmental accrual	-	-	-	-	(6.4)	0.2	0.2
OPEB regulatory asset	-	2.4	-	0.1	-	0.1	-
Total corrections	(0.1)	2.2	7.2	(2.7)	(9.3)	(1.3)	(2.3)
Income taxes	(0.1)	0.9	2.9	(1.1)	(3.7)	(0.5)	(0.9)
Corrected Net Income	$ 34.7	$ 40.2	$ 209.5	$ 31.8	$ 27.6	$ 27.3	$ 195.9

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

NISOURCE INC.

The following tables set forth the effects of the correcting adjustments on affected line items within NiSource's previously reported Statements of Consolidated Income for the years ended December 31, 2010 and 2009, Consolidated Balance Sheets as of December 31, 2010 and the Statements of Consolidated Cash Flows for the years ended December 31, 2010 and 2009:

	Year Ended December 31,			
	2010		2009	
(in millions, except per share amounts)	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Net Revenues				
Electric	$ 1,386.7	$ 1,379.3	$ 1,213.2	$ 1,214.2
Gross Revenues	6,422.0	6,414.6	6,650.6	6,651.6
Total Net Revenues	3,447.9	3,440.5	3,332.6	3,333.6
Operation and maintenance	1,655.9	1,663.3	1,654.7	1,656.1
Depreciation and amortization	596.3	597.1	589.3	589.9
Total Operating Expenses	2,541.6	2,549.8	2,547.6	2,549.6
Operating Income	921.3	905.7	801.0	800.0
Income from Continuing Operations before Income Taxes	436.1	420.5	395.8	394.8
Income Taxes	141.5	135.3	165.3	165.0
Income from Continuing Operations	294.6	285.2	230.5	229.8
Net Income	$ 292.0	$ 282.6	$ 217.7	$ 217.0
Basic Earnings (Loss) Per Share ($)				
Continuing operations	$ 1.06	$ 1.03	$ 0.84	$ 0.84
Basic Earnings Per Share	$ 1.05	$ 1.02	$ 0.79	$ 0.79
Diluted Earnings (Loss) Per Share ($)				
Continuing operations	$ 1.05	$ 1.02	$ 0.84	$ 0.83
Diluted Earnings Per Share	$ 1.04	$ 1.01	$ 0.79	$ 0.78

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

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(in millions)	December 31, 2010 As Previously Reported	December 31, 2010 As Corrected
Current Assets		
Underrecovered gas and fuel costs	$ 135.7	$ 120.7
Regulatory Assets	151.8	143.8
Total Current Assets	2,448.9	2,425.9
Other Assets		
Regulatory Assets	1,650.4	1,648.0
Total Other Assets	6,044.4	6,042.0
Total Assets	$ 19,938.8	$ 19,913.4
Capitalization		
Retained Earnings	$ 901.8	$ 876.1
Total Common Stockholders' Equity	4,923.2	4,897.5
Total Capitalization	10,859.3	10,833.6
Current Liabilities		
Overrecovered gas and fuel costs	11.8	21.4
Other accruals	336.4	343.7
Total Current Liabilities	3,649.4	3,666.3
Other Liabilities and Deferred Credits		
Deferred income taxes	2,209.7	2,193.1
Total Other Liabilities and Deferred Credits	5,430.1	5,413.5
Total Capitalization and Liabilities	$ 19,938.8	$ 19,913.4

Statements of Consolidated Cash Flows

	Year Ended December 31,			
	2010		2009	
(in millions)	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Operating Activities				
Net Income	$ 292.0	$ 282.6	$ 217.7	$ 217.0
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:				
Depreciation and amortization	596.3	597.1	589.3	589.9
Deferred income taxes and investment tax credits	200.1	193.9	378.2	377.8
Changes in Assets and Liabilities:				
(Under) Overrecovered gas and fuel costs	(250.4)	(243.0)	324.4	323.4
Other accruals	56.4	63.4	(7.7)	(6.8)
Regulatory assets/liabilities	163.9	164.3	105.2	105.8

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

NISOURCE INC.

The following tables set forth the effects of the correcting adjustments on major line items within NiSource's previously reported Statements of Consolidated Income for the quarters in 2011 and 2010:

	Three Months Ended					
	September 30, 2011		June 30, 2011		March 31, 2011	
(in millions, except per share amounts)	As Previously Reported	As Corrected	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Net Revenues						
Electric	$ 404.7	$ 404.7	$ 349.2	$ 349.2	$ 347.1	$ 346.5
Gross Revenues	1,068.7	1,068.7	1,228.3	1,228.3	2,232.2	2,231.6
Total Net Revenues	745.6	745.6	765.8	765.8	1,061.3	1,060.7
Operation and maintenance	407.1	407.2	402.5	400.3	432.5	429.3
Depreciation and amortization	134.9	134.9	134.5	134.5	138.9	134.3
Total Operating Expenses	601.6	601.7	604.8	602.6	665.1	657.3
Operating Income	147.5	147.4	163.3	165.5	399.2	406.4
Income from Continuing Operations before Income Taxes	53.4	53.3	69.5	71.7	312.7	319.9
Income Taxes	17.1	17.0	30.0	30.9	107.9	110.8
Income from Continuing Operations	36.3	36.3	39.5	40.8	204.8	209.1
Net Income	$ 34.7	$ 34.7	$ 38.9	$ 40.2	$ 205.2	$ 209.5
Basic Earnings (Loss) Per Share ($)						
Continuing operations	$ 0.13	$ 0.13	$ 0.14	$ 0.14	$ 0.73	$ 0.75
Basic Earnings Per Share	$ 0.12	$ 0.12	$ 0.14	$ 0.14	$ 0.73	$ 0.75
Diluted Earnings (Loss) Per Share ($)						
Continuing operations	$ 0.13	$ 0.13	$ 0.14	$ 0.14	$ 0.72	$ 0.73
Diluted Earnings Per Share	$ 0.12	$ 0.12	$ 0.14	$ 0.14	$ 0.72	$ 0.73

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	Three Months Ended							
	December 31, 2010		September 30, 2010		June 30, 2010		March 31, 2010	
(in millions, except per share amounts)	As Previously Reported	As Corrected	As Previously Reported	As Corrected	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Net Revenues								
Electric	$ 330.6	$ 328.5	$ 397.7	$ 395.3	$ 340.5	$ 339.5	$ 317.9	$ 316.0
Gross Revenues	1,754.1	1,752.0	1,138.1	1,135.7	1,171.1	1,170.1	2,358.7	2,356.8
Total Net Revenues	925.4	923.3	718.1	715.7	732.0	731.0	1,072.4	1,070.5
Operation and maintenance	457.1	457.5	382.1	388.8	377.1	377.2	439.6	439.8
Depreciation and amortization	141.8	142.0	153.1	153.3	151.6	151.8	149.8	150.0
Total Operating Expenses	673.7	674.3	598.3	605.2	593.2	593.5	676.4	676.8
Operating Income	255.4	252.7	123.3	114.0	139.2	137.9	403.4	401.1
Income from Co ntinuing Operations before Income Taxes	57.7	55.0	27.8	18.5	43.4	42.1	307.2	304.9
Income Taxes	21.9	20.8	(5.6)	(9.3)	15.4	14.9	109.8	108.9
Income from Continuing Operations before Income Taxes	35.8	34.2	33.4	27.8	28.0	27.2	197.4	196.0
Net Income	$ 33.4	$ 31.8	$ 33.2	$ 27.6	$ 28.1	$ 27.3	$ 197.3	$ 195.9
Basic Earnings (Loss) Per Share ($)								
Continuing operations	$ 0.13	$ 0.12	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.71	$ 0.71
Basic Earnings Per Share	$ 0.12	$ 0.11	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.71	$ 0.71
Diluted Earnings (Loss) Per Share ($)								
Continuing operations	$ 0.12	$ 0.11	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.71	$ 0.71
Diluted Earnings Per Share	$ 0.11	$ 0.10	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.71	$ 0.71

Net Revenues

NiSource analyzes the operating results using net revenues. Net revenues are calculated as revenues less the associated cost of sales (excluding depreciation and amortization). NiSource believes net revenues is a better measure to analyze profitability than gross operating revenues since the majority of the cost of sales are tracked costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in gross operating revenues.

Total consolidated net revenues for the twelve months ended December 31, 2011, were $3,462.7 million, a $22.2 million increase compared with 2010. Net revenues increased primarily due to increased Gas Transmission and Storage Operations' operating revenues of $56.4 million and increased Electric Operations' net revenues of $7.6 million partially offset by lower Gas Distribution Operations' net revenues of $21.3 million.

- Gas Transmission and Storage Operations' operating revenues increased primarily due to higher demand margin revenue of $32.3 million as a result of new growth projects. Additionally, there was an increase of $14.8 million due to the net impact of the rate case filing at Columbia Gulf. Net revenues also increased due to increased midstream revenue of $10.6 million, higher mineral rights royalty revenues of $8.4 million, increased regulatory trackers of $5.9 million, which are offset in expense, and a one-time settlement of $2.8 million. These increases in net revenues were partially offset by the impact of $8.3 million related to the recognition in 2010 of revenue for a previously deferred gain for native gas contributed to Hardy Storage from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, revenues decreased due to lower shorter term transportation and storage services of $6.7 million and the impact of $5.4 million of fees received from a contract buy-out during 2010.

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NISOURCE INC.

- Electric Operations' net revenues increased primarily due to increased industrial usage and margins of $18.7 million resulting from improved economic conditions, $9.5 million in lower revenue credits compared to the prior year, and higher environmental trackers of $5.5 million, which are offset in expense. These increases were partially offset by a decrease in residential and commercial margins of $12.2 million, and lower environmental cost recovery of $12.0 million due to a decrease in net plant eligible for a return and a decrease in the allowed rate of return.
- Gas Distribution Operations' net revenues decreased due primarily to a decrease in net regulatory and tax trackers of $51.8 million, which are offset in expense, lower off-system sales of $18.8 million primarily as a result of the standard service offer auction at Columbia of Ohio in the second quarter of 2010, and a decrease in industrial margins of $7.6 million. The decreases in net revenues were partially offset by an increase of $30.3 million for other regulatory and service programs, including impacts from the implementation of new rates under Columbia of Ohio's approved infrastructure replacement program and rate cases at various NiSource LDCs. Additionally, there was an increase of $14.1 million in residential and commercial margins. Net revenues also increased $5.7 million as the result of a contract accrual that was established in 2010, $2.8 million from Bear Garden Station which was placed into service in July of 2010, and $2.5 million related to a reserve for unaccounted for gas recorded in 2010.

Total consolidated net revenues for the twelve months ended December 31, 2010 were $3,440.5 million, a $106.9 million increase compared with 2009. Net revenues increased primarily due to increased Electric Operations' net revenues of $113.1 million and increased Gas Transmission and Storage Operations' operating revenues of $18.5 million, partially offset by lower Gas Distribution Operations' net revenues of $6.9 million.

- Electric Operations' net revenues were higher primarily as a result of higher industrial usage and margins of $45.1 million due to improved economic conditions, warmer weather of approximately $35 million, and a $17.1 million increase in environmental trackers, which are partially offset in operating expenses. Additionally, there was an increase of $14.6 million in off-system sales, including a reduction of $8.2 million in off-system sales in 2009 resulting from a FAC settlement.
- Within Gas Transmission and Storage Operations, operating revenues increased primarily due to increased demand and commodity margin revenues as a result of the growth projects of $22.9 million and an increase of $8.3 million due to the recognition of revenue for a previously deferred gain for native gas contributed to Hardy Storage from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, there was a $5.6 million increase in regulatory trackers, which are offset in expense, $5.4 million of fees received from a contract buy-out during the period, and a $3.5 million increase in mineral rights royalty revenues. These increases in revenue were partially offset by a decrease in shorter term transportation and storage services of $23.1 million and a decrease of $9.1 million in mineral rights leasing revenues.
- Gas Distribution Operations' net revenues decreased primarily due to decreased regulatory and tax trackers of $20.4 million, offset in expense, and decreased residential and commercial margins of $20.1 million. Additionally, there was an accrual related to a prior period contract established at Columbia of Massachusetts of $5.7 million, additional customer credits of $5.6 million issued as the result of a rate case, a decrease in forfeited discounts and late payments of $5.0 million, and the impact of warmer weather of approximately $3 million. These decreases were partially offset by an increase in regulatory and service programs of $51.7 million. This includes impacts from rate cases at various utilities, the implementation of new rates under Columbia of Ohio's approved infrastructure replacement program, and the revenue normalization program at Columbia of Virginia.

Expenses

Operating expenses were $2,572.2 million in 2011, an increase of $22.4 million from the comparable 2010 period. This increase was primarily due to an increase in operation and maintenance expenses of $59.2 million, higher impairment charges of $14.8 million and increased other taxes of $7.3 million. The increase in operation and maintenance is due primarily to an increase in employee and administrative costs driven largely by an increase in pension contributions at Gas Transmission and Storage Operations. As provided by its rate cases, GAAP pension expense is deferred to a regulatory asset and pension contributions are recorded to expense. Additionally, during the fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded $35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers. Higher impairment costs relate to the additional impairment of $14.7 million recorded in the fourth quarter of 2011 related to Lake Erie Land. These increases were partially offset by a decrease of $58.9 million in depreciation and amortization expense primarily as a result of the new depreciation rates at Northern Indiana as a result of the implementation of the gas rate case.

Operating expenses were $2,549.8 million in 2010, an increase of $0.2 million from the comparable 2009 period. This increase was primarily due to an increase of $36.0 million in payroll and benefits expense, an increase of $20.0 million in maintenance costs, including integrity management pipeline costs, and an increase of $7.2 million in depreciation costs due to the increased capital expenditures. These increases were partially offset by decreased restructuring charges of $27.2 million, lower impairment charges of $21.3 million, and lower uncollectible costs of $12.8 million.

Equity Earnings in Unconsolidated Affiliates

Equity Earnings in Unconsolidated Affiliates were $14.6 million in 2011, a decrease of $0.4 million compared with 2010. Equity Earnings in Unconsolidated Affiliates includes investments in Millennium and Hardy Storage which are integral to the Gas Transmission and Storage Operations business. Equity earnings decreased primarily resulting from lower earnings from Columbia Transmission's investment in Millennium.

Equity Earnings in Unconsolidated Affiliates were $15.0 million in 2010 compared to $16.0 million in 2009. Equity earnings decreased primarily resulting from lower earnings from Columbia Transmission's investment in Millennium, driven by higher interest costs and hedge loss amortization related to Millennium's August 2010 debt refinancing.

Other Income (Deductions)

Other Income (Deductions) in 2011 reduced income $438.0 million compared to a reduction of $485.2 million in 2010. The increase in other income is due to a decrease in the loss on early extinguishment of debt of $42.8 million in the current year as a result of less redemptions of high interest debt in the fourth quarter of 2011 as compared to the fourth quarter of 2010. Also, there was a decrease in interest expense of $15.5 million. Interest expense decreased due to the repurchase of a portion of the 2016 and 2013 notes in November 2011 and a portion of the 2016 notes in December 2010 and a long-term debt maturity of $681.8 million in November 2010. The benefits were partially offset by incremental interest expense associated with a swap maturity in November 2010, the issuance of $500.0 million of long-term debt in November 2011, $400.0 million in June 2011 and $250.0 million in December 2010, and higher average short-term borrowings and rates. These decreases were partially offset by an increase of $11.1 million in other, net due primarily to an increase in charitable contributions in the current year.

Other Income (Deductions) in 2010 reduced income $485.2 million compared to a reduction of $405.2 million in 2009. The decrease in other income was primarily due to a $96.7 million loss on the early extinguishment of long-term debt, partially offset by a decrease in interest expense of $7.0 million. Interest expense decreased primarily due to the $681.8 million November 2010 long-term debt maturity, the $385.0 million December 2009 term loan repayment, the maturity of the Company's $417.6 million November 2009 floating rate note, and lower short-term interest rates. The interest expense benefits were partially offset by incremental interest expense associated with the issuance of $250.0 million of long-term debt in December 2010, the issuance of the $500.0 million December 2009 long-term debt and the effect of the adoption of new accounting requirements related to the Company's accounts receivable facilities. Additionally, other, net increased from an expense of $1.4 million in 2009 to income of $3.8 million in 2010 related to the classification of interest expense as a result of the adoption of the new accounting requirements noted above.

Income Taxes

The effective income tax rates were 35.0%, 32.2%, and 41.8% in 2011, 2010 and 2009, respectively. The 2.8% increase in the overall effective tax rate in 2011 versus 2010 was primarily due to a tax rate change in Indiana in 2011 that resulted in recording $6.8 million in tax expense in the second quarter, and the 2010 rate settlements that resulted in the flow through of certain tax benefits in rates. The effect of the rate settlements also was the primary cause of the decrease in the overall effective tax rate from 2009 to 2010. Moreover, in 2009 the Company recorded the impact of certain nondeductible expenses, which increased tax expense $5.3 million and additional deferred income tax expense of $9.7 million related primarily to state income tax apportionment changes.

On May 12, 2011, the governor of Indiana signed into law House Bill 1004, which among other things, lowers the corporate income tax rate from 8.5% to 6.5% over four years beginning on July 1, 2012. The reduction in the tax rate will impact deferred income taxes and tax related regulatory assets and liabilities recoverable in the rate making process. In addition, other deferred tax assets and liabilities, primarily deferred tax assets related to Indiana net operating loss carry forward, will be reduced to reflect the lower rate at which these temporary differences and tax benefits will be realized. In the second quarter 2011, NiSource recorded tax expense of $6.8 million to reflect the effect of this rate change. The expense is largely attributable to the re-measurement of the Indiana net operating loss at the 6.5% rate. The majority of the Company's tax temporary differences are related to Northern Indiana's utility plant. The re-measurement of these temporary differences at 6.5% was recorded as a reduction of a regulatory asset.

On August 19, 2011, the IRS issued Revenue Procedure 2011-43, which provided a safe harbor method that taxpayers may use to determine whether certain expenditures related to electric transmission and distribution assets must be capitalized. This Revenue Procedure provided procedures for obtaining automatic consent from the IRS to adopt the safe harbor method for the first or second taxable year beginning after December 30, 2010. NiSource changed its method of tax accounting related to certain expenditures, including those related to electric transmission and distribution assets in 2008. As a result of the issuance of the Revenue Procedure, NiSource revised its estimates and recorded tax benefits of $12.9 million in the third quarter of 2011. Excluding minor amounts of interest, the revision of estimate did not impact total income tax expense.

During the third quarter of 2009, NiSource received permission from the IRS to change its tax method of capitalizing certain costs which it applied on a prospective basis to the federal and state income tax returns filed for its 2008 tax year. Under the new tax accounting method, NiSource recorded federal and state income tax receivables of $295.7 million. In October 2009, $263.5 million of these refunds were received. The remaining refunds were received in December 2009 and throughout 2010. The loss for the 2008 tax year resulted in $1.2 million of additional federal income tax expense due to the elimination of Section 199 deductions. The impact of certain state restrictions on loss carrybacks and carryforwards resulted in a net charge to state income tax expense of $5.5 million.

In the fourth quarter of 2010, NiSource received permission from the IRS to change its method of accounting for capitalized overhead costs under Section 263A of the Internal Revenue Code. The change is effective for the 2009 tax year. The Company recorded a net long-term receivable of $31.5 million, net of uncertain tax positions, in the fourth quarter of 2010 to reflect this change. There was no material impact on the effective tax rate as a result of this method change. In 2011, the Company revised its calculation related to the change in method and recorded an increase to the net long-term receivable of $3.3 million, net of uncertain tax positions, to reflect the change in estimate. Excluding minor amounts of interest, the revision of estimate did not impact total income tax expense.

In the third quarter of 2010, NiSource recorded a $15.2 million reduction to income tax expense in connection with the Pennsylvania PUC approval of the Columbia of Pennsylvania base rate case settlement on August 18, 2010. The adjustment to income tax expense resulted from the settlement agreement to flow through in current rates the tax benefits related to a tax accounting method change for certain capitalized costs approved by the IRS. As a result of the Pennsylvania Commission Order on October 14, 2011, Columbia of Pennsylvania will continue to flow through in rates unamortized tax benefits of approximately $30 million through January 2014 related to the unit of property tax method change. The amortization of excess tax benefits was $6.0 million in 2011. On a prospective basis, Columbia of Pennsylvania will recognize deferred tax expense rather than flow through in rates the tax benefits resulting from this method change.

The 2010 Health Care Act includes a provision eliminating, effective January 1, 2013, the tax deductibility of retiree health care costs to the extent of federal subsidies received under the Retiree Drug Subsidy program. When the Retiree Drug Subsidy was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, NiSource recorded a deferred tax asset reflecting the exclusion of the expected future Retiree Drug Subsidy from taxable income. At the same time, an offsetting regulatory liability was established to reflect NiSource's obligation to reduce income taxes collected in future rates. ASC Topic 740 – Income Taxes requires the impact of a change in tax law to be immediately recognized in continuing operations in the income statement for the period that includes the enactment date. In the first quarter of 2010, NiSource reversed its deferred tax asset of $6.2 million related to previously excludable Retiree Drug Subsidy payments expected to be received after January 1, 2013, which was completely offset by the reversal of the related regulatory liability.

Discontinued Operations

Discontinued operations reflected a loss of $4.7 million, or $0.02 loss per basic share, in 2011, a loss of $2.6 million, or $0.01 loss per basic share, in 2010, and a loss of $12.8 million, or $0.05 loss per basic share, in 2009.

The losses in 2011, 2010 and 2009 include activities associated with CER, and other former subsidiaries where NiSource has retained certain liabilities, as well as for impairment charges in 2009 associated with certain properties to be sold by NDC Douglas Properties.

Liquidity and Capital Resources

A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, are 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 and perform necessary maintenance of facilities. NiSource believes that through income generated from operating activities, amounts available under its short-term revolver, commercial paper program, long-term debt agreements and NiSource's ability to access the capital markets there is adequate capital available to fund its operating activities and capital expenditures in 2012.

Operating Activities

Net cash from operating activities for the twelve months ended December 31, 2011 was $870.2 million, an increase of $144.8 million from a year ago. During 2011, gas price decreases and the collection of the 2010 under-recovered gas cost resulted in a $127.5 million source of working capital related to under-recovered gas costs. The $219.6 million source of working capital associated with accounts receivable in 2011 was primarily due to warmer weather in 2011. These sources of working capital were partially offset by a decrease in working capital of $141.8 million related to inventories primarily due to an increase in the weighted average cost rate. Additionally, there was a use of working capital related to accounts payable of $154.8 million in the current year as a result of a decrease in gas purchases due to warmer weather in December 2011 compared to December 2010.

Net cash from operating activities for the twelve months ended December 31, 2010 was $725.4 million, a decrease of $940.8 million from the prior year. During 2010, the refunding of the 2009 over-recovered gas costs resulted in a $243.0 million use of working capital. During 2009, gas price decreases and the collection of the 2008 under-recovered gas cost resulted in a $323.4 million source of working capital. Although there were no changes in the operation of the accounts receivable securitization programs, the application of new accounting guidance, ASC 860, attributed to substantially all of the $243.9 million use of working capital associated with accounts receivable in 2010. Furthermore, higher gas prices and volumes attributed to the higher than normal accounts receivable at December 31, 2008 creating a $258.9 million source of working capital when collected in 2009. This same pricing and volume scenario contributed to higher than normal accounts payable at December 31, 2008, resulting in a $191.4 million use of working capital when paid in 2009.

Pension and Other Postretirement Plan Funding . In 2011, NiSource contributed $393.5 million to its pension plans and $53.6 million to its postretirement medical and life plans. In 2012, NiSource expects to make contributions of approximately $3.3 million to its pension plans and approximately $51.7 million to its postretirement medical and life plans. At December 31, 2011, NiSource's pension and other post-retirement benefit plans were underfunded by $472.9 million and $456.5 million, respectively.

Investing Activities

The tables below reflect actual capital expenditures and certain other investing activities by segment for 2009, 2010 and 2011, and estimates for 2012.

(in millions)	2012E	**2011**	2010	2009
Gas Distribution Operations	$ 533.0	$ **539.4**	$ 409.7	$ 343.2
Gas Transmission and Storage Operations	431.6	**301.5**	302.0	287.4
Electric Operations	413.6	**267.7**	190.3	162.6
Corporate and Other Operations	21.8	**22.0**	9.6	5.4
Total	$ 1,400.0	$ **1,130.6**	$ 911.6	$ 798.6

For 2012, the projected capital program and certain other investing activities are expected to be $1,400.0 million, which is $269.4 million higher than the 2011 capital program. This increased spending is mainly due to higher expenditures for environmental tracker capital for FGD projects in the generation fleet in the Electric Operations segment and increased expenditures at the Gas Transmission and Storage Operations segment for integrity management pipeline spending and planned pipeline replacements. The program is expected to be funded through a combination of cash flow from operations, equity, and short-term debt.

For 2011, the capital expenditures and certain other investing activities were $1,130.6 million, an increase of $219.0 million compared to 2010. This increased spending is mainly due to higher expenditures for the infrastructure replacement programs in the Gas Distribution Operations segment and increased growth expenditures in the Electric Operations segment which is primarily due to the FGD project.

For 2010, capital expenditures and certain other investing activities were $911.6 million, an increase of $113.0 million compared to 2009. A significant amount of the increase was due to increased capital expenditures within Gas Distribution Operations of $66.5 million, due to higher expenditures for the infrastructure replacement programs in the Gas Distribution Operations segment. Additionally, capital expenditures increased within Electric Operations and Gas Transmission and Storage Operations by $27.7 million and $14.6 million, respectively. The increase within Electric Operations was the result of maintenance spending on generation, distribution, and transmission projects. The increase within Gas Transmission and Storage Operations was primarily due to higher expenditures on maintenance projects.

Restricted cash was $160.6 million and $202.9 million as of December 31, 2011 and 2010, respectively. The decrease in restricted cash was a result of the settlement of positions at MF Global as a result of MF Global filing for Chapter 11 bankruptcy protection. Additionally, restricted cash decreased due to the winding down of NiSource's unregulated natural gas marketing business.

NiSource received insurance proceeds for capital repairs of $5.0 million and $62.7 million related to hurricanes and other items in 2010 and 2009, respectively. No insurance proceeds for capital repairs were received in 2011.

Contributions to equity investees were $6.4 million, $87.9 million, and $26.4 million for 2011, 2010 and 2009, respectively. The increase in 2010 was the result of cash required for Millennium's long-term debt refinancing.

Financing Activities

Long-term Debt. Refer to Note 16, "Long-term Debt," in the Notes to Consolidated Financial Statements for information on long-term debt.

Credit Facilities. On March 3, 2011, NiSource Finance entered into a new $1.5 billion four-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an existing $1.5 billion five-year credit facility which would have expired during July 2011. The purpose of the new facility is to fund ongoing working capital requirements and for general corporate purposes, including supporting liquidity for the Company's commercial paper program, and provides for the issuance of letters of credit.

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

N I S OURCE I NC .

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to $500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. Commercial paper issuances are supported by available capacity under NiSource Finance's $1.5 billion unsecured revolving credit facility, which expires in March 2015.

NiSource Finance had outstanding credit facility borrowings of $725.0 million at December 31, 2011, at a weighted average interest rate of 1.99%, and borrowings of $1,107.5 million at December 31, 2010, at a weighted average interest rate of 0.78%. In addition, NiSource Finance had $402.7 million in commercial paper outstanding at December 31, 2011, at a weighted average interest rate of 1.01%.

As of December 31, 2011 and December 31, 2010, NiSource had $231.7 million and $275.0 million, respectively, of short-term borrowings recorded on the Consolidated Balance Sheets and cash from financing activities in the same amount relating to its accounts receivable securitization facilities. See Note 19, "Transfers of Financial Assets."

As of December 31, 2011 and December 31, 2010, NiSource had $37.5 million and $32.5 million, respectively, of stand-by letters of credit outstanding of which $19.2 million and $14.2 million, respectively, were under the revolving credit facility.

As of December 31, 2011, an aggregate of $353.1 million of credit was available under the revolving credit facility.

Forward Agreements. On September 14, 2010, NiSource and Credit Suisse Securities (USA) LLC, as forward seller, closed an underwritten registered public offering of 24,265,000 shares of NiSource's common stock. All of the shares sold were borrowed and delivered to the underwriters by the forward seller. NiSource did not receive any of the proceeds from the sale of the borrowed shares, but NiSource will receive proceeds upon settlement of the Forward Agreements. If the equity forward had been settled by delivery of shares at December 31, 2011, the Company would have received approximately $357.2 million based on a forward price of $14.7224 for the 24,265,000 shares. The Company currently anticipates settling the equity forward by delivering shares in 2012.

Debt Covenants . NiSource is subject to one financial covenant under its four-year revolving credit facility. This covenant requires NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%. As of December 31, 2011, the ratio was 61.4%.

NiSource is also subject to certain other non-financial covenants under the revolving credit facility. 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 subset of assets equal to $150 million. 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 and dispositions for a price not materially less than the fair market value of the assets disposed of that do not impair the ability of NiSource and NiSource Finance to perform obligations under the revolving credit facility, and that, together with all other such dispositions, would not have a material adverse effect. The revolving credit facility also includes 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 indentures generally do not contain any financial maintenance covenants. However, NiSource's 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 subset of assets capped at 10% of NiSource's consolidated net tangible assets.

Sale of Trade Accounts Receivables . Refer to Note 19, "Transfers of Financial Assets," in the Notes to Consolidated Financial Statements for information on the sale of trade accounts receivable.

Credit Ratings . On December 13, 2011, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 18, 2011, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 24, 2011, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. The collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $21.0 million. In addition to agreements with ratings triggers, there are other agreements that contain "adequate assurance" or "material adverse change" provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business. Under Northern Indiana's trade receivables sales program, an event of termination occurs if Northern Indiana's debt rating is withdrawn by either Standard & Poor's or Moody's or falls below BB or Ba2 at either Standard & Poor's or Moody's, respectively. Likewise, under Columbia of Ohio's and Columbia of Pennsylvania's trade receivables sales programs, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

Contractual Obligations . NiSource has certain contractual obligations requiring payments at specified periods. The obligations include long-term debt, lease obligations, energy commodity contracts and service obligations for various services including pipeline capacity and IBM outsourcing. The total contractual obligations in existence at December 31, 2011 and their maturities were:

(in millions)	Total	2012	2013	2014	2015	2016	After
Long-term debt (a)	$ 6,569.7	$ 315.8	$ 489.2	$ 557.8	$ 230.1	$ 421.5	$ 4,555.3
Capital leases (b)	147.8	14.3	12.8	12.5	12.2	9.9	86.1
Interest payments on long-term debt	3,803.3	392.7	354.0	334.8	369.2	289.1	2,063.5
Operating leases	162.0	41.2	34.0	29.1	19.0	14.1	24.6
Energy commodity contracts	582.4	239.3	130.4	120.2	85.1	1.5	5.9
Service obligations:							
Pipeline service obligations	1,493.3	256.9	225.3	185.7	138.9	121.3	565.2
IBM service obligations	271.9	78.4	77.4	75.1	35.8	3.4	1.8
Vertex Outsourcing LLC service obligations	42.6	12.3	12.2	12.1	6.0	-	-
Other service obligations	373.5	132.2	82.0	78.3	81.0	-	-
Other liabilities	55.0	55.0	-	-	-	-	-
Total contractual obligations	$ 13,501.5	$ 1,538.1	$ 1,417.3	$ 1,405.6	$ 977.3	$ 860.8	$ 7,302.4

(a) Long-term debt balance excludes unamortized discounts of $37.4 million and non-recourse debt of $11.3 million related to NDC Douglas Properties.

(b) Capital leases payments shown above are inclusive of interest totaling $58.4 million. Also included are minimum lease payments for an office building that the Company will not occupy until 2014.

NiSource calculated estimated interest payments for long-term debt as follows: for the fixed-rate debt, interest is calculated based on the stated coupon and payment dates; for variable-rate debt, interest rates are used that are in place as of December 31, 2011. For 2012, NiSource projects that it will be required to make interest payments of approximately $425.9 million, which includes $392.7 million of interest payments related to its long-term debt outstanding as of December 31, 2011. At December 31, 2011, NiSource also had $1,359.4 million in short-term borrowings outstanding.

NiSource Corporate Services has a license agreement with Rational Systems, LLC for pipeline business software requiring annual payments of $5.8 million, which is recorded as a capital lease.

NiSource's subsidiaries have entered into various energy commodity contracts to purchase physical quantities of natural gas, electricity and coal. These amounts represent the minimum quantities of these commodities NiSource is obligated to purchase at both fixed and variable prices.

In July 2008, the IURC issued an order approving Northern Indiana's purchase power agreements with subsidiaries of Iberdrola Renewables, Buffalo Ridge I LLC and Barton Windpower LLC. These agreements provide Northern Indiana the opportunity and obligation to purchase up to 100 mw of wind power commencing in early 2009. The contracts extend 15 and 20 years, representing 50 mw of wind power each. No minimum quantities are specified within these agreements due to the variability of electricity production from wind, so no amounts related to these contracts are included in the table above. Upon any termination of the agreements by Northern Indiana for any reason (other than material breach by Buffalo Ridge I LLC or Barton Windpower LLC), Northern Indiana may be required to pay a termination charge that could be material depending on the events giving rise to termination and the timing of the termination. Northern Indiana began purchasing wind power in April 2009.

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2012 to 2045, require NiSource to pay fixed monthly charges.

NiSource Corporate Services continues to pay IBM to provide business process and support functions to NiSource for amended services under a combination of fixed or variable charges, with the variable charges fluctuating based on the actual need for such services. Under the amended agreement, at December 31, 2011, NiSource Corporate Services expects to pay approximately $272 million to IBM in service fees over the remaining three and a half year term. In December 2011, NiSource elected to extend certain information technology services. Upon any termination of the agreement by NiSource for any reason, other than material breach by IBM, NiSource may be required to pay IBM a termination charge that could include a breakage fee, repayment of IBM's unrecovered capital investments, and IBM wind-down expense. This termination fee could be a material amount depending on the events giving rise to termination and the timing of the termination.

NiSource Corporate Services signed a service agreement with Vertex Outsourcing LLC, a business process outsourcing company, to provide customer contact center services for NiSource subsidiaries through June 2015. Services under this contract commenced on July 1, 2008, and NiSource Corporate Services pays for the services under a combination of fixed and variable charges, with the variable charges fluctuating based on actual need for such services. Based on the currently projected usage of these services, NiSource Corporate Services expects to pay approximately $42.6 million to Vertex Outsourcing LLC in service fees over the remaining three and a half year term. Upon termination of the agreement by NiSource for any reason (other than material breach by Vertex Outsourcing LLC), NiSource may be required to pay a termination charge not to exceed $10.8 million.

Northern Indiana has contracts with four major rail operators providing for coal transportation services for which there are certain minimum payments. These service contracts extend for various periods through 2015 and are included within "Other service obligations," in the table of contractual obligations.

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 July 1, 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. Estimated minimum payments for this agreement are included within, "Other service obligations," in the table of contractual obligations. With the expiration of this contract occurring on June 30, 2012, Northern Indiana is currently evaluating long-term strategic options, including negotiations to renew this contract.

NiSource's expected payments included within "Other liabilities," in the table of contractual commitments above contains employer contributions to pension and other postretirement benefits plans expected to be made in 2012. Plan contributions beyond 2012 are dependent upon a number of factors, including actual returns on plan assets, which cannot be reliably estimated. In 2012, NiSource expects to make contributions of approximately $3.3 million to its pension plans and approximately $51.7 million to its postretirement medical and life plans. Refer to Note 12, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for more information.

Not included in the table above are $4.8 million of estimated federal and state income tax liabilities, including interest. If or when such amounts may be settled is uncertain and cannot be estimated at this time. Refer to Note 11, "Income Taxes," in the Notes to Consolidated Financial Statements for more information.

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NISOURCE INC.

In the fourth quarter of 2008, NiSource received final approval by the West Virginia Circuit Court for Roane County regarding a settlement agreement regarding the Tawney proceeding. NiSource's share of the settlement liability was $338.8 million. NiSource complied with its obligations under the Settlement Agreement to fund $85.5 million in the qualified settlement fund by January 13, 2009. Additionally, NiSource provided a letter of credit on January 13, 2009 in the amount of $254.0 million and thereby complied with its obligation to secure the unpaid portion of the settlement. As of December 31, 2010, NiSource had contributed a total of $330.5 million into the qualified settlement fund. As of December 31, 2011, NiSource had fully paid the settlement liability.

NiSource cannot reasonably estimate the settlement amounts or timing of cash flows related to long-term obligations classified as, "Other Liabilities and Deferred Credits," on the Consolidated Balance Sheets, other than those described above.

NiSource also has obligations associated with income, property, gross receipts, franchise, payroll, sales and use, and various other taxes and expects to make tax payments of approximately $322.7 million in 2012, which are not included in the table above.

Off Balance Sheet Items

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.

NiSource has issued guarantees that support up to approximately $148 million of commodity-related payments for its current and former subsidiaries involved in energy marketing activities. 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 $250 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 outstanding. Refer to Note 20-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

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 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 oversight by the Risk Management Committee 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.

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NISOURCE INC.

Commodity Price Risk
NiSource is exposed to commodity price risk as a result of its subsidiaries' operations involving natural gas and power. To manage this market risk, NiSource's subsidiaries use derivatives, including commodity futures contracts, swaps and options. NiSource is not involved in speculative energy trading activity.

Commodity price risk resulting from derivative 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, including gains or losses on these derivative instruments. 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. Some of NiSource's rate-regulated utility subsidiaries offer commodity price risk products to their customers for which derivatives are used to hedge forecasted customer usage under such products. These subsidiaries do not have regulatory recovery orders for these products and are subject to gains and losses recognized in earnings due to hedge ineffectiveness.

All derivatives classified as hedges are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as regulatory assets or liabilities as appropriate. During 2011 and 2010, no income was recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. During 2009, NiSource reclassified $126.4 million ($75.1 million, net of tax) related to its cash flow hedges from accumulated other comprehensive income (loss) to earnings due to the probability that certain forecasted transactions would not occur related to the unregulated natural gas marketing business that NiSource had planned to sell. NiSource has not made any material reclassifications in 2011 or 2010. During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind-down of the unregulated natural gas marketing business. 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 accumulated other comprehensive income (loss) of approximately $0.7 million of loss, net of taxes. Refer to Note 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for further information on NiSource's various derivative programs for managing commodity price risk.

NiSource subsidiaries are required to make cash margin deposits with their brokers to cover actual and potential losses in the value of outstanding exchange traded derivative contracts. The amount of these deposits, which are reflected in NiSource's restricted cash balance, may fluctuate significantly during periods of high volatility in the energy commodity markets.

Interest Rate Risk
NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under its revolving credit agreement, commercial paper program and accounts receivable programs, 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 (or decrease) in short-term interest rates of 100 basis points (1%) would have increased (or decreased) interest expense by $16.5 million and $14.7 million for the years 2011 and 2010, respectively.

Contemporaneously with the pricing of the 5.25% notes 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 a portion 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 received payments based upon a fixed 7.875% interest rate and paid a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. On September 15, 2008, as a result of the Lehman Brothers Holdings Inc. bankruptcy filing the previous day, NiSource Finance terminated a fixed-to-variable interest rate swap agreement with Lehman Brothers having a notional amount of $110.0 million. On November 15, 2010, the term of the remaining $550.0 million of interest rate swaps expired, and the swaps were terminated.

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

NISOURCE INC.

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 receives payments based upon a fixed 5.40% interest rate and pays 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 July 15, 2013.

As of December 31, 2011, $500.0 million of NiSource Finance's existing long-term debt is subject to fluctuations in interest rates as a result of these fixed-to-variable interest rate swap transactions.

Credit Risk

Due to the nature of the industry, credit risk is embedded in many of NiSource's business activities. NiSource's extension of credit is governed by a Corporate Credit Risk Policy. In addition, Risk Management Committee guidelines are in place which document management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation efforts. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of commercial operations. Credit risk arises due to 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 forward commodity contracts, credit risk arises when counterparties are obligated to deliver or purchase defined commodity units of gas or power to NiSource at a future date per execution of contractual terms and conditions. Exposure to credit risk is measured in terms of both current obligations and the market value of forward positions net of any posted collateral such as cash, letters of credit and qualified guarantees of support.

NiSource closely monitors the financial status of its banking credit providers and interest rate swap counterparties. NiSource evaluates the financial status of its banking partners through the use of market-based metrics such as credit default swap pricing levels, and also through traditional credit ratings provided by the major credit rating agencies.

On October 31, 2011, cash and derivatives broker-dealer MF Global filed for Chapter 11 bankruptcy protection. MF Global brokered NYMEX hedges of natural gas futures on behalf of NiSource affiliates. At the date of bankruptcy, NiSource affiliates had contracts open with MF Global with settlement dates ranging from November 2011 to February 2014. On November 3, 2011, these contracts were measured at a mark-to-market loss of approximately $46.4 million. NiSource affiliates had posted initial margin to open these accounts of $6.9 million and additional maintenance margin for mark-to-market losses, for a total cash balance of $53.3 million. Within the first week after the filing, at the direction of the Bankruptcy Court, a transfer of assets was initiated on behalf of NiSource affiliates to a court-designated replacement broker for future trade activity. The existing futures positions were closed and then rebooked with the replacement broker at the new closing prices as of November 3, 2011. Initial margin on deposit at MF Global of $5.7 million was transferred to the court-designated replacement broker. The maintenance margin was retained by MF Global to offset the loss positions of the open contracts on November 3, 2011. NiSource affiliates are monitoring the activity in the bankruptcy case and have filed a proof of claim at the Court's direction. As of December 31, 2011, NiSource affiliates reserved the $1.2 million difference between the initial margin posted with MF Global and the cash transferred to the court-designated replacement broker as a loss contingency.

Fair Value Measurement

NiSource measures certain financial assets and liabilities at fair value. The level of the fair value hierarchy disclosed is based on the lowest level of input that is significant to the fair value measurement. NiSource's financial assets and liabilities include price risk assets and liabilities, available-for-sale securities and a deferred compensation plan obligation.

Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures.

Price risk management assets also include fixed-to-floating interest-rate swaps, which are designated as fair value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. NiSource uses a calculation of future cash inflows and estimated future outflows related to the swap agreements, which are discounted and netted to determine the current fair value. Additional inputs to the present value calculation include the contract terms, as well as market parameters such as current and projected interest rates and volatility. As they are based on observable data and valuations of similar instruments, the interest-rate swaps are categorized in Level 2 in the fair value hierarchy. Credit risk is considered in the fair value calculation of the interest rate swap.

Refer to Note 18, "Fair Value Disclosures," in the Notes to the Consolidated Financial Statements for additional information on NiSource's fair value measurements.

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 gas marketing group that utilizes a variance/covariance methodology. The daily market exposure for the gas marketing portfolio on an average, high and low basis was $0.1 million, $0.1 million and zero during 2011, 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.

Refer to "Critical Accounting Policies" included in this Item 7 and Note 1-U, "Accounting for Risk Management and Energy Marketing Activities," and Note 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

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. ASC Topic 980, *Regulated Operations* , 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. 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 $2,147.9 million and $1,775.9 million at December 31, 2011, and $1,791.8 million and $1,688.7 million at December 31, 2010, respectively. For additional information, refer to Note 8, "Regulatory Matters," 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 ASC Topic 980, *Regulated Operations* . 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 ASC Topic 980, *Regulated Operations* , NiSource would be required to apply the provisions of ASC Topic 980-20, *Discontinuation of Rate-Regulated Accounting* . In management's opinion, NiSource's regulated subsidiaries will be subject to ASC Topic 980, *Regulated Operations* 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. Regulatory assets requiring specific regulatory action amounted to $147.5 million at December 31, 2011. 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 ASC Topic 815, *Derivatives and Hedging* , 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 accumulated other comprehensive income (loss), 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 accumulated other comprehensive income (loss) 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 or passed back 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 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 $348.5 million and $399.8 million of price risk management assets, of which $56.7 million and $61.1 million related to hedges, at December 31, 2011 and 2010, respectively, and $306.7 million and $355.5 million of price risk management liabilities, of which $0.5 million and $1.2 million related to hedges, at December 31, 2011 and 2010, respectively. There were no material unrealized gains or losses recorded to accumulated other comprehensive income (loss), net of taxes, as of December 31, 2011 and 2010.

Pensions and Postretirement Benefits. NiSource has defined benefit plans for both pensions and other postretirement benefits. 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 12, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements.

Goodwill. NiSource's goodwill assets at December 31, 2011 were $3,677.3 million, most of which resulted from the acquisition of Columbia on November 1, 2000. In addition, Northern Indiana Gas Distribution Operations' goodwill assets at December 31, 2011, related to the purchase of Northern Indiana Fuel and Light in March 1993 and Kokomo Gas in February 1992, were $18.8 million. As required, NiSource tests for impairment of goodwill on an annual basis and on an interim basis when events or circumstances indicate that a potential impairment may exist. NiSource's annual goodwill test takes place in the second quarter of each year and was most recently finalized as of June 30, 2011. The goodwill test utilized both an income approach and a market approach. In performing the goodwill test, NiSource made certain required key assumptions, such as long-term growth rates, discount rates and fair market values.

These key assumptions required significant judgment by management which are subjective and forward-looking in nature. To assist in making these judgments, NiSource utilized third-party valuation specialists in both determining and testing key assumptions used in the analysis. NiSource based its assumptions on projected financial information that it believes is reasonable; however, actual results may differ materially from those projections. NiSource used discount rates of 6.00% for both Columbia Transmission Operations and Columbia Distribution Operations, resulting in excess fair values of approximately $1,092 million and $412 million, respectively. The results of the impairment test indicated that each of the reporting units passed step 1 of the impairment test.

Goodwill at Northern Indiana Gas Distribution Operations related to the acquisition of Northern Indiana Fuel and Light and Kokomo Gas of $18.8 million was also tested for impairment as of June 30, 2011. The income approach was used to determine the fair value of the Northern Indiana Gas Distribution reporting unit. Key assumptions in the income approach were a discount rate of 6.00% and a growth rate based on the cash flow from operations. These cash flows factor in the regulatory environment and planned growth initiatives. The step 1 goodwill impairment test resulted in the fair value of the Northern Indiana Gas reporting unit to be above the carrying value by $319 million.

Although there was no goodwill asset impairment as of June 30, 2011, an interim impairment test could be triggered by the following: actual earnings results that are materially lower than expected, significant adverse changes in the operating environment, an increase in the discount rate, changes in other key assumptions which require judgment and are forward looking in nature, or if NiSource's market capitalization continues to stay below book value for an extended period of time. No impairment triggers were identified in the third or fourth quarter of 2011.

Refer to Notes 1-J and 6, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

Long-lived Asset Impairment Testing . NiSource's Consolidated Balance Sheets contain long-lived assets other than goodwill and intangible assets which are not subject to recovery under ASC Topic 980, *Regulated Operations* . As a result, NiSource assesses the carrying amount and potential earnings of these assets whenever events or changes in circumstances indicate that the carrying value could be impaired. When an asset's carrying value exceeds the undiscounted estimated future cash flows associated with the asset, the asset is considered to be impaired to the extent that the asset's fair value is less than its carrying value. Refer to Note 1 -K, "Long-lived Assets," and Note 3, "Impairments, Restructuring and Other Charges," in the Notes to Consolidated Financial Statements for additional information.

Contingencies. A contingent liability is recognized when it is probable that an environmental, tax, legal or other liability has been incurred and the amount of loss can reasonably be estimated. Accounting for contingencies requires significant management judgment regarding the estimated probabilities and ranges of exposure to a potential liability. Estimates of the loss and associated probability are made based on the current facts available, including present laws and regulations. Management's assessment of the contingent liability could change as a result of future events or as more information becomes available. Actual amounts could differ from estimates and can have a material impact on NiSource's results of operations and financial position. Refer to Note 20, "Other Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional information.

Asset Retirement Obligations. Entities are required to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. In the absence of quoted market prices, fair value of asset retirement obligations are estimated using present value techniques, using various assumptions including estimates of the amounts and timing of future cash flows associated with retirement activities, inflation rates and credit-adjusted risk free rates. 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 amounts recognized for depreciation and accretion and the amount collected, or expected to be collected, in rates. Refer to Note 7, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

Revenue Recognition. Revenue is 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 but not billed.

Taxes. Deferred income taxes are recognized for all temporary differences between the financial statement and tax basis of assets and liabilities at currently enacted income tax rates. Additional deferred income tax assets and liabilities are required for temporary differences where regulators prohibit deferred income tax treatment for ratemaking purposes. Regulatory assets or liabilities, corresponding to such additional deferred tax assets or liabilities, may be recorded to the extent recoverable from or payable to customers through the ratemaking process. Amounts applicable to income taxes due from and due to customers primarily represent differences between the book and tax basis of net utility plant in service.

Recently Adopted Accounting Pronouncements

Refer to Note 2, "Recent Accounting Pronouncements," in the Notes to Consolidated Financial Statements for information on recently adopted accounting pronouncements.

Recently Issued Accounting Pronouncements

Refer to Note 2, "Recent Accounting Pronouncements," in the Notes to Consolidated Financial Statements for information on recently issued accounting pronouncements.

International Financial Reporting Standards

In December 2011, the SEC Chief Accountant, and in January 2012, the SEC Chairman both indicated that a determination on IFRS would be made in the next few months. In February 2010, the SEC expressed its commitment to the development of a single set of high quality globally accepted accounting standards and directed its staff to execute a work plan addressing specific areas of concern regarding the potential incorporation of IFRS for the U.S. In October 2010, the SEC staff issued its first public progress report on the work plan and in May 2011, a Staff Paper was issued outlining a possible endorsement approach for incorporation of IFRS into the U.S. financial reporting system, as opposed to a single-date approach, if the SEC were to decide that incorporation of IFRS is in the best interest of U.S. investors. Under this possible framework, IFRS would be incorporated into GAAP during a transition period (e.g., five to seven years) and the FASB would be retained as the United States standard setter. The SEC staff issued its third report on IFRS in November 2011, detailing an analysis of IFRS in practice.

In the fourth quarter of 2010, NiSource completed a comprehensive assessment of IFRS to understand the key accounting and reporting differences compared to U.S. GAAP and to assess the potential organizational, process and system impacts that would be required. The accounting differences between U.S. GAAP and IFRS are complex and significant in many aspects, and conversion to IFRS would have broad impacts across NiSource. In addition to financial statement and disclosure changes, converting to IFRS would involve changes to processes and controls, regulatory and management reporting, financial reporting systems, and other areas of the organization. As a part of the IFRS assessment project, a preliminary conversion roadmap was created for reporting IFRS. This IFRS conversion roadmap, and NiSource's strategy for addressing a potential mandate of IFRS, will be re-assessed when the SEC makes its determination on whether to require the use of IFRS and by what method.

Environmental Matters

NiSource is subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. NiSource believes that it is in substantial compliance with those environmental regulations currently applicable to NiSource's business and operations. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters.

Bargaining Unit Contract

As of December 31, 2011 NiSource had 7,957 employees of whom 3,295 were subject to collective bargaining agreements. Agreements were reached with the respective unions whose collective bargaining agreements were set to expire during 2011. Ten additional collective bargaining contracts, covering approximately 513 employees, are set to expire during 2012. To date, an agreement has been reached and ratified with respect to one of those contracts. The remaining nine agreements, covering approximately 437 employees, expire between March 1, 2012 and June 18, 2012.

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

NiSource Inc.

2010 Health Care Act

The 2010 Health Care Act includes a provision eliminating, effective January 1, 2013, the tax deductibility of retiree health care costs to the extent of federal subsidies received under the Retiree Drug Subsidy program. When the Retiree Drug Subsidy was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, NiSource recorded a deferred tax asset reflecting the exclusion of the expected future Retiree Drug Subsidy from taxable income. At the same time, an offsetting regulatory liability was established to reflect NiSource's obligation to reduce income taxes collected in future rates. ASC Topic 740, *Income Taxes,* requires the impact of a change in tax law to be immediately recognized in continuing operations in the income statement for the period that includes the enactment date. In the first quarter of 2010, NiSource reversed its deferred tax asset of $6.2 million related to previously excludable Retiree Drug Subsidy payments expected to be received after January 1, 2013, which was completely offset by the reversal of the related regulatory liability. There was no impact on income tax expense recorded in the Statements of Consolidated Income for the period ended December 31, 2010.

A provision of the 2010 Health Care Act requires the elimination, effective January 1, 2011, of lifetime and restrictive annual benefit limits from certain active medical plans. The NiSource Consolidated Flex Medical Plan (the "Consolidated Flex Plan"), a component welfare benefit plan of the NiSource Life and Medical Benefits Program, covered both active and retired employees and capped lifetime benefits to certain retirees. NiSource examined the provisions of the 2010 Health Care Act and determined the enactment of the law in the first quarter of 2010 qualified as a significant event requiring remeasurement of other postretirement benefit obligations and plan assets as of March 31, 2010. Effective September 1, 2010, NiSource amended the Consolidated Flex Plan and established the NiSource Post-65 Retiree Medical Plan (the "Post-65 Retiree Plan") as a separate ERISA plan. In accordance with the amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan, Medicare supplement plan options for NiSource post-age 65 retirees and their eligible post-age 65 dependents are now offered under the Post-65 Retiree Plan, a retiree-only plan, and not under the Consolidated Flex Plan. The Post-65 Retiree Plan is not subject to the provisions of the 2010 Health Care Act requiring elimination of lifetime and restrictive annual benefit limits. The amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan required a second remeasurement of other postretirement benefit obligations and plan assets as of September 1, 2010. The effect of the change in the legislation and the plan amendment resulted in an increase to the other postretirement benefit obligation, net of plan assets, of $31.0 million and corresponding increases to regulatory assets and AOCI of $29.4 million and $1.6 million, respectively. Net periodic postretirement benefit cost for 2010 was also increased by approximately $2.2 million.

Dodd-Frank Financial Reform Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Act") was passed by Congress on July 15, 2010 and was signed into law on July 21, 2010. The Act, among other things, establishes a Financial Stability Oversight Council ("FSOC") and a Consumer Financial Protection Bureau ("CFPB") whose duties will include the monitoring of domestic and international financial regulatory proposals and developments, as well as the protection of consumers. The FSOC may submit comments to the SEC and any standard-setting body with respect to an existing or proposed accounting principle, standard or procedure. The Act also creates increased oversight of the over-the-counter derivative market, requiring certain OTC transactions to be cleared through a clearing house and requiring cash margins to be posted for those transactions. Some regulations have been finalized and more will be issued to implement the Act over the next six months. NiSource is monitoring the rulemaking process under the Act. Although the Act and the new regulations are expected to have some impact on capital markets and derivatives markets generally, NiSource does not expect the Act to have any material effect on its operations.

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

NiSource Inc.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of 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. The NiSource Chief Executive Officer is the chief operating decision maker.

NiSource's operations are divided into three 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 and Massachusetts. 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 20 counties in the northern part of Indiana.

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

NISOURCE INC.
Gas Distribution Operations

Year Ended December 31, *(in millions)*	**2011**	2010	2009
Net Revenues			
Sales Revenues	**$ 3,498.7**	$ 3,668.1	$ 3,902.4
Less: Cost of gas sold (excluding depreciation and amortization)	**1,917.5**	2,065.6	2,293.0
Net Revenues	**1,581.2**	1,602.5	1,609.4
Operating Expenses			
Operation and maintenance	**845.4**	871.2	871.6
Depreciation and amortization	**174.0**	239.3	248.1
Impairment and (gain)/loss on sale of assets, net	**1.0**	-	(1.5)
Other taxes	**168.0**	159.7	164.0
Total Operating Expenses	**1,188.4**	1,270.2	1,282.2
Operating Income	**$ 392.8**	$ 332.3	$ 327.2
Revenues ($ in Millions)			
Residential	**$ 2,220.9**	$ 2,134.8	$ 2,508.2
Commercial	**724.8**	707.7	864.6
Industrial	**218.0**	215.4	239.7
Off-System Sales	**267.2**	295.4	253.5
Other	**67.8**	314.8	36.4
Total	**$ 3,498.7**	$ 3,668.1	$ 3,902.4
Sales and Transportation (MMDth)			
Residential sales	**254.5**	258.0	265.2
Commercial sales	**168.6**	166.8	169.4
Industrial sales	**431.8**	385.9	335.9
Off-System Sales	**62.4**	71.9	59.7
Other	**0.6**	1.0	0.8
Total	**917.9**	883.6	831.0
Heating Degree Days	**5,434**	5,547	5,624
Normal Heating Degree Days	**5,633**	5,633	5,633
% Colder (Warmer) than Normal	**(4%)**	(2%)	0%
Customers			
Residential	**3,039,579**	3,039,874	3,032,597
Commercial	**280,521**	281,473	279,144
Industrial	**7,861**	7,668	7,895
Other	**19**	65	79
Total	**3,327,980**	3,329,080	3,319,715

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, similar gas provider competition is also common. Gas competes with fuel oil and propane in the Massachusetts market 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.

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

NISOURCE INC.
Gas Distribution Operations (continued)

Market Conditions
During 2011, Gas Distribution Operations gross revenues decreased due to lower natural gas commodity prices experienced throughout the year. Spot prices at the Henry Hub for the winter of 2011-2012 have primarily been in the $2.80 - $3.70/Dth range compared to prices in the $3.20 - $4.70/Dth range experienced during the winter of 2010-2011. Year over year demand reflected moderate recovery from the 2009-2010 lows, but the combination of strong supplies, unseasonably warm early winter temperatures and storage levels remaining at high levels kept gas prices in a narrow range.

Entering the 2011-2012 winter season, national storage levels were 6 Bcf below the prior year but 215 Bcf ahead of the 5 year average inventory levels (based on 11/10/2011 Energy Information Administration storage report as published in the 11/11/2011 Gas Daily). During the summer of 2011, prices ranged between $3.40 and $4.92/Dth which were consistent with those prices experienced in the summer of 2010.

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 as under-recovered or over-recovered gas cost to be included in future customer billings.

The Gas Distribution Operations companies have pursued non-traditional revenue sources within the evolving natural gas marketplace. These efforts include the sale of products and services upstream of the companies' service territory, the sale of products and services in the companies' 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 with their customers. Certain Gas Distribution Operations companies continue to offer choice opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in their respective jurisdictions.

Capital Expenditures and Other Investing Activities
The table below reflects actual capital expenditures and other investing activities by category for 2009, 2010 and 2011 and estimates for 2012.

(in millions)	2012E	**2011**	2010	2009
System Growth	$ 82.5	**$ 81.5**	$ 94.1	$ 86.1
Maintenance and Other	450.5	**457.9**	315.6	257.1
Total	$ 533.0	**$ 539.4**	$ 409.7	$ 343.2

The Gas Distribution Operations segment's capital expenditures and other investing activities were $539.4 million in 2011 and are projected to be $533.0 million in 2012. Capital expenditures for 2011 were higher than 2010 by approximately $129.7 million primarily due to increased spending on infrastructure replacement projects. The estimated 2012 capital expenditures are comparable to 2011 and continue to reflect spending on infrastructure replacement programs in Ohio, Kentucky, Pennsylvania, Virginia and Massachusetts.

Capital expenditures for 2010 were higher than 2009 by approximately $66.5 million primarily due to increased spending on infrastructure replacement projects.

Bear Garden Station
In August 2008, Columbia of Virginia entered into an agreement with Dominion Virginia Power to install facilities to serve a 580 mw combined cycle generating station in Buckingham County, VA, known as the Bear Garden station. The project required approximately 13.3 miles of 24-inch steel pipeline and associated facilities to serve the station. In March 2009, the VSCC approved Dominion Virginia Power Company's planned Bear Garden station. Columbia of Virginia's facilities constructed to serve the Bear Garden station were placed into service in July 2010.

NiSource Inc.
Gas Distribution Operations (continued)

Regulatory Matters
Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for information on significant rate developments and cost recovery and trackers for the Gas Distribution Operations segment.

Customer Usage. The NiSource distribution companies had experienced declining usage by customers, due in large part to the sensitivity of sales to volatility in commodity prices. A significant portion of the LDCs' operating costs are fixed in nature. Historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge. In addition, increased efficiency of natural gas appliances has caused a decline in average use per customer. Columbia of Ohio restructured its rate design through a base rate proceeding and has adopted a "de-coupled" rate design which more closely links the recovery of fixed costs with fixed charges. In regulatory proceedings in 2009, Columbia of Massachusetts and Columbia of Virginia received approval of decoupling mechanisms which adjust revenues to an approved benchmark level through a volumetric adjustment factor. In its 2011 rate case, Columbia of Pennsylvania implemented a higher fixed residential customer charge. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing such charges. In its 2010 rate case, Northern Indiana implemented a higher fixed customer charge for residential and small customer classes moving toward full straight fixed variable rate design. This rate design was also incorporated in the settlement of the 2011 merger of the three Indiana LDCs; Northern Indiana, Kokomo Gas and Northern Indiana Fuel and Light.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of December 31, 2011, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Distribution Operations segment.

Restructuring
Refer to Note 3, "Impairments, Restructuring and Other Charges," in the Notes to Consolidated Financial Statements for information regarding restructuring initiatives.

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 65 degrees. NiSource composite heating degree-days reported do not directly correlate to the weather related dollar impact on the results of Gas Distribution operations. Heating degree-days experienced during different times of the year or in different operating locations may have more or less impact on volume and dollars depending on when and where they occur. When the detailed results are combined for reporting, there may be weather related dollar impacts on operations when there is not an apparent or significant change in the aggregated NiSource composite heating degree-day comparison.

Weather in the Gas Distribution Operations service territories for 2011 was about 4% warmer than normal and was about 2% warmer than 2010, decreasing net revenues by approximately $6 million for the year ended December 31, 2011 compared to 2010.

Weather in the Gas Distribution Operations service territories for 2010 was about 2% warmer than normal and was about 1% warmer than 2009, decreasing net revenues by approximately $3 million for the year ended December 31, 2010 compared to 2009.

Throughput
Total volumes sold and transported for the year ended December 31, 2011 were 917.9 MMDth, compared to 883.6 MMDth for 2010. This increase reflected higher throughput to industrial customers attributable mainly to the improved economy. NiSource throughput reported does not directly correlate to the results of Gas Distribution Operations.

Gas Distribution Operations (continued)

Total volumes sold and transported for the year ended December 31, 2010 were 883.6 MMDth, compared to 831.0 MMDth for 2009. This increase reflected higher sales to industrial customers attributable mainly to the improved economy and higher off-system sales.

Net Revenues

Net revenues for 2011 were $1,581.2 million, a decrease of $21.3 million from the same period in 2010, due primarily to a decrease in net regulatory and tax trackers of $51.8 million, which are offset in expense, lower off-system sales of $18.8 million primarily as a result of the standard service offer auction at Columbia of Ohio in the second quarter of 2010, and a decrease in industrial margins of $7.6 million. The decreases in net revenues were partially offset by an increase of $30.3 million for other regulatory and service programs, including impacts from the implementation of new rates under Columbia of Ohio's approved infrastructure replacement program and rate cases at various NiSource LDCs. Additionally, there was an increase of $14.1 million in residential and commercial margins. Net revenues also increased $5.7 million as the result of a contract accrual that was established in 2010, $2.8 million from Bear Garden Station which was placed into service in July of 2010, and $2.5 million related to a reserve for unaccounted for gas recorded in 2010.

Net revenues for 2010 were $1,602.5 million, a decrease of $6.9 million from 2009. This decrease in net revenues was primarily due to decreased regulatory and tax trackers of $20.4 million, offset in expense, and decreased residential and commercial margins of $20.1 million. Additionally, there was an accrual related to a prior period contract established at Columbia of Massachusetts of $5.7 million, additional customer credits of $5.6 million issued as the result of a rate case, a decrease in forfeited discounts and late payments of $5.0 million, and the impact of warmer weather of approximately $3 million. These decreases were partially offset by an increase in regulatory and service programs of $51.7 million. This includes impacts from rate cases at various utilities, the implementation of new rates under Columbia of Ohio's approved infrastructure replacement program, and for the revenue normalization program at Columbia of Virginia.

At Northern Indiana, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased gas costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustments to Other gross revenues for the twelve months ended December 31, 2011 and 2010 were a revenue decrease of $180.3 million and a revenue increase of $270.6 million, respectively.

Operating Income

For 2011, Gas Distribution Operations reported operating income of $392.8 million, an increase of $60.5 million from the comparable 2010 period. The increase in operating income was primarily attributable to lower operating expenses partially offset by lower net revenues described above. Operating expenses decreased $81.8 million as a result of a decrease of $65.3 million in depreciation costs primarily due to new approved depreciation rates at Northern Indiana and $55.0 million as a result of lower regulatory trackers, which are offset in net revenue. These decreases were partially offset by an increase in environmental costs of $25.8 million as a result of the increase in estimated MGP remediation costs and higher employee and administrative costs of $13.3 million.

For 2010, operating income for the Gas Distribution Operations segment was $332.3 million, an increase of $5.1 million compared to the same period in 2009 primarily attributable to lower operating expenses of $12.0 million, partially offset by decreased net revenues described above. Operating expenses decreased due to lower net regulatory and tax trackers, offset in revenue, of $20.4 million, decreased uncollectible expenses of $10.1 million and lower depreciation costs of $8.8 million primarily due to new approved depreciation rates. These decreases in operating expenses were partially offset by increased payroll and benefits expense of $20.1 million and environmental costs of $3.3 million.

Gas Transmission and Storage Operations

Year Ended December 31, *(in millions)*	**2011**	2010	2009
Operating Revenues			
Transportation revenues	$ **775.4**	$ 728.4	$ 724.6
Storage revenues	**196.1**	198.7	190.8
Other revenues	**34.1**	22.1	15.3
Operating Revenues	**1,005.6**	949.2	930.7
Operating Expenses			
Operation and maintenance	**473.5**	399.6	382.8
Depreciation and amortization	**130.0**	130.7	121.5
Impairment and loss/(gain) on sale of assets, net	**0.1**	(0.1)	(1.4)
Other taxes	**56.6**	57.4	55.9
Total Operating Expenses	**660.2**	587.6	558.8
Equity Earnings in Unconsolidated Affiliates	**14.6**	15.0	16.0
Operating Income	$ **360.0**	$ 376.6	$ 387.9
Throughput (MMDth)			
Columbia Transmission	**1,117.5**	1,092.4	1,029.8
Columbia Gulf	**1,048.0**	848.4	894.1
Crossroads Gas Pipeline	**18.7**	25.4	33.9
Intrasegment eliminations	**(548.5)**	(568.7)	(566.4)
Total	**1,635.7**	1,397.5	1,391.4

Growth Projects Placed into Service

Majorsville, PA Project. The Gas Transmission and Storage Operations segment executed three separate projects totaling approximately $80 million in the Majorsville, PA vicinity to aggregate Marcellus Shale gas production for downstream transmission. Fully contracted, the pipeline and compression assets allow the Gas Transmission and Storage Operations segment to gather and deliver more than 325,000 Dth per day of Marcellus production gas to the Majorsville MarkWest Liberty processing plants developed by MarkWest Liberty Midstream & Resources L.L.C.

In 2010, Columbia Transmission received approval from the FERC to refunctionalize certain transmission assets to gathering and transferred these pipeline facilities to a newly formed affiliate, NiSource Midstream Services, LLC. These facilities are included in providing non-FERC jurisdiction gathering services to producers in the Majorsville, PA vicinity. Two of the three projects were completed and placed into service on August 1, 2010, creating an integrated gathering and processing system serving Marcellus production in southwestern Pennsylvania and northern West Virginia. Precedent agreements were executed by anchor shippers in the fourth quarter of 2009, which were superseded by the execution of long-term service agreements in August and September 2010. In the fourth quarter, construction began on the third project on a pipeline to deliver residue gas from the Majorsville MarkWest Liberty processing plant to the Texas Eastern Wind Ridge compressor station in southwestern Pennsylvania to provide significant additional capacity to eastern markets. This project was placed into service in April 2011.

Clendenin Project. Construction began on this approximately $18 million capital project in 2010 to modify existing facilities in the Clendenin, West Virginia area to move Marcellus production to liquid market centers. The Clendenin project provides the Gas Transmission and Storage Operations segment the ability to meet incremental transportation demand of up to 150,000 Dth per day. Long-term firm transportation contracts for 133,100 Dth have been executed, some of which began in the third quarter 2010 and others that began in June 2011.

Cobb Compressor Station Project. This project continued the Gas Transmission and Storage Operations segment strategy to meet producers' near-term, incremental transportation demand in the Appalachian Basin. Shippers executed precedent agreements for a total of approximately 25,500 Dth per day of long-term firm transportation service associated with a facility expansion at Cobb Compressor Station in Kanawha County, West Virginia. The Cobb Expansion totaled approximately $15 million in construction costs and was placed into service in May 2010.

NiSource Inc.
Gas Transmission and Storage Operations (continued)

East Lateral Project. In 2010, the Gas Transmission and Storage Operations segment initiated a $5 million project to modify existing facilities on the Columbia Gulf East Lateral to provide firm transportation service for up to 300,000 Dth per day. Firm transportation contracts for 250,000 Dth per day were executed for five-year terms. This FERC-approved project was completed and put into service in May 2011.

Southern Appalachian Project. The Gas Transmission and Storage Operations segment invested nearly $4 million to expand Line SM-116 to transport approximately 38,500 Dth per day on a firm basis as a continuation of its strategy to provide transportation services to producers of Marcellus and Appalachian gas. This additional capacity is supported by executed, binding precedent agreements. These additional facilities were placed in service in April 2011.

Growth Projects in Progress

Power Plant Generation Project. The Gas Transmission and Storage Operations segment is planning to spend nearly $35 million on an expansion project, which includes new pipeline and modifications to existing compression assets, with Virginia Power Services Energy Corporation, Inc., the energy manager for Virginia Electric Power Company. This project will expand the Columbia Transmission system in order to provide up to nearly 250,000 Dth per day of transportation capacity under a long-term, firm contract. The project is expected to be ready for commercial operations by mid-2014.

Line WB Expansion Project. The Gas Transmission and Storage Operations segment expanded its WB system through investment in additional facilities, which provide transportation service on a firm basis from Loudoun, Virginia to Leach, Kentucky. The expansion totaled approximately $14 million, allowing producers to meet incremental transportation demand in the Marcellus/Appalachian Basin. Binding precedent agreements for approximately 175,000 Dth per day of firm transportation capacity were executed, some which began in January 2011. Final construction on all facilities will be completed and placed into service in the first quarter of 2012.

Smithfield Project. The Gas Transmission and Storage Operations segment made approximately $14 million of capital investments for modifications to existing pipeline and compressor facilities to accommodate receipt of up to 150,000 Dth per day of additional Marcellus gas from connections near Smithfield, West Virginia and Waynesburg, Pennsylvania. Three anchor shippers agreed to long-term, firm transportation contracts, one contract that began in April 2011 and others that began in August 2011. The project is expected to be fully in service in the first quarter 2012.

Rimersburg Expansion Project. The Gas Transmission and Storage Operations segment has approved an investment of approximately $6 million for this project that will add capacity to north central Pennsylvania to meet the growing demands of producers in the area. The project will consist of the expansion of Line 134 from the Brinker compressor station to the Iowa regulator, adding approximately 19,000 Dth per day of additional capacity, all of which has been sold through precedent agreements. The project is expected to go into service in the first quarter of 2012.

Pennsylvania Marcellus Pipeline Project. The Gas Transmission and Storage Operations segment has approved an investment of approximately $150 million, which will include right-of-way acquisitions and constructing new pipeline with an initial combined capacity of 300,000 Dth per day. Natural gas will initially be sourced from a new third-party processing plant and delivered to Columbia Transmission and two other third-party pipelines in Pennsylvania. The project is expected to be placed in service in late 2012.

Regulatory Matters
Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for information on regulatory matters for the Gas Transmission and Storage Operations segment.

Capital Expenditures and Other Investing Activities
The table below reflects actual capital expenditures and other investing activities by category for 2009, 2010 and 2011 and estimates for 2012.

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

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

(in millions)	2012E	**2011**	2010	2009
System Growth	$ 221.0	**$ 81.5**	$ 152.4	$ 171.2
Maintenance and Other	210.6	**220.0**	149.6	116.2
Total	$ 431.6	**$ 301.5**	$ 302.0	$ 287.4

Capital expenditures in the Gas Transmission and Storage Operations segment in 2011 decreased by $0.5 million relative to 2010. The capital expenditure program and other investing activities in 2012 are projected to be approximately $431.6 million, which is an increase of $130.1 million over 2011. The increase from 2011 to 2012 is attributable to system growth primarily in the Marcellus Shale area.

Capital expenditures in the Gas Transmission and Storage Operations segment in 2010 increased by $14.6 million relative to 2009, primarily due to increased expenditures on maintenance projects.

Sales and Percentage of Physical Capacity Sold
Columbia Transmission and Columbia Gulf compete for transportation customers based on the type of service a customer needs, operating flexibility, available capacity and price. Columbia Gulf and Columbia Transmission provide a significant portion of total transportation services under firm contracts and derive a smaller portion of revenues through interruptible contracts, with management seeking to maximize the portion of physical capacity sold under firm contracts.

Firm service contracts require pipeline capacity to be reserved for a given customer between certain receipt and delivery points. Firm customers generally pay a "capacity reservation" fee based on the amount of capacity being reserved regardless of whether the capacity is used, plus an incremental usage fee when the capacity is used. Annual capacity reservation revenues derived from firm service contracts generally remain constant over the life of the contract because the revenues are based upon capacity reserved and not whether the capacity is actually used. The high percentage of revenue derived from capacity reservation fees mitigates the risk of revenue fluctuations within the Gas Transmission and Storage Operations segment due to changes in near-term supply and demand conditions. For 2011, approximately 91.7% of the transportation revenues were derived from capacity reservation fees paid under firm contracts and 6.1% of the transportation revenues were derived from usage fees under firm contracts compared to approximately 91.2% and 5.6% respectively, for 2010.

Interruptible transportation service is typically short term in nature and is generally used by customers that either do not need firm service or have been unable to contract for firm service. These customers pay a usage fee only for the volume of gas actually transported. The ability to provide this service is limited to available capacity not otherwise used by firm customers, and customers receiving services under interruptible contracts are not assured capacity in the pipeline facilities. Gas Transmission and Storage Operations provides interruptible service at competitive prices in order to capture short-term market opportunities as they occur and interruptible service is viewed by management as an important strategy to optimize revenues from the gas transmission assets. For 2011 and 2010, approximately 2.2% and 3.2%, respectively, of the transportation revenues were derived from interruptible contracts.

Hartsville Compressor Station
In 2008, tornados damaged Columbia Gulf's Hartsville Compressor Station in Tennessee and immediately thereafter, construction began on both temporary and permanent facilities while installation of temporary horsepower was completed and capacity restored. Damage claims were settled with insurance companies in 2008. Late in 2009, construction of a permanent compression solution was completed. In early 2010, testing was completed and permanent, environmentally advantageous horsepower that is more efficient, cleaner-burning and quieter was placed into service. Replacement of the remaining temporary facilities that were constructed to restore system capabilities with a permanent solution was completed in 2010. Columbia Gulf incurred $0.4 million, $6.2 million and $12.2 million in reconstruction costs in 2011, 2010, and 2009, respectively.

Insurance proceeds attributable to capital replacement related to the aforementioned incident totaled $45.3 million in 2009. No proceeds were received in 2011 or 2010. At December 31, 2011, 2010 and 2009, there were no claims outstanding for tornado damages.

Gas Transmission and Storage Operations (continued)

Environmental Matters

Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of December 31, 2011, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Transmission and Storage Operations segment.

Restructuring Plan

Refer to Note 3, "Impairments, Restructuring and Other Charges," in the Notes to Consolidated Financial Statements for information regarding restructuring initiatives.

Throughput

Columbia Transmission provides 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. Billed throughput for Columbia Transmission consists of deliveries off of its system excluding gas delivered to storage for later delivery. Billed throughput for Columbia Gulf reflects transportation services for gas delivered through its mainline and laterals. Crossroads Pipeline's throughput comes from deliveries it makes to its customers and other pipelines that are located in northern Indiana and Ohio. Intersegment eliminations represent gas delivered to affiliated pipelines within the segment.

Throughput for the Gas Transmission and Storage Operations segment totaled 1,635.7 MMDth for 2011, compared to 1,397.5 MMDth for the same period in 2010. The increase of 238.2 MMDth was primarily due to increased transportation from the Marcellus, Haynesville and Barnett shale areas and increased deliveries to the power generation plants of the LDC's due to the more advantageous pricing of gas compared to coal. Additionally, there were increased deliveries to local utilities to satisfy heating demand during a colder than normal winter early in 2011.

Throughput for the Gas Transmission and Storage Operations segment totaled 1,397.5 MMDth for 2010, compared to 1,391.4 MMDth in 2009. The increase of 6.1 MMDth is due to increased production from the Marcellus Shale area being offset by reduced receipts elsewhere on the system. A warmer than normal summer and colder winter helped keep overall system volumes comparable with 2009. On the Columbia Gulf system, increased throughput out of the Haynesville, Fayetteville and Barnett shales have offset declining volumes from Gulf of Mexico area receipts. At the same time, the weather mentioned above helped keep demand for gas from Columbia Gulf to Columbia Transmission comparable with 2009.

Operating Revenues

Operating revenues were $1,005.6 million for 2011, an increase of $56.4 million from the same period in 2010, primarily due to higher demand margin revenue of $32.3 million as a result of new growth projects. Additionally, there was an increase of $14.8 million due to the net impact of the rate case filing at Columbia Gulf. Net revenues also increased due to increased midstream revenue of $10.6 million, higher mineral rights royalty revenues of $8.4 million, increased regulatory trackers of $5.9 million, which are offset in expense, and a one-time settlement of $2.8 million. These increases in net revenues were partially offset by the impact of $8.3 million related to the recognition in 2010 of revenue for a previously deferred gain for native gas contributed to Hardy Storage Company from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, revenues decreased due to lower shorter term transportation and storage services of $6.7 million and the impact of $5.4 million of fees received from a contract buy-out during the second quarter of 2010.

Operating revenues were $949.2 million for 2010, an increase of $18.5 million from 2009. The increase in operating revenues was primarily due to increased demand and commodity margin revenues as a result of the growth projects of $22.9 million and an increase of $8.3 million due to the recognition of revenue for a previously deferred gain for native gas contributed to Hardy Storage from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, there was a $5.6 million increase in regulatory trackers, which are offset in expense, $5.4 million of fees received from a contract buy-out during the period, and a $3.5 million increase in mineral rights royalty revenues. These increases in revenue were partially offset by a decrease in shorter term transportation and storage services of $23.1 million and a decrease of $9.1 million in mineral rights leasing revenues.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Operating Income
Operating income was $360.0 million for 2011, a decrease of $16.6 million from the comparable period in 2010. Operating income decreased as a result of higher operating expenses and lower equity earnings partially offset by higher operating revenues, as described above. Operating expenses increased $72.6 million primarily due to an increase in employee and administrative costs of $50.8 million, driven largely by pension contributions, higher environmental costs of $12.4 million, and higher regulatory trackers of $5.9 million, which are offset in net revenues. Additionally, there was an increase of $4.9 million in software costs and $4.1 million in separation costs. These increases were partially offset by a decrease of $8.0 million in outside service costs. Equity earnings decreased $0.4 million compared to 2010 as a result of lower earnings at Millennium.

Operating income of $376.6 million in 2010 decreased $11.3 million from 2009, primarily due to increased operating expenses of $28.8 million and lower equity earnings of $1.0 million, partly offset by higher net operating revenues described above. Operating expenses increased as a result of higher maintenance and outside service costs of $22.0 million, including pipeline integrity management costs. Additionally, employee and administration expenses increased $18.5 million, primarily due to increased pension contributions, depreciation increased $9.2 million as a result of increased capital expenditures, regulatory trackers, which are offset in revenue, increased $5.6 million, and materials and supplies cost increased $3.2 million. These increases were partially offset by a decrease of $19.9 million in restructuring charges recorded in 2009 and lower environmental costs of $2.9 million. Equity earnings decreased $1.0 million primarily resulting from lower earnings from Columbia Transmission's investment in Millennium, driven by higher interest costs and hedge loss amortization related to Millennium's August 2010 debt refinancing.

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

N I S OURCE I NC .
Electric Operations

Year Ended December 31, *(in millions)*		2011		2010		2009
Net Revenues						
Sales revenues	$	**1,435.4**	$	1,387.3	$	1,222.4
Less: Cost of sales (excluding depreciation and amortization)		**548.8**		508.3		456.5
Net Revenues		**886.6**		879.0		765.9
Operating Expenses						
Operation and maintenance		**405.5**		387.8		391.7
Depreciation and amortization		**214.7**		211.8		206.2
Impairment and (gain)/loss on sale of assets, net		**0.4**		-		0.3
Other taxes		**56.5**		58.6		50.8
Total Operating Expenses		**677.1**		658.2		649.0
Operating Income	$	**209.5**	$	220.8	$	116.9
Revenues ($ in millions)						
Residential	$	**393.9**	$	393.2	$	360.2
Commercial		**382.1**		372.7		369.3
Industrial		**582.1**		508.9		452.8
Wholesale		**27.6**		30.4		19.3
Other		**49.7**		82.1		20.8
Total	$	**1,435.4**	$	1,387.3	$	1,222.4
Sales (Gigawatt Hours)						
Residential		**3,526.5**		3,625.6		3,241.4
Commercial		**3,886.5**		3,919.9		3,833.9
Industrial		**9,257.6**		8,459.0		7,690.9
Wholesale		**651.6**		817.1		600.6
Other		**165.5**		186.4		158.9
Total		**17,487.7**		17,008.0		15,525.7
Cooling Degree Days		**907**		977		515
Normal Cooling Degree Days		**808**		808		808
% Warmer (Colder) than Normal		**12%**		21%		(36%)
Electric Customers						
Residential		**400,567**		400,522		400,016
Commercial		**54,029**		53,877		53,617
Industrial		**2,405**		2,432		2,441
Wholesale		**17**		15		15
Other		**737**		740		746
Total		**457,755**		457,586		456,835

Electric Supply

On October 28, 2011, Northern Indiana filed its 2011 Integrated Resource Plan with the IURC. The plan evaluates demand-side and supply-side resource alternatives to reliably and cost-effectively meet Northern Indiana customers' future energy requirements over the next twenty years. Existing resources are expected to be sufficient, assuming favorable outcomes for environmental upgrades, to meet customers' needs for the next decade. Northern Indiana continues to monitor and assess economic, regulatory and legislative activity, and will update its resource plan as appropriate.

Electric Operations (continued)

Market Conditions

Northern Indiana's mwh sales to steel-related industries accounted for approximately 64.0% and 63.6% of the total industrial mwh sales for the twelve months ended December 31, 2011 and 2010, respectively. Northern Indiana's industrial sales volumes and revenues improved in 2011 as compared to 2010 due to the economic recovery of the steel industry from its 2008-2009 recession lows. The U.S. steel industry continues to adjust to changing market conditions. Predominant factors are global and domestic manufacturing demand and industry consolidation. Steel-related mwh volumes and demands have stabilized considerably since the volatility of the 2008 -2009 period and the steel producers in Northern Indiana's service territory continue to see modest increases in production.

Capital Expenditures and Other Investing Activities

The table below reflects actual capital expenditures and other investing activities by category for 2009, 2010 and 2011 and estimates for 2012.

(in millions)	2012E	**2011**	2010	2009
System Growth	$ 25.3	$ **28.0**	$ 25.8	$ 32.7
Maintenance and Other	388.3	**239.7**	164.5	129.9
Total	$ 413.6	$ **267.7**	$ 190.3	$ 162.6

The Electric Operations' capital expenditure program and other investing activities in 2011 were higher by $77.4 million versus 2010. The increase in capital was primarily attributable to increased environmental tracker capital for FGD projects in the generation fleet. Capital expenditures in the segment are projected to be approximately $413.6 million in 2012, which is an increase of $145.9 million. This increase is mainly due to environmental tracker capital for FGD projects in the generation fleet.

The Electric Operations' capital expenditure program and other investing activities in 2010 increased by $27.7 million compared to 2009. The increase in capital expenditures was primarily attributable to increased maintenance projects in the generation fleet.

Regulatory Matters

Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for information on significant rate developments, MISO, and cost recovery and trackers for the Electric Operations segment.

Environmental Matters

Currently, various environmental matters impact the Electric Operations segment. As of December 31, 2011, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Restructuring

Refer to Note 3, "Impairments, Restructuring and Other Charges," in the Notes to Consolidated Financial Statements for information regarding restructuring initiatives.

Sales

Electric Operations sales were 17,487.7 gwh for the year 2011, an increase of 479.7 gwh compared to 2010. The increase occurred primarily from higher industrial volumes as a result of improvement in overall economic conditions.

Electric Operations sales were 17,008.0 gwh for the year 2010, an increase of 1,482.3 gwh compared to 2009. The increase occurred primarily from higher industrial volumes as a result of improvement in overall economic conditions. Additionally, warmer weather in 2010 resulted in an increase in sales.

NiSource Inc.
Electric Operations (continued)

Net Revenues
Net revenues were $886.6 million for 2011, an increase of $7.6 million from the same period in 2010, primarily due to increased industrial usage and margins of $18.7 million resulting from improved economic conditions, $9.5 million in lower revenue credits compared to the prior year, and higher environmental trackers of $5.5 million, which are offset in expense. These increases were partially offset by a decrease in residential and commercial margins of $12.2 million, and lower environmental cost recovery of $12.0 million due to a decrease in net plant eligible for a return and a decrease in the allowed rate of return.

Net revenues were $879.0 million for 2010, an increase of $113.1 million from 2009. This increase was primarily the result of higher industrial usage and margins of $45.1 million due to improved economic conditions, warmer weather of approximately $35 million, and a $17.1 million increase in environmental trackers, which are partially offset in operating expenses. Additionally, there was an increase of $14.6 million in off-system sales, including a reduction of $8.2 million in off-system sales in 2009 resulting from a FAC settlement.

At Northern Indiana, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased fuel costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustment to Other gross revenues for the twelve months ended December 31, 2011 and 2010 was a revenue decrease of $20.6 million and a revenue increase of $46.5 million, respectively.

Operating Income
Operating income for 2011 was $209.5 million, a decrease of $11.3 million from the same period in 2010 due to higher operating expenses partially offset by higher net revenues described above. Operating expenses increased $18.9 million due primarily to increased employee and administrative costs of $14.8 million and higher outside service costs of $8.4 million. These increases were partially offset by a $4.9 million one-time inventory adjustment recorded in the prior period.

Operating income for 2010 was $220.8 million, an increase of $103.9 million from 2009. The increase in operating income was due to increased net revenues described above partially offset by an increase in operating expenses of $9.2 million. The increase in operating expenses was the result of an increase of $7.8 million in other taxes, primarily property, a charge of $5.9 million for inventory disposal and other costs associated with the rate case, higher electric generation costs of $5.5 million, and an increase of $5.6 million in depreciation costs. These were partially offset by $10.0 million for a legal reserve which was recorded in 2009, $3.6 million for lower restructuring costs, and $3.2 million in lower uncollectible costs.

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."

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

NiSource Inc.

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates	
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
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 L.L.C.
CPRC	Columbia Gas of Pennsylvania 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
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
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 Corporation
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company Inc.
NiSource Midstream	NiSource Midstream Services, L.L.C.
PEI	PEI Holdings, Inc.
Whiting Clean Energy	Whiting Clean Energy, Inc.
Abbreviations	
2010 Health Care Act	The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 signed into law by the President on March 23, 2010 and March 30, 2010, respectively
AFUDC	Allowance for funds used during construction
AICPA	American Institute of Certified Public Accountants
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent
AOCI	Accumulated other comprehensive income
ARP	Alternative Regulatory Plan
ARRs	Auction Revenue Rights
ASC	Accounting Standards Codification
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BPAE	BP Alternative Energy North America, Inc.
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.

DEFINED TERMS

CAMR	Clean Air Mercury Rule
Ccf	Hundred cubic feet
CARE	Conservation and Ratemaking Efficiency
CCGT	Combined Cycle Gas Turbine
CCRs	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
Chesapeake	Chesapeake Appalachia, L.L.C.
CO_2	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
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 generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services
IDEM	Indiana Department of Environmental Management
IFA	Indiana Finance Authority
IFRS	International Financial Reporting Standards
IIG	Indiana Industrial Group
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
MACT	Maximum Achievable Control Technology
Mcf	Million cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
mw	Megawatts

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.

DEFINED TERMS

mwh	Megawatts hours
NAAQS	National Ambient Air Quality Standards
NLMK	Novolipetsk Steel
NOV	Notice of Violation
NO_2	Nitrogen dioxide
NOx	Nitrogen oxides
NSR	New Source Review
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUCC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PJM	PJM Interconnection is a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.
PM	particulate matter
PPS	Price Protection Service
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RBS	Royal Bank of Scotland PLC
RCRA	Resource Conservation and Recovery Act
RTO	Regional Transmission Organization
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO_2	Sulfur dioxide
Sugar Creek	Sugar Creek electric generating plant
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission
WACOG	Weighted Average Cost of Gas

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NiSource Inc.:

We have audited the accompanying consolidated balance sheets and statements of consolidated long-term debt of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, of common stockholders' equity and comprehensive income (loss), and of cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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 a reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Columbus, Ohio
February 24, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NiSource Inc.:

We have audited the internal control over financial reporting of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2011, based on 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 maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2011, of the Company and our report dated February 24, 2012 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Columbus, Ohio
February 24, 2012

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED INCOME

Year Ended December 31, *(in millions, except per share amounts)*		2011		2010		2009
Net Revenues						
Gas Distribution	$	**2,917.9**	$	3,094.0	$	3,296.2
Gas Transportation and Storage		**1,354.6**		1,261.4		1,239.5
Electric		**1,427.7**		1,379.3		1,214.2
Other		**318.9**		679.9		901.7
Gross Revenues		**6,019.1**		6,414.6		6,651.6
Cost of Sales (excluding depreciation and amortization)		**2,556.4**		2,974.1		3,318.0
Total Net Revenues		**3,462.7**		3,440.5		3,333.6
Operating Expenses						
Operation and maintenance		**1,722.5**		1,663.3		1,656.1
Depreciation and amortization		**538.2**		597.1		589.9
Impairment and (gain)/loss on sale of assets, net		**16.8**		2.0		19.7
Other taxes		**294.7**		287.4		283.9
Total Operating Expenses		**2,572.2**		2,549.8		2,549.6
Equity Earnings in Unconsolidated Affiliates		**14.6**		15.0		16.0
Operating Income		**905.1**		905.7		800.0
Other Income (Deductions)						
Interest expense, net		**(376.8)**		(392.3)		(399.3)
Other, net		**(7.3)**		3.8		(1.4)
Loss on early extinguishment of long-term debt		**(53.9)**		(96.7)		(4.5)
Total Other Deductions		**(438.0)**		(485.2)		(405.2)
Income from Continuing Operations before Income Taxes		**467.1**		420.5		394.8
Income Taxes		**163.3**		135.3		165.0
Income from Continuing Operations		**303.8**		285.2		229.8
Loss from Discontinued Operations - net of taxes		**(4.7)**		(2.7)		(10.3)
Gain (Loss) on Disposition of Discontinued Operations - net of taxes		**-**		0.1		(2.5)
Net Income	**$**	**299.1**	$	282.6	$	217.0
Basic Earnings (Loss) Per Share ($)						
Continuing operations	$	**1.08**	$	1.03	$	0.84
Discontinued operations		**(0.02)**		(0.01)		(0.05)
Basic Earnings Per Share	**$**	**1.06**	$	1.02	$	0.79
Diluted Earnings (Loss) Per Share ($)						
Continuing operations	$	**1.05**	$	1.02	$	0.83
Discontinued operations		**(0.02)**		(0.01)		(0.05)
Diluted Earnings Per Share	**$**	**1.03**	$	1.01	$	0.78
Dividends Declared Per Common Share	**$**	**0.92**	$	0.92	$	0.92
Basic Average Common Shares Outstanding (millions)		**280.4**		277.8		275.1
Diluted Average Common Shares (millions)		**288.5**		280.1		275.8

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

(in millions)		**December 31, 2011**		December 31, 2010
ASSETS				
Property, Plant and Equipment				
Utility Plant	$	20,337.8	$	19,494.9
Accumulated depreciation and amortization		(8,670.2)		(8,492.6)
Net utility plant		11,667.6		11,002.3
Other property, at cost, less accumulated depreciation		132.5		94.7
Net Property, Plant and Equipment		11,800.1		11,097.0
Investments and Other Assets				
Assets of discontinued operations and assets held for sale		0.2		7.9
Unconsolidated affiliates		204.7		200.9
Other investments		150.9		139.7
Total Investments and Other Assets		355.8		348.5
Current Assets				
Cash and cash equivalents		11.5		9.2
Restricted cash		160.6		202.9
Accounts receivable (less reserve of $30.5 and $37.4, respectively)		854.8		1,079.3
Income tax receivable		0.9		99.0
Gas inventory		427.6		298.2
Underrecovered gas and fuel costs		20.7		120.7
Materials and supplies, at average cost		87.6		83.8
Electric production fuel, at average cost		50.9		46.0
Price risk management assets		137.2		159.5
Exchange gas receivable		64.9		62.7
Regulatory assets		169.7		143.8
Prepayments and other		261.8		120.8
Total Current Assets		2,248.2		2,425.9
Other Assets				
Price risk management assets		188.7		240.3
Regulatory assets		1,978.2		1,648.0
Goodwill		3,677.3		3,677.3
Intangible assets		297.6		308.6
Postretirement and postemployment benefits assets		31.5		35.1
Deferred charges and other		130.9		132.7
Total Other Assets		6,304.2		6,042.0
Total Assets	$	20,708.3	$	19,913.4

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
CONSOLIDATED BALANCE SHEETS (continued)

(in millions, except share amounts)	**December 31, 2011**	December 31, 2010
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders' Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 281,853,571 and 278,855,291 shares issued and outstanding, respectively	**$ 2.8**	$ 2.8
Additional paid-in capital	**4,167.7**	4,103.9
Retained earnings	**917.0**	876.1
Accumulated other comprehensive loss	**(59.7)**	(57.9)
Treasury stock	**(30.5)**	(27.4)
Total Common Stockholders' Equity	**4,997.3**	4,897.5
Long-term debt, excluding amounts due within one year	**6,267.1**	5,936.1
Total Capitalization	**11,264.4**	10,833.6
Current Liabilities		
Current portion of long-term debt	**327.3**	34.2
Short-term borrowings	**1,359.4**	1,382.5
Accounts payable	**434.8**	581.8
Dividends payable	**-**	0.1
Customer deposits and credits	**313.6**	318.1
Taxes accrued	**220.9**	221.1
Interest accrued	**111.9**	114.4
Overrecovered gas and fuel costs	**48.9**	21.4
Price risk management liabilities	**167.8**	173.9
Exchange gas payable	**168.2**	266.1
Deferred revenue	**10.1**	6.8
Regulatory liabilities	**112.0**	92.9
Accrued liability for postretirement and postemployment benefits	**26.6**	23.3
Legal and environmental reserves	**43.9**	86.0
Other accruals	**301.0**	343.7
Total Current Liabilities	**3,646.4**	3,666.3
Other Liabilities and Deferred Credits		
Price risk management liabilities	**138.9**	181.6
Deferred income taxes	**2,541.9**	2,193.1
Deferred investment tax credits	**29.0**	33.7
Deferred credits	**78.9**	68.6
Deferred revenue	**-**	0.3
Accrued liability for postretirement and postemployment benefits	**953.8**	1,039.6
Regulatory liabilities and other removal costs	**1,663.9**	1,595.8
Asset retirement obligations	**146.4**	138.8
Other noncurrent liabilities	**244.7**	162.0
Total Other Liabilities and Deferred Credits	**5,797.5**	5,413.5
Commitments and Contingencies (Refer to Note 20)	**-**	-
Total Capitalization and Liabilities	**$ 20,708.3**	$ 19,913.4

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
STATEMENTS OF CONSOLIDATED CASH FLOWS

Year Ended December 31, *(in millions)*	2011	2010	2009
Operating Activities			
Net Income	$ 299.1	$ 282.6	$ 217.0
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:			
Loss on early extinguishment of debt	53.9	96.7	4.5
Depreciation and amortization	538.2	597.1	589.9
Net changes in price risk management assets and liabilities	38.1	(5.5)	(9.1)
Deferred income taxes and investment tax credits	178.4	193.9	377.8
Deferred revenue	2.5	(20.4)	4.3
Stock compensation expense and 401(k) profit sharing contribution	39.2	30.9	9.6
Loss (Gain) on sale of assets	0.1	(0.1)	(3.6)
Loss on impairment of assets	16.7	2.1	23.3
Income from unconsolidated affiliates	(13.7)	(14.8)	(15.1)
(Gain) Loss on disposition of discontinued operations - net of taxes	-	(0.1)	2.5
Loss from discontinued operations - net of taxes	4.7	2.7	10.3
Amortization of discount/premium on debt	8.9	10.3	13.0
AFUDC equity	(2.4)	(6.1)	(5.4)
Distribution Received from Equity Earnings	18.8	12.9	-
Changes in Assets and Liabilities:			
Accounts receivable	219.6	(243.9)	258.9
Income tax receivable	98.1	51.5	(24.9)
Inventories	(141.8)	103.3	128.7
Accounts payable	(154.8)	37.7	(191.4)
Customer deposits and credits	(4.5)	(25.0)	25.3
Taxes accrued	2.3	(117.0)	116.2
Interest accrued	(2.5)	(10.7)	5.3
Over (Under) recovered gas and fuel costs	127.5	(243.0)	323.4
Exchange gas receivable/payable	(100.1)	(14.2)	(10.0)
Other accruals	33.2	63.4	(6.8)
Prepayments and other current assets	(10.2)	(11.5)	23.9
Regulatory assets/liabilities	(322.9)	164.3	105.8
Postretirement and postemployment benefits	(92.7)	(146.6)	(49.1)
Deferred credits	(2.3)	(2.6)	6.2
Deferred charges and other noncurrent assets	6.9	7.9	(21.9)
Other noncurrent liabilities	82.0	(13.2)	12.1
Net Operating Activities from Continuing Operations	920.3	782.6	1,920.7
Net Operating Activities used for Discontinued Operations	(50.1)	(57.2)	(254.5)
Net Cash Flows from Operating Activities	870.2	725.4	1,666.2
Investing Activities			
Capital expenditures	(1,125.2)	(803.8)	(777.2)
Insurance recoveries	-	5.0	62.7
Proceeds from disposition of assets	9.4	0.5	5.7
Restricted cash deposits (withdrawals)	42.3	(28.2)	111.9
Contributions to equity investees	(6.4)	(87.9)	(26.4)
Distributions from equity investees	-	23.8	2.9
Other investing activities	(69.4)	(53.1)	(42.0)
Net Investing Activities used for Continuing Operations	(1,149.3)	(943.7)	(662.4)
Net Investing Activities from Discontinued Operations	-	0.4	7.6
Net Cash Flows used for Investing Activities	(1,149.3)	(943.3)	(654.8)
Financing Activities			
Issuance of long-term debt	890.0	244.6	1,460.0
Retirement of long-term debt	(286.9)	(977.7)	(1,169.8)
Premium and other costs to retire debt	(62.1)	(93.0)	-
Change in short-term debt, net	(23.1)	1,279.5	(1,060.5)
Issuance of common stock	24.4	14.4	10.6
Acquisition of treasury stock	(3.1)	(1.5)	(2.6)
Dividends paid - common stock	(257.8)	(255.6)	(253.3)
Net Cash Flows from (used for) Financing Activities	281.4	210.7	(1,015.6)
Change in cash and cash equivalents from continuing operations	52.4	49.6	242.7
Cash contributions to discontinued operations	(50.1)	(56.8)	(246.9)
Cash and cash equivalents at beginning of period	9.2	16.4	20.6
Cash and Cash Equivalents at End of Period	$ 11.5	$ 9.2	$ 16.4

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

As of December 31, *(in millions)*	2011	2010
Columbia of Massachusetts:		
Medium-Term Notes -		
Interest rates between 6.26% and 6.43% with a weighted average interest rate of 6.30% and maturities between December 15, 2025 and February 15, 2028	$ 40.0	$ 40.0
Total long-term debt of Columbia of Massachusetts	40.0	40.0
Columbia Energy Group:		
Subsidiary debt - Capital lease obligations	2.2	0.5
Total long-term debt of Columbia Energy Group	2.2	0.5
NiSource Capital Markets, Inc.:		
Senior Notes - 6.78%, due December 1, 2027	3.0	3.0
Medium-term notes -		
Issued at interest rates between 7.82% and 7.99%, with a weighted average interest rate of 7.92% and various maturities between March 27, 2017 and May 5, 2027 (a)	106.0	106.0
Total long-term debt of NiSource Capital Markets, Inc.	109.0	109.0
NiSource Corporate Services, Inc.:		
Capital lease obligations -		
Interest rate of 3.290% due between June 30, 2015 and September 30, 2015	6.1	-
Interest rate of 3.264% due September 30, 2015	0.6	2.3
Interest rate of 6.709% due between December 31, 2014 and January 31, 2018	27.4	30.1
Interest rate of 9.840% due June 30, 2015	0.6	0.8
Interest rate of 5.586% due between December 31, 2013 and September 30, 2015	2.7	0.8
Total long-term debt of NiSource Corporate Services, Inc.	37.4	34.0
NiSource Development Company, Inc.:		
NDC Douglas Properties, Inc. - Notes Payable--		
Interest rates between 4.000% and 8.385% with a weighted average interest rate of 6.22% and various maturities between May 1, 2013 and April 1, 2046 (a)	11.2	10.7
Total long-term debt of NiSource Development Company, Inc.	11.2	10.7

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

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

As of December 31, *(in millions)*		2011		2010
NiSource Finance Corporation:				
Long-Term Notes -				
5.21% - due November 28, 2012		-		315.0
6.15% - due March 1, 2013		420.3		545.0
5.40% - due July 15, 2014		500.0		500.0
5.36% - due November 28, 2015		230.0		230.0
10.75% - due March 15, 2016		201.5		326.9
5.41% - due November 28, 2016		90.0		90.0
5.25% - due September 15, 2017		450.0		450.0
6.40% - due March 15, 2018		800.0		800.0
6.80% - due January 15, 2019		500.0		500.0
5.45% - due September 15, 2020		550.0		550.0
4.45% - due December 1, 2021		250.0		-
6.125% - due March 1, 2022		500.0		500.0
5.89% - due November 28, 2025		265.0		265.0
6.25% - due December 15, 2040		250.0		250.0
5.95% - due June 15, 2041		400.0		-
5.80% - due February 1, 2042		250.0		-
Fair value adjustment of notes for interest rate swap agreements		56.7		61.1
Unamortized premium and discount on long-term debt		(36.8)		(32.5)
Total long-term debt of NiSource Finance Corporation		5,676.7		5,350.5
Northern Indiana:				
Pollution control bonds -				
Reoffered interest rates between 5.20% and 5.85%, with a weighted average interest rate of 5.64% and various maturities between June 1, 2013 and April 1, 2019 [(a)]		244.0		244.0
Medium-term notes -				
Issued at interest rates between 7.02% and 7.69%, with a weighted average interest rate of 7.45% and various maturities between July 8, 2013 and August 4, 2027 [(a)]		145.5		145.5
Wind generation projects notes -				
Variable rate of 3.25% at December 31, 2011 with amounts due at July 1, 2014 and October 28, 2014		1.7		2.6
Unamortized discount on long-term debt		(0.6)		(0.7)
Total long-term debt of Northern Indiana		390.6		391.4
Total long-term debt, excluding amount due within one year	$	6,267.1	$	5,936.1

(a) Interest rates and maturities shown are as of December 31, 2011. Refer to Note 16 "Long-Term Debt" for changes in debt outstanding.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total	Comprehensive Income
Balance January 1, 2009	$ 2.7	$ (23.3)	$ 4,020.3	$ 885.5	$ (172.0)	$ 4,713.2	
Comprehensive Income:							
Net Income	-	-	-	217.0	-	217.0	$ 217.0
Other comprehensive income, net of tax:							
Gain on available for sale securities Unrealized [a]	-	-	-	-	2.3	2.3	2.3
Net unrealized gains on derivatives qualifying as cash flow hedges [b]	-	-	-	-	118.8	118.8	118.8
Unrecognized Pension Benefit and Other Postretirement Benefit Costs [d]	-	-	-	-	5.0	5.0	5.0
Total comprehensive income							$ 343.1
Dividends:							
Common stock	-	-	-	(253.3)	-	(253.3)	
Treasury stock acquired	-	(2.6)	-	-	-	(2.6)	
Issued:							
Common stock issuance	0.1	-	-	-	-	0.1	
Employee stock purchase plan	-	-	0.9	-	-	0.9	
Long-term incentive plan	-	-	11.1	-	-	11.1	
401(k) and profit sharing issuance	-	-	18.1	-	-	18.1	
Dividend reinvestment plan	-	-	6.8	-	-	6.8	
Amortization of unearned compensation	-	-	0.4	-	-	0.4	
Balance December 31, 2009	$ 2.8	$ (25.9)	$ 4,057.6	$ 849.2	$ (45.9)	$ 4,837.8	
Comprehensive Income (Loss):							
Net Income	-	-	-	282.6	-	282.6	$ 282.6
Other comprehensive income (loss), net of tax:							
Gain on available for sale securities Unrealized [a]	-	-	-	-	1.1	1.1	1.1
Net unrealized losses on derivatives qualifying as cash flow hedges [b]	-	-	-	-	(13.8)	(13.8)	(13.8)
Unrecognized Pension Benefit and Other Postretirement Benefit Costs [d]	-	-	-	-	0.7	0.7	0.7
Total comprehensive income							$ 270.6
Dividends:							
Common stock	-	-	-	(255.7)	-	(255.7)	
Treasury stock acquired	-	(1.5)	-	-	-	(1.5)	
Issued:							
Employee stock purchase plan	-	-	1.1	-	-	1.1	
Long-term incentive plan	-	-	12.1	-	-	12.1	
401(k) and profit sharing issuance	-	-	24.2	-	-	24.2	
Dividend reinvestment plan	-	-	8.9	-	-	8.9	
Balance December 31, 2010	$ 2.8	$ (27.4)	$ 4,103.9	$ 876.1	$ (57.9)	$ 4,897.5	

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

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STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) (continued)

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total	Comprehensive Income (Loss)
Balance December 31, 2010	$ 2.8	$ (27.4)	$ 4,103.9	$ 876.1	$ (57.9)	$ 4,897.5	
Comprehensive Income (Loss):							
Net Income	-	-	-	299.1	-	299.1	$ 299.1
Other comprehensive income (loss), net of tax:							
Gain on available for sale securities:							
Unrealized [(a)]	-	-	-	-	1.2	1.2	1.2
Net unrealized losses on derivatives qualifying as cash flow hedges [(b), (c)]	-	-	-	-	3.0	3.0	3.0
Unrecognized Pension Benefit and Other Postretirement Benefit Costs [(d)]	-	-	-	-	(6.0)	(6.0)	(6.0)
Total comprehensive income							$ 297.3
Dividends:							
Common stock	-	-	-	(258.2)	-	(258.2)	
Treasury stock acquired	-	(3.1)	-	-	-	(3.1)	
Issued:							
Employee stock purchase plan	-	-	1.3	-	-	1.3	
Long-term incentive plan	-	-	21.4	-	-	21.4	
401K and profit sharing issuance	-	-	32.0	-	-	32.0	
Dividend reinvestment plan	-	-	8.9	-	-	8.9	
Tax benefits of options	-	-	0.2	-	-	0.2	
Balance December 31, 2011	$ 2.8	$ (30.5)	$ 4,167.7	$ 917.0	$ (59.7)	$ 4,997.3	

(a) Net unrealized gain/loss on available for sale securities, net of $0.7 million, $0.8 million and $1.6 million tax expense in 2011, 2010 and 2009, respectively.

(b) Net unrealized gain/loss on derivatives qualifying as cash flow hedges, net of $1.1 million tax benefit and $7.6 million tax expense and $78.3 million tax benefit in 2011, 2010, and 2009 . During 2009, NiSource reclassified $126.4 million ($75.1 million, net of tax) related to its cash hedges from accumulated other comprehensive loss to earnings due to the probability that certain forecasted transactions would not occur related to the unregulated gas marketing business that NiSource had planned to sell.

(c) Net unrealized losses on cash flow hedged includes a gain of $1.4 million related to the unrealized loss on interest rate swaps held by NiSource's unconsolidated equity method investments for the twelve months ended December 31, 2011.

(d) Unrecognized Pension Benefit and Other Postretirement Benefit Costs recorded to accumulated other comprehensive income (loss), net of $3.7 million tax expense, $0.4 million tax expense and $3.2 million tax benefit in 2011, 2010 and 2009, respectively.

Shares *(in thousands)*	Common Shares	Treasury Shares	Outstanding Shares
Balance January 1, 2009	275,379	(1,117)	274,262
Treasury stock acquired		(192)	(192)
Issued:			
Employee stock purchase plan	80	-	80
Long-term incentive plan	480	-	480
Dividend reinvestment	546	-	546
Retirement savings plan	1,462	-	1,462
Balance December 31, 2009	277,947	(1,309)	276,638
Treasury stock acquired		(97)	(97)
Issued:			
Employee stock purchase plan	62	-	62
Long-term incentive plan	191	-	191
Dividend reinvestment	563	-	563
Retirement savings plan	1,498	-	1,498
Balance December 31, 2010	280,261	(1,406)	278,855
Treasury stock acquired		(165)	(165)
Issued:			
Employee stock purchase plan	67	-	67
Long-term incentive plan	1,064	-	1,064
Dividend reinvestment	439	-	439
Retirement savings plan	1,594	-	1,594
Balance December 31, 2011	283,425	(1,571)	281,854

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

Immaterial Restatement

As discussed further below, NiSource is making correcting adjustments to its historical financial statements for the quarters of 2011 and 2010 (see Note 26 for selected quarterly financial data) and for the years of 2010 and 2009. NiSource does not believe these corrections are material, individually or in the aggregate, to its financial statements for any reported period. Refer to the tables below for the effects of these corrections on prior periods.

Deferred revenue- In the fourth quarter of 2011, NiSource identified a deferred revenue regulatory asset of $25.2 million that was not recoverable. The impact of the correction in 2010 and 2009 resulted in a decrease in electric revenue of $7.4 million and an increase of $1.0 million, respectively, with an offset to deferred revenue regulatory assets. The remaining decrease in electric revenue of $18.2 million impacted periods prior to 2009 and, thus, reduced beginning retained earnings in 2009. The correction reduced electric revenue by a total of $0.6 million for previously reported interim periods in 2011. There was no impact to customers as a result of this correction.

Environmental asset recovery- NiSource recorded an out of period charge of $3.4 million in operation and maintenance expense and $4.6 million in depreciation and amortization expense in the first quarter of 2011 to impair a regulatory environmental asset that was not recoverable, which impairment charge should have been recorded in a prior year. The impact of the correction in 2010 and 2009 resulted in an increase to expense of $1.4 million and $1.0 million, respectively, with an offset to regulatory assets. The remaining increase to expense of $5.6 million impacted periods prior to 2009 and, thus, reduced beginning retained earnings in 2009.

OPEB over-reimbursement- In the fourth quarter of 2011, NiSource identified an over-reimbursement of $8.0 million received by NiSource from an insurer related to other post-employment benefits. The impact of the correction in 2010 and 2009 resulted in an increase in operation and maintenance expense of $1.0 million and $1.1 million, respectively, with an offset to other accruals. The remaining increase in expense of $5.4 million impacted periods prior to 2009 and, thus, reduced beginning retained earnings in 2009. The correction increased expense by a total of $0.5 million for previously reported interim periods in 2011.

Environmental accrual- In the third quarter of 2010, NiSource recorded an out of period reduction to expense of $6.0 million to reduce an environmental liability that was incorrectly recorded in a prior year. To reverse the liability in the proper periods, NiSource recorded an increase in operation and maintenance expense of $6.0 million in 2010 and a decrease of $0.2 million in 2009 with an offset to legal and environmental accruals. The remaining decrease to expense of $5.8 million impacted periods prior to 2009 and, thus, increased beginning retained earnings in 2009.

OPEB regulatory asset- NiSource recorded an out of period charge of $2.4 million in operation and maintenance expense in the second quarter of 2011 to impair a regulatory asset related to OPEB that was not probable of recovery, which impairment charge should have been recorded in a prior year. The impact of the correction in 2010 and 2009 resulted in a decrease to operation and maintenance expense of $0.2 million and an increase of $0.1 million, respectively, with an offset to regulatory assets. The remaining increase to expense of $2.3 million impacted periods prior to 2009 and, thus, reduced beginning retained earnings in 2009.

NISOURCE INC.
Notes to Consolidated Financial Statements

The following table sets forth the effects of the correcting adjustments to Net Income for 2010 and 2009:

Decrease in Net Income *(in millions)*	December 31, 2010	December 31, 2009
Previously reported Net Income	$ 292.0	$ 217.7
Deferred revenue	(7.4)	1.0
Environmental asset recovery	(1.4)	(1.0)
OPEB over-reimbursement	(1.0)	(1.1)
Environmental accrual	(6.0)	0.2
OPEB regulatory asset	0.2	(0.1)
Total corrections	(15.6)	(1.0)
Income taxes	(6.2)	(0.3)
Corrected Net Income	$ 282.6	$ 217.0

The following tables set forth the effects of the correcting adjustments on affected line items within our previously reported Statements of Consolidated Income for the years 2010 and 2009, Consolidated Balance Sheet as of December 31, 2010, Statements of Consolidated Cash Flows for the years 2010 and 2009 and Statements of Consolidated Common Stockholders' Equity for the years 2010 and 2009:

Statements of Consolidated Income

	Year Ended December 31,			
	2010		2009	
(in millions, except per share amounts)	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Net Revenues				
Electric	$ 1,386.7	$ 1,379.3	$ 1,213.2	$ 1,214.2
Gross Revenues	6,422.0	6,414.6	6,650.6	6,651.6
Total Net Revenues	3,447.9	3,440.5	3,332.6	3,333.6
Operation and maintenance	1,655.9	1,663.3	1,654.7	1,656.1
Depreciation and amortization	596.3	597.1	589.3	589.9
Total Operating Expenses	2,541.6	2,549.8	2,547.6	2,549.6
Operating Income	921.3	905.7	801.0	800.0
Income from Continuing Operations before Income Taxes	436.1	420.5	395.8	394.8
Income Taxes	141.5	135.3	165.3	165.0
Income from Continuing Operations	294.6	285.2	230.5	229.8
Net Income	$ 292.0	$ 282.6	$ 217.7	$ 217.0
Basic Earnings Per Share ($)				
Continuing operations	$ 1.06	$ 1.03	$ 0.84	$ 0.84
Basic Earnings Per Share	$ 1.05	$ 1.02	$ 0.79	$ 0.79
Diluted Earnings Per Share ($)				
Continuing operations	$ 1.05	$ 1.02	$ 0.84	$ 0.83
Diluted Earnings Per Share	$ 1.04	$ 1.01	$ 0.79	$ 0.78

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
Notes to Consolidated Financial Statements

Consolidated Balance Sheet

	December 31, 2010	
(in millions)	As Previously Reported	As Corrected
Current Assets		
Underrecovered gas and fuel costs	$ 135.7	$ 120.7
Regulatory Assets	151.8	143.8
Total Current Assets	2,448.9	2,425.9
Other Assets		
Regulatory Assets	1,650.4	1,648.0
Total Other Assets	6,044.4	6,042.0
Total Assets	$ 19,938.8	$ 19,913.4
Capitalization		
Retained Earnings	$ 901.8	$ 876.1
Total Common Stockholders' Equity	4,923.2	4,897.5
Total Capitalization	10,859.3	10,833.6
Current Liabilities		
Overrecovered gas and fuel costs	11.8	21.4
Other accruals	336.4	343.7
Total Current Liabilities	3,649.4	3,666.3
Other Liabilities and Deferred Credits		
Deferred income taxes	2,209.7	2,193.1
Total Other Liabilities and Deferred Credits	5,430.1	5,413.5
Total Capitalization and Liabilities	$ 19,938.8	$ 19,913.4

Statements of Consolidated Cash Flows

	Year Ended December 31,			
	2010		2009	
(in millions)	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Operating Activities				
Net Income	$ 292.0	$ 282.6	$ 217.7	$ 217.0
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:				
Depreciation and amortization	596.3	597.1	589.3	589.9
Deferred income taxes and investment tax credits	200.1	193.9	378.2	377.8
Changes in Assets and Liabilities:				
(Under) Overrecovered gas and fuel costs	(250.4)	(243.0)	324.4	323.4
Other accruals	56.4	63.4	(7.7)	(6.8)
Regulatory assets/liabilities	163.9	164.3	105.2	105.8

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
Notes to Consolidated Financial Statements

Statements of Consolidated Common Stockholders' Equity and Comprehensive Income

	Retained Earnings		Total		Comprehensive Income (Loss)	
(in millions)	As Previously Reported	As Corrected	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Balance December 31, 2008	$ 901.1	$ 885.5	$ 4,728.8	$ 4,713.2		
Net Income	217.7	217.0	217.7	217.0	$ 217.7	$ 217.0
Total comprehensive income					$ 343.8	$ 343.1
Balance December 31, 2009	$ 865.5	$ 849.2	$ 4,854.1	$ 4,837.8		
Net Income	292.0	282.6	292.0	282.6	$ 292.0	$ 282.6
Total comprehensive income					$ 280.0	$ 270.6
Balance December 31, 2010	$ 901.8	$ 876.1	$ 4,923.2	$ 4,897.5		

The cumulative impact of the corrections referred to above was to reduce retained earnings as of January 1, 2009, by $15.6 million.

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 derives substantially all of its revenues and earnings from the operating results of its thirteen 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. NiSource also consolidates variable interest entities for which NiSource is the primary beneficiary.

B. Use of Estimates. The preparation of financial statements in conformity with GAAP 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.

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 as restricted cash. 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 Statements of Consolidated Cash Flows.

Restricted cash was $160.6 million and $202.9 million as of December 31, 2011 and 2010, respectively. The decrease in restricted cash was a result of the winding down of NiSource's unregulated natural gas marketing business and the settlement of positions at MF Global as a result of MF Global filing for Chapter 11 bankruptcy protection. MF Global brokered NYMEX hedges of natural gas futures on behalf of NiSource affiliates. At the date of bankruptcy, NiSource affiliates had contracts open with MF Global with settlement dates ranging from November 2011 to February 2014. On November 3, 2011, these contracts were measured at a mark-to-market loss of approximately $46.4 million. NiSource affiliates had posted initial margin to open these accounts of $6.9 million and additional maintenance margin for mark-to-market losses, for a total cash balance of $53.3 million. Within the first week after the filing, at the direction of the Bankruptcy Court, a transfer of these assets was initiated on behalf of NiSource affiliates to a court-designated replacement broker for future trade activity. The existing futures positions were closed and then rebooked with the replacement broker at the new closing prices as of November 3, 2011. The maintenance margin was retained by MF Global to offset the loss positions of the open contracts on November 3, 2011. NiSource affiliates are monitoring the activity in the bankruptcy case and have filed a proof of claim at the Court's direction.

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 in large part on weather impacts and price volatility. NiSource's accounts receivable on the Consolidated Balance Sheets includes unbilled revenue, less reserves, in the amounts of $281.5 million and $458.6 million for the years ended December 31, 2011 and 2010, respectively. The reserve for uncollectible receivables is the Company's best estimate of the amount of probable credit losses in the existing accounts receivable. The Company determined the reserve based on historical experience and in consideration of current market conditions. Account balances are charged against the allowance when it is anticipated the receivable will not be recovered.

E. Investments in Debt and Equity Securities. NiSource's investments in debt and equity 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 (loss). 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. No material impairment charges were recorded for the years ended December 31, 2011, 2010 and 2009.

F. Basis of Accounting for Rate-Regulated Subsidiaries. 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 regulatory accounting. In such an 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 regulatory accounting, NiSource would be required to apply the provisions of Discontinuation of Rate-Regulated Accounting. In management's opinion, NiSource's regulated subsidiaries will be subject to regulatory accounting for the foreseeable future. Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for additional information.

G. Utility Plant and Other Property and Related Depreciation and Maintenance. Property, plant and equipment (principally utility plant) is 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 as approved by the appropriate regulators.

The weighted average depreciation provisions for utility plant, as a percentage of the original cost, for the periods ended December 31, 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Electric Operations	**3.5%**	3.5%	3.4%
Gas Distribution and Transmission Operations	**2.1%**	2.8%	2.9%

For rate-regulated companies, AFUDC is capitalized on all classes of property except organization costs, 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. The pre-tax rate for AFUDC was 3.6% in 2011, 4.9% in 2010 and 3.8% in 2009. Short-term borrowings were primarily used to fund construction efforts for all three years presented; however, long-term borrowings and equity funds were used more extensively in 2010 to fund construction than in the comparative periods.

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 regulated 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 in accordance with composite 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 debt-based 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 debt-based carrying charges and deferred depreciation related to Sugar Creek in accordance with the February 18, 2008 Order of the IURC. The deferred balances will be amortized over five years commencing January 2012.

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. The amount of depreciation that would have been recorded for 2005 through 2011 had Columbia of Ohio not been subject to rate regulation is a combined $286.7 million, a $41.0 million decrease over the $327.7 million reflected in rates. The regulatory asset was $90.7 million and $96.6 million as of December 31, 2011 and 2010, respectively. The amount of depreciation that would have been recorded for 2011 had Columbia of Ohio not been subject to rate regulation is $54.4 million, a $5.9 million decrease over the $60.3 million reflected in rates.

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. Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis generally over a period of five years. NiSource amortized $29.0 million in 2011, $25.9 million in 2010 and $27.7 million in 2009 related to software costs. NiSource's unamortized software balance was $120.8 million and $99.0 million at December 31, 2011 and 2010, respectively.

J. Goodwill and Other Intangible Assets. NiSource has approximately $4.0 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 Columbia of Massachusetts, a wholly-owned subsidiary of NiSource, which is being amortized on a straight-line basis over forty years from the date of acquisition. Refer to Note 6, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

K. Long-lived Assets. NiSource's Consolidated Balance Sheets contain significant long-lived assets other than goodwill and intangible assets discussed above which are not subject to recovery under regulatory accounting. As a result, NiSource assesses the carrying amount and potential earnings of these assets whenever events or changes in circumstances indicate that the carrying value could be impaired. Refer to Note 3, "Impairments, Restructuring and Other Charges," in the Notes to Consolidated Financial Statements for further information.

L. Revenue Recognition. Revenue is 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 but not billed. 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. For shorter term transportation and storage service revenues, cash is received at inception of the service period resulting in the recording of deferred revenues that are recognized in revenues over the period the services are provided.

NiSource Inc.
Notes to Consolidated Financial Statements

M. 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 and the Forward Agreements (see Note 14). The calculation of diluted earnings per share for 2011, 2010, and 2009 excludes out-of-the-money stock options of 2.8 million, 4.1 million and 4.3 million, respectively, that had an anti-dilutive effect.

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	2011	2010	2009
Denominator *(thousands)*			
Basic average common shares outstanding	**280,442**	277,797	275,061
Dilutive potential common shares			
Nonqualified stock options	**9**	-	-
Shares contingently issuable under employee stock plans	**1,017**	910	330
Shares restricted under stock plans	**339**	697	424
Forward Agreements	**6,684**	684	-
Diluted Average Common Shares	**288,491**	280,088	275,815

N. 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.

O. Accounts Receivable Transfer Program. Certain of NiSource's subsidiaries entered into agreements with third parties to sell certain accounts receivable without recourse. These sales were reflected as reductions of accounts receivable in the December 31, 2009 Consolidated Balance Sheet and as operating cash flows in the December 31, 2009 Statement of Consolidated Cash Flows. The costs of these programs, which were based upon the purchasers' level of investment and borrowing costs, were charged to Other, net in the December 31, 2009 Statement of Consolidated Income. Beginning January 1, 2010 transfers of accounts receivable that previously qualified for sale accounting, no longer qualify and are accounted for as secured borrowings. The entire gross receivables balance remains on the December 31, 2011 and 2010 Consolidated Balance Sheet and short-term debt is recorded in the amount of proceeds received from the commercial paper conduits involved in the transactions. Fees associated with the securitization transactions are recorded as interest expense. Refer to Note 19, "Transfers of Financial Assets," in the Notes to Consolidated Financial Statements for further information.

P. Fuel Adjustment Clause. Northern Indiana defers most differences between fuel and power purchase costs and the recovery of such costs in revenue, and adjusts future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

Q. Gas Cost Adjustment Clause. All of NiSource's Gas Distribution Operations subsidiaries 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.

R. Gas Inventory. Both the LIFO inventory methodology and the weighted average cost methodology are used to value natural gas in storage, as approved by regulators for each of NiSource's regulated subsidiaries. Inventory valued using LIFO was $150.0 million and $151.6 million at December 31, 2011, and 2010, respectively. Based on the average cost of gas using the LIFO method, the estimated replacement cost of gas in storage at December 31, 2011 and December 31, 2010, exceeded the stated LIFO cost by $21.9 million and $91.7 million, respectively. Inventory valued using the weighted average cost methodology was $277.6 million at December 31, 2011 and $146.6 million at December 31, 2010.

S. Accounting for Exchange and Balancing Arrangements of Natural Gas. NiSource's Gas Transmission and Storage and Gas Distribution Operations subsidiaries enter into balancing and exchange arrangements of natural gas as part of their operations and off-system sales programs. NiSource records a receivable or payable for its respective cumulative gas imbalances and for any gas inventory borrowed or lent under an exchange agreement for Gas Distribution Operations. These receivables and payables are recorded as "Exchange gas receivable" or "Exchange gas payable" on NiSource's Consolidated Balance Sheets, as appropriate.

T. Accounting for Emissions Allowances. Northern Indiana has obtained SO_2 and NOx emissions allowances from the EPA based upon its electric generation operations that the utility may sell, trade or hold for future use. Northern Indiana utilizes the inventory model in accounting for these emissions allowances, whereby these allowances were recognized at zero cost upon receipt from the EPA. Pursuant to the December 21, 2011 IURC Order, all purchases and sales of emission allowances will be recovered or refunded through the EERM.

U. Accounting for Risk Management and Energy Marketing Activities. NiSource accounts for its derivatives and hedging activities in accordance with ASC 815. NiSource recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value, unless such contracts are exempted as a normal purchase normal sale 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. Refer to Note 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for additional information.

V. Income Taxes and Investment Tax Credits. NiSource records income taxes to recognize full interperiod tax allocations. Under the liability method, deferred income taxes are provided 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 on the balance sheet and are being amortized to book income over the regulatory 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 refund to ratepayers deferred income taxes provided at rates higher than the current federal income tax rate. Such amounts are credited to ratepayers using either the average rate assumption method or the reverse South Georgia method.

Pursuant to the Internal Revenue Code and relevant state taxing authorities, NiSource and its subsidiaries file consolidated income tax returns for federal and certain state jurisdictions. NiSource and its subsidiaries are parties to an agreement (Tax Allocation Agreement) that provides for the allocation of consolidated tax liabilities. The Tax Allocation Agreement generally provides that each party is allocated an amount of tax similar to that which would be owed had the party been separately subject to tax. Any net benefit attributable to the parent is reallocated to other members.

W. 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 estimated site-specific costs where assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. 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 "Legal and environmental reserves" for short-term portions of these liabilities and "Other noncurrent liabilities" for the respective long-term portions of these liabilities. Rate-regulated subsidiaries applying regulatory accounting 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 20, "Other Commitments and Contingencies," in the Notes to Consolidated Financial Statements for further information.

X. 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.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Fair Value Measurements and Disclosures. In January 2010, the FASB issued authoritative guidance that amends the disclosures about transfers into and out of Levels 1 and 2 and requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. This guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for the first reporting period, including interim periods, beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which is effective for fiscal years beginning after December 15, 2010. Early adoption is permitted. NiSource adopted the guidance on January 1, 2010 with the exception of the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis. The guidance pertaining to the gross presentation of Level 3 activity was adopted on January 1, 2011. Refer to Note 18, "Fair Value Disclosures," for additional information.

Recently Issued Accounting Pronouncements

Balance Sheet Disclosure. In December 2011, the FASB issued Accounting Standards Update 2011-11, which requires additional disclosures regarding the nature of an entity's rights to offset positions associated with its financial and derivative instruments. These new disclosures will provide additional information about the entity's gross and net financial exposure. The amendment is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013 with retrospective application required. NiSource is currently reviewing the provisions of this new standard to determine the impact on its Consolidated Financial Statements and Notes to Consolidated Financial Statements.

Goodwill Impairment . In September 2011, the FASB issued Accounting Standards Update 2011-08, which gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit for the goodwill impairment test. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. NiSource is currently reviewing the provisions of this new standard to determine the impact on its Consolidated Financial Statements and Notes to Consolidated Financial Statements.

Comprehensive Income . In June 2011, the FASB issued Accounting Standards Update 2011-05, which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The update does not change the items that must be reported in other comprehensive income. In December 2011, the FASB issued Accounting Standards Update 2011-12, which indefinitely defers the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the Statements of Consolidated Income and Statements of Consolidated Common Stockholders' Equity and Comprehensive Income (Loss), as required by Accounting Standards Update 2011-05. For public entities, these amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. NiSource is currently reviewing the provisions of these new standards to determine the impact on its Consolidated Financial Statements and Notes to Consolidated Financial Statements.

3. Impairments, Restructuring and Other Charges

Impairments. 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 first step of the test for impairment compares the carrying amount of the long lived asset to the fair value sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

Lake Erie Land, which is wholly-owned by NiSource and within the Company's Corporate and Other Segment, was in the process of selling real estate over a 10-year period as a part of an agreement reached in June 2006 with a private real estate development group. In 2009, the developer was unable to meet certain contractual obligations under the sale agreement. NiSource tested the assets for impairment and determined that the sum of expected undiscounted cash flows were less than the carrying value. The Company then compared the carrying value of the assets to the fair value, determined primarily through independent appraisals, and recorded an impairment loss of $16.6 million in the fourth quarter of 2009. The total impairment charge is comprised of $8.8 million recognized due to the uncollectability of certain receivables due from the acquirer of the property and $7.8 million due to the current book value exceeding the fair value of certain real estate property remaining to be sold under the installment sales agreement as of December 31, 2009. No material additional impairment charges were recorded during 2010.

In April 2011, NiSource settled a mortgage foreclosure action against the developer, reacquired the Sand Creek Country Club, and purchased additional properties owned by the developer to be marketed along with the existing Lake Erie Land properties to prospective purchasers. This transaction qualified as a business combination in accordance with GAAP. The properties were acquired at fair value and included the Sand Creek Country Club and additional commercial properties for a total of $15.8 million as well as $3.5 million of land. NiSource's total investment in Lake Erie Land after these acquisitions was $51.3 million. As a part of the process to sell the Lake Erie Land properties in 2011, independent appraisals were obtained. The Company compared the carrying value of the assets to the fair value, determined primarily through the independent appraisals, and recorded an impairment loss of $14.7 million. At December 31, 2011, the total book value of these properties was $36.6 million and is included in Other Investments and Other Property in the Consolidated Balance Sheet. NiSource is seeking to market the Lake Erie Land properties, but has determined they did not meet the criteria to be classified as assets held for sale in accordance with GAAP as of December 31, 2011. The revenue and earnings of Sand Creek Country Club are not material.

During 2009, NiSource recognized $4.4 million in expense for an impairment charge related to four properties NDC Douglas Properties owns which did not meet the assets held for sale criteria as their estimated sale date was greater than one year. Based on previous impairments recorded on other NDC Douglas Properties, the properties were tested for impairment during the third quarter of 2009. NDC Douglas Properties property, plant, and equipment assets were valued based on a discounted cash flow model utilizing estimated future cash flows. The book value of these assets at December 31, 2009, subsequent to the impairment charge, was $7.0 million. NiSource conducted similar impairment testing in the fourth quarter of 2010, and recorded an impairment charge of $0.3 million. No additional impairments were recorded in 2011.

During 2010 and 2009, NiSource recognized $1.4 million and $0.2 million, respectively, in expense for the impairment of the Marble Cliff facility discussed in Note 4, "Discontinued Operations and Assets and Liabilities Held for Sale."

Restructuring . During the first quarter of 2009, NiSource began an organizational restructuring initiative, beginning with Gas Transmission and Storage Operations, in response to the decline in overall economic conditions.

In February 2009, NiSource announced the restructuring of the Gas Transmission and Storage Operations segment. NiSource eliminated positions across the 16 state operating territory of Gas Transmission and Storage. The reductions occurred through voluntary programs and involuntary separations. In addition to employee reductions, the Gas Transmission and Storage Operations segment took steps to achieve additional cost savings by efficiently managing its various business locations, reducing its fleet operations, creating alliances with third party service providers, and implementing other changes in line with its strategic plan for growth and maximizing value of existing assets. During 2009, NiSource recorded pre-tax restructuring charges of $19.9 million to "Operation and maintenance" expense on the Statement of Consolidated Income, which primarily includes costs related to severance and other employee related costs. No additional material charges have been recorded since the initial restructuring charge in the first quarter of 2009. The restructuring program was substantially completed in 2009.

In September 2009, NiSource announced the restructuring of Northern Indiana, which aimed to redefine business and operations strategies and achieve cost reductions, and impacted both Electric Operations and Gas Distribution Operations. During 2009, NiSource recorded a pre-tax restructuring charge related to this initiative, net of adjustments, of $5.4 million, which primarily included costs related to severance and other employee related costs and outside service costs. The initial restructuring charge consisted of a $3.7 million and $1.7 million expense to the Electric and Gas Distributions Operations' segments, respectively. During 2010, NiSource recorded a pre-tax restructuring charge related to this initiative of $1.1 million to "Operation and maintenance" expense on the Statements of Consolidated Income, which primarily included costs related to outside service costs. The restructuring program was completed in December 2010.

Changes in the restructuring reserve, included in "Other accruals" on the Consolidated Balance Sheets, were as follows:

(in millions)	Balance at December 31, 2009	Additions	Benefits Paid	Adjustments	Balance at December 31, 2010
Gas Transmission and Storage	$ 1.5	$ -	$ (1.4)	$ -	$ **0.1**
Northern Indiana	1.1	1.1	(2.2)	-	**-**
Total	$ 2.6	$ 1.1	$ (3.6)	$ -	$ **0.1**

4. Discontinued Operations and Assets and Liabilities Held for Sale

There were no significant assets or liabilities of discontinued operations and held for sale on the Consolidated Balance Sheet at December 31, 2011.

The assets and liabilities of discontinued operations and held for sale on the Consolidated Balance Sheet at December 31, 2010 were:

(in millions)

Assets of discontinued operations and held for sale:	**Property, plant and equipment, net**
NiSource Corporate Services	$ 5.6
Columbia Transmission	2.3
Total	**$ 7.9**

Assets classified as discontinued operations and held for sale are no longer depreciated. There were no liabilities of discontinued operations and held for sale at December 31, 2010.

On June 18, 2009, Columbia Transmission received approval from the FERC to abandon certain natural gas pipeline facilities by sale of its Line R System in West Virginia. These assets were recorded as assets held for sale of $2.1 million at December 31, 2010. Due to unsuccessful negotiations to sell the property to a third party in 2011, the assets were reclassified to assets held for use during the fourth quarter of 2011 and an impairment charge of $0.1 million was recorded.

As of December 31, 2010, the Marble Cliff facility was recorded as an asset held for sale of $5.6 million. On February 22, 2011, NiSource Corporate Services sold the Marble Cliff facility for $6.0 million. The sale resulted in a net gain of $0.2 million after deducting the fees associated with the transaction.

NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting its low income housing investments. In 2009, based on the expected proceeds from the sale of five of its properties being less than the net book value, an impairment charge of $2.7 million, net of tax, was included in Loss on Disposition of Discontinued Operations in the Statement of Consolidated Income for the year ended December 31, 2009. Three of these properties were sold during the first quarter 2010 and two of these properties remained classified as assets and liabilities held for sale. Results of operations and cash flows for these properties remained classified as discontinued operations. Upon sale of three of the properties in the first quarter of 2010, a gain on sale of $0.1 million, net of taxes, was recorded in Discontinued Operations. During the second quarter of 2010, it was determined that the remaining properties no longer met the criteria as "assets held for sale" as NiSource could no longer assert that a sale would take place within the next twelve months. As such, the assets and liabilities were reclassified to assets held and used. Additionally, the results of operations and cash flows were reclassified to continuing operations for all periods presented. These reclassifications did not have a significant impact on overall results of NiSource.

Results from discontinued operations from Whiting Clean Energy, Granite State Gas, Northern Utilities, NDC Douglas Properties' low income housing investments, and reserve changes for NiSource's former exploration and production subsidiary, CER, are provided in the following table:

Year Ended December 31, *(in millions)*	**2011**	2010	2009
Revenues from Discontinued Operations	**$ -**	$ 0.7	$ 2.3
Loss from discontinued operations	**(7.6)**	(4.4)	(17.7)
Income tax benefit	**(2.9)**	(1.7)	(7.4)
Loss from Discontinued Operations - net of taxes	**$ (4.7)**	$ (2.7)	$ (10.3)
Gain (Loss) on Disposition of Discontinued Operations - net of taxes	**$ -**	$ 0.1	$ (2.5)

The gain on disposition of discontinued operations of $0.1 million for the year ended December 31, 2010 resulted from the sale of NDC Douglas Properties. The loss on disposition of discontinued operations for the year ended December 31, 2009 includes NDC Properties' disposition loss of $2.4 million.

5. Property, Plant and Equipment

NiSource's property, plant and equipment on the Consolidated Balance Sheets are classified as follows:

At December 31, *(in millions)*	2011	2010
Property Plant and Equipment		
Gas Distribution Utility (1)	$ **7,732.8**	$ 7,251.0
Gas Transmission Utility	**5,956.1**	5,865.0
Electric Utility (1)	**6,136.8**	6,005.6
Common Utility	**124.8**	107.8
Construction Work in Process	**387.3**	265.5
Non-Utility and Other	**180.7**	138.6
Total Property, Plant and Equipment	$ **20,518.5**	$ 19,633.5
Accumulated Depreciation and Amortization		
Gas Distribution Utility (1)	$ **(2,794.9)**	$ (2,725.7)
Gas Transmission Utility	**(2,747.8)**	(2,784.9)
Electric Utility (1)	**(3,073.4)**	(2,939.4)
Common Utility	**(54.1)**	(42.6)
Non-Utility and Other	**(48.2)**	(43.9)
Total Accumulated Depreciation and Amortization	$ **(8,718.4)**	$ (8,536.5)
Net Property, Plant and Equipment	$ **11,800.1**	$ 11,097.0

(1) Northern Indiana's common utility plant and associated accumulated depreciation and amortization are allocated between Gas Distribution Utility and Electric Utility Property, Plant and Equipment.

6. Goodwill and Other Intangible Assets

NiSource tests its goodwill for impairment annually as of June 30 each year unless indicators, events, or circumstances would require an immediate review. Goodwill is tested for impairment at a level of reporting referred to as a reporting unit, which generally is an operating segment or a component of an operating segment as defined by GAAP. In accordance with GAAP, certain components of an operating segment with similar economic characteristics are aggregated and deemed a single reporting unit. Goodwill is generally allocated to the reporting units based upon the amounts allocated at the time of their respective acquisition. The goodwill impairment test is a two-step process which requires NiSource to make estimates regarding the fair value of the reporting unit. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is not required. However, if the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss (if any), which compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

NiSource has three reporting units that carry or are allocated goodwill. NiSource's goodwill assets at December 31, 2011 were $3.7 billion pertaining primarily to the acquisition of Columbia on November 1, 2000. Of this amount, approximately $2.0 billion is allocated to Columbia Transmission Operations and $1.7 billion is allocated to Columbia Distribution Operations. In addition, Northern Indiana Gas Distribution Operations' goodwill assets at December 31, 2011 related to the purchase of Northern Indiana Fuel and Light in March 1993 and Kokomo Gas in February 1992 were $18.8 million.

In estimating the fair value of the Columbia Transmission Operations and Columbia Distribution Operations reporting units for the June 30, 2011 test, NiSource used a weighted average of the income and market approaches. The income approach utilized a discounted cash flow model. This model is based on management's short-term and long-term forecast of operating performance for each reporting unit. The two main assumptions used in the models are the growth rates, which are based on the cash flows from operations for each of the reporting units, and the weighted average cost of capital, or discount rate. The starting point for each reporting unit's cash flow from operations is the detailed five year plan, which takes into consideration a variety of factors such as the current economic environment, industry trends, and specific operating goals set by management. The discount rates are based on trends in the overall market as well as industry specific variables and include components such as the risk-free rate, cost of debt, and company volatility at June 30, 2011. Under the market approach, NiSource utilized three market-based models to estimate the fair value of the reporting units: (i) the comparable company multiples method, which estimated fair value of each reporting unit by analyzing EBITDA multiples of a peer group of publicly traded companies and applying that multiple to the reporting unit's EBITDA, (ii) the comparable transactions method, which valued the reporting unit based on observed EBITDA multiples from completed transactions of peer companies and applied that multiple to the reporting unit's EBITDA, and (iii) the market capitalization method, which used the NiSource share price and allocated NiSource's total market capitalization among both the goodwill and non-goodwill reporting units based on the relative EBITDA, revenues, and operating income of each reporting unit. Each of the three market approaches was calculated with the assistance of a third party valuation firm, using multiples and assumptions inherent in today's market. The degree of judgment involved and reliability of inputs into each model were considered in weighting the various approaches. The resulting estimate of fair value of the reporting units, using the weighted average of the income and market approaches, exceeded their carrying values, indicating that no impairment exists under step 1 of the annual impairment test.

Certain key assumptions used in determining the fair values of the reporting units included planned operating results, discount rates and the long-term outlook for growth. NiSource used discount rates of 6.00% for both Columbia Transmission Operations and Columbia Distribution Operations, resulting in excess fair values of approximately $1,092 million and $412 million, respectively. The results of the impairment test indicated that each of the reporting units passed step 1 of the impairment test.

Goodwill at Northern Indiana Gas Distribution Operations related to the acquisition of Northern Indiana Fuel and Light and Kokomo Gas of $18.8 million was also tested for impairment as of June 30, 2011. The income approach was used to determine the fair value of the Northern Indiana Gas Distribution reporting unit. Key assumptions in the income approach were a discount rate of 6.00% and a growth rate based on the cash flow from operations. These cash flows factor in the regulatory environment and planned growth initiatives. The step 1 goodwill impairment test resulted in the fair value of the Northern Indiana Gas reporting unit to be above the carrying value by $319 million.

NiSource considered whether there were any events or changes in circumstances during the second half of 2011 that would reduce the fair value of any of the reporting units below their carrying amounts and necessitate another goodwill impairment test. No such indicators were noted that would require goodwill impairment testing during the second half of 2011.

NiSource's intangible assets, apart from goodwill, consist of franchise rights, which were identified as part of the purchase price allocations associated with the acquisition in February 1999 of Columbia of Massachusetts. These amounts were $297.6 million and $308.6 million, net of accumulated amortization of $144.6 million and $133.6 million, at December 31, 2011, and 2010, respectively and are being amortized over forty years from the date of acquisition. NiSource recorded amortization expense of $11.0 million in 2011, 2010, and 2009 related to its intangible assets.

7. Asset Retirement Obligations

Changes in NiSource's liability for asset retirement obligations for the years 2011 and 2010 are presented in the table below:

(in millions)	2011	2010
Beginning Balance	$ 138.8	$ 138.2
Accretion expense	0.6	0.7
Accretion recorded as a regulatory asset	8.1	7.5
Additions	6.6	4.5
Settlements	(3.1)	(8.1)
Change in estimated cash flows	(4.6)	(4.0)
Ending Balance	$ 146.4	$ 138.8

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, 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, the lives of these wells are indeterminable until management establishes plans for closure. Additionally, NiSource has a significant obligation associated with the decommissioning of its two hydro facilities located in Indiana. These hydro facilities 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 are classified as regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

Gas Distribution Operations annual cut and cap additions and settlements for its pipe system for 2011 were $3.6 million and $1.3 million, respectively. In 2011, Northern Indiana reevaluated the estimated useful lives and costs for electric generating stations which resulted in a reduction in the present value of estimated cash flows of $4.1 million. Gas Transmission and Storage recorded additions of $1.9 million for legal obligations related to the future retirement of certain compressor stations.

Gas Distribution Operations annual cut and cap additions and settlements for its pipe system for 2010 were $1.8 million and $1.0 million, respectively. In 2010, Northern Indiana reevaluated the estimated useful lives and costs for electric generating stations which resulted in a reduction in the present value of estimated cash flows of $4.0 million. Northern Indiana performed activities associated with asbestos removal resulting in settlements of $1.4 million in 2010 and also recorded additions of $2.3 million related to underground gas storage wells whose lives became determinable. Gas Transmission and Storage recorded settlements of $5.0 million, primarily attributable to the retirement of certain pipeline assets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
Notes to Consolidated Financial Statements

8. Regulatory Matters

Regulatory Assets and Liabilities

NiSource follows the accounting and reporting requirements of ASC Topic 980, which provides that regulated entities account for and report assets and liabilities consistent with the economic effect of regulatory rate-making procedures 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 or expense are deferred on the balance sheet and are recognized in the income statement 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 regulatory accounting. 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 regulatory accounting, NiSource would be required to apply the provisions of ASC Topic 980-20, *Discontinuation of Rate-Regulated Accounting* . In management's opinion, NiSource will be subject to regulatory accounting for the foreseeable future.

Regulatory assets were comprised of the following items:

At December 31, *(in millions)*	**2011**	2010
Assets		
Reacquisition premium on debt	$ **10.9**	$ 13.3
R. M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation (see Note 1-H)	**8.7**	11.8
Unrecognized pension benefit and other postretirement benefit costs (see Note 12)	**1,244.2**	962.7
Other postretirement costs	**76.1**	92.2
Environmental costs (see Note 20-D)	**84.7**	32.5
Regulatory effects of accounting for income taxes (see Note 1-V)	**254.5**	254.1
Underrecovered gas and fuel costs (see Note 1-P and 1-Q)	**20.7**	120.7
Depreciation (see Note 1-H)	**115.4**	118.5
Uncollectible accounts receivable deferred for future recovery	**8.0**	8.5
Asset retirement obligations (see Note 7)	**14.4**	16.2
Losses on derivatives (see Note 9)	**44.7**	33.2
Post-in service carrying charges	**51.6**	46.4
EERM operation and maintenance and depreciation deferral	**37.4**	34.5
MISO (see Note 8)	**42.4**	36.6
Sugar Creek carrying charges and deferred depreciation (see Note 1-H)	**85.5**	57.7
Other	**69.4**	73.6
Total Assets	$ **2,168.6**	$ 1,912.5
Less amounts included as Underrecovered gas and fuel cost	**(20.7)**	(120.7)
Total Regulatory Assets reflected in Current Regulatory Assets and Other Regulatory Assets	$ **2,147.9**	$ 1,791.8

NiSource Inc.
Notes to Consolidated Financial Statements

Regulatory liabilities were comprised of the following items:

At December 31, *(in millions)*	2011	2010
Liabilities		
Overrecovered gas and fuel costs (see Notes 1-P and 1-Q)	$ **48.9**	$ 21.4
Cost of removal (see Note 7)	**1,476.5**	1,442.5
Regulatory effects of accounting for income taxes (see Note 1-V)	**109.3**	112.1
Unrecognized pension benefit and other postretirement benefit costs (see Note 12)	**-**	1.9
Percentage of income plan	**12.0**	9.9
Off-system sales margin sharing	**5.1**	42.9
Emission allowances (see Note 8)	**7.4**	19.8
Gains on derivatives (see Note 9)	**0.3**	0.3
Other	**165.3**	59.3
Total Liabilities	$ **1,824.8**	$ 1,710.1
Less amounts included as Overrecovered gas and fuel cost	**(48.9)**	(21.4)
Total Regulatory Liabilities reflected in Current Regulatory Liabilities and Other Regulatory Liabilities and Other Removal Costs	$ **1,775.9**	$ 1,688.7

Regulatory assets, including underrecovered gas and fuel cost, of approximately $1,178.4 million as of December 31, 2011 are not earning a return on investment. Regulatory assets of approximately $2,021.1 million include expenses that are recovered as components of the cost of service and are covered by regulatory orders. These costs are recovered over a remaining life of up to 43 years. Regulatory assets of approximately $147.5 million at December 31, 2011, require specific rate action.

As noted below, regulatory assets for which costs have been incurred or accrued are included (or expected to be included, for costs incurred subsequent to the most recently approved rate case) in certain companies' rate base, thereby providing a return on invested costs. Certain regulatory assets do not result from cash expenditures and therefore do not represent investments included in rate base or have offsetting liabilities that reduce rate base.

Assets:

Reacquisition premium on debt – The unamortized premiums for debt redeemed by Northern Indiana are deferred, amortized and recovered over the term of the replacement issue.

R.M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation – Northern Indiana obtained approval from the IURC to capitalize the debt-based carrying charges and deferred depreciation for Schahfer Unit 17 and Unit 18 and to amortize such costs over the remaining service life of each unit.

Unrecognized pension benefit and other postretirement benefit costs – In 2007, NiSource adopted certain updates of ASC 715 which required, among other things, the recognition in other comprehensive income or loss of the actuarial gains or losses and the prior service costs that arise during the period but that are not immediately recognized as components of net periodic benefit costs. Certain subsidiaries defer the costs as a regulatory asset in accordance with regulatory orders or as a result of regulatory precedent, to be recovered through base rates.

Other postretirement costs – Primarily comprised of the transition obligation recorded with the adoption of ASC 715 and ASC 712, as well as other costs approved through rate orders to be collected through future base rates, revenue riders or tracking mechanisms.

Environmental costs – Includes certain recoverable costs of investigating, testing, remediating and other costs related to gas plant sites, disposal sites or other sites onto which material may have been migrated. Certain companies defer the costs as a regulatory asset in accordance with regulatory orders, to be recovered in future base rates, billing riders or tracking mechanisms.

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Regulatory effects of accounting for income taxes – Represents the deferral and under collection of deferred taxes in the rate making process. In prior years, NiSource has lowered customer rates in certain jurisdictions for the benefits of accelerated tax deductions. Amounts are expensed for financial reporting purposes, as NiSource recovers deferred taxes in the rate making process.

Underrecovered gas and fuel costs – Represents the difference between the costs of gas and fuel and the recovery of such costs in revenue, and is used to adjust future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions. Recovery of these costs is achieved through tracking mechanisms.

Depreciation – Relates to the difference between the depreciation expense recorded by Columbia of Ohio due to a regulatory order and the depreciation expense recorded in accordance with GAAP. The regulatory asset is currently being amortized over the life of the assets. Also included is depreciation associated with the Columbia of Ohio IRP program. Recovery of these costs is achieved through base rates and rider mechanisms. Refer to Note 1-H for more information.

Uncollectible accounts receivable deferred for future recovery – Represents the difference between certain uncollectible expenses and the recovery of such costs to be collected through cost tracking mechanisms per regulatory orders.

Asset Retirement Obligations – Represents the timing difference between expense recognition for future obligations and current recovery in rates.

Derivatives – Certain companies are permitted by regulatory orders to participate in commodity price programs to protect customers against the volatility of commodity prices. Unrealized and realized gains or losses related to NiSource's commodity price risk programs may be deferred per specific orders and the recovery of changes in fair value is dependent upon the individual specific company's cost recovery or sharing mechanisms in place. Amounts for derivative gains and losses will continue to be deferred as long as the programs are in existence.

Post-in service carrying charges – Columbia of Ohio has approval from the PUCO by regulatory order to defer debt-based post-in service carrying charges as a regulatory asset for future recovery. As such, Columbia of Ohio capitalizes a carrying charge on eligible property, plant and equipment from the time it is placed into utility service until recovery of the property, plant and equipment is included in customer rates in base rates or through a rider mechanism. Inclusion in customer rates generally occurs when Columbia of Ohio files its next rate proceeding following the in-service date of the property, plant and equipment.

EERM operation and maintenance and depreciation deferral – Northern Indiana obtained approval from the IURC to recover certain environmental related costs including operation and maintenance and depreciation expense once the environmental facilities become operational. Recovery of these costs will continue until such assets are included in rate base through an electric base rate case. The EERM deferred charges represent expenses that will be recovered from customers through an annual EERM Cost Tracker which authorizes the collection of deferred balances over a twelve month period.

MISO – As part of Northern Indiana's participation in the MISO transmission service, wholesale energy and ancillary service markets, certain administrative fees and non-fuel costs have been deferred. The IURC authorized the deferral of certain non-fuel related costs until new electric rates were implemented on December 27, 2011. The deferred balances will be amortized over four years commencing January 2012.

Sugar Creek carrying charges and deferred depreciation – The IURC approved the deferral of debt-based carrying charges and depreciation expense for the Sugar Creek assets. Northern Indiana continued to defer such amounts until new electric rates were approved and implemented on December 27, 2011. The deferred balances will be amortized over five years commencing January 2012.

Liabilities:

Overrecovered gas and fuel costs – Represents the difference between the costs of gas and fuel and the recovery of such costs in revenues, and is the basis to adjust future billings for such recoveries on a basis consistent with applicable state-approved tariff provisions. Refunding of these revenues is achieved through tracking mechanisms.

Cost of Removal – Represents anticipated 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 for future costs to be incurred.

Regulatory effects of accounting for income taxes – Represents amounts owed to customers for deferred taxes collected at a higher rate than the current statutory rates and liabilities associated with accelerated tax deductions owed to customers that are established during the rate making process.

Unrecognized pension benefit and other postretirement benefit revenues – In 2007, NiSource adopted certain updates of ASC 715 which required, among other things, the recognition in other comprehensive income or loss of the actuarial gains or losses and the prior service costs that arise during the period but that are not immediately recognized as components of net periodic benefit costs. Certain subsidiaries defer the gains as a regulatory liability in accordance with regulatory orders or as a result of regulatory precedent, to be refunded through base rates.

Percentage of Income Plan – Represents the difference between costs incurred under a customer assistance program by Columbia of Ohio for targeted low income customers and the recovery of such costs through cost tracking mechanisms per regulatory orders. For 2011 and 2010, Columbia of Ohio was in an overcollected position for this program, resulting in a regulatory liability to be refunded through future billings.

Off-system sales margin sharing – Revenue generated from off-system sales and capacity release programs are subject to incentive sharing mechanism in which NiSource shares a defined percentage of its margins with customers . Refunding of these revenues is achieved through rate refund mechanisms.

Emission allowances – Represents proceeds from the banked emission allowances sold into the EPA auction market.

Derivatives – Certain companies are permitted by regulatory orders to participate in commodity price programs to protect customers against the volatility of commodity prices. Unrealized and realized gains or losses related to NiSource's commodity price risk programs may be deferred per specific orders and the recovery of changes in fair value is dependent upon the individual specific company's cost recovery or sharing mechanisms in place. Amounts for derivative gains and losses will continue to be deferred as long as the programs are in existence.

Gas Distribution Operations Regulatory Matters

Significant Rate Developments . On June 27, 2011, Northern Indiana filed a settlement agreement with the IURC in which regulatory stakeholders agreed that Northern Indiana should adopt the WACOG accounting methodology instead of LIFO, Northern Indiana's historical method. On August 31, 2011, the IURC approved the settlement and Northern Indiana transitioned to WACOG accounting methodology beginning January 1, 2012.

Northern Indiana's current ARP will expire on March 31, 2012 unless extended by the IURC pursuant to the filing. On September 30, 2011 Northern Indiana filed a Petition with the IURC to extend the products and services contained in its current gas ARP, including Supplier Choice effective April 1, 2012. Northern Indiana and all participating parties filed a settlement with supporting testimony on December 22, 2011.

On December 28, 2011 the IURC issued an Order approving Northern Indiana's proposed gas energy efficiency programs and budgets, including a conservation program and recovery of all start-up and deferred cost. A three year budget of $42.4 million was approved. In its Order the IURC recognized that Northern Indiana was one of two utilities in the state in a position to integrate its gas and electric energy efficiency programs throughout its service territory footprint. Northern Indiana is presently working through implementation plans.

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On June 1, 2011, Columbia of Virginia filed an application for approval of an infrastructure tracking mechanism pursuant to the Steps to Advance Virginia's Energy ("SAVE") Plan Act. Columbia of Virginia's SAVE Plan provides for recovery of costs associated with the accelerated replacement of certain facilities designed to improve system safety or reliability through a rate rider. The proposed replacement program would result in investments of $20 million per year from 2012 through 2016, as well as covering $2.9 million in investment occurring in 2011. The Staff of the VSCC filed responsive testimony on August 22, 2011 and a public hearing was held on September 7, 2011. The Hearing Examiner issued a Report on October 6, 2011 recommending approval of the SAVE Plan. The VSCC issued an Order on November 28, 2011 approving the SAVE Plan and the associated rider effective December 30, 2011.

On March 8, 2011, Columbia of Kentucky made its annual filing with the Kentucky PSC related to the AMRP Rider and requested an increase of $0.5 million in the rates related to the Rider. This filing was approved by the Kentucky PSC on April 29, 2011.

On January 14, 2011, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC, seeking a revenue increase of approximately $37.8 million annually. The parties jointly filed a petition for approval of a partial settlement on July 1, 2011. The partial settlement resolved all issues except residential rate design and a challenge to the structure of one of Columbia of Pennsylvania's customer programs. The settlement provides for an annual revenue increase of $17 million. The Pennsylvania PUC issued an order on October 14, 2011 approving the annual revenue increase of $17 million. New rates went into effect on October 18, 2011. The Pennsylvania PUC's ruling increased the minimum residential customer charge from $12.25 to $18.73, which includes an allowance for 20 Ccf of distribution charges. However, the customer pays for gas commodity on all usage.

On November 30, 2010, Columbia of Ohio filed a notice of intent to file an application to adjust rates associated with Rider IRP and Rider DSM. On February 28, 2011, Columbia of Ohio filed its application to adjust rates associated with IRP and DSM Riders. The DSM Rider tracks and recovers costs associated with Columbia of Ohio's energy efficiency and conservation programs. The application sought to increase the annual revenue from the riders by approximately $24 million. On April 7, 2011, the parties filed a stipulation that settled this case, which was approved as filed by the PUCO on April 27, 2011. The Order allowed Columbia of Ohio to increase its annual revenues by approximately $24 million effective May 1, 2011.

On November 12, 2010, Columbia of Pennsylvania filed a petition for an order authorizing the Company to revise its accounting methodology for the gas it holds in storage. Columbia of Pennsylvania had historically used Last-In First-Out (LIFO) accounting but sought permission to move to a Weighted Average Cost of Gas (WACOG) accounting methodology as a means of simplifying regulatory accounting and to realize the value of low-cost gas injected into storage decades ago. On February 4, 2011, Columbia of Pennsylvania filed a settlement agreement with the Pennsylvania PUC in which regulatory stakeholders agreed that Columbia of Pennsylvania should adopt the WACOG accounting methodology and provide the benefit of the low-cost gas supplies to its customers. On March 31, 2011, the Pennsylvania PUC approved the settlement and Columbia of Pennsylvania began to provide the projected benefit of $35.7 million as a credit to its customers as a reduction to the Gas Cost Recovery rate. The credit to customers ended in September 2011, and the experienced credit has since been determined to be $43.8 million.

On September 29, 2010, Columbia of Pennsylvania filed tariff modifications with the Pennsylvania PUC, seeking permission to apply a BTU content billing adjustment to customers' metered volumetric consumption. The filing sought to account for high BTU content gas that is produced from Marcellus Shale, which burns hotter than gas from other sources, resulting in lower volumes than assumed in the design of the Columbia of Pennsylvania's rates. The proposed billing adjustment was designed to produce revenues reflective of the BTU content underlying the demand forecast in the design of Columbia of Pennsylvania's most recently approved base rates by synchronizing the BTU content used for billing with the BTU content used for rate design. If the billing adjustment had been in place for the twelve months ended June 30, 2010, it would have produced additional revenues of approximately $3.7 million due to the difference between the BTU value used in the design of the recently approved rates and the actual BTU value at the time of billing. By an Order entered on January 26, 2011, the Pennsylvania PUC consolidated this matter with Columbia of Pennsylvania's base rate case filed on January 14, 2011. As described above, on October 14, 2011, the Pennsylvania PUC approved a partial settlement of the base rate case. The partial settlement resolved the issue of BTU content whereby the parties agreed that Columbia of Pennsylvania would convert from usage-based billing to heat content billing by no later than the June 2012 billing cycle. Columbia of Pennsylvania began heat content billing, with a therm billing unit, on January 31, 2012.

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On September 7, 2010, Columbia of Ohio filed an application with the PUCO requesting authority to reduce its PIPP rider rate by $0.4215 per Mcf. The application was deemed approved on October 26, 2010, and Columbia of Ohio began billing the new rate effective with bills rendered on and after October 27, 2010. This resulted in a reduction in revenue of approximately $70.7 million and a corresponding reduction in expense of the same amount to better match current costs and revenues. As a result, this filing does not impact Columbia of Ohio's operating income, but does reduce future cash inflows.

On May 3, 2010, Northern Indiana filed a natural gas rate case with the IURC. Northern Indiana entered into a comprehensive settlement with all parties on August 24, 2010. The Settlement Agreement was approved in entirety by Order issued on November 4, 2010 and new rates were placed into effect November 5, 2010. The Order resulted in a decrease in revenue of approximately $14.9 million when compared to a normalized test year ended December 31, 2009. The IURC authorized Northern Indiana to increase the monthly fixed charge for residential customers from $6.36 to $11.00. The IURC also approved revised depreciation accrual rates for gas plant and authorized Northern Indiana to reduce current period gas plant depreciation expense by up to $25.7 million annually for the next four years or until further order of the IURC, whichever occurs first.

On September 1, 2010 Northern Indiana, Northern Indiana Fuel and Light and Kokomo Gas filed a petition for merger into one company (Northern Indiana). Northern Indiana Fuel and Light and Kokomo Gas also filed rate proceedings on September 1, 2010. On February 23, 2011, a stipulation and settlement agreement was filed with the IURC that provides for the merger and settlement of the rate proceedings. The settlement stipulated that all of Northern Indiana's existing services, rates and charges would be applicable in the former Northern Indiana Fuel and Light and Kokomo Gas territories, including one unified Gas Cost Adjustment mechanism. The application of Northern Indiana's rates in the former Northern Indiana Fuel and Light and Kokomo Gas territories will result in a decrease in revenue of approximately $0.8 million, when compared to a normalized test year ended March 31, 2010. This is primarily offset by reductions in depreciation expense. An uncontested settlement hearing was held on March 23, 2011. The IURC issued its Final Order on May 31, 2011, approving without change the earlier stipulation and settlement agreement agreed to by the parties. Rates and services provided by the merger agreement became effective July 1, 2011.

On May 3, 2010, Columbia of Virginia filed a base rate case with the VSCC seeking an annual revenue increase of $13.0 million to recover an updated level of costs upon the expiration of its Performance Based Regulation Plan on December 31, 2010. Columbia of Virginia also sought a Weather Normalization Adjustment ("WNA"), cost recovery of certain gas-related items through its Purchased Gas Adjustment ("PGA") mechanism rather than base rates, and forward looking adjustments predicted to occur during the rate year ending December 31, 2011. On November 16, 2010, Columbia of Virginia, the VSCC Staff and the other parties filed a Proposed Stipulation and Recommendation ("Stipulation") that would result in an annual revenue increase of $4.9 million, including authorization of the WNA and recovery of certain gas-related items through the PGA mechanism. The Chief Hearing Examiner issued a Report on December 2, 2010 recommending approval of the Stipulation. The VSCC issued a Final Order on December 17, 2010 adopting the Stipulation. New rates became effective January 1, 2011.

On February 26, 2010, Columbia of Ohio filed an application to adjust rates associated with IRP and DSM Riders. The DSM Rider tracks and recovers costs associated with Columbia of Ohio's energy efficiency and conservation programs. On April 14, 2010, Columbia of Ohio filed a Joint Stipulation and Recommendation that settled all issues. On April 28, 2010, the PUCO issued an Order approving the Stipulation. Rates associated with IRP and DSM Riders were increased by approximately $17.8 million annually, beginning April 29, 2010.

On January 28, 2010, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC, seeking a revenue increase of approximately $32.0 million annually. On June 25, 2010, Columbia of Pennsylvania and the other active parties filed a Joint Petition for Settlement that would result in an annual revenue increase of $12.0 million. On August 18, 2010, the Pennsylvania PUC entered a final order approving the Joint Petition for Settlement and new rates went into effect on October 1, 2010.

On January 28, 2010, Columbia of Maryland filed a base rate case with the Maryland PSC, seeking a revenue increase of $2.2 million annually in order for Columbia of Maryland to earn the rate of return authorized by the PSC in its 2008 rate case. On May 10, 2010, the parties filed a Joint Motion for Approval of Stipulation and Settlement Agreement that would result in an annual revenue increase of approximately $1.7 million. The Maryland PSC issued a final order approving the Settlement, and new rates went into effect on May 28, 2010.

On October 21, 2009, the IURC issued an Order in the proceeding concerning Northern Indiana's annual gas recovery, rejecting the use of a four-year average to compute unaccounted for gas. This Order required Northern Indiana to refund an estimated $5.8 million to customers based on a calculation utilizing a one-year average of unaccounted for gas for the twelve month periods ended July 31, 2008 and July 31, 2009. A reserve was provided for the full amount of the refund, which Northern Indiana began returning to customers in March 2010, and was completed in May 2011.

On June 8, 2009, Columbia of Virginia filed an application with the VSCC for approval of a CARE Plan for a three-year period beginning January 1, 2010. The CARE Plan included incentives for residential and small general service customers to actively pursue conservation and energy efficiency measures, a surcharge designed to recover the costs of such measures on a real-time basis, and a performance-based incentive for the delivery of conservation and energy efficiency benefits. The CARE Plan also included a rate decoupling mechanism designed to mitigate the impact of declining customer usage. On October 28, 2009, Columbia of Virginia and other parties to the proceeding presented a unanimous settlement to the Hearing Examiner, which provided for approval of the CARE Plan application with modifications. The settlement was approved by the VSCC on December 4, 2009, with mechanisms becoming effective January 1, 2010.

On March 31, 2010, Columbia of Kentucky made its annual filing related to the AMRP Rider and requested an adjustment of those rates related to the Rider. On July 12, 2010, Kentucky PSC entered an order approving the requested annual amount of $1.1 million. The new rates associated with the AMRP Rider went into effect for bills rendered on or after July 29, 2010.

On May 19, 2008 Columbia of Ohio filed an application with the PUCO to defer environmental remediation expenses. By Entry dated September 24, 2008, the PUCO approved the application. Each year COH must report on the amounts deferred during the previous year. On December 6, 2011, COH filed its annual deferral report for the twelve months ended November 30, 2011. PUCO Staff filed its Comments on January 5, 2012, and objected to deferral of costs for a Toledo remediation project. As suggested by PUCO Staff, Columbia of Ohio capitalized $2.4 million in costs associated with the Toledo project which will be proposed for recovery as a component of future rate base. Staff did not object to the deferral of costs for five other projects, and those deferrals are deemed approved in the aggregate amount of approximately $0.7 million.

Columbia of Massachusetts filed an application to implement its Targeted Infrastructure Reinvestment Factor ("TIRF") on April 30, 2010. On October 29, 2010, the Massachusetts DPU approved Columbia of Massachusetts' proposed adjustment factor, to take effect November 1, 2010, subject to further investigation and reconciliation. On April 29, 2011, Columbia of Massachusetts filed its second annual application of its TIRF tracker for DPU approval for new rates to go into effect November 1, 2011. On October 31, 2011, the Massachusetts DPU approved Columbia of Massachusetts proposed adjustment factor subject to further investigation and reconciliation. On September 16, 2010, Columbia of Massachusetts filed a petition for approval to implement its first semi-annual revenue decoupling adjustment factor ("RDAF") for the Peak Period. That adjustment, which took effect on November 1, 2010, subject to further review and reconciliation, was approved by the DPU on March 23, 2011. Columbia of Massachusetts filed its application for approval of its Off-peak Period RDAF on March 15, 2011. The rate took effect on May 1, 2011, subject to further review and reconciliation by the DPU. On September 15, 2011, Columbia of Massachusetts filed a petition for approval of its second Peak Period RDAF, with a proposed effective date of November 1, 2011. On October 31, 2011, the Massachusetts DPU approved Columbia of Massachusetts' proposed adjustment factor subject to further investigation and reconciliation.

In March 2009, Indiana Governor Daniels signed Senate Bill 423 into law giving the IFA the ability to contract, on behalf of gas customers in the state of Indiana, with developers capable of building facilities that manufacture Substitute Natural Gas from coal. The IFA received one bid, from Indiana Gasification, by the April 9, 2009 deadline to initiate a Substitute Natural Gas plant in Southern Indiana under a 30 year contract. In March 2010, Governor Daniels signed into law House Enrolled Act 1086, which allows the IFA to enter into contracts for the sale of Substitute Natural Gas with third parties, with proceeds from and costs of those sales being reflected on customers' bills. The IURC must approve the final purchase contract between the IFA and Indiana Gasification as

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well as the management agreement between IFA and the utilities for collection of funds or pass through of credits to customers related to the purchase contracts. On December 16, 2010, the IFA filed a Petition seeking approval of the purchase contract and the management agreement. The IURC issued an Order on November 22, 2011, approving the contract between IFA and Indiana Gasification and not ruling on the management agreement between IFA and the utilities, but rather encouraging the parties to engage in further negotiation and inviting the IFA to file a separately docketed petition, should they want the IURC to order the utilities to enter into a management agreement. On December 12, 2011, IIG requested clarification from the IURC on the definition of "retail end user" to assure that larger industrial customers would not be impacted by this project. On December 21, 2011 a number of parties (including the IIG, Vectren, a group of smaller gas utilities in the state and a citizens action group) filed an appeal of the November 22, 2011 Order.

On January 30, 2009, Columbia of Ohio filed an application with the PUCO to implement a gas supply auction. The auction replaced Columbia of Ohio's current GCR mechanism for providing commodity gas supplies to its sales customers. By Order dated December 2, 2009, the PUCO approved a stipulation that resolved all issues in the case. Pursuant to the stipulation, Columbia of Ohio conducted two consecutive one-year long standard service offer auction periods starting April 1, 2010 and April 1, 2011. On February 23, 2010, Columbia of Ohio held the first standard service offer auction which resulted in a final retail price adjustment of $1.93 per Mcf. On February 24, 2010 the PUCO issued an entry that approved the results of the auction and directed Columbia of Ohio to proceed with the implementation of the standard service offer process. On February 8, 2011, Columbia of Ohio held its second standard service offer auction which resulted in a retail price adjustment of $1.88 per Mcf. On February 9, 2011, the PUCO issued an entry that approved the results of the auction with the new retail price adjustment to become effective April 1, 2011. Several parties have challenged the transition from a standard service offer auction to a standard choice offer auction and on September 7, 2011, the PUCO issued an Order authorizing Columbia of Ohio to implement a standard choice offer auction in February 2012. On October 7, 2011, the OCC filed an application for rehearing of the PUCO's Order. By Entry on Rehearing dated November 1, 2011, the PUCO denied the OCC's Application for Rehearing. On February 14, 2012, Columbia of Ohio held its first standard choice offer auction which resulted in a retail price adjustment of $1.53 per Mcf. On February 14, 2012, the PUCO issued an entry that approved the results of the auction with the new retail price adjustment to become effective April 1, 2012. With the implementation of the standard choice offer, Columbia of Ohio will report lower gross revenues and lower cost of sales. There is no impact on net revenues.

On October 3, 2011, Columbia of Ohio filed an application with PUCO, requesting authority to defer incurred charges to a regulatory asset for debt-based post-in-service carrying charges, depreciation and property taxes associated with Columbia of Ohio's capital program. The PUCO directed interested parties to file comments on Columbia of Ohio's application by February 17, 2012.

On September 9, 2011, Columbia of Ohio filed an application with PUCO to continue and expand its DSM program. In its application, Columbia of Ohio proposed to spend $20 million annually (adjusted for inflation) on weatherization programs for residential and commercial customers for calendar years 2012 through 2016. Columbia of Ohio will continue to recover program expenses through Rider DSM and has proposed a shared savings incentive not to exceed $3.9 million over the five-year program. By Order dated December 14, 2011, the PUCO approved a stipulation filed in the case.

On November 30, 2011 Columbia of Ohio filed a Notice of Intent to file an application to adjust rates associated with Rider IRP and Rider DSM. Columbia of Ohio will file its application and supporting testimony on February 28, 2012.

On December 9, 2011 Columbia of Ohio filed a Notice of Intent to file an application to extend and expand its Infrastructure Replacement Program. On January 6, 2012, the OCC filed a Memorandum Contra, arguing that Columbia of Ohio's base rates should be reviewed as part of the IRP extension process. Columbia of Ohio filed a Reply Memorandum on January 11, 2012.

Cost Recovery and Trackers . A significant portion of the distribution companies' revenue is related to the recovery of gas costs, the review and recovery of which occurs via standard regulatory proceedings. All states require periodic review of actual gas procurement activity to determine prudence and to permit the recovery of prudently incurred costs related to the supply of gas for customers. NiSource distribution companies have historically been found prudent in the procurement of gas supplies to serve customers.

Certain operating costs of the NiSource distribution companies are significant, recurring in nature, and generally outside the control of the distribution companies. Some states allow the recovery of such costs via cost tracking mechanisms. Such tracking mechanisms allow for abbreviated regulatory proceedings in order for the distribution companies to implement charges and recover appropriate costs. Tracking mechanisms allow for more timely recovery of such costs as compared with more traditional cost recovery mechanisms. Examples of such mechanisms include GCR adjustment mechanisms, tax riders, and bad debt recovery mechanisms.

Comparability of Gas Distribution Operations line item operating results is impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Increases in the expenses that are the subject of trackers, result in a corresponding increase in net revenues and therefore have essentially no impact on total operating income results.

Certain of the NiSource distribution companies have completed rate proceedings involving infrastructure replacement or are embarking upon regulatory initiatives to replace significant portions of their operating systems that are nearing the end of their useful lives. Each LDC's approach to cost recovery may be unique, given the different laws, regulations and precedent that exist in each jurisdiction.

Gas Transmission and Storage Operations Regulatory Matters

Columbia Gulf Rate Case. On October 28, 2010, Columbia Gulf filed a rate case with the FERC, proposing a rate increase and tariff changes. Among other things, the filing proposed a revenue increase of approximately $50 million to cover increases in the cost of services, which includes adjustments for operation and maintenance expenses, capital investments, adjustments to depreciation rates and expense, rate of return, and increased federal, state and local taxes. On November 30, 2010, the FERC issued an Order allowing new rates to become effective by May 2011, subject to refund. Columbia Gulf placed new rates into effect, subject to refund, on May 1, 2011. Columbia Gulf and the active parties to the case negotiated a settlement, which was filed with the FERC on September 9, 2011. On September 30, 2011, the Chief Judge severed the issues relating to a contesting party for separate hearing and decision. On October 4, 2011, the Presiding Administrative Law Judge certified the settlement agreement as uncontested to the FERC with severance of the contesting party from the settlement. On November 1, 2011, Columbia Gulf began billing interim rates to customers. On December 1, 2011, the FERC issued an order approving the settlement without change. The key elements of the settlement, which was a "black box agreement", include: (1) increased base rate to $0.1520 per Dth and (2) establishing a postage stamp rate design. No protests to the order were filed and therefore, pursuant to the Settlement, the order became final on January 1, 2012 which made the settlement effective on February 1, 2012. On February 2, 2012, the Presiding Administrative Law Judge issued an initial decision granting a joint motion terminating the remaining litigation with the contesting party and allowing it to become a settling party. Refunds of approximately $16 million, accrued as of December 31, 2011, are to be issued before the end of March 2012.

Electric Operations Regulatory Matters

Significant Rate Developments . On June 27, 2008, Northern Indiana filed a petition with the IURC for new electric base rates and charges. On August 25, 2010, the IURC issued an Order authorizing electric rates to reflect investments in reliability, environmental technology and other infrastructure improvements. Certain parties appealed and some other parties sought reconsideration of the case. On January 18, 2012, the IURC issued an Order finding that Northern Indiana's compliance filing was moot and denying the petitions for reconsiderations or hearings.

Although rates were never implemented related to the 2008 Electric Rate Case, several aspects of the Order were implemented. The approved rate base includes the Sugar Creek Generating Station. The IURC approved two new tracking mechanisms, a Resource Adequacy Tracker and RTO Tracker. The Order requires that Northern Indiana, before declaring or paying any dividends to NiSource, must provide the IURC notice at least 20 business days prior. The IURC approved a rate base that excludes Dean H. Mitchell Generating Station and Michigan City Generating Station Units 2 and 3. Northern Indiana retired the Dean H. Mitchell Generating Station and Michigan City

Generating Station Units 2 and 3 during the third quarter of 2010 as the units are no longer used and useful. As a result of the August 25, 2010 Order, construction work-in-progress, materials and supplies and base coal of $0.6 million, $2.9 million and $0.8 million, respectively, were expensed during the third quarter of 2010 as there were no remaining future economic benefits associated with these assets.

On November 19, 2010, Northern Indiana filed a petition with the IURC for new electric base rates and charges. The filing requested an increase in base rates calculated to produce additional gross revenue of $75.7 million when compared to a normalized test year ended June 30, 2010. This is calculated to provide the opportunity to earn a return of 7.70% on net original cost rate base of $2,706 million.

On July 18, 2011, Northern Indiana filed with the IURC a settlement in its 2010 Electric Rate Case with the OUCC, Northern Indiana Industrial Group, NLMK Indiana and Indiana Municipal Utilities Group. The settlement agreement limited the proposed base rate impact to the residential customer class to a 4.5% increase. The parties have also agreed to a rate of return of 6.98% based upon a 10.2% return on equity. The settlement also resolves all pending issues related to compliance with the August 25, 2010 Order in the 2008 Electric Rate Case. On December 21, 2011, the IURC issued an Order approving the Settlement Agreement as filed, and new electric base rates became effective on December 27, 2011. On January 20, 2012, the City of Hammond filed an appeal of the IURC's December 21, 2011 Order. That appeal is pending.

Northern Indiana received a favorable regulatory order on February 18, 2009, related to its actions to increase its electric generating capacity and advance its electric rate case. Acting on a settlement reached among Northern Indiana and its regulatory stakeholders, the IURC ruled that Northern Indiana's Sugar Creek electric generating plant was in service for ratemaking purposes as of December 1, 2008. The IURC also approved the deferral of depreciation expenses and debt-based carrying costs associated with the $330.0 million Sugar Creek investment. Northern Indiana purchased Sugar Creek on May 30, 2008 and effective December 1, 2008, Sugar Creek was accepted as an internal designated network resource within the MISO. The annual deferral for Sugar Creek is reduced by the annual depreciation on the Mitchell plant of $4.5 million, pursuant to the FAC-71 settlement. On December 21, 2011 the IURC issued an Order in the Electric rate case and new customer rates became effective on December 27, 2011. The deferral of Sugar Creek debt based carrying charges and deferred depreciation ceased December 2011 and the deferred balances will be amortized over five years commencing January 2012.

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 provided that certain electric customers of Northern Indiana would receive bill credits of approximately $55.1 million each year. The credits continued at approximately the same annual level and per the same methodology, until the IURC approval and implementation of new customer rates, which occurred on December 27, 2011. A final reconciliation of the credits will occur in a future fuel cost filing according to the terms of the approved settlement in the 2010 Electric Rate Case. Credits amounting to $51.0 million, $60.5 million and $56.1 million were recognized for electric customers for 2011, 2010 and 2009, respectively.

On December 9, 2009, the IURC issued an Order in its generic DSM investigation proceeding establishing an overall annual energy savings goal of 2% to be achieved by Indiana jurisdictional electric utilities in 10 years, with interim savings goals established in years one through nine. Under the Order, Northern Indiana and other jurisdictional electric utilities must file DSM plans on July 1, 2010, 2013, 2016, and 2019, with annual updates in the interim periods. The IURC requires that certain core programs be established and administered by an independent third party. The IURC did not make any specific findings with respect to cost recovery issues. In compliance with the December 9, 2009 Order, on March 16, 2010 Northern Indiana filed a proposal for a mechanism to recover the costs associated with these energy efficiency programs, including lost revenue. On June 17, 2010, Northern Indiana filed for approval of its energy efficiency programs, recovery of program costs and lost revenue, and its proposed performance incentive level and methodology. On May 25, 2011, the IURC issued an Order approving a tracker mechanism to recover the costs associated with these energy efficiency programs. On July 27, 2011, the IURC issued an Order approving the energy efficiency programs. However, the IURC denied lost revenue recovery at this time and Northern Indiana may consider filing with the IURC a request for the recovery of lost revenue once rates and charges become effective in the 2010 Electric Rate Case. The IURC also approved Northern Indiana's proposal to seek performance incentives after program results can be evaluated based upon evaluation, measurement and verification data. In August 2011, Northern Indiana made its initial filing for recovery of costs incurred and estimated through June 2012. On October 25, 2011 the IURC issued an Order approving the recovery of actual and estimated expenses in the amount of approximately $20 million to be recovered over eight months commencing November 2011. On February 1, 2012, Northern Indiana submitted a petition to the IURC to recover lost margins.

On July 13, 2011, Northern Indiana received approval from the IURC to purchase customer-generated electricity from renewable energy projects. The program, supported by consumer and environmental groups, also allows customers to generate more of their own electricity using renewable energy to reduce their utility costs.

MISO . As part of Northern Indiana's participation in the MISO transmission service, wholesale energy and ancillary service markets, certain administrative fees and non-fuel costs have been incurred. IURC orders have been issued authorizing the deferral for consideration in a future rate case proceeding of certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. Northern Indiana proposed recovery of the cumulative amount of net non-fuel charges that were deferred as of June 30, 2011, and to recover, through the RTO tracker, charges deferred between July 1, 2011 and the IURC's approval of new electric base rates. The deferral of these costs ceased during December 2011 upon the IURC's approval of new electric base rates. The amortization of these costs will commence January 2012 and will be amortized over four years. During the twelve months ended December 31, 2011 and 2010, net MISO costs of $9.1 million and $7.8 million were deferred, respectively. As of December 31, 2011, Northern Indiana had deferred a total of $42.5 million of net MISO costs

MISO and PJM Interconnection undertook a joint effort in April and May 2009 to identify a source of unaccounted flows on several coordinated flowgates. The analysis found that certain PJM Interconnection generating units that were once associated with unit-specific capacity sales were erroneously excluded from PJM Interconnection's market flows, which significantly affected the congestion price on reciprocally coordinated flowgates on Northern Indiana systems. Higher PJM Interconnection market flows on congested flowgates would have resulted in higher payments to MISO by PJM Interconnection during market-to-market coordination since April 1, 2005. The model was fixed on June 18, 2009. On January 4, 2011, the MISO and PJM Interconnection jointly filed a settlement agreement, which FERC approved on June 16, 2011, to resolve the disputed market-to-market transactions that occurred prior to June, 2009. The settlement agreement provides for a review of existing procedures for implementing the joint operating agreement, a process for reviewing future changes to implementation procedures, and enhanced access to each party's data. In addition, there was a release and discharge of all claims by any market participant related to the joint operating agreement for all events that occurred prior to the filing of the January 4, 2011 settlement agreement.

Cost Recovery and Trackers . A significant portion of Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana. Various interveners, including the OUCC, had taken issue with the allocation of costs included in Northern Indiana's FAC-80, FAC-81 and FAC-82, which cover the reconciliation of April through December 2008. The IURC granted a sub-docket to consider such issues in those filings. The intervening parties and Northern Indiana discussed procedures to eliminate these concerns and to resolve them for the historical periods. On November 4, 2009, the IURC approved a settlement agreement which called for a credit of $8.2 million to be provided to FAC customers beginning in November 2009, less any amount for attorney's fees and expenses. This credit was completed in January 2011.

In the Order issued on August 25, 2010, the IURC approved an RTO tracker for recovery of MISO non-fuel costs and revenues and off-system sales sharing and ordered that purchased power costs and fuel-related MISO charge types be recovered in the FAC. The IURC also approved a purchase capacity tracker referred to as the Resource Adequacy Tracker. Similar treatment was requested in the 2010 Electric Rate Case filing and approved in the December 21, 2011 Order approving the Settlement Agreement. The implementation of such trackers coincides with the implementation of new customer rates.

As part of the August 25, 2010 Order, a new "purchase power benchmark" became effective. This purchase power benchmark superseded the one made effective by a settlement in October 2007. The benchmark is based upon the costs of power generated by a hypothetical natural gas fired unit using gas purchased and delivered to Northern Indiana. During 2011 and 2010, the amount of purchased power costs exceeding the benchmark amounted to zero and $0.4 million, respectively, which was recognized as a net reduction of revenues.

Northern Indiana has approval from the IURC to recover certain environmental related costs through 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 SIP and CAIR and CAMR compliance plan projects through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. The IURC approved the continued use of the ECRM and the EERM trackers in its December 21, 2011 Order. As a result of new customer rates, the cost relating to environmental projects that were in service as of June 30, 2010, will be recovered through base rates and will no longer be tracked through the ECRM and EERM.

On March 22, 2011, Northern Indiana filed a petition with the IURC for a certificate of public convenience and necessity and associated relief for the construction of additional environmental projects required to comply with the NOV consent decree lodged in the United States District Court for the Northern District of Indiana on January 13, 2011. Refer to Note 20-D, "Environmental Matters," for additional information. This petition has since been trifurcated into three separate phases. In terms of Phase I, the evidentiary hearing was held at the IURC on August 31, 2011 addressing the relief regarding (i) the construction of a FGD unit at R.M. Schahfer Generating Station Unit 15 and (ii) a cost estimate increase for the projects approved by the December 29, 2010 Order, which included estimates for a FGD unit at R.M. Schahfer Generating Station Unit 14 and associated common facilities for Units 14 and 15. On December 28, 2011, the IURC issued an order for the Phase I projects estimated to cost $500 million and granting the requested ratemaking and accounting relief associated with these Phase I projects. On November 9, 2011, Northern Indiana filed with the IURC a stipulation and settlement agreement with the OUCC and the Industrial Group resolving all issues regarding the Phase II projects, which includes all remaining projects with the exception of those projects related to Michigan City Generating Station Unit 12. The motion also requested the establishment of and a procedural schedule for a new Phase III for the Unit 12 projects. The evidentiary hearing was held for the Phase II projects at the IURC on December 14, 2011. On February 15, 2012, the IURC approved the stipulation and settlement agreement. The establishment of a Phase III in this proceeding occurred in response to the fact that on October 20, 2011 and October 21, 2011, the OUCC and the Industrial Group, respectively, filed testimony in opposition of the proposed construction of a FGD unit on Michigan City Generating Station Unit 12.On February 14, 2012, the IURC set a procedural schedule for the Phase III projects.

On February 7, 2012, Northern Indiana filed ECR-19 and EER-9, the filing implementing the ECT, which included $109.6 million of net capital expenditures and operation and maintenance and depreciation expenses of $32.6 million for the period ended December 31, 2011.

9. Risk Management and Energy Marketing Activities

NiSource is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are commodity price risk and interest rate risk. Derivative natural gas contracts are entered into to manage the price risk associated with natural gas and power price volatility and to secure forward natural gas and power prices. Interest rate swaps are entered into to manage interest rate risk associated with NiSource's fixed-rate borrowings. NiSource designates many of its commodity forward contracts as cash flow hedges of forecasted purchases of commodities and designates its interest rate swaps as fair value hedges of fixed-rate borrowings. Additionally, certain NiSource subsidiaries enter into forward physical contracts with various third parties to procure or sell natural gas or power. These forward physical contracts are derivatives which may qualify for the normal purchase and normal sales exception which would not require mark-to-market accounting.

Accounting Policy for Derivative Instruments. The ASC topic on accounting for derivatives and hedging 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 such as a normal purchase and normal sale contract under the provisions of the ASC topic. 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, basis contracts, 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 derivative contracts that qualify for the normal purchase and normal sales exception, a contract's fair value is not recognized in the Consolidated Financial Statements until the contract is settled.

Unrealized and realized gains and losses are recognized each period as components of accumulated other comprehensive income (loss), regulatory assets and liabilities or earnings depending on the designation of the derivative instrument. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to accumulated other comprehensive income (loss) and are recognized in earnings concurrent with the disposition of the hedged risks. If a forecasted transaction corresponding to a cash flow hedge is no longer probable 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 together 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 or passed back to customers in revenues through rates. When gains and losses are recognized in earnings, they are recognized in revenues or 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.

NiSource has elected not to net fair value amounts for its derivative instruments or the fair value amounts recognized for its right to receive cash collateral or obligation to pay cash collateral arising from those derivative instruments recognized at fair value, which are executed with the same counterparty under a master netting arrangement. NiSource discloses amounts recognized for the right to reclaim cash collateral within "Restricted cash" and amounts recognized for the right to return cash collateral within "Other accruals" on the Consolidated Balance Sheets.

Commodity Price Risk Programs. NiSource and NiSource's utility customers are exposed to variability in cash flows associated with natural gas purchases and volatility in natural gas prices. NiSource purchases natural gas for sale and delivery to its retail, commercial and industrial customers, and for most customers the variability in the market price of gas is passed through in their rates. Some of NiSource's utility subsidiaries offer programs where variability in the market price of gas is assumed by the respective utility. The objective of NiSource's commodity price risk programs is to mitigate this gas cost variability, for NiSource or on behalf of its customers, associated with natural gas purchases or sales by economically hedging the various gas cost components by using a combination of futures, options, forward physical contracts, basis swap contracts or other derivative contracts. Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These commodity price risk programs and their respective accounting treatment are described below.

Northern Indiana, 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 programs must be marked to fair value, but because these derivatives are used within the framework of the companies' GCR or FAC mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana and Columbia of Virginia offer a fixed price program as an alternative to the standard GCR mechanism. These services provide customers with the opportunity to either lock in their gas cost or place a cap on the gas costs that would be charged in future months. In order to hedge the anticipated physical purchases associated with these obligations, forward physical contracts, NYMEX futures and NYMEX options are used to secure forward gas prices. The accounting treatment elected for these contracts is varied whereby certain of these contracts have been accounted for as cash flow hedges while some contracts are not. The normal purchase and normal sales exception is elected for forward physical contracts associated with these programs where delivery of the commodity is probable to occur.

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 in future months at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, forward physical contracts, NYMEX futures and NYMEX options have been used to secure forward gas prices. The accounting treatment elected for these contracts is varied whereby certain of these contracts have been accounted for as cash flow hedges while some contracts are not. The normal purchase and normal sales exception is elected for forward physical contracts associated with these programs where delivery of the commodity is probable to occur.

Northern Indiana enters into gas 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, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

Columbia of Kentucky, Columbia of Ohio and Columbia of Pennsylvania enter into contracts that allow counterparties the option to sell gas to them at first of the month prices for a particular month of delivery. These 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. These Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability based on the regulatory customer sharing mechanisms in place, with the remaining changes in fair value recognized currently in earnings.

As part of the MISO Day 2 initiative, Northern Indiana was allocated or has purchased FTRs. These FTRs help Northern Indiana offset congestion costs due to the MISO Day 2 activity. The FTRs are marked to fair value and are not accounted for as a hedge, but since congestion costs are recoverable through the fuel cost recovery mechanism, the related gains and losses associated with marking these derivatives to market are recorded as a regulatory asset or liability. In the second quarter of 2008, MISO changed its allocation procedures from an allocation of FTRs to an allocation of ARRs, whereby Northern Indiana was allocated ARRs based on its historical use of the MISO administered transmission system. ARRs entitle the holder to a stream of revenues or charges based on the price of the associated FTR in the FTR auction, so ARRs can be used to purchase FTRs in the FTR auction. ARRs are not derivatives.

NiSource is in the process of winding down its unregulated natural gas marketing business, where gas financial contracts are utilized to economically hedge expected future gas purchases associated with forward gas agreements. These financial contracts, as well as the associated forward physical sales contracts, are derivatives and are marked-to-market with all associated gains and losses recognized to income. NiSource established a reserve of $25.6 million and $6.4 million against certain derivatives as of December 31, 2011 and December 31, 2010, respectively. This amount represents reserves related to the creditworthiness of certain customers, fair value of future cash flows, and the cost of maintaining significant amounts of restricted cash. The physical sales contracts marked-to-market had a fair value of approximately $136.8 million at December 31, 2011 and $154.4 million at December 31, 2010, while the financial derivative contracts marked-to-market had a fair value loss of $155.5 million at December 31, 2011, and $137.5 million at December 31, 2010. The $137.5 million loss at December 31, 2010 did not include approximately $10.3 million of January 2011 financial positions as these positions were settled in December 2010. During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business.

On October 31, 2011, cash and derivatives broker-dealer MF Global filed for Chapter 11 bankruptcy protection. MF Global brokered NYMEX hedges of natural gas futures on behalf of NiSource. At the date of bankruptcy, NiSource affiliates had contracts open with MF Global with settlement dates ranging from November 2011 to February 2014. On November 3, 2011, these contracts were measured at a mark-to-market loss of approximately $46.4 million. NiSource affiliates had posted initial margin to open these accounts of $6.9 million and additional maintenance margin for mark-to-market losses of $46.4 million, for a total restricted cash balance of $53.3 million. Within the first week after the filing, at the direction of the Bankruptcy Court, a transfer of assets was initiated on behalf of

NiSource affiliates to a court-designated replacement broker for future trade activity. The existing futures positions were closed and then rebooked with the court-designated replacement broker at the new closing prices as of November 3, 2011. Initial margin on deposit at MF Global of $5.7 million was transferred to the court-designated replacement broker. The maintenance margin was retained by MF Global to offset the loss positions of the open contracts on November 3, 2011. NiSource affiliates are monitoring the activity in the bankruptcy case and have filed a proof of claim at the Court's direction. As of December 31, 2011, NiSource affiliates reserved the $1.2 million difference between the initial margin posted with MF Global and the cash transferred to the court-designated replacement broker as a loss contingency.

Commodity price risk program derivative contracted gross volumes are as follows:

	December 31, 2011	December 31, 2010
Commodity Price Risk Program:		
Gas price volatility program derivatives (MMDth)	**26.1**	28.4
Price Protection Service program derivatives (MMDth)	**1.0**	1.6
DependaBill program derivatives (MMDth)	**0.3**	0.4
Regulatory incentive program derivatives (MMDth)	**0.9**	2.0
Gas marketing program derivatives (MMDth) [(a)]	**28.5**	48.2
Gas marketing forward physical derivatives (MMDth) [(b)]	**27.1**	48.0
Electric energy program FTR derivatives (mw) [(c)]	**8,578.5**	8,279.1

(a) Basis contract volumes not included in the above table were 15.9 MMDth and 42.0 MMDth as of December 31, 2011 and December 31, 2010, respectively.

(b) Basis contract volumes not included in the above table were 29.9 MMDth and 52.1 MMDth as of December 31, 2011 and December 31, 2010, respectively.

(c) Megawatt hours reported in thousands

Interest Rate Risk Activities . NiSource recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure. NiSource Finance has entered into various "receive fixed" and "pay floating" interest rate swap agreements which modify the interest rate characteristics of a portion of its outstanding long-term debt from fixed to variable rate. These interest rate swaps also serve to hedge the fair market value of NiSource Finance's outstanding debt portfolio. As of December 31, 2011, NiSource had $6.6 billion of outstanding fixed rate debt, of which $500.0 million is subject to fluctuations in interest rates as a result of the fixed-to-variable interest rate swap transactions. These interest rate swaps are designated as fair value hedges. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness for the twelve months ended December 31, 2011 and 2010.

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 receives payments based upon a fixed 5.40% interest rate and pays 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 July 15, 2013.

Contemporaneously with the issuance on September 16, 2005 of $1 billion of its 5.25% and 5.45% notes, 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 from accumulated other comprehensive loss to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88%, respectively. As of December 31, 2011, accumulated other comprehensive loss includes $11.3 million related to forward starting interest rate swap settlement. These derivative contracts are accounted for as a cash flow hedge.

As of December 31, 2011, NiSource holds a 47.5% interest in Millennium. During 2008, Millennium entered into various interest rate swap agreements in order to protect against the risk of increasing interest rates. During August 2010, Millennium completed the refinancing of its long-term debt, securing permanent fixed-rate financing through the private placement issuance of two tranches of notes totaling $725.0 million, $375.0 million at 5.33% due June 30, 2027, and $350.0 million at 6.00% due June 30, 2032. Upon the issuance of these notes, Millennium repaid all outstanding borrowings under its credit agreement, terminated the sponsor guarantee and cash settled the interest rate hedges. These interest rate hedges were primarily accounted for as cash flow hedges by Millennium. As NiSource accounts for Millennium as an equity method investment, NiSource is required to recognize a proportional share of Millennium's OCI. The remaining unrealized loss of $19.7 million, net of tax, related to these terminated interest rate swaps is being amortized over a 15 year period ending June 2025 into earnings using the effective interest method through interest expense as interest payments are made by Millennium. NiSource records its proportionate share of the amortization as Equity Earnings in Unconsolidated Affiliates at the Statements of Consolidated Income.

NiSource's location and fair value of derivative instruments on the Consolidated Balance Sheets were:

Asset Derivatives *(in millions)*	**December 31, 2011**		December 31, 2010	
Balance Sheet Location	**Fair Value (a)**		Fair Value	
Derivatives designated as hedging instruments				
Interest rate risk activities				
Price risk management assets (current)	$	-	$	-
Price risk management assets (noncurrent)		**56.7**		61.1
Total derivatives designated as hedging instruments	**$**	**56.7**	$	61.1
Derivatives not designated as hedging instruments				
Commodity price risk programs				
Price risk management assets (current)	**$**	**141.8**	$	159.5
Price risk management assets (noncurrent)		**150.0**		179.2
Total derivatives not designated as hedging instruments	**$**	**291.8**	$	338.7
Total Asset Derivatives	**$**	**348.5**	$	399.8

(a) During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million ($4.6 million current and $18.0 million noncurrent) on certain assets related to the wind down of the unregulated natural gas marketing business. The non-designated price risk asset amounts above are shown gross and have not been adjusted for the reserve.

Liability Derivatives *(in millions)*	**December 31, 2011**		December 31, 2010	
Balance Sheet Location	**Fair Value**		Fair Value	
Derivatives designated as hedging instruments				
Commodity price risk programs				
Price risk management liabilities (current)	**$**	**0.4**	$	1.0
Price risk management liabilities (noncurrent)		**0.1**		0.2
Total derivatives designated as hedging instruments	**$**	**0.5**	$	1.2
Derivatives not designated as hedging instruments				
Commodity price risk programs				
Price risk management liabilities (current)	**$**	**167.4**	$	172.9
Price risk management liabilities (noncurrent)		**138.8**		181.4
Total derivatives not designated as hedging instruments	**$**	**306.2**	$	354.3
Total Liability Derivatives	**$**	**306.7**	$	355.5

The effect of derivative instruments on the Statements of Consolidated Income were:

Derivatives in Cash Flow Hedging Relationships

Twelve Months Ended *(in millions)*

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivative (Effective Portion) Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Commodity price risk programs	$ -	$ 0.1	$ 117.3
Interest rate risk activities	1.6	1.5	1.5
Total	$ 1.6	$ 1.6	$ 118.8

Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Cost of sales	$ 1.1	$ 1.2	$ (89.4)
Interest expense, net	(2.6)	(2.6)	-
Total	$ (1.5)	$ (1.4)	$ (89.4)

Twelve Months Ended *(in millions)*

Derivatives in Cash Flow Hedging Relationships	Location of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain Recognized in Income of Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Commodity price risk programs	Cost of Sales	$ -	$ -	$ -
Interest rate risk activities	Interest expense, net	-	-	-
Total		$ -	$ -	$ -

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 accumulated other comprehensive income (loss) of approximately $0.7 million of loss, net of taxes.

Derivatives in Fair Value Hedging Relationships

Twelve Months Ended *(in millions)*

Derivatives in Fair Value Hedging Relationships	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Interest rate risk activities	Interest expense, net	$ (4.4)	$ (8.7)	$ (29.5)
Total		$ (4.4)	$ (8.7)	$ (29.5)

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Twelve Months Ended (*in millions*)

Hedged Item in Fair Value Hedge Relationships	Location of Gain Recognized in Income on Related Hedged Item	Amount of Gain Recognized in Income on Related Hedged Items		
		Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Interest rate risk activities	Interest expense, net	**$ 4.4**	$ 8.7	$ 29.5
Total		**$ 4.4**	$ 8.7	$ 29.5

Derivatives not designated as hedging instruments

Twelve Months Ended (*in millions*)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Realized/Unrealized Gain (Loss) Recognized in Income on Derivatives *		
		Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Commodity price risk programs	Gas Distribution revenues	**$ -**	$ (55.6)	$ (61.7)
Commodity price risk programs	Other revenues	**62.6**	115.3	172.0
Commodity price risk programs	Cost of Sales	**(66.9)**	(95.4)	70.5
Total		**$ (4.3)**	$ (35.7)	$ 180.8

* For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, losses of $33.9 million, $36.7 million, and $64.4 million for 2011, 2010 and 2009, respectively, were deferred per regulatory orders. These amounts will be amortized to income over future periods up to twelve months per regulatory order.

NiSource has not made any material reclassifications to earnings from AOCI to Cost of Sales due to the probability that certain forecasted transactions would not occur for the twelve months ended December 31, 2011 and 2010. During the second quarter of 2009, NiSource reclassified $126.4 million ($75.1 million, net of tax) related to its cash flow hedges from accumulated other comprehensive income (loss) to Cost of Sales due to the probability that certain forecasted transactions would not occur related to the unregulated natural gas marketing business that NiSource had planned to sell.

NiSource's derivative instruments measured at fair value as of December 31, 2011 and 2010 do not contain any credit-risk-related contingent features.

Certain NiSource affiliates have physical commodity purchase agreements that contain "ratings triggers" that require increases in collateral if the credit rating of NiSource or certain of its affiliates are rated below BBB- by Standard & Poor's or below Baa3 by Moody's. These agreements are primarily for the physical purchase or sale of natural gas and electricity. As of December 31, 2011, the collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $1.9 million. In addition to agreements with ratings triggers, there are some agreements that contain "adequate assurance" or "material adverse change" provisions that could result in additional credit support such as letters of credit and cash collateral to transact business.

NiSource had $158.2 million and $198.3 million of cash on deposit with brokers for margin requirements associated with open derivative positions reflected within "Restricted cash" on the Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010, respectively.

10. Variable Interest Entities and Equity Investments

A. Variable Interest Entities .

In June 2009, the FASB issued authoritative guidance to amend the manner in which entities evaluate whether consolidation is required for VIEs. NiSource adopted the guidance on January 1, 2010.

In general, a VIE is an entity which (1) has an insufficient amount of at-risk equity to permit the entity to finance its activities without additional financial subordinated support provided by any parties, (2) whose at-risk equity owners, as a group, do not have power, through voting rights or similar rights, to direct activities of the entity that most significantly impact the entity's economic performance or (3) whose at-risk owners do not absorb the entity's losses or receive the entity's residual return. A VIE is required to be consolidated by a company if that company is determined to be the primary beneficiary of the VIE.

NiSource consolidates those VIEs for which it is the primary beneficiary. Prior to the adoption of the new FASB guidance on consolidation of variable interest entities, the prevalent method for determining the primary beneficiary was through a quantitative method. With the adoption of the guidance, NiSource also considers qualitative elements in determining the primary beneficiary. These qualitative measures include the ability to control an entity and the obligation to absorb losses or the right to receive benefits.

NiSource's analysis under this standard includes an assessment of guarantees, operating leases, purchase agreements, and other contracts, as well as its investments and joint ventures. For items that have been identified as variable interests, or where there is involvement with an identified variable interest entity, an in-depth review of the relationship between the relevant entities and NiSource is made to evaluate qualitative and quantitative factors to determine the primary beneficiary, if any, and whether additional disclosures would be required under the current standard.

At December 31, 2011, consistent with prior periods, NiSource consolidated its low income housing real estate investments from which NiSource derives certain tax benefits. As of December 31, 2011, NiSource is a 99% limited partner with a net investment of approximately $1.5 million. Consistent with prior periods, NiSource evaluated the nature and intent of the low income housing investments when determining the primary beneficiary. NiSource concluded that it continues to be the primary beneficiary. Subject to certain conditions precedent, NiSource has the contractual right to take control of the low income housing properties. At December 31, 2011, gross assets of the low income housing real estate investments in continuing operations were $29.1 million. Current and non-current assets were $1.2 million and $27.9 million, respectively. As of December 31, 2011, NiSource recorded long-term debt of approximately $11.3 million as a result of consolidating these investments. However, this debt is nonrecourse to NiSource and NiSource's direct and indirect subsidiaries. Approximately $0.7 million of the assets are restricted to settle the obligations of the entity.

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 July 1, 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. NiSource has made an exhaustive effort to obtain information needed from Pure Air to determine the status of Pure Air as a VIE. However, Northern Indiana had not been able to obtain this information and as a result, it is unclear whether Pure Air is a VIE and if Northern Indiana is the primary beneficiary. Northern Indiana will continue to request the information required to determine whether Pure Air is a VIE. Northern Indiana has no exposure to loss related to the service agreement with Pure Air.

B. Equity Investments . Certain investments of NiSource are accounted for under the equity method of accounting. Income and losses from Millennium and Hardy Storage are reflected in Equity Earnings in Unconsolidated Affiliates on NiSource's Statements of Consolidated Income. These investments are integral to the Gas Transmission and Storage Operations business. Income and losses from all other equity investments are reflected in Other, net on NiSource's Statements of Consolidated Income. All investments shown as limited partnerships are limited partnership interests.

NISOURCE INC.
Notes to Consolidated Financial Statements

The following is a list of NiSource's equity investments at December 31, 2011:

Investee	Type of Investment	% of Voting Power or Interest Held
The Wellingshire Joint Venture	General Partnership	50.0
Hardy Storage Company, L.L.C.	LLC Membership	50.0
Millennium Pipeline Company, L.L.C.	LLC Membership	47.5
House Investments - Midwest Corporate Tax Credit Fund, L.P.	Limited Partnership	12.2
Nth Power Technologies Fund II, L.P.	Limited Partnership	4.2
Nth Power Technologies Fund II-A, L.P.	Limited Partnership	4.2
Nth Power Technologies Fund IV, L.P.	Limited Partnership	1.8

As the Millennium and Hardy Storage investments are considered integral to the Gas Transmission and Storage Operations business, the following table contains condensed summary financial data. These investments are accounted for under the equity method of accounting and, therefore, are not consolidated into NiSource's Consolidated Balance Sheets and Statements of Consolidated Income. These investments are recorded within Unconsolidated Affiliates on the Consolidated Balance Sheets and NiSource's portion of the results are reflected in Equity Earnings in Unconsolidated Affiliates on the Statements of Consolidated Income.

Given the immaterial nature of the other equity investments, a condensed summary of financial data was not determined to be necessary.

Year Ended December 31, *(in millions)*	**2011**	2010	2009
Millennium Pipeline			
Statement of Income Data:			
Net Revenues	$ **119.3**	$ 103.9	$ 99.4
Operating Income	**63.7**	55.9	50.1
Net Income	**20.5**	22.1	25.5
Balance Sheet Data:			
Total Assets	**1,045.0**	1,060.6	1,096.1
Total Liabilities	**703.4**	725.5	867.9
Total Members' Equity	**341.6**	335.1	228.2
Hardy Storage			
Statement of Income Data:			
Net Revenues	$ **24.4**	$ 23.9	$ 23.3
Operating Income	**16.5**	16.2	15.2
Net Income	**9.7**	9.0	7.9
Balance Sheet Data:			
Total Assets	**176.1**	184.8	206.7
Total Liabilities	**114.8**	124.1	129.2
Total Members' Equity	**61.3**	60.7	77.5

Equity in the retained earnings of Millennium and Hardy Storage at December 31, 2011 was $23.3 million and $6.0 million, respectively. Contributions to Millennium, Hardy Storage and other equity investees were $6.4 million, $87.9 million, and $26.4 million for 2011, 2010 and 2009, respectively. The decrease was the result of cash contributions required for Millennium's refinancing during 2010. Millennium returned $14.3 million and $23.8 million of capital to Columbia Transmission during 2011 and 2010, respectively. Hardy Storage distributed $4.5 million and $12.9 million of earnings to NiSource during 2011 and 2010, respectively. Included in Millennium liabilities is a $2.2 million payable to NiSource as of December 31, 2011.

11. Income Taxes

The components of income tax expense were as follows:

Year Ended December 31, *(in millions)*	**2011**	2010	2009
Income Taxes			
Current			
Federal	$ **(14.2)**	$ (61.8)	$ (197.0)
State	**(0.9)**	3.2	(15.9)
Total Current	**(15.1)**	(58.6)	(212.9)
Deferred			
Federal	**151.8**	182.4	332.2
State	**31.4**	17.4	52.2
Total Deferred	**183.2**	199.8	384.4
Deferred Investment Credits	**(4.8)**	(5.9)	(6.5)
Income Taxes from Continuing Operations	$ **163.3**	$ 135.3	$ 165.0

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)*	**2011**		2010		2009	
Book income from Continuing Operations before income taxes	$ **467.1**		$ 420.5		$ 394.8	
Tax expense at statutory federal income tax rate	**163.5**	**35.0%**	147.2	35.0%	138.2	35.0%
Increases (reductions) in taxes resulting from:						
State income taxes, net of federal income tax benefit	**20.1**	**4.3**	12.5	3.0	23.7	6.0
Regulatory treatment of depreciation differences	**(8.2)**	**(1.7)**	(16.2)	(3.8)	5.6	1.4
Amortization of deferred investment tax credits	**(4.8)**	**(1.0)**	(5.9)	(1.4)	(6.5)	(1.6)
Nondeductible expenses	**2.5**	**0.5**	1.8	0.4	7.2	1.8
Employee Stock Ownership Plan Dividends	**(3.1)**	**(0.7)**	(2.9)	(0.7)	(2.2)	(0.6)
Regulatory treatment of AFUDC-Equity	**(0.6)**	**(0.1)**	(1.9)	(0.4)	(1.9)	(0.5)
Section 199 Electric Production Deduction	**-**	**-**	-	-	(1.2)	(0.3)
Tax accrual adjustments and other, net	**(6.1)**	**(1.3)**	0.7	0.1	2.1	0.6
Income Taxes from Continuing Operations	$ **163.3**	**35.0%**	$ 135.3	32.2%	$ 165.0	41.8%

The effective income tax rates were 35.0%, 32.2% and 41.8% in 2011, 2010 and 2009, respectively. The 2.8% increase in overall effective tax rate in 2011 versus 2010 was due to 2010 rate settlements allowing the flow through of certain tax benefits in rates. In addition, the 2011 effective tax rate increased by 1.5% for the change in Indiana state taxes, discussed below. In 2009, the Company recorded in its tax provision the impact of certain nondeductible expenses, which increased tax expense $5.3 million, and additional deferred income tax expense of $9.7 million related primarily to state income tax apportionment changes.

During the third quarter of 2009, NiSource received permission from the IRS to change its tax method of capitalizing certain costs which it applied on a prospective basis to the federal and state income tax returns filed for its 2008 tax year. As a result of the new tax accounting method, NiSource recorded federal and state income tax receivables of $295.7 million. Refunds of $263.5 million were received in October 2009, with additional refunds of $25.3 million received in December 2009 and January and February 2010. The balance of the refunds was received during 2010.

On August 19, 2011, the IRS issued Revenue Procedure 2011-43, which provided a safe harbor method that taxpayers may use to determine whether certain expenditures related to electric transmission and distribution assets must be capitalized. This revenue procedure provided procedures for obtaining automatic consent from the IRS to adopt the safe harbor method for the first or second taxable year beginning after December 30, 2010. NiSource changed its method of tax accounting related to certain expenditures, including those related to electric transmission and distribution assets in 2008. At December 31, 2011 and 2010, NiSource had $80.9 million and $107.4 million, respectively, of unrecognized tax benefits related to this method change pending resolution on audit or further guidance from the IRS or United States Treasury Department. As a result of the issuance of the revenue procedure NiSource revised its estimates and recorded tax benefits of $12.9 million in the third quarter of 2011. Excluding minor amounts of interest, the revision of estimate did not impact total income tax expense.

On May 12, 2011, the governor of Indiana signed into law House Bill 1004, which among other things, lowers the corporate income tax rate from 8.5% to 6.5% over four years beginning on July 1, 2012. The reduction in the tax rate will impact deferred income taxes and tax related regulatory assets and liabilities recoverable in the rate making process. In addition, other deferred tax assets and liabilities, primarily deferred tax assets related to Indiana net operating loss carry forward, will be reduced to reflect the lower rate at which these temporary differences and tax benefits will be realized. In the second quarter 2011, NiSource recorded tax expense of $6.8 million to reflect the effect of this rate change. The expense is largely attributable to the re-measurement of the Indiana net operating loss at the 6.5% rate. The majority of the Company's tax temporary differences are related to Northern Indiana's utility plant. The re-measurement of these temporary differences at 6.5% was recorded as a reduction of a regulatory asset.

In the fourth quarter of 2010, NiSource received permission from the IRS to change its method of accounting for capitalized overhead costs under Section 263A of the Internal Revenue Code. The change was effective for the 2009 tax year. The Company recorded a net long-term receivable of $31.5 million, net of uncertain tax positions, in the fourth quarter of 2010 to reflect this change. There was no material impact on the effective tax rate as a result of this method change. In 2011, the Company revised its calculation related to the change in method and recorded an increase to the net long-term receivable of $3.3 million, net of uncertain tax positions, to reflect the change in estimate. Excluding minor amounts of interest, the revision in estimate did not impact total income tax expense. NiSource expects the IRS to complete the audit of this issue when it completes the audits for the 2008 and 2009 tax years.

In the third quarter of 2010, NiSource recorded a $15.2 million reduction to income tax expense in connection with the Pennsylvania PUC approval of the Columbia of Pennsylvania base rate case settlement on August 18, 2010. The adjustment to income tax expense resulted from the settlement agreement to flow through in current rates the tax benefits related to a tax accounting method change for certain capitalized costs approved by the IRS. As a result of the Pennsylvania Commission Order on October 14, 2011, Columbia of Pennsylvania will continue to flow through in rates unamortized tax benefits of approximately $30 million through January 2014 related to the unit of property tax method change. The amortization of excess tax benefits was $6.0 million in 2011. On a prospective basis, Columbia of Pennsylvania will recognize deferred tax expense rather than flow through in rates the tax benefits resulting from this method change.

The 2010 Health Care Act includes a provision eliminating, effective January 1, 2013, the tax deductibility of retiree health care costs to the extent of federal subsidies received under the Retiree Drug Subsidy program. When the Retiree Drug Subsidy was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, NiSource recorded a deferred tax asset reflecting the exclusion of the expected future Retiree Drug Subsidy from taxable income. At the same time, an offsetting regulatory liability was established to reflect NiSource's obligation to reduce income taxes collected in future rates. ASC Topic 740 – Income Taxes requires the impact of a change in tax law to be immediately recognized in continuing operations in the income statement for the period that includes the enactment date. In the first quarter of 2010, NiSource reversed its deferred tax asset of $6.2 million related to previously excludable Retiree Drug Subsidy payments expected to be received after January 1, 2013, which was completely offset by the reversal of the related regulatory liability.

NiSource Inc.
Notes to Consolidated Financial Statements

Deferred income taxes result 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)*	2011	2010
Deferred tax liabilities		
Accelerated depreciation and other property differences	$ 2,943.0	$ 2,671.0
Unrecovered gas and fuel costs	14.6	49.8
Other regulatory assets	858.8	936.2
Premiums and discounts associated with long-term debt	12.8	14.2
Total Deferred Tax Liabilities	3,829.2	3,671.2
Deferred tax assets		
Deferred investment tax credits and other regulatory liabilities	(73.9)	(123.1)
Cost of removal	(557.9)	(503.3)
Pension and other postretirement/postemployment benefits	(369.8)	(539.0)
Environmental liabilities	(63.6)	(24.4)
Net operating loss carryforward	(250.3)	(121.6)
Other accrued liabilities	(45.7)	(80.5)
Other, net	(56.9)	(49.1)
Total Deferred Tax Assets	(1,418.1)	(1,441.0)
Net Deferred Tax Liabilities less Deferred Tax Assets	2,411.1	2,230.2
Less: Deferred income taxes related to current assets and liabilities (Note)	(130.8)	37.1
Non-Current Deferred Tax Liability	$ 2,541.9	$ 2,193.1

Note: Current deferred taxes is located in Prepayments and other for 2011 and in Other accruals for 2010 on the Consolidated Balance Sheets.

State income tax net operating loss benefits were recorded at their realizable value. NiSource anticipates it is more likely than not that it will realize \$35.8 million and \$35.2 million of these benefits as of December 31, 2011 and December 31, 2010, respectively, prior to their expiration. The remaining net operating loss carry forward represents a Federal carry forward of \$214.5 million that will expire in 2031. The state amounts are primarily for Indiana, Pennsylvania, West Virginia and Kentucky. The loss carryforward periods expire in various tax years from 2023 through 2031.

The following table reconciles the change in the net accumulated deferred income tax liability to the deferred income tax expense included in the income statement for the period:

(in millions)	2011	2010
Beginning net accumulated deferred tax liability	$ 2,230.2	$ 1,990.9
Deferred income tax expense for the period	183.2	199.8
Change in tax effects of income tax related regulatory assets and liabilities	3.2	27.1
Deferred taxes recorded to other comprehensive income/(loss)	1.0	(7.0)
Deferred taxes transferred to taxes accrued and other charges	(6.5)	19.4
Ending net accumulated deferred tax liability per above table	$ 2,411.1	$ 2,230.2

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A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Reconciliation of Unrecognized Tax Benefits *(in millions)*	**2011**	2010	2009
Unrecognized Tax Benefits - Opening Balance	**$ 129.2**	$ 117.7	$ 3.5
Gross increases - tax positions in prior period	**5.7**	1.2	-
Gross decreases - tax positions in prior period	**(29.6)**	(8.2)	(0.2)
Gross increases - current period tax positions	**-**	18.5	114.4
Unrecognized Tax Benefits - Ending Balance	**$ 105.3**	$ 129.2	$ 117.7
Offset for outstanding IRS refunds	**(87.9)**	(114.2)	(105.4)
Offset for state net operating loss carryforwards	**(13.3)**	(17.2)	(15.6)
Balance - Net of Refunds and NOL Carryforwards	**$ 4.1**	$ (2.2)	$ (3.3)

As discussed above, NiSource was granted permission to change its tax method of accounting for capitalizing certain costs and has taken certain positions related to this change in its 2008 income tax return. NiSource's determination of what constitutes a capital cost versus ordinary expense will be reviewed upon audit by the IRS and may be subject to subsequent adjustment. As such, the status of this tax return position is uncertain at this time. During 2009, NiSource added $114.4 million to its liability for unrecognized tax benefits for uncertain tax positions related to this issue. On August 19, 2011, the IRS issued Revenue Procedure 2011-43, which provided a safe harbor method that taxpayers may use to determine whether certain expenditures related to electric transmission and distribution assets must be capitalized. This revenue procedure provided procedures for obtaining automatic consent from the IRS to adopt the safe harbor method for the first or second taxable year beginning after December 30, 2010. As a result of the issuance of the revenue procedure, NiSource revised its estimates and recorded tax benefits of $12.9 million in the third quarter of 2011. Excluding minor amounts of interest, the revision in estimate did not impact total income tax expense. At December 31, 2011, unrecorded federal and state benefits, including interest, were $80.9 million for this position.

In 2010, NiSource received permission to change its method of accounting for capitalizing overhead costs. This method change will be subject to audit as well. The Company recorded an unrecognized tax benefit related to this uncertain tax position of $17.6 million in 2010. In 2011, this estimate was revised to $19.9 million.

Offsetting the liability for unrecognized tax benefits are $101.2 million of related outstanding tax receivables and state net operating loss carryforwards resulting in a net balance of $4.8 million, including interest, related to the tax method change issues. NiSource anticipates it will settle the entire tax position, including interest, at the completion of the IRS audit of the 2008 and 2009 returns.

Except as discussed above, there have been no other material changes in 2011 to NiSource's uncertain tax positions recorded as of December 31, 2010.

The total amount of unrecognized tax benefits at December 31, 2011, 2010 and 2009 that, if recognized, would affect the effective tax rate is $2.4 million, $3.9 million and $2.9 million, respectively. As of December 31, 2010, NiSource did not anticipate any significant changes to its liability for unrecognized tax benefits over the twelve months ended December 31, 2011, and NiSource does not anticipate any significant changes to its December 31, 2011 liability for unrecognized tax benefits over the twelve months ended December 31, 2012.

NiSource recognizes accrued interest on unrecognized tax benefits, accrued interest on other income tax liabilities, and tax penalties in income tax expense. With respect to its unrecognized tax benefits, NiSource recorded $(0.1) million, $0.1 million and $0.1 million in interest expense in the Statement of Consolidated Income for the periods ended December 31, 2011, 2010 and 2009, respectively. For the periods ended December 31, 2011 and December 31, 2010, NiSource reported $0.7 million and $0.8 million, respectively, of accrued interest payable on unrecognized tax benefits on its Consolidated Balance Sheets. There were no accruals for penalties recorded in the Statement of

Consolidated Income for the periods ended December 31, 2011, December 31, 2010 and December 31, 2009 and there were no balances for accrued penalties recorded on the Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010.

NiSource is subject to income taxation in the United States and various state jurisdictions, primarily Indiana, West Virginia, Virginia, Pennsylvania, Kentucky, Massachusetts, Louisiana, Mississippi, Maryland, Tennessee, New Jersey and New York.

Because NiSource is part of the IRS's Large and Mid-Size Business program, each year's federal income tax return is typically audited by the IRS. As of December 31, 2011, tax years through 2007 have been audited and are effectively closed to further assessment. The audit of tax years 2008 and 2009 began on June 2, 2011.

The statute of limitations in each of the state jurisdictions in which NiSource operates remain open until the years are settled for federal income tax purposes, at which time amended state income tax returns reflecting all federal income tax adjustments are filed. As of December 31, 2011, there were no state income tax audits in progress that would have a material impact on the consolidated financial statements.

12. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover the majority of 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, 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 Pension and Other Postretirement Benefit Plans' Asset Management . 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.

NiSource utilizes 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.

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 Funds:

	Defined Benefit Pension Plan		Postretirement Welfare Plan	
Asset Category	Minimum	Maximum	Minimum	Maximum
Domestic Equities	25%	45%	35%	55%
International Equities	15%	25%	15%	25%
Fixed Income	15%	45%	20%	50%
Real Estate/Alternative Investments	5%	20%	0%	0%
Short-Term Investments	0%	10%	0%	10%

Pension Plan and Postretirement Plan Asset Mix at December 31, 2011 and December 31, 2010:

(in millions)	Defined Benefit Pension Assets	12/31/2011	Postretirement Welfare Plan Assets	12/31/2011
Asset Class	Asset Value	% of Total Assets	Asset Value	% of Total Assets
Domestic Equities	$ 788.6	37.8%	$ 149.7	45.4%
International Equities	427.3	20.5%	60.0	18.2%
Fixed Income	618.7	29.6%	117.1	35.5%
Real Estate/Alternative Investments	219.8	10.5%	-	-
Cash/Other	33.4	1.6%	3.0	0.9%
Total	**$ 2,087.8**	100.0%	**$ 329.8**	100.0%

(in millions)	Defined Benefit Pension Assets	12/31/2010	Postretirement Welfare Plan Assets	12/31/2010
Asset Class	Asset Value	% of Total Assets	Asset Value	% of Total Assets
Domestic Equities	$ 730.5	38.5%	$ 148.8	45.5%
International Equities	416.3	21.9%	66.1	20.2%
Fixed Income	543.1	28.6%	110.0	33.7%
Real Estate/Alternative Investments	200.0	10.5%	-	-
Cash/Other	10.1	0.5%	1.9	0.6%
Total	**$ 1,900.0**	100.0%	**$ 326.8**	100.0%

The categorization of investments into the asset classes in the table above are based on definitions established by the NiSource Benefits Committee. Alternative investments consist primarily of private equity and hedge fund investments. As of December 31, 2011, $670.2 million of defined benefit pension assets and $21.3 million of other postretirement benefit assets included in international equities, domestic equities or fixed income asset classes in the table above would be considered alternative investments, in addition to those investments in the real estate/alternative investments asset class. As of December 31, 2010, $555.3 million of defined benefit pension assets and $22.1 million of other postretirement benefit assets included in international equities, domestic equities or fixed income asset classes in the table above would be considered alternative investments, in addition to those investments in the real estate/alternative investments asset class. Alternative investments are considered investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications or the exchanges.

Alternative investment values are based on estimates developed by external investment managers and subject to a review process performed by management. In making such valuation determinations, the investment managers consider factors that may include the cost of the investment, developments since the acquisition of the investment, comparisons to similar publicly traded investments, subsequent purchases of the same investment by other investors, the current financial position and operating results of the issuer and such other factors as may be deemed relevant. A range of possible values exist for these securities, and therefore, the estimated values may differ from the values that would have been recorded had a ready market for these securities existed.

Fair Value Measurements. The following table sets forth, by level within the fair value hierarchy, the Master Trust and OPEB investment assets at fair value as of December 31, 2011 and 2010. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Total Master Trust and OPEB investment assets at fair value classified within Level 3 were $ 326.8 million and $ 314.1 million as of December 31, 2011 and December 31, 2010, respectively. Such amounts were approximately 14% of the Master Trust and OPEB's total investments as reported on the statement of net assets available for benefits at fair value as of December 31, 2011 and December 31, 2010.

Investments with maturities of three months or less when purchased are considered cash equivalents and are normally included in the fair value measurements hierarchy as Level 1. Equity securities, mutual funds, and U.S treasuries whose prices are obtained from quoted prices in active markets are also classified as Level 1. In cases where equity securities are not actively traded, they are reflected as Level 2 or Level 3 depending on the specific security and how active the market is for the respective security. The fair values of most fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences and are generally categorized as Level 2. Commingled funds are maintained by investment companies that hold certain investments in accordance with a stated set of fund objectives, and the values of the majority of these commingled funds are not publicly quoted and must trade through a broker. Commingled funds that hold underlying investments that have prices which are derived from the quoted prices in active markets are classified as Level 2. Commingled funds that hold underlying investments that have prices which are not derived from the quoted prices in active markets are classified as Level 3. These investments are often valued by investment managers on a periodic basis using pricing models that use market, income, and cost valuation methods. In addition, NiSource's investment in hedge funds, private equity partnerships, and real estate assets are also valued by investment managers on a periodic basis using pricing models that use market, income, and cost valuation methods and are classified as Level 3.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

Fair Value Measurements at December 31, 2011:

(in millions)	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension plan assets:				
Cash	$ 10.4	$ 10.4	$ -	$ -
Equity securities				
U.S. equities	631.0	630.9	0.1	-
International equities	144.0	143.0	1.0	-
Fixed income securities				
Government	133.5	91.2	41.8	0.5
Corporate	101.7	-	101.7	-
Mortgages/Asset backed securities	115.6	-	114.4	1.2
Other fixed income	0.4	-	0.3	0.1
Commingled funds				
Short-term money markets	66.5	-	66.5	-
U.S. equities	125.8	-	125.8	-
International equities	278.5	-	278.5	-
Fixed income	265.8		160.4	105.4
Hedge fund of funds				
Multi-strategy (a)	49.4	-	-	49.4
Equities-market neutral (b)	33.0	-	-	33.0
Private equity limited partnerships				
U.S. multi-strategy (c)	61.1	-	-	61.1
International multi-strategy (d)	42.5	-	-	42.5
Distressed opportunities	12.7	-	-	12.7
Real estate	20.9	-	-	20.9
Pension plan assets subtotal	2,092.8	875.5	890.5	326.8
Other postretirement benefit plan assets:				
Commingled funds				
Short-term money markets	2.9	-	2.9	-
U.S. equities	21.3	-	21.3	-
Mutual funds				-
U.S. equities	127.4	127.4	-	-
International equities	61.8	61.8	-	-
Fixed income	116.4	116.4	-	-
Other postretirement benefit plan assets subtotal	329.8	305.6	24.2	-
Due to brokers, net (e)	(38.7)			
Accrued investment income/dividends	3.7			
Receivables/payables	30.0			
Total pension and other post-retirement benefit plan assets	$ 2,417.6	$ 1,181.1	$ 914.7	$ 326.8

(a) This class includes hedge fund of funds that invest in a diverse portfolio of strategies including relative value, event driven and long/short equities.
(b) This class includes hedge fund of funds that invest in long/short equities, which in total maintain a relatively net market neutral position.
(c) This class includes limited partnerships/fund of funds that invest in a diverse portfolio of private equity strategies, including buy-outs, venture capital, growth capital, special situations and secondary markets, primarily inside the Unites States.

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(d) This class includes limited partnerships/fund of funds that invest in diverse portfolio of private equity strategies, including buy-outs, venture capital, growth capital, special situations and secondary markets, primarily outside the United States.
(e) This class represents pending trades with brokers.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2011:

	Balance at January 1, 2011	Total gains or losses (unrealized / realized)	Purchases	(Sales)	Transfers into/(out of) level 3	Balance at December 31, 2011
Equity securities						
U.S. equities	$ 0.1	$ -	$ -	$ -	$ (0.1)	$ -
Fixed income securities						
Government	0.6	-	-	(0.1)	-	0.5
Corporate	0.4	(0.5)	0.1	-	-	-
Mortgages/Asset backed securities	0.5	(0.2)	0.5	-	0.4	1.2
Other fixed income	0.5	-	0.5	(0.9)	-	0.1
Commingled funds						
Fixed income	111.4	(0.1)	2.0	(7.9)	-	105.4
Hedge fund of funds						
Multi-strategy	49.0	0.4	-	-	-	49.4
Equities-market neutral	31.5	1.5	-	-	-	33.0
Private equity limited partnerships						
U.S. multi-strategy	58.8	(4.6)	14.3	(7.4)	-	61.1
International multi-strategy	36.2	2.3	5.2	(1.2)	-	42.5
Distressed opportunities	9.3	(0.4)	4.5	(0.7)	-	12.7
Real estate	15.8	2.0	3.1	-	-	20.9
Total	$ 314.1	$ 0.4	$ 30.2	$ (18.2)	$ 0.3	$ 326.8

Fair Value Measurements at December 31, 2010:

(in millions)	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension plan assets:				
Cash	$ 9.2	$ 9.2	$ -	$ -
Equity securities				
U.S. equities	627.0	626.9	-	0.1
International equities	141.3	140.6	0.7	-
Fixed income securities				
Government	85.3	46.5	38.2	0.6
Corporate	132.2	-	131.8	0.4
Mortgages/Asset backed securities	111.4	-	110.9	0.5
Other fixed income	4.1	0.2	3.4	0.5
Commingled funds				
Short-term money markets	50.5	-	50.5	-
U.S. equities	65.1	-	65.1	-
International equities	261.4	-	261.4	-
Fixed income	228.8	-	117.4	111.4
Hedge fund of funds				
Multi-strategy (a)	49.0	-	-	49.0
Equities-market neutral (b)	31.5	-	-	31.5
Private equity limited partnerships				
U.S. multi-strategy (c)	58.8	-	-	58.8
International multi-strategy (d)	36.2	-	-	36.2
Distressed opportunities	9.3	-	-	9.3
Real Estate	15.8	-	-	15.8
Pension plan assets subtotal	1,916.9	823.4	779.4	314.1
Other postretirement benefit plan assets:				
Commingled funds				
Short-term money markets	1.9	-	1.9	-
U.S. equities	22.2	-	22.2	-
Mutual funds				
U.S. equities	126.7	126.7	-	-
International equities	66.1	66.1	-	-
Fixed income	109.9	109.9	-	-
Other postretirement benefit plan assets subtotal	326.8	302.7	24.1	-
Due to brokers, net (e)	(20.2)			
Accrued investment income/dividends	4.0			
Receivables/payables	(0.7)			
Total pension and other post-retirement benefit plan assets	$ 2,226.8	$ 1,126.1	$ 803.5	$ 314.1

(a) This class includes hedge fund of funds that invest in a diverse portfolio of strategies including relative value, event driven and long/short equities.

(b) This class includes hedge fund of funds that invest in long/short equities, which in total maintain a relatively net market neutral position.

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(c) This class includes limited partnerships/fund of funds that invest in a diverse portfolio of private equity strategies, including buy-outs, venture capital, growth capital, special situations and secondary markets, primarily in the United States.
(d) This class includes limited partnerships/fund of funds that invest in a diverse portfolio of private equity strategies, including buy-outs, venture capital, growth capital, special situations and secondary markets, primarily outside the United States.
(e) This class represents pending trades with brokers.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2010:

	Balance at January 1, 2010	Total gains or losses (unrealized / realized)	Purchases	(Sales)	Transfers into/(out of) level 3	Balance at December 31, 2010
Equity securities						
U.S. equities	$ -	$ 0.2	$ -	$ -	$ (0.1)	$ 0.1
Fixed income securities						
Government	1.2	-	-	(0.6)	-	0.6
Corporate	2.7	0.5	-	(1.0)	(1.8)	0.4
Mortgages/Asset backed securities	1.2	(0.6)	0.5	(0.3)	(0.3)	0.5
Other fixed income	1.6	0.1	0.8	(2.0)	-	0.5
Commingled funds						
Fixed income	111.8	10.6	-	(11.0)	-	111.4
Hedge fund of funds						
Multi-strategy	34.9	4.1	10.0	-	-	49.0
Equities-market neutral	33.3	(1.8)	-	-	-	31.5
Private equity limited partnerships						
U.S. multi-strategy	56.5	(0.7)	13.3	(10.3)	-	58.8
International multi-strategy	27.3	3.2	6.4	(0.7)	-	36.2
Distress opportunities	8.3	(0.9)	4.0	(2.1)	-	9.3
Real estate	8.9	0.4	7.7	(1.2)	-	15.8
Total	$ 287.7	$ 15.1	$ 42.7	$ (29.2)	$ (2.2)	$ 314.1

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

NiSource Pension and Other Postretirement Benefit Plans' Funded Status and Related Disclosure . The following table provides a reconciliation of the plans' funded status and amounts reflected in NiSource's Consolidated Balance Sheets at December 31 based on a December 31 measurement date:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	2011	2010	2011	2010
Change in projected benefit obligation (a)				
Benefit obligation at beginning of year	$ 2,478.4	$ 2,356.0	$ 756.0	$ 731.2
Service cost	37.5	39.1	9.9	9.8
Interest cost	119.5	125.7	38.6	41.4
Plan participants' contributions	-	-	7.0	6.3
Plan amendments	0.2	0.5	(0.5)	1.4
Actuarial loss (gain)	122.5	144.5	30.8	20.1
Benefits paid	(197.4)	(187.4)	(56.4)	(55.1)
Estimated benefits paid by incurred subsidy	-	-	0.9	0.9
Projected benefit obligation at end of year	$ 2,560.7	$ 2,478.4	$ 786.3	$ 756.0
Change in plan assets				
Fair value of plan assets at beginning of year	$ 1,900.0	$ 1,681.5	$ 326.8	$ 286.5
Actual return on plan assets	(8.3)	244.1	(1.2)	39.1
Employer contributions	393.5	161.8	53.6	50.0
Plan participants' contributions	-	-	7.0	6.3
Benefits paid	(197.4)	(187.4)	(56.4)	(55.1)
Fair value of plan assets at end of year	$ 2,087.8	$ 1,900.0	$ 329.8	$ 326.8
Funded Status at end of year	$ (472.9)	$ (578.4)	$ (456.5)	$ (429.2)
Amounts recognized in the statement of financial position consist of:				
Noncurrent assets	$ -	$ -	$ 31.5	$ 32.9
Current liabilities	(3.3)	(3.3)	(21.1)	(17.8)
Noncurrent liabilities	(469.6)	(575.1)	(466.9)	(444.3)
Net amount recognized at end of year (b)	$ (472.9)	$ (578.4)	$ (456.5)	$ (429.2)
Amounts recognized in accumulated othercomprehensive income or regulatory asset/liability (c)				
Unrecognized transition asset obligation	$ -	$ -	$ 1.7	$ 2.9
Unrecognized prior service cost	(6.0)	(6.0)	(4.3)	(4.4)
Unrecognized actuarial loss	1,113.6	871.4	192.2	140.2
	$ 1,107.6	$ 865.4	$ 189.6	$ 138.7

(a) The change in benefit obligation for Pension Benefits represents the change in Projected Benefit Obligation while the change in benefit obligation for Other Postretirement Benefits represents the change in Accumulated Postretirement Benefit Obligation.

(b) NiSource recognizes in its Consolidated Balance Sheets the underfunded and overfunded status of its various defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation.

(c) NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement benefits costs is probable. These rate-regulated subsidiaries recorded regulatory assets and liabilities of $1,244.2 million and zero, respectively, as of December 31, 2011, and $962.7 million and $1.9 million, respectively, as of December 31, 2010 that would otherwise have been recorded to accumulated other comprehensive income (loss).

NiSource's accumulated benefit obligation for its pension plans was $2,523.5 million and $2,429.5 million as of December 31, 2011 and 2010, respectively. The accumulated benefit obligation as of a date is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered prior to that date and based on current and past compensation levels. The accumulated benefit obligation differs from the projected benefit obligation disclosed in the table above in that it includes no assumptions about future compensation levels.

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NiSource pension plans were underfunded by $472.9 million at December 31, 2011 compared to being underfunded at December 31, 2010 by $578.4 million. The improvement in funded status was due primarily to an increase in employer contributions in 2011, partially offset by unfavorable asset returns and a decrease in the discount rate. NiSource contributed $393.5 million and $161.8 million to its pension plans in 2011 and 2010, respectively.

NiSource's funded status for its other postretirement benefit plans declined by $27.3 million to an underfunded status of $456.5 million due primarily to unfavorable asset returns and a decrease in discount rate. NiSource contributed approximately $53.6 million and $50.0 million to its other postretirement benefit plans in 2011 and 2010, respectively. No amounts of NiSource's pension or other postretirement plans' assets are expected to be returned to NiSource or any of its subsidiaries in 2012.

A provision of the 2010 Health Care Act requires the elimination, effective January 1, 2011, of lifetime and restrictive annual benefit limits from certain active medical plans. The NiSource Consolidated Flex Medical Plan (the "Consolidated Flex Plan"), a component welfare benefit plan of the NiSource Life and Medical Benefits Program, covered both active and retired employees and capped lifetime benefits to certain retirees. NiSource examined the provisions of the 2010 Health Care Act and determined the enactment of the law in the first quarter of 2010 qualified as a significant event requiring remeasurement of other postretirement benefit obligations and plan assets as of March 31, 2010. Effective September 1, 2010, NiSource amended the Consolidated Flex Plan and established the NiSource Post-65 Retiree Medical Plan (the "Post-65 Retiree Plan") as a separate ERISA plan. In accordance with the amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan, Medicare supplement plan options for NiSource post-age 65 retirees and their eligible post-age 65 dependents are now offered under the Post-65 Retiree Plan, a retiree-only plan, and not under the Consolidated Flex Plan. The Post-65 Retiree Plan is not subject to the provisions of the 2010 Health Care Act requiring elimination of lifetime and restrictive annual benefit limits. The amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan required a second remeasurement of other postretirement benefit obligations and plan assets as of September 1, 2010. The effect of the change in the legislation and the plan amendment resulted in an increase to the other postretirement benefit obligation, net of plan assets, of $31.0 million and corresponding increases to regulatory assets and AOCI of $29.4 million and $1.6 million, respectively. Net periodic postretirement benefit cost for 2010 was also increased by approximately $2.2 million, of which $1.3 million was recognized during the second quarter of 2010 and $0.9 million was recognized during the third quarter of 2010.

The following table provides the key assumptions that were used to calculate the pension and other postretirement benefits obligations for NiSource's various plans as of December 31:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	**2011**	2010
Weighted-average assumptions to Determine Benefit Obligation				
Discount Rate	**4.60%**	5.00%	**4.88%**	5.29%
Rate of Compensation Increases	**4.00%**	4.00%	**-**	-
Health Care Trend Rates				
Trend for Next Year	**-**	-	**7.50%**	8.00%
Ultimate Trend	**-**	-	**5.00%**	5.00%
Year Ultimate Trend Reached	**-**	-	**2017**	2017

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

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	$ 4.2	$ (3.8)
Effect on accumulated postretirement benefit obligation	60.3	(54.8)

NiSource expects to make contributions of approximately $3.3 million to its pension plans and approximately $51.7 million to its postretirement medical and life plans in 2012.

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 NiSource'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 Postretirement Benefits	Federal Subsidy Receipts
Year(s)			
2012	$ 212.1	$ 54.4	$ 1.4
2013	220.2	54.9	1.7
2014	223.8	55.7	1.9
2015	217.7	56.1	2.0
2016	230.3	56.6	2.1
2017-2021	1,063.0	291.8	9.8

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

	Pension Benefits			Other Postretirement Benefits		
(in millions)	**2011**	2010	2009	**2011**	2010	2009
Components of Net Periodic Benefit Cost (Income)						
Service cost	**$ 37.5**	$ 39.2	$ 36.0	**$ 9.9**	$ 9.8	$ 8.8
Interest cost	**119.5**	125.7	143.1	**38.6**	41.4	47.7
Expected return on assets	**(167.0)**	(143.7)	(121.8)	**(26.6)**	(23.8)	(16.9)
Amortization of transitional obligation	**-**	-	-	**1.2**	1.3	8.0
Amortization of prior service cost	**0.2**	2.0	3.9	**(0.5)**	1.1	1.0
Recognized actuarial loss	**55.7**	57.8	65.8	**6.6**	6.7	7.8
Net Periodic Benefit Costs	**45.9**	81.0	127.0	**29.2**	36.5	56.4
Additional loss recognized due to:						
Settlement loss	**-**	1.3	-	**-**	-	-
Total Net Periodic Benefits Cost	**$ 45.9**	$ 82.3	$ 127.0	**$ 29.2**	$ 36.5	$ 56.4

NiSource recognized cost of $45.9 million for its pension plans in 2011 compared to cost of $82.3 million in 2010 due primarily to favorable long-term expected returns on plan assets in 2010 and increased employer contributions in 2010 compared to 2009. For its other postretirement benefit plans, NiSource recognized $29.2 million in cost in 2011 compared to $36.5 million in cost in 2010 due primarily to favorable returns on plan assets in 2010. For 2011 and 2010, pension and other postretirement benefit cost of approximately $58.3 million and $6.2 million, respectively, was capitalized as a component of plant or recognized as a regulatory asset or liability consistent with regulatory orders for certain of NiSource's regulated businesses.

The following table provides the key assumptions that were used to calculate the net periodic benefits cost for NiSource's various plans:

	Pension Benefits			Postretirement Benefits		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Weighted-average Assumptions to Determine Net Periodic Benefit Cost						
Discount Rate	**5.00%**	5.54%	6.92%	**5.29%**	5.86%	6.92%
Expected Long-Term Rate of Return on Plan Assets	**8.75%**	8.75%	8.75%	**8.75%**	8.75%	8.75%
Rate of Compensation Increases	**4.00%**	4.00%	4.00%	-	-	-

NiSource believes it is appropriate to assume an 8.75% rate of return on pension plan assets for its calculation of 2011 pension benefits cost. This is primarily based on asset mix and historical rates of return.

The following table provides other changes in plan assets and projected benefit obligations recognized in other comprehensive income or regulatory asset or liability:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2011**	2010	**2011**	2010
Other Changes in Plan Assets and Projected Benefit Obligations Recognized in Other Comprehensive Income or Regulatory Asset or Liability				
Settlements	-	(1.3)	-	-
Net prior service cost/(credit)	**0.2**	0.4	**(0.5)**	1.4
Net actuarial (gain)/loss	**297.9**	44.1	**58.7**	4.9
Less: amortization of transitional (asset)/obligation	-	-	**(1.3)**	(1.3)
Less: amortization of prior service cost	**(0.2)**	(2.0)	**0.5**	(1.1)
Less: amortization of net actuarial (gain) loss	**(55.7)**	(57.8)	**(6.6)**	(6.8)
Total Recognized in Other Comprehensive Income or Regulatory Asset or Liability	**$ 242.2**	$ (16.6)	**$ 50.8**	$ (2.9)
Amount Recognized in Net Periodic Benefits Cost and Other Comprehensive Income or Regulatory Asset or Liability	**$ 288.1**	$ 65.7	**$ 80.0**	$ 33.6

Based on a December 31 measurement date, the net unrecognized actuarial loss, unrecognized prior service cost (credit), and unrecognized transition obligation that will be amortized into net periodic benefit cost during 2012 for the pension plans are $81.2 million, $0.2 million and zero, respectively, and for other postretirement benefit plans are $9.5 million, $(0.5) million and $1.2 million, respectively.

13. Authorized Classes of Cumulative Preferred and Preference Stocks

NiSource has 20,000,000 authorized shares of Preferred Stock with a $0.01 par value, of which 4,000,000 shares are designated Series A Junior Participating Preferred Shares.

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; and 3,000,000 shares of Cumulative Preference with no par value.

As of December 31, 2011, NiSource and Northern Indiana had no preferred shares outstanding. All of NiSource's retained earnings at December 31, 2011 are free of restrictions.

14. Common Stock

As of December 31, 2011, NiSource had 400,000,000 authorized shares of common stock with a $0.01 par value.

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. NiSource has paid quarterly common dividends totaling $0.92 per share for the 2011, 2010 and 2009 years. By unanimous written consent dated January 27, 2012, the Board declared a quarterly common dividend of $0.23 per share, payable on February 20, 2012 to holders of record on February 6, 2012.

Dividend Reinvestment and Stock Purchase Plan. NiSource offers a Dividend Reinvestment and Stock Purchase Plan which allows participants to reinvest dividends and make voluntary cash payments to purchase additional shares of common stock on the open market.

Forward Agreements. On September 14, 2010, NiSource and Credit Suisse Securities (USA) LLC, as forward seller, closed an underwritten registered public offering of 24,265,000 shares of NiSource's common stock. All of the shares sold were borrowed and delivered to the underwriters by the forward seller. NiSource did not receive any of the proceeds from the sale of the borrowed shares, but NiSource will receive proceeds upon settlement of the Forward Agreements referred to below.

In connection with the public offering, NiSource entered into forward sale agreements ("Forward Agreements") with an affiliate of the forward seller covering an aggregate of 24,265,000 shares of NiSource's common stock. Settlement of the Forward Agreements is expected to occur no later than September 10, 2012. Subject to certain exceptions, NiSource may elect cash or net share settlement for all or a portion of its obligations under the Forward Agreements. Upon any physical settlement of the Forward Agreements, NiSource will deliver shares of its common stock in exchange for cash proceeds at the forward sale price, which initially is $15.9638 and is subject to adjustment as provided in the Forward Agreements. The equity forward initial forward price represents the public offering price of $16.50 per share, net of underwriting discounts and commissions. If the equity forward had been settled by delivery of shares at December 31, 2011, the Company would have received approximately $357.2 million based on a forward price of $14.7224 for the 24,265,000 shares. The Company currently anticipates settling the equity forward by delivering shares.

In accordance with ASC 815-40, *Derivatives and Hedging- Contracts in Entity's Own Equity,* NiSource has classified the Forward Agreements as an equity transaction. As a result of this classification, no amounts have been recorded in the consolidated financial statements as of and for the period ended December 31, 2011 in connection with the Forward Agreements. The only impact to the Consolidated Financial Statements is the inclusion of incremental shares within the calculation of fully diluted EPS under the treasury stock method. Refer to Note 1-M, "Earnings Per Share," for additional information.

15. Share-Based Compensation

Prior to May 11, 2010, NiSource issued long-term equity 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, restricted stock units, contingent stock units and dividend equivalents payable on grants of options, performance shares and contingent stock awards.

The Stockholders approved and adopted the NiSource Inc. 2010 Omnibus Incentive Plan (the "Omnibus Plan"), at the Annual Meeting of Stockholders held on May 11, 2010. The Omnibus Plan provides that the number of shares of common stock of the Company available for awards is 8,000,000 plus the number of shares subject to outstanding awards granted under either the 1994 Plan or the Director Plan (described below) that expire or terminate for any reason and no further awards are permitted to be granted under the 1994 Plan or the Director Plan. The types of awards authorized under the Omnibus Plan do not significantly differ from those previously allowed under the 1994 Plan. As of December 31, 2011, there were 8,315,014 shares reserved for future awards under the Omnibus Plan.

NiSource recognized stock-based employee compensation expense of $13.4 million, $11.2 million and $9.6 million during the years of 2011, 2010 and 2009, respectively, as well as related tax benefits of $4.7 million, $3.7 million and $4.0 million, respectively.

As of December 31, 2011, the total remaining unrecognized compensation cost related to nonvested awards amounted to $13.8 million, which will be amortized over the weighted-average remaining requisite service period of 1.7 years.

Stock Options . Option grants may be awarded with an exercise price equal to the average of the high and low market price on the day of the grant. As of December 31, 2011, the weighted average remaining contractual life of the options outstanding and exercisable was 1.9 years. Stock option transactions for the year ended December 31, 2011 were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at December 31, 2010	4,097,635	22.51
Granted	-	-
Exercised	(423,577)	20.70
Cancelled	(855,343)	24.81
Outstanding at December 31, 2011	2,818,715	22.09
Exercisable at December 31, 2011	2,818,715	22.09

No options were granted during the years ended December 31, 2011, 2010, and 2009. As of December 31, 2011, the aggregate intrinsic value for the options outstanding and exercisable was $4.9 million. During 2011, cash received from the exercise of options was $8.8 million and a tax benefit of $0.2 million was realized. No options were exercised during 2010 and 2009.

Restricted Stock Units . In 2011, NiSource granted restricted stock units of 142,593, subject to service conditions. The total grant date fair value of the restricted units was $2.4 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period of approximately three years. The service conditions for 120,355 units lapse on January 2014 when 100% of the units vest. If before January 2014, the employee terminates employment due to (1) Retirement or Disability (as defined in the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the restricted units on the date of termination. In the event of a Change-in-Control (as defined in the award agreement), all unvested restricted unties will immediately vest. Termination due to any other reason will result in all restricted units awarded being forfeited effective on the employee's date of termination. The service conditions lapse for the remaining 22,236 units between March 2012 and July 2014. As of December 31, 2011, 139,540 nonvested restricted stock units were granted and outstanding for the 2011 award.

In 2010, NiSource granted restricted stock units of 265,134, subject to service conditions. The total grant date fair value of the restricted units was $3.5 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period of approximately three years. The service conditions for 212,428 units lapse on January 2013 when 100% of the units vest. If before January 2013, the employee terminates employment due to (1) Retirement or Disability (as defined in the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the restricted units on the date of termination. In the event of a Change-in-Control (as defined in the award agreement), all unvested restricted units will immediately vest. Termination due to any other reason will result in all restricted units awarded being forfeited effective on the employee's date of termination. The service conditions lapse for the remaining 52,706 units between August 2012 and December 2014. As of December 31, 2011, 239,110 nonvested restricted stock units were granted and outstanding for the 2010 award.

In 2009, NiSource granted restricted stock units of 335,068, subject to service conditions. The total grant date fair value of the restricted units was $2.5 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period of approximately three years. The service conditions for 313,568 units lapsed on January 2012. The service conditions lapse for the remaining 21,500 units between August 2012 and June 2014. As of December 31, 2011, 275,904 nonvested restricted stock units were granted and outstanding for the 2009 award.

	Restricted Stock Units	Weighted Average Grant Date Fair Value ($)
Nonvested at December 31, 2010	762,541	11.26
Granted	142,593	17.13
Forfeited	(50,071)	9.95
Vested	(200,509)	14.62
Nonvested and expected to vest at December 31, 2011	**654,554**	**11.61**

Time-accelerated Awards . 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 vested 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 had been met, as measured at the end of the third year after the grant date, the awards would have vested at the end of the third year. The total shareholder return measures established were not met; therefore, these grants did not have an accelerated vesting period. During the first quarter of 2010, all awards with time-accelerated vesting provisions vested due to the lapse of service conditions. There was no activity related to restricted shares and restricted stock units that contain provisions for time-accelerated vesting for the year ended December 31, 2011.

Performance Shares . In 2011, NiSource granted 749,237 performance shares subject to performance conditions. The grant date fair-value of the awards was $12.0 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and total debt that NiSource defines as total debt adjusted for significant movement in natural gas prices and other adjustments determined by the Board. The service conditions lapse on January 31, 2014 when the shares vest provided the performance criteria are satisfied. If the employee terminates employment before January 28, 2014 due to (1) Retirement or Disability (as defined in the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the performance shares on the date of termination. In the event of a Change-in-Control (as defined in the award agreement), all unvested performance shares will immediately vest. Termination due to any other reason will result in all performance shares awarded being forfeited effective on the employee's date of termination. As of December 31, 2011, 692,997 nonvested performance shares were granted and outstanding for the 2011 award.

In 2010, NiSource granted 662,969 contingent stock units subject to performance conditions. The grant date fair-value of the awards was $8.6 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and total debt that NiSource defines as total debt adjusted for significant movement in natural gas prices and other adjustments determined by the Board. The service conditions lapse on January 31, 2013 when 100% of the shares vest provided the performance criteria is satisfied. If the employee terminates employment before January 31, 2013 due to (1) Retirement or Disability (as defined by the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the contingent units on the date of termination. In the event of a Change-in-Control (as defined by the award agreement), all unvested contingent stock units will immediately vest. Termination due to any other reason will result in all contingent units awarded being forfeited effective on the employee's date of termination. As of December 31, 2011, 601,041 nonvested contingent stock units were granted and outstanding for the 2010 award.

In 2009, NiSource granted 940,707 contingent stock units subject to performance conditions. The grant date fair-value of the awards was $7.0 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and total debt that NiSource defines as total debt adjusted for significant movement in natural gas prices and other adjustments determined by the Board. The service conditions lapse on January 31, 2012 when 100% of the shares vest provided the performance criteria are satisfied. If the employee terminates employment before January 31, 2012 due to (1) Retirement or Disability (as defined by the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the contingent units on the date of termination. In the event of a Change-in-Control (as defined by the award agreement), all unvestsed contingent stock units will immediately vest. Termination due to any other reason will result in all contingent units awarded being forfeited effective on the employee's date of termination. As of December 31, 2011, 774,082 nonvested contingent stock units were granted and outstanding for the 2009 award.

	Contingent Awards	Weighted Average Grant Date Fair Value ($)
Nonvested at December 31, 2010	1,977,628	10.86
Granted	749,237	16.06
Forfeited	(296,344)	13.07
Vested	(362,401)	13.62
Nonvested and expected to vest at December 31, 2011	**2,068,120**	**11.98**

Non-employee Director Awards . As of May 11, 2010, awards to non-employee directors may be made only under the Omnibus Plan. Currently, restricted stock units are granted annually to non-employee directors, subject to a non-employee director's election to defer receipt of such restricted stock unit award. The non-employee director's restricted stock units vest on the last day of the non-employee director's annual term corresponding to the year the restricted stock units were awarded subject to special pro-rata vesting rules in the event of Retirement of Disability (as defined in the award agreement), or death. The vested restricted stock units are payable as soon as practicable following vesting except as otherwise provided pursuant to the non-employee director's election to defer. As of December 31, 2011, 113,476 restricted stock units had been issued under the Omnibus Plan.

Only restricted stock units remain outstanding under the prior plan for non-employee directors, the Amended and Restated Non-employee Director Stock Incentive Plan (the "Director Plan"). All such awards are fully vested and shall be distributed to the directors upon their separation from the Board. As of December 31, 2011, 241,401 restricted stock units remain outstanding under the Director Plan and as noted above no further shares may be issued under the Director Plan.

401 (k) Match, Profit Sharing and Company Contribution. NiSource has a voluntary 401(k) savings plan covering eligible employees that allows for periodic discretionary matches as a percentage of each participant's contributions in newly issued shares of common stock. NiSource also has a retirement savings plan that provides for discretionary profit sharing contributions of shares of common stock to eligible employees based on earnings results; and, effective January 1, 2010, eligible exempt employees hired after January 1, 2010, receive a non-elective company contribution of three percent of eligible pay in shares of common stock. For the years ended December 31, 2011, 2010 and 2009, NiSource recognized 401(k) match, profit sharing and non-elective contribution expense of $25.9 million, $19.7 million and $14.9 million, respectively.

16. Long-Term Debt

NiSource Finance is a 100% 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. Prior to 2000, the function of NiSource Finance was performed by Capital Markets. NiSource Finance obligations are fully and unconditionally guaranteed by NiSource. Consequently no separate financial statements for NiSource Finance are required to be reported. No other NiSource subsidiaries guarantee debt.

On November 23, 2011, NiSource Finance issued $250.0 million of 4.45% senior unsecured notes that mature December 1, 2021 and $250.0 million of 5.80% senior unsecured notes that mature February 1, 2042.

On November 14, 2011, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately $125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately $228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which $124.7 million were accepted for purchase. In accordance with the provisions of ASC 470, *Debt,* NiSource Finance determined the debt issued on November 23, 2011, was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a $53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

During July 2011, Northern Indiana redeemed $18.7 million of its medium-term notes, with an average interest rate of 7.30%.

On June 10, 2011, NiSource Finance issued $400.0 million of 5.95% senior unsecured notes that mature June 15, 2041.

On December 8, 2010, NiSource Finance issued $250.0 million of 6.25% senior unsecured notes that mature December 15, 2040.

On December 1, 2010, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.80% notes due 2019. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2019 notes were accepted. On December 14, 2010, NiSource Finance announced that approximately $272.9 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered. Based upon the principal amount of the 2016 notes tendered, NiSource Finance increased the maximum aggregate principal amount of 2016 notes it would purchase from $250.0 million to $325.0 million and terminated the portion of the tender offer related to its 6.80% notes due 2019. On December 30, 2010, NiSource Finance announced that $273.1 million of these notes were successfully tendered and accepted for purchase. In accordance with the provisions of ASC 470, *Debt,* NiSource Finance determined the debt issued on December 8, 2010 was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a $96.7 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

On November 15, 2010, NiSource Finance redeemed $681.8 million of its 7.875% unsecured notes.

Following are the outstanding long-term debt sinking fund requirements and maturities at December 31, 2011. The long-term debt maturities shown below include capital lease obligations and the debt of certain low-income housing real estate investments. NiSource does not guarantee the long-term debt obligations of the low-income housing real estate investments.

Year Ending December 31, *(in millions)*		
2012	$	327.3
2013		501.4
2014		567.3
2015		237.0
2016		426.7
After		4,572.1
Total (1)	$	6,631.8

(1) This amount excludes $37.4 million of unamortized discount and premium.

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

Of NiSource's long-term debt outstanding at December 31, 2011, $109.0 million was issued by NiSource's subsidiary, 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 Markets' 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 from 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 Markets' creditors. The carrying value of the NiSource assets, excluding the assets of Northern Indiana, was $15.0 billion at December 31, 2011.

NiSource Finance maintains $500.0 million notional value of interest rate swap agreements relating to 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 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for further information regarding interest rate swaps.

NiSource is subject to one financial covenant under its four-year revolving credit facility. This covenant requires NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%. As of December 31, 2011, the ratio was 61.4%.

NiSource is also subject to certain other non-financial covenants under the revolving credit facility. 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 subset of assets equal to $150 million. 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 and dispositions for a price not materially less than the fair market value of the assets disposed of that do not impair the ability of NiSource and NiSource Finance to perform obligations under the revolving credit facility, and that, together with all other such dispositions, would not have a material adverse effect. The revolving credit facility 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 indentures generally do not contain any financial maintenance covenants. However, NiSource's 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 subset of assets capped at 10% of NiSource's consolidated net tangible assets.

Notes to Consolidated Financial Statements

17. Short-Term Borrowings

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to $500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. Commercial paper issuances are supported by available capacity under NiSource's $1.5 billion unsecured revolving credit facility, which expires in March 2015. At December 31, 2011, NiSource had $402.7 million of commercial paper outstanding.

On March 3, 2011, NiSource Finance entered into a new $1.5 billion four-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility has a termination date of March 3, 2015 and replaced an existing $1.5 billion five-year credit facility, which would have expired during July 2011. The purpose of the facility is to fund ongoing working capital requirements and for general corporate purposes, including supporting liquidity for NiSource's commercial paper program, and provides for the issuance of letters of credit. At December 31, 2011, NiSource had $725.0 million of outstanding borrowings under this facility.

As of December 31, 2011 and 2010, NiSource had $37.5 million and $32.5 million, respectively, of stand-by letters of credit outstanding, of which $19.2 million and $14.2 million, respectively, were under the revolving credit facility.

Beginning January 1, 2010, transfers of accounts receivable that previously qualified for sales accounting no longer qualify and are accounted for as secured borrowings resulting in the recognition of short-term debt on the Consolidated Balance Sheets in the amount of $231.7 million and $275.0 million as of December 31, 2011 and 2010, respectively. Refer to Note 19, "Transfers of Financial Assets," for additional information.

Short-term borrowings were as follows:

At December 31, *(in millions)*		2011		2010
Commercial Paper weighted average interest rate of 1.01% at December 31, 2011	**$**	**402.7**	$	-
Credit facilities borrowings weighted average interest rate of 1.99% and 0.78% at December 31, 2011 and 2010, respectively	**$**	**725.0**	$	1,107.5
Accounts receivable securitization facility borrowings		**231.7**		275.0
Total short-term borrowings	**$**	**1,359.4**	$	1,382.5

Total short-term borrowings as of March 31, 2011, June 30, 2011 and September 30, 2011 were $1,263.0 million, $870.4 million and $1,234.0 million, respectively.

18. Fair Value Disclosures

A Fair Value Measurements . NiSource adopted the provisions of ASC Topic 820 – Fair Value Measurements and Disclosures for financial assets and liabilities on January 1, 2008 and non-financial assets and liabilities on January 1, 2009. There was no impact on retained earnings as a result of the adoption.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
Notes to Consolidated Financial Statements

Recurring Fair Value Measurements . The following tables present financial assets and liabilities measured and recorded at fair value on NiSource's Consolidated Balance Sheet on a recurring basis and their level within the fair value hierarchy as of December 31, 2011 and December 31, 2010:

Recurring Fair Value Measurements December 31, 2011 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2011
Assets				
Commodity price risk management assets:				
Physical price risk programs	$ -	$ 140.7	$	$ 140.7
Financial price risk programs (a)	148.3	2.5	0.3	151.1
Interest rate risk activities	-	56.7	-	56.7
Available-for-sale securities	32.9	63.1	-	96.0
Total	$ 181.2	$ 263.0	$ 0.3	$ 444.5
Liabilities				
Commodity price risk management liabilities:				
Physical price risk programs	$ -	$ 3.9	$ -	$ 3.9
Financial price risk programs	301.1	1.7	-	302.8
Total	$ 301.1	$ 5.6	$ -	$ 306.7

(a) During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business. The financial price risk program amount above is shown gross and has not been adjusted for the reserve.

Recurring Fair Value Measurements December 31, 2010 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
Assets				
Commodity Price risk management assets:				
Physical price risk programs	$ -	$ 161.4	$ -	$ 161.4
Financial price risk programs	173.8	3.2	0.3	177.3
Interest rate risk activities	-	61.1	-	61.1
Available-for-sale securities	43.5	37.9	-	81.4
Total	$ 217.3	$ 263.6	$ 0.3	$ 481.2
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	$ -	$ 3.6	$ -	$ 3.6
Financial price risk programs	348.5	3.3	0.1	351.9
Total	$ 348.5	$ 6.9	$ -	$ 355.5

Price risk management assets and liabilities include commodity exchange-traded and non-exchange-based derivative contracts. Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures.

To determine the fair value of derivatives associated with NiSource's unregulated natural gas marketing business, certain reserves were calculated. These reserves were primarily determined by evaluating the credit worthiness of certain customers, fair value of future cash flows, and the cost of maintaining restricted cash.

Price risk management assets also include fixed-to-floating interest-rate swaps, which are designated as fair value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. NiSource uses a calculation of future cash inflows and estimated future outflows related to the swap agreements, which are discounted and netted to determine the current fair value. Additional inputs to the present value calculation include the contract terms, as well as market parameters such as current and projected interest rates and volatility. As they are based on observable data and valuations of similar instruments, the interest-rate swaps are categorized in Level 2 in the fair value hierarchy. Credit risk is considered in the fair value calculation of the interest rate swap.

Available-for-sale securities are investments pledged as collateral for trust accounts related to NiSource's wholly-owned insurance company. Available-for-sale securities are included within "Other investments" in the Consolidated Balance Sheets. Securities classified within Level 1 include U.S. Treasury debt securities which are highly liquid and are actively traded in over-the-counter markets. NiSource values corporate and mortgage-backed debt securities using a matrix pricing model that incorporates market-based information. These securities trade less frequently and are classified within Level 2. Unrealized gains and losses from available-for-sale securities are included in other comprehensive income. The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale debt securities at December 31, 2011 and 2010 were:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities, December 31, 2011				
U.S. Treasury securities	$ 36.7	$ 1.7	$ -	$ 38.4
Corporate/Other bonds	56.3	1.6	(0.3)	57.6
Total Available-for-sale debt securities	**$ 93.0**	**$ 3.3**	**$ (0.3)**	**$ 96.0**

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities, December 31, 2010				
U.S. Treasury securities	$ 43.4	$ 0.6	$ (0.5)	$ 43.5
Corporate/Other bonds	36.1	2.0	(0.2)	37.9
Total Available-for-sale debt securities	**$ 79.5**	**$ 2.6**	**$ (0.7)**	**$ 81.4**

For the year ended December 31, 2011, 2010, and 2009 the realized gain on sale of available for sale U.S. Treasury debt securities was $0.5 million, $0.7 million and $1.1 million, respectively. For the year ended December 31, 2011, 2010, and 2009 the realized gain on sale of available for sale Corporate/Other bond debt securities was $0.9 million, $1.0 million, and $0.9 million.

The cost of maturities sold is based upon specific identification. At December 31, 2011, there are no U.S. Treasury debt securities with maturities of less than a year. At December 31, 2011 approximately $1.0 million of Corporate/Other bonds have maturities of less than a year while the remaining securities have maturities of greater than one year.

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the periods ended December 31, 2011 and December 31, 2010:

Period Ended December 31, 2011 *(in millions)*	Financial Transmission Rights	Other Derivatives	Total
Balance as of January 1, 2011	$ -	$ 0.2	$ 0.2
Total gains (losses) (unrealized/realized)			
Included in regulatory assets/liabilities	-	-	-
Purchases	-	(1.1)	(1.1)
Settlements	-	1.2	1.2
Balance as of December 31, 2011	$ -	$ 0.3	$ 0.3
Change in unrealized gains/(losses) relating to instruments still held as of December 31, 2011	$ -	$ (0.4)	$ (0.4)

Period Ended December 31, 2010 *(in millions)*	Financial Transmission Rights	Other Derivatives	Total
Balance as of January 1, 2010	$ 1.9	$ 0.2	$ 2.1
Total gains (losses) (unrealized/realized)			
Included in regulatory assets/liabilities	(16.3)	-	(16.3)
Settlements	14.4	-	14.4
Balance as of December 31, 2010	$ -	$ 0.2	$ 0.2
Change in unrealized gains/(losses) relating to instruments still held as of December 31, 2010	$ -	$ -	$ -

As discussed in Note 9, Risk Management and Energy Marketing Activities, part of the MISO Day 2 initiative, Northern Indiana obtains FTRs, which help to offset congestion costs due to the MISO Day 2 activity. These instruments are considered derivatives and are classified as Level 3 and are reflected in the table above. FTRs are valued based on the value of allocated ARRs and forecasted congestion costs. Since congestion costs are recoverable through the fuel cost recovery mechanism, the related gains and losses associated with marking these derivatives to market are recorded as a regulatory asset or liability. Northern Indiana also writes options for regulatory incentive purposes which are also considered in the Level 3 valuations. Realized gains and losses for these Level 3 recurring items are included in income within Cost of Sales on the Statements of Consolidated Income. Unrealized gains and losses from Level 3 recurring items are included within Regulatory assets or Regulatory liabilities on the Consolidated Balance Sheets.

Non-recurring Fair Value Measurements . During the twelve months ended December, 31 2011, NiSource recorded $14.7 million of asset impairments as a result of third party appraisals. The fair value of these assets was determined based on unobservable inputs and is deemed to be a Level 3 fair value measurement under the fair value hierarchy. See Note 3, "Impairments, Restructuring and Other Charges", for further discussion.

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There were no significant non-recurring fair value measurements recorded during the twelve months ended December 31, 2010.

B. Other Fair Value Disclosures for Financial Instruments . NiSource has certain financial instruments that are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, customer deposits and short-term borrowings. NiSource's long-term borrowings are recorded at historical amounts unless designated as a hedged item in a fair value hedge.

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.

Long-term investments . NiSource has corporate owned life insurance which is measured and recorded at cash surrender value. NiSource's investments in corporate owned life insurance at December 31, 2011 and 2010 were $26.2 million and $26.0 million, respectively.

Long-term debt . 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 2011**	**Estimated Fair Value 2011**	Carrying Amount 2010	Estimated Fair Value 2010
Long-term investments	**$ 26.7**	**$ 25.7**	$ 26.7	$ 25.4
Long-term debt (including current portion)	**6,594.4**	**7,369.4**	5,970.3	6,482.4

19. Transfers of Financial Assets

Beginning January 1, 2010, transfers of accounts receivable that previously qualified for sales accounting no longer qualify and are accounted for as secured borrowings resulting in the recognition of short-term borrowings on the Consolidated Balance Sheets. The maximum amount of debt that can be recognized related to NiSource's accounts receivable programs is $515 million.

Prior to January 1, 2010, NiSource's accounts receivable programs qualified for sale accounting based upon the conditions met in ASC Topic 860, *Transfers and Servicing* .

All accounts receivables sold to the commercial paper conduits are valued at face value, which approximates fair value due to their short-term nature. The amount of the undivided percentage ownership interest in the accounts receivables sold is determined in part by required loss reserves under the agreements. Below is information about the accounts receivable securitization agreements entered into by NiSource's subsidiaries.

On October 23, 2009, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CGORC, a wholly-owned subsidiary of Columbia of Ohio. CGORC, in turn, is party to an agreement with BTMU and RBS, also dated October 23, 2009, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by BTMU and RBS. On October 21, 2011, the agreement was renewed with an amendment increasing the maximum seasonal program limit from $200 million to $240 million. The amended agreement expires on October 19, 2012, and can be renewed if mutually agreed to by all parties. As of December 31, 2011, $102.5 million of accounts receivable had been transferred by CGORC. CGORC is a separate corporate entity from NiSource and Columbia of Ohio, with its own separate obligations, and upon a liquidation of CGORC, CGORC's obligations must be satisfied out of CGORC's assets prior to any value becoming available to CGORC's stockholder. Under the agreement, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

On October 23, 2009, Northern Indiana entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to NARC, a wholly-owned subsidiary of Northern Indiana. NARC, in turn, is party to an agreement with RBS, also dated October 23, 2009, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by RBS. The maximum seasonal program limit under the terms of the agreement is $200 million. On August 31, 2011, the agreement was renewed, having a new scheduled termination date of August 29, 2012, and can further be renewed if mutually agreed to by both parties. As of December 31, 2011, $100.0 million of accounts receivable had been transferred by NARC. NARC is a separate corporate entity from NiSource and Northern Indiana, with its own separate obligations, and upon a liquidation of NARC, NARC's obligations must be satisfied out of NARC's assets prior to any value becoming available to NARC's stockholder. Under the agreement, an event of termination occurs if Northern Indiana's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB or Ba2 at either Standard & Poor's or Moody's, respectively.

On March 15, 2010, Columbia of Pennsylvania entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CPRC, a wholly-owned subsidiary of Columbia of Pennsylvania. CPRC, in turn, is party to an agreement with BTMU, also dated March 15, 2010, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by BTMU. The maximum seasonal program limit under the terms of the agreement is $75 million. On March 14, 2011, the agreement was renewed, having a new scheduled termination date of March 13, 2012, and can be further renewed if mutually agreed to by both parties. As of December 31, 2011, $29.2 million of accounts receivable has been transferred by CPRC. CPRC is a separate corporate entity from NiSource and Columbia of Pennsylvania, with its own separate obligations, and upon a liquidation of CPRC, CPRC's obligations must be satisfied out of CPRC's assets prior to any value becoming available to CPRC stockholder. Under the agreement, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

The following tables reflect the gross and net receivables transferred as well as short-term borrowings related to the securitization transactions as of December 31, 2011 and December 31, 2010 for Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania:

(in millions)	**December 31, 2011**	December 31, 2010
Gross Receivables interest	$ 510.5	$ 655.6
Less: Receivables not transferred	278.8	380.6
Net receivables transferred	$ 231.7	$ 275.0
Short-term debt due to asset securitization	$ 231.7	$ 275.0

For the year ended December 31, 2009, NiSource received proceeds from receivables sold of $2,808.4 million, remitted collections to the commercial paper conduits of $2,923.4 million and repurchased receivables of $133.1 million. This resulted in a net use of operating cash flows of $248.1 million. Additionally, for the year ended December 31, 2009, $8.9 million of fees associated with the securitization transactions were recorded as other, net expense.

Beginning January 1, 2010, transfers of accounts receivable that previously qualified for sale accounting no longer qualify and are accounted for as secured borrowings. As such, at December 31, 2011 and 2010, the entire gross receivables balance remains on the Consolidated Balance Sheets and short-term borrowings are recorded in the amount of proceeds received from the commercial paper conduits involved in the transactions. During 2011 and 2010, $43.3 million and $275.0 million was recorded as cash from financing activities related to the change in short-term borrowings due to the securitization transactions, respectively. For the year ended December 2011 and 2010, $3.8 million and $6.3 million of fees associated with the securitization transactions were recorded as interest expense, respectively. Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania remain responsible for collecting on the receivables securitized and the receivables cannot be sold to another party.

20. 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 guarantees and indemnities in existence at December 31, 2011 and the years in which they expire are:

(in millions)	Total	2012	2013	2014	2015	2016	After
Guarantees of subsidiaries debt	$ 6,120.8	$ 315.0	$ 420.3	$ 500.0	$ 230.0	$ 291.5	$ 4,364.0
Guarantees supporting energy commodity contracts of subsidiaries	148.4	66.5	-	-	80.0	-	1.9
Accounts receivable securitization	231.7	231.7	-	-	-	-	-
Lines of credit	1,127.7	1,127.7	-	-	-	-	-
Letters of credit	37.5	36.2	0.3	1.0	-	-	-
Other guarantees	272.5	12.0	224.3	32.2	-	-	4.0
Total commercial commitments	$ 7,938.6	$ 1,789.1	$ 644.9	$ 533.2	$ 310.0	$ 291.5	$ 4,369.9

Guarantees of Subsidiaries Debt . NiSource has guaranteed the payment of $6.1 billion of debt for various wholly-owned subsidiaries including NiSource Finance and Columbia of Massachusetts, and through a support agreement, Capital Markets, which is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain 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. On October 3, 2011, NiSource executed a Second Supplemental Indenture to the original Columbia of Massachusetts Indenture dated April 1, 1991, for the specific purpose of guaranteeing Columbia of Massachusetts' outstanding medium-term notes.

Guarantees Supporting Commodity Transactions of Subsidiaries . NiSource has issued guarantees, which support up to $148.4 million of commodity-related payments for its current subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas services. 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 and Accounts Receivable Advances . On March 3, 2011, NiSource Finance entered into a new $1.5 billion four-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an existing $1.5 billion five-year credit facility which would have expired during July 2011. The new facility has a termination date of March 3, 2015. The purpose of the facility is to fund ongoing working capital requirements and for general corporate purposes, including supporting liquidity for NiSource's commercial paper program, and provides for the issuance of letters of credit. At December 31, 2011, NiSource had $725.0 million in borrowings under its four-year revolving credit facility, $402.7 million outstanding under its commercial paper program and $231.7 million outstanding under its accounts receivable securitization agreements. At December 31, 2011, NiSource had issued stand-by letters of credit of approximately $37.5 million for the benefit of third parties. See Note 17, "Short-term Borrowings," of the Notes to Consolidated Financial Statements for additional information.

Other Guarantees or Obligations . On June 30, 2008, NiSource's subsidiary, PEI, sold Whiting Clean Energy to BPAE for $216.7 million which included $16.1 million in working capital. The agreement with BPAE contains representations, warranties, covenants and closing conditions. NiSource has executed purchase and sales agreement guarantees totaling $220 million which guarantee performance of PEI's covenants, agreements, obligations, liabilities, representations and warranties under the agreement with BPAE. No amounts related to the purchase and sale agreement guarantees are reflected in the Consolidated Balance Sheet as of December 31, 2011. These guarantees are due to expire in June 2013.

NiSource has additional purchase and sale agreement guarantees totaling $30.0 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 sale 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.

In connection with Millennium's refinancing of its long-term debt in August 2010, NiSource provided a letter of credit to Union Bank N.A., as Collateral Agent for deposit into a debt service reserve account as required under the Deposit and Disbursement Agreement governing the Millennium notes offering. This account is to be drawn upon by the note holders in the event that Millennium is delinquent on its principal and interest payments. The value of NiSource's letter of credit represents 47.5% (NiSource's ownership percentage in Millennium) of the Debt Service Reserve Account requirement, or $16.2 million. The total exposure for NiSource is $16.2 million. NiSource recorded an accrued liability of $1.5 million related to the inception date fair value of this guarantee as of December 31, 2011.

NiSource has issued other guarantees supporting derivative related payments associated with interest rate swap agreements issued by NiSource Finance, operating leases for many of its subsidiaries and for other agreements entered into by its current and former subsidiaries.

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 impact on NiSource's consolidated financial position.

C. Tax Matters . NiSource records liabilities for potential income tax assessments. The accruals relate to tax positions in a variety of taxing jurisdictions and are based on management's estimate of 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 part of the IRS's Large and Mid-Size Business program. As a result each year's federal income tax return is typically audited by the IRS. As of December 31, 2011, tax years through 2007 have been audited and are effectively closed to further assessment. The audit of tax years 2008 and 2009 began on June 2, 2011. As of December 31, 2011, there were no state income tax audits in progress that would have a material impact on the consolidated financial statements.

NiSource is currently being audited for sales and use tax compliance in the states of Virginia, Kentucky, Pennsylvania, Ohio, Maine and Massachusetts.

D. Environmental Matters.

NiSource operations are subject to environmental statutes and regulations related to air quality, water quality, hazardous waste and solid waste. NiSource believes that it is in substantial compliance with those environmental regulations currently applicable to its operations and believes that it has all necessary permits to conduct its operations.

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, 2011 and 2010, NiSource had recorded reserves of approximately $173.5 million and $79.8 million, respectively, to cover environmental remediation at various sites. See below for a discussion regarding the increase in the reserves in 2011. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated. The original estimates for cleanup can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including currently enacted laws and regulations, the nature and extent of contamination, the method of cleanup, and the availability of cost recovery from customers. These expenditures are not currently estimable at some sites. NiSource periodically adjusts its reserves as information is collected and estimates become more refined.

Air

The actions listed below could require further reductions in emissions from various emission sources. NiSource will continue to closely monitor developments in these matters.

Climate Change. Future legislative and regulatory programs could significantly restrict emissions of GHGs or could impose a cost or tax on GHG emissions. Recently, proposals have been developed to implement Federal, state and regional GHG programs and to create renewable energy standards.

In 2009 and 2010, the United States Congress considered a number of legislative proposals to regulate GHG emissions. The United States House of Representatives passed a comprehensive climate change bill in June 2009 that would have created a GHG-cap-and trade system and implemented renewable energy standards. Bills on the same topics were introduced in the Senate in 2009 and 2010, but failed to garner enough support to pass.

If a Federal or state comprehensive climate change bill were to be enacted into law, the impact on NiSource's financial performance would depend on a number of factors, including the overall level of required GHG reductions, the renewable energy targets, the degree to which offsets may be used for compliance, the amount of recovery allowed from customers, and the extent to which NiSource would be entitled to receive CO_2 allowances at no cost. Comprehensive Federal or state GHG regulation could result in additional expense or compliance costs that may not be fully recoverable from customers and could materially impact NiSource's financial results.

National Ambient Air Quality Standards. The CAA requires EPA to set national air quality standards for particulate matter and five other pollutants (the NAAQS) considered harmful to public health and the environment. Periodically EPA imposes new or modifies existing NAAQS. States that contain areas that do not meet the new or revised standards must take steps to maintain or achieve compliance with the standards. These steps could include additional pollution controls on boilers, engines, turbines, and other facilities owned by electric generation, gas distribution, and gas transmission operations.

The following NAAQS were recently added or modified:

Particulate Matter: In 2006, the EPA issued revisions to the NAAQS for particulate matter. The final rule (1) increased the stringency of the current fine particulate (PM2.5) standard, (2) added a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter), and (3) revoked the annual standards for coarse particulate (PM10) while retaining the 24-hour PM10 standards. These actions were challenged in a case before the DC Court of Appeals, *American Farm Bureau Federation et al. v. EPA.* In 2009, the appeals court granted portions of the plaintiffs' petitions challenging the fine particulate standards but denied portions of the petitions challenging the standards for coarse particulate. State plans implementing the new standard for inhalable coarse particulate and the modified 24-hour standard for fine particulate are expected in 2012. The annual and secondary PM2.5 standards have been remanded to the EPA for reconsideration.

Ozone (eight hour): On September 2, 2011, the EPA announced it would implement its 2008 eight-hour ozone NAAQS rather than tightening the standard in 2012. The EPA will review, and possibly revise, the standard in 2013 consistent with CAA requirements. Northern Indiana will continue to monitor this matter and cannot estimate the impact of any new rules at this time.

Nitrogen Dioxide (NO2): The EPA revised the NO2 NAAQS by adding a one-hour standard while retaining the annual standard. The new standard could impact some NiSource combustion sources. EPA will designate areas that do not meet the new standard beginning in 2012. States with areas that do not meet the standard will need to develop rules to bring areas into compliance within five years of designation. Additionally, under certain permitting circumstances emissions from some existing NiSource combustion sources may need to be assessed and compared to the revised NO2 standards before areas are designated. Petitions challenging the rule have been filed by various parties. NiSource will continue to monitor this matter and cannot estimate the impact of these rules at this time.

National Emission Standard for Hazardous Air Pollutants. On August 20, 2010, the EPA revised national emission standards for hazardous air pollutants for certain stationary reciprocating internal combustion engines. Compliance requirements vary by engine type and will generally be required within three years. NiSource is continuing its evaluation of the cost impacts of the final rule and estimates the cost of compliance to be $20 - $25 million.

Waste
NiSource subsidiaries are potentially responsible parties at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws. Additionally, a program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors may have liability. The program has identified 67 such sites where liability is probable. Remedial actions at many of these sites are being overseen by state or federal environmental agencies through consent agreements or voluntary remediation agreements.

During the fourth quarter of 2011, NiSource completed a probabilistic model to estimate its future remediation costs related to its MGP sites. The model was prepared by a third party and incorporates NiSource and general industry experience with remediating MGP sites. NiSource accordingly increased its liability for estimated remediation costs by $71.1 million. The total liability at NiSource related to the facilities subject to remediation was $139.5 million and $66.7 million at December 31, 2011 and 2010, respectively. The liability represents NiSource's best estimate of the probable cost to remediate the facilities. NiSource believes that it is reasonably possible that remediation costs could vary by as much as $25 million in addition to the costs noted above. Remediation costs are estimated based on the best available information, applicable remediation standards at the balance sheet date, and experience with similar facilities.

Additional Issues Related to Individual Business Segments

The sections above describe various regulatory actions that affect Gas Transmission and Storage Operations, Electric Operations, and certain other discontinued operations for which NiSource has retained a liability. Specific information is provided below.

Gas Transmission and Storage Operations.

Waste
Columbia Transmission continues to conduct characterization and remediation activities at specific sites under a 1995 AOC (subsequently modified in 1996 and 2007). The 1995 AOC originally covered 245 major facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. As a result of the 2007 amendment, approximately 50 facilities remain subject to the terms of the AOC. During the third quarter of 2011, Columbia Transmission completed a study to estimate its future remediation requirements related to the AOC. Columbia Transmission accordingly increased its liability for estimated remediation costs by $25.6 million. The total liability at Columbia Transmission related to the facilities subject to remediation was $30.0 million and $9.5 million at December 31, 2011 and 2010, respectively. The liability represents Columbia Transmission's best estimate of the cost to remediate the facilities or manage the site until retirement. A Response Action Work Plan consistent with this estimate was submitted to the EPA in the fourth quarter of 2011 and subsequently approved. Remediation costs are estimated based on the information available, applicable remediation standards, and experience with similar facilities. Columbia Transmission expects that the remediation for these facilities will be completed in 2015.

One of the facilities subject to the 1995 AOC is the Majorsville Operations Center, which was remediated under an EPA approved Remedial Action Work Plan in summer 2008. Pursuant to the Remedial Action Work Plan, Columbia Transmission completed a project that stabilized residual oil contained in soils at the site and in sediments in an adjacent stream. Columbia Transmission continues to monitor the site subject to EPA oversight. On April 23, 2009, PADEP issued an NOV to Columbia Transmission, alleging that the remediation did not fully address the contamination. The NOV asserts violations of the Pennsylvania Clean Streams Law and the Pennsylvania Solid Waste Management Act and includes a proposed penalty of $1 million. Columbia Transmission is unable to estimate the likelihood or cost of potential penalties or additional remediation at this time.

Electric Operations.

Air
Northern Indiana expects to become subject to a number of new air-quality mandates in the next several years.

These mandates may require Northern Indiana to make capital improvements to its electric generating stations. The cost of capital improvements is estimated to be $620 million to $1.1 billion. This figure includes additional capital improvements associated with the New Source Review Consent decree, CSAPR and the proposed Utility Hazardous Air Pollutants Rule. Northern Indiana believes that the capital costs will likely be recoverable from ratepayers.

Sulfur dioxide: On December 8, 2009, the EPA revised the SO_2 NAAQS by adopting a new 1-hour primary NAAQS for SO_2. EPA expects to designate areas that do not meet the new standard by mid-2012. States with such areas would have until 2014 to develop attainment plans with compliance required by 2017. Northern Indiana will continue to monitor developments in these matters but does not anticipate a material impact.

Cross-State Air Pollution Rule / Clean Air Interstate Rule (CAIR) / Transport Rule: On July 6, 2011, the EPA announced its replacement for the 2005 CAIR to reduce the interstate transport of fine particulate matter and ozone. The CSAPR reduces overall emissions of SO_2 and NO_x by setting state-wide caps on power plant emissions. The CSAPR limits emissions, including Northern Indiana's, with restricted emission allowance trading programs were scheduled to begin in 2012. In a decision issued on December 30, 2011, the D.C. Circuit Court stayed the CSAPR and reinstated the CAIR trading program provisions and requirements, including reissuing CAIR emission allowances, pending resolution of the stay. This development does not significantly impact Northern Indiana's current emissions control plans. Northern Indiana utilizes the inventory model in accounting for emission allowances issued under the CAIR program whereby these allowances were recognized at zero cost upon receipt from the EPA. Northern Indiana believes its current multi-pollutant compliance plan and NOV capital investments will allow Northern Indiana to meet the emission requirements of CSAPR whenever final resolution of the stay is reached.

Utility Hazardous Air Pollutants: On February 8, 2008, the United States Court of Appeals for the District of Columbia Circuit vacated two EPA rules that are the basis for the Indiana Air Pollution Control Board's Clean Air Mercury Rule (CAMR) that established utility mercury emission limits in two phases (2010 and 2018) and a cap-and-trade program to meet those limits. In response to the vacatur, the EPA pursued a new Section 112 rulemaking to establish MACT standards for electric utilities. The EPA finalized the Mercury and Air Toxics Standards (MATS) Rule on December 16, 2011. Compliance for Northern Indiana's affected units will be required in early 2015, with the possibility of a one year extension. Northern Indiana is currently developing a plan for further environmental controls to comply with MATS.

New Source Review: On September 29, 2004, the EPA issued an NOV to Northern Indiana for alleged violations of the CAA 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 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana, EPA, the Department of Justice, and IDEM have settled the matter through a consent decree.

Water
The Phase II Rule of the Clean Water Act Section 316(b), which requires all large existing steam electric generating stations to meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures, 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, such as a closed-cycle cooling tower. Various court challenges and EPA responses ensued. The EPA announced a proposed rule and is obligated to finalize a rule in 2012. Northern Indiana will continue to monitor this matter but cannot estimate the cost of compliance at this time.

Waste
On March 31, 2005, the EPA and Northern Indiana entered into an AOC 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. The process to complete investigation and select appropriate remediation activities is ongoing.

On June 21, 2010, EPA published a proposed rule for CCRs through the RCRA. The proposal outlines multiple regulatory approaches that EPA is considering. These proposed regulations could negatively affect Northern Indiana's ongoing byproduct reuse programs and would impose additional requirements on its management of coal combustion residuals. Northern Indiana will continue to monitor developments in this matter and cannot estimate the cost of compliance at this time.

Other Operations.

Waste
NiSource affiliates have retained environmental liabilities, including cleanup liabilities associated with some of its former operations. Four sites are associated with its former propane operations and ten sites associated with former petroleum operations. At one of those sites, an AOC has been signed with EPA to address petroleum residue in soil and groundwater.

E. Operating and Capital Lease Commitments. NiSource leases assets in several areas of its operations. Payments made in connection with operating leases were $52.9 million in 2011, $56.7 million in 2010 and $56.2 million in 2009, and are primarily charged to operation and maintenance expense as incurred. Capital leases and related accumulated depreciation included in the Consolidated Balance Sheets were $92.7 million and $29.8 million at December 31, 2011, and $76.4 million and $22.5 million at December 31, 2010, respectively.

NiSource Corporate Services has a license agreement with Rational Systems, LLC for pipeline business software requiring annual payments of $5.8 million over 10 years, which began in January 2008. This agreement is recorded as a capital lease.

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 (a)
2012	$ 41.2	$ 14.3
2013	34.0	12.8
2014	29.1	12.5
2015	19.0	12.2
2016	14.1	9.9
After	24.6	86.1
Total future minimum payments	$ 162.0	$ 147.8

(a) Capital lease payments shown above are inclusive of interest totaling $58.4 million.

F. Purchase and Service Obligations . NiSource has entered into various purchase and service agreements whereby NiSource is contractually obligated to make certain minimum payments in future periods. NiSource's purchase obligations are for the purchase of physical quantities of natural gas, electricity and coal. NiSource's service agreements encompass a broad range of business support and maintenance functions which are generally described below.

NiSource's subsidiaries have entered into various energy commodity contracts to purchase physical quantities of natural gas, electricity and coal. These amounts represent minimum quantities of these commodities NiSource is obligated to purchase at both fixed and variable prices.

In July 2008, the IURC issued an order approving Northern Indiana's proposed purchase power agreements with subsidiaries of Iberdrola Renewables, Buffalo Ridge I LLC and Barton Windpower LLC. These agreements provided Northern Indiana the opportunity and obligation to purchase up to 100 mw of wind power commencing in early 2009. The contracts extend 15 and 20 years, representing 50 mw of wind power each. No minimum quantities are specified within these agreements due to the variability of electricity production from wind, so no amounts related to these contracts are included in the table below. Upon any termination of the agreements by Northern Indiana for any reason (other than material breach by Buffalo Ridge I LLC or Barton Windpower LLC), Northern Indiana may be required to pay a termination charge that could be material depending on the events giving rise to termination and the timing of the termination.

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2011 to 2045, require NiSource to pay fixed monthly charges.

NiSource Corporate Services continues to pay IBM to provide business process and support functions to NiSource for amended services under a combination of fixed or variable charges, with the variable charges fluctuating based on the actual need for such services. Under the amended agreement, at December 31, 2011, NiSource Corporate Services expects to pay approximately $272 million to IBM in service fees over the remaining three and a half year term. In December 2011, NiSource elected to extend certain information technology services. Upon any termination of the agreement by NiSource for any reason, other than material breach by IBM, NiSource may be required to pay IBM a termination charge that could include a breakage fee, repayment of IBM's unrecovered capital investments, and IBM wind-down expense. This termination fee could be a material amount depending on the events giving rise to termination and the timing of the termination.

NiSource Corporate Services signed a service agreement with Vertex Outsourcing LLC, a business process outsourcing company, to provide customer contact center services for NiSource subsidiaries through June 2015. Services under this contract commenced on July 1, 2008, and NiSource Corporate Services pays for the services under a combination of fixed and variable charges, with the variable charges fluctuating based on actual need for such services. Based on the currently projected usage of these services, NiSource Corporate Services expects to pay approximately $42.6 million to Vertex Outsourcing LLC in service fees over the remaining three and a half year term. Upon termination of the agreement by NiSource for any reason (other than material breach by Vertex Outsourcing LLC), NiSource may be required to pay a termination charge not to exceed $10.8 million.

Northern Indiana has contracts with four major rail operators providing for coal transportation services for which there are certain minimum payments. These service contracts extend for various periods through 2015.

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 July 1, 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. With the expiration of this contract occurring on June 30, 2012, Northern Indiana is currently evaluating long term strategic options, including negotiations to renew this contract.

The estimated aggregate amounts of minimum fixed payments at December 31, 2011, were:

(in millions)	Energy Commodity Agreements	Pipeline Service Agreements	IBM Service Agreement	Vertex Outsourcing LLC Service Agreement	Other Service Agreements	Total
2012	$ 239.3	$ 256.9	$ 78.4	$ 12.3	$ 132.2	$ 719.1
2013	130.4	225.3	77.4	12.2	82.0	527.3
2014	120.2	185.7	75.1	12.1	78.3	471.4
2015	85.1	138.9	35.8	6.0	81.0	346.8
2016	1.5	121.3	3.4	-	-	126.2
After	5.9	565.2	1.8	-	-	572.9
Total purchase and service obligations	$ 582.4	$ 1,493.3	$ 271.9	$ 42.6	$ 373.5	$2,763.7

21. Accumulated Other Comprehensive Loss

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

Year Ended December 31, *(in millions)*	2011	2010
Other comprehensive income (loss):		
Unrealized gains on securities	$ **8.0**	$ 6.1
Tax expense on unrealized gains on securities	**(3.1)**	(2.4)
Unrealized losses on cash flow hedges	**(52.3)**	(56.4)
Tax benefit on unrealized losses on cash flow hedges	**20.5**	21.6
Unrecognized pension benefit and OPEB costs	**(53.0)**	(43.3)
Tax benefit on unrecognized pension benefit and OPEB costs	**20.2**	16.5
Total Accumulated Other Comprehensive Loss, net of taxes	$ **(59.7)**	$ (57.9)

Equity Investment

During 2008, Millennium, in which Columbia Transmission has an equity investment, entered into three interest rate swap agreements with a notional amount totaling $420.0 million with seven counterparties. During August 2010, Millennium completed the refinancing of its long-term debt, securing permanent fixed-rate financing through the private placement issuance of two tranches of notes totaling $725.0 million, $375.0 million at 5.33% due June 30, 2027 and $350.0 million at 6.00% due June 30, 2032. Upon the issuance of these notes, Millennium repaid all outstanding borrowings under its credit agreement, terminated the sponsor guarantee, and cash settled the interest rate hedges. These interest rate swap derivatives were primarily accounted for as cash flow hedges by Millennium. As an equity method investment, NiSource is required to recognize a proportional share of Millennium's OCI. The remaining unrealized loss of $19.7 million, net of tax, related to these terminated interest rate swaps is being amortized over a 15 year period ending June 2025 into earnings using the effective interest method through interest expense as interest payments are made by Millennium. The unrealized loss of $19.7 million and $21.1 million at December 31, 2011 and December 31, 2010, respectively, is included in unrealized losses on cash flow hedges above.

22. Other, Net

Year Ended December 31, *(in millions)*	2011	2010	2009
Interest income	$ **4.4**	$ 6.3	$ 6.8
Sales of accounts receivable (a)	**-**	-	(8.4)
Miscellaneous (b)	**(11.7)**	(2.5)	0.2
Total Other, net	$ **(7.3)**	$ 3.8	$ (1.4)

(a) Refer to Note 19, "Transfers of Financial Assets," for additional information.

(b) Miscellaneous for the year ended December 31, 2011 primarily consists of pre-tax charitable donations.

23. Interest Expense, Net

Year Ended December 31, *(in millions)*	2011	2010	2009
Interest on long-term debt	**$ 362.9**	$ 390.7	$ 386.7
Interest on short-term borrowings	**13.5**	1.9	2.3
Discount on prepayment transactions	**7.1**	8.5	13.0
Accounts receivable securitization (a)	**3.8**	6.3	-
Allowance for borrowed funds used and interest capitalized during construction	**(3.1)**	(2.7)	(1.9)
Other	**(7.4)**	(12.4)	(0.8)
Total Interest Expense, net	**$ 376.8**	$ 392.3	$ 399.3

(a) Refer to Note 19, "Transfers of Financial Assets," for additional information.

24. Segments of Business

Operating segments are components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The NiSource Chief Executive Officer is the chief operating decision maker.

At December 31, 2011, NiSource's operations are divided into three 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 and Massachusetts. 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 20 counties in the northern part of Indiana.

Prior to 2010, NiSource reported Other Operations, which primarily included ventures focused on its unregulated natural gas marketing business and distributed power generation technologies, including fuel cells and storage systems, as a reporting segment. In the first quarter of 2010, NiSource made a decision to wind down the unregulated natural gas marketing activities as a part of the Company's long-term strategy of focusing on its core regulated businesses. As a result, Other Operations no longer met the definition of a reporting segment and, accordingly, has been included within Corporate and Other in the table below beginning in 2010 and for all periods presented.

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

Year Ended December 31, *(in millions)*	2011	2010	2009
REVENUES			
Gas Distribution Operations			
Unaffiliated	**$ 3,497.3**	$ 3,657.4	$ 3,885.3
Intersegment	**1.4**	10.7	17.1
Total	**3,498.7**	3,668.1	3,902.4
Gas Transmission and Storage Operations			
Unaffiliated	**856.7**	780.3	719.1
Intersegment	**148.9**	168.9	211.6
Total	**1,005.6**	949.2	930.7
Electric Operations			
Unaffiliated	**1,434.6**	1,386.6	1,221.6
Intersegment	**0.8**	0.7	0.8
Total	**1,435.4**	1,387.3	1,222.4
Corporate and Other			
Unaffiliated	**230.5**	590.3	825.6
Intersegment	**464.6**	435.9	422.1
Total	**695.1**	1,026.2	1,247.7
Eliminations	**(615.7)**	(616.2)	(651.6)
Consolidated Revenues	**$ 6,019.1**	$ 6,414.6	$ 6,651.6

Year Ended December 31, *(in millions)*	**2011**	2010	2009
Operating Income (Loss)			
Gas Distribution Operations	**$ 392.8**	$ 332.3	$ 327.2
Gas Transmission and Storage Operations	**360.0**	376.6	387.9
Electric Operations	**209.5**	220.8	116.9
Corporate and Other	**(57.2)**	(24.0)	(32.0)
Consolidated	**$ 905.1**	$ 905.7	$ 800.0
Depreciation and Amortization			
Gas Distribution Operations	**$ 174.0**	$ 239.3	$ 248.1
Gas Transmission and Storage Operations	**130.0**	130.7	121.5
Electric Operations	**214.7**	211.8	206.2
Corporate and Other	**19.5**	15.3	14.1
Consolidated	**$ 538.2**	$ 597.1	$ 589.9
Assets			
Gas Distribution Operations	**$ 7,467.4**	$ 7,356.1	$ 7,000.1
Gas Transmission and Storage Operations	**4,215.3**	3,996.5	3,834.5
Electric Operations	**4,306.4**	4,153.8	4,176.5
Corporate and Other	**4,719.2**	4,407.0	4,251.4
Consolidated	**$ 20,708.3**	$ 19,913.4	$ 19,262.5
Capital Expenditures (a)			
Gas Distribution Operations	**$ 498.9**	$ 401.9	$ 349.2
Gas Transmission and Storage Operations	**312.6**	235.4	256.1
Electric Operations	**296.3**	158.7	165.2
Corporate and Other	**17.4**	7.8	6.7
Consolidated	**$ 1,125.2**	$ 803.8	$ 777.2

(a) Excludes investing activities in equity investments.

25. Hurricanes and Other Items

NiSource received insurance proceeds for capital repairs of $5.0 million and $62.7 million related to hurricanes and other items in 2010 and 2009, respectively, which are separately included in the investing activities section on the Statement of Consolidated Cash Flows. NiSource did not receive any insurance proceeds for capital repairs in 2011. As of December 31, 2011 there were no claims outstanding for these incidents.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
Notes to Consolidated Financial Statements

26. 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
2011				
Gross revenues	$ 2,231.6	$ 1,228.3	$ 1,068.7	$ 1,490.5
Operating Income	406.4	165.5	147.4	185.8
Income from Continuing Operations	209.1	40.8	36.3	17.6
Results from Discontinued Operations - net of taxes	0.4	(0.6)	(1.6)	(2.9)
Net Income	209.5	40.2	34.7	14.7
Basic Earnings (Loss) Per Share				
Continuing Operations	0.75	0.14	0.13	0.06
Discontinued Operations	-	-	(0.01)	(0.01)
Basic Earnings Per Share	$ 0.75	$ 0.14	$ 0.12	$ 0.05
Diluted Earnings (Loss) Per Share				
Continuing Operations	0.73	0.14	0.13	0.05
Discontinued Operations	-	-	(0.01)	(0.01)
Diluted Earnings Per Share	$ 0.73	$ 0.14	$ 0.12	$ 0.04
2010				
Gross revenues	$ 2,356.8	$ 1,170.1	$ 1,135.7	$ 1,752.0
Operating Income	401.1	137.9	114.0	252.7
Income from Continuing Operations	196.0	27.2	27.8	34.2
Results from Discontinued Operations - net of taxes	(0.1)	0.1	(0.2)	(2.4)
Net Income	195.9	27.3	27.6	31.8
Basic Earnings (Loss) Per Share				
Continuing Operations	0.71	0.10	0.10	0.12
Discontinued Operations	-	-	-	(0.01)
Basic Earnings Per Share	$ 0.71	$ 0.10	$ 0.10	$ 0.11
Diluted Earnings (Loss) Per Share				
Continuing Operations	0.71	0.10	0.10	0.11
Discontinued Operations	-	-	-	(0.01)
Diluted Earnings Per Share	$ 0.71	$ 0.10	$ 0.10	$ 0.10

• On November 14, 2011, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately $125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately $228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which $124.7 million were accepted for purchase. In accordance with the provisions of ASC 470, *Debt*, NiSource Finance determined the debt issued on November 23, 2011, was substantially different from the tendered notes, and, therefore, the transaction qualified as a debt extinguishment. NiSource Finance recorded a $53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

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Notes to Consolidated Financial Statements

• During the fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded $35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers.

• During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business.

• During the first quarter of 2010, NDC Douglas Properties, a subsidiary of NiSource Development Company reported some if its low income housing investments as discontinued operations. During the second quarter of 2010, these investments were reclassified to held and used and continuing operations and prior quarters were accordingly restated as continuing operations.

• In the fourth quarter of 2010, NiSource repurchased 273.1 million aggregate principal amount of its outstanding 10.75% notes due 2016 pursuant to a cash tender offer. As a result of this tender offer, NiSource incurred $96.7 million in early redemption fees, primarily attributable to early redemption premiums and unamortized discounts and fees which is recorded as a loss on the early extinguishment of long-term debt within income from continuing operations.

As discussed further in Note 1, NiSource made correcting adjustments to its historical financial statements for the quarters of 2011 and 2010. NiSource does not believe these correcting adjustments are material to its financial statements for any reported period.

The following tables set forth the effects of the correcting adjustments to Net Income for the quarterly periods in 2011 and 2010:

	Three Months Ended						
Increase (Decrease) in Net Income	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
(in millions)							
Previously reported Net Income	$ 34.7	$ 38.9	$ 205.2	$ 33.4	$ 33.2	$ 28.1	$ 197.3
Deferred revenue	-	-	(0.6)	(2.1)	(2.4)	(1.0)	(1.9)
Environmental asset recovery	-	-	8.0	(0.5)	(0.3)	(0.3)	(0.3)
OPEB over-reimbursement	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Environmental accrual	-	-	-	-	(6.4)	0.2	0.2
OPEB regulatory asset	-	2.4	-	0.1	-	0.1	-
Total corrections	(0.1)	2.2	7.2	(2.7)	(9.3)	(1.3)	(2.3)
Income taxes	(0.1)	0.9	2.9	(1.1)	(3.7)	(0.5)	(0.9)
Corrected Net Income	$ 34.7	$ 40.2	$ 209.5	$ 31.8	$ 27.6	$ 27.3	$ 195.9

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

The following tables set forth the effects of the correcting adjustments on affected line items within the Statements of Consolidated Income for the quarters in 2011 and 2010:

	Three Months Ended					
	September 30 2011		June 30, 2011		March 31, 2011	
(in millions, except per share amounts)	As Previously Reported	As Corrected	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Net Revenues						
Electric	$ 404.7	$ 404.7	$ 349.2	$ 349.2	$ 347.1	$ 346.5
Gross Revenues	1,068.7	1,068.7	1,228.3	1,228.3	2,232.2	2,231.6
Total Net Revenues	745.6	745.6	765.8	765.8	1,061.3	1,060.7
Operation and maintenance	407.1	407.2	402.5	400.3	432.5	429.3
Depreciation and amortization	134.9	134.9	134.5	134.5	138.9	134.3
Total Operating Expenses	601.6	601.7	604.8	602.6	665.1	657.3
Operating Income	147.5	147.4	163.3	165.5	399.2	406.4
Income from Continuing Operations before Income Taxes	53.4	53.3	69.5	71.7	312.7	319.9
Income Taxes	17.1	17.0	30.0	30.9	107.9	110.8
Income from Continuing Operations	36.3	36.3	39.5	40.8	204.8	209.1
Net Income	$ 34.7	$ 34.7	$ 38.9	$ 40.2	$ 205.2	$ 209.5
Basic Earnings (Loss) Per Share ($)						
Continuing operations	$ 0.13	$ 0.13	$ 0.14	$ 0.14	$ 0.73	$ 0.75
Basic Earnings Per Share	$ 0.12	$ 0.12	$ 0.14	$ 0.14	$ 0.73	$ 0.75
Diluted Earnings (Loss) Per Share ($)						
Continuing operations	$ 0.13	$ 0.13	$ 0.14	$ 0.14	$ 0.72	$ 0.73
Diluted Earnings Per Share	$ 0.12	$ 0.12	$ 0.14	$ 0.14	$ 0.72	$ 0.73

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

	Three Months Ended							
	December 31, 2010		September 30 2010		June 30, 2010		March 31, 2010	
(in millions, except per share amounts)	As Previously Reported	As Corrected	As Previously Reported	As Corrected	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Net Revenues								
Electric	$ 330.6	$ 328.5	$ 397.7	$ 395.3	$ 340.5	$ 339.5	$ 317.9	$ 316.0
Gross Revenues	1,754.1	1,752.0	1,138.1	1,135.7	1,171.1	1,170.1	2,358.7	2,356.8
Total Net Revenues	925.4	923.3	718.1	715.7	732.0	731.0	1,072.4	1,070.5
Operation and maintenance	457.1	457.5	382.1	388.8	377.1	377.2	439.6	439.8
Depreciation and amortization	141.8	142.0	153.1	153.3	151.6	151.8	149.8	150.0
Total Operating Expenses	673.7	674.3	598.3	605.2	593.2	593.5	676.4	676.8
Operating Income	255.4	252.7	123.3	114.0	139.2	137.9	403.4	401.1
Income from Continuing Operations before Income Taxes	57.7	55.0	27.8	18.5	43.4	42.1	307.2	304.9
Income Taxes	21.9	20.8	(5.6)	(9.3)	15.4	14.9	109.8	108.9
Income from Continuing Operations before Income Taxes	35.8	34.2	33.4	27.8	28.0	27.2	197.4	196.0
Net Income	$ 33.4	$ 31.8	$ 33.2	$ 27.6	$ 28.1	$ 27.3	$ 197.3	$ 195.9
Basic Earnings (Loss) Per Share ($)								
Continuing operations	$ 0.13	$ 0.12	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.71	$ 0.71
Basic Earnings Per Share	$ 0.12	$ 0.11	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.71	$ 0.71
Diluted Earnings (Loss) Per Share ($)								
Continuing operations	$ 0.12	$ 0.11	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.71	$ 0.71
Diluted Earnings Per Share	$ 0.11	$ 0.10	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.71	$ 0.71

27. Supplemental Cash Flow Information

The following tables provide additional information regarding NiSource's Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009:

Year Ended December 31, *(in millions)*	**2011**	2010	2009
Supplemental Disclosures of Cash Flow Information			
Non-cash transactions:			
Capital expenditures included in current liabilities	$ **98.3**	$ 106.0	$ 62.2
Change in equity investments related to unrealized gains (losses)	-	(24.1)	38.8
Stock issuance to employee saving plans	**25.8**	19.7	15.3
Schedule of interest and income taxes paid:			
Cash paid for interest, net of interest capitalized amounts	$ **369.2**	$ 393.0	$ 380.7
Cash paid for income taxes	**9.3**	68.9	33.9

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEET

As of December 31, *(in millions)*	2011	2010
ASSETS		
Investments and Other Assets:		
Investments in subsidiary companies	$ 9,249.7	$ 9,215.7
Total Investments and Other Assets	9,249.7	9,215.7
Current Assets:		
Other current assets	353.7	244.8
Total Current Assets	353.7	244.8
Other non-current assets	53.3	56.6
TOTAL ASSETS	9,656.7	9,517.1
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	4,997.3	4,897.5
Total Capitalization	4,997.3	4,897.5
Current liabilities	613.3	644.2
Notes payable to subsidiaries	3,996.2	3,932.4
Other non-current liabilities	49.9	43.0
TOTAL CAPITALIZATION AND LIABILITIES	$ 9,656.7	$ 9,517.1

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF INCOME

Year Ended December 31, *(in millions, except per share amounts)*		2011		2010		2009
Equity in net earnings of consolidated subsidiaries	$	**437.4**	$	431.2	$	362.4
Other income (deductions):						
Administrative and general expenses		**(13.5)**		(11.3)		(12.6)
Interest income		**1.2**		0.7		0.5
Interest expense		**(206.1)**		(230.3)		(207.6)
Other, net		**(10.0)**		(4.0)		(4.0)
Total Other income (deductions)		**(228.4)**		(244.9)		(223.7)
Income from continuing operations before income taxes		**209.0**		186.3		138.7
Income taxes		**(94.8)**		(98.9)		(91.1)
Income from continuing operations		**303.8**		285.2		229.8
Loss from discontinued operations - net of taxes		**(4.7)**		(2.7)		(10.3)
Gain (Loss) on Disposition of discontinued operations - net of taxes		**-**		0.1		(2.5)
NET INCOME	$	**299.1**	$	282.6	$	217.0
Average common shares outstanding (millions)		**280.4**		277.8		275.1
Diluted average common shares (millions)		**288.5**		280.1		275.8
Basic earnings (loss) per share						
Continuing operations	$	**1.08**	$	1.03	$	0.84
Discontinued operations		(0.02)		(0.01)		(0.05)
Basic earnings per share	$	**1.06**	$	1.02	$	0.79
Diluted earnings (loss) per share						
Continuing operations	$	**1.05**	$	1.02	$	0.83
Discontinued operations		**(0.02)**		(0.01)		(0.05)
Diluted earnings per share	$	**1.03**	$	1.01	$	0.78

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.

Schedule I
Condensed Financial Information of Registrant

Statement of Cash Flows

Year Ended December 31, *(in millions)*	**2011**	2010	2009
Net cash provided by operating activities	**$ 313.6**	$ 212.9	$ 217.2
Cash flows provided by (used in) investing activities:			
Proceeds (loss) from disposition of assets	**-**	-	(0.4)
(Increase) decrease in notes receivable from subsidiaries	**(139.3)**	31.4	39.1
Net cash (used in) provided by investing activities	**(139.3)**	31.4	38.7
Cash flows provided by (used in) financing activities:			
Issuance of common shares	**24.4**	14.4	10.6
Increase (decrease) in notes payable to subsidiaries	**63.8**	(1.6)	(10.8)
Cash dividends paid on common shares	**(257.8)**	(255.6)	(253.3)
Acquisition of treasury shares	**(3.1)**	(1.5)	(2.6)
Net cash used in financing activities	**(172.7)**	(244.3)	(256.1)
Net decrease in cash and cash equivalents	**1.6**	-	(0.2)
Cash and cash equivalents at beginning of year	**-**	-	0.2
Cash and cash equivalents at end of year	**$ 1.6**	$ -	$ -

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: $440.0 million, $232.0 million and $510.9 million in 2011, 2010 and 2009, respectively.

2. Commitments and Contingencies

NiSource, Inc. and its subsidiaries are parties to litigation, environmental and other matters. Refer to Note 20, "Other Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional information. 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 maximum potential amount of future payments NiSource could have been required to make under these guarantees as of December 31, 2011 was approximately $7.9 billion. Of this amount, approximately $6.3 billion relates to guarantees of wholly-owned consolidated entities.

3. Related Party Transactions

Balances due to or due from related parties included in the Balance Sheets as of December 31, 2011 and 2010 are as follows:

At December 31, *(in millions)*	**2011**	2010
Current assets due from subsidiaries [a]	**$ 288.6**	$ 167.2
Current liabilities due to subsidiaries [b]	**602.6**	582.3
Non-current liabilities due to subsidiaries [c]	**3,996.2**	3,932.4

(a) The balances at December 31, 2011 and 2010 are classified as Current assets on the Balance Sheets.

(b) The balances at December 31, 2011 and 2010 are classified as Current liabilities on the Balance Sheets. At December 31, 2011 and 2010, $573.7 million and $532.8 million related to interest on affiliated notes payable, respectively.

(c) The balances at December 31, 2011 and 2010 are classified as Notes payable to subsidiaries on the Balance Sheets.

4. Notes to Financial Statements

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

As discussed further in Note 1, NiSource is making correcting adjustments its historical condensed financial information of registrant for 2010 and 2009. NiSource does not believe these corrections are material to its condensed financial information of registrant for any reported period. Refer to Note 1 for the effects of each correction on Net Income.

The following tables set forth the effects of the correcting adjustments on affected line items within NiSource's previously reported Balance Sheet as of December 31, 2010 and Statement of Income for the years 2010 and 2009. There was no effect to the Statement of Cash Flows for the years 2010 and 2009:

NISOURCE INC.

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

NOTES TO CONDENSED FINANCIAL STATEMENTS

Balance Sheet

(in millions)	December 31, 2010 As Previously Reported	December 31, 2010 As Corrected
ASSETS		
Investments and Other Assets:		
Investments in subsidiary companies	$ 9,241.0	$ 9,215.7
Total Investments and Other Assets	9,241.0	9,215.7
TOTAL ASSETS	9,542.5	9,517.1
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	4,923.2	4,897.5
Total Capitalization	4,923.2	4,897.5
Other non-current liabilities	42.7	43.0
TOTAL CAPITALIZATION AND LIABILITIES	$ 9,542.5	$ 9,517.1

Statement of Income

	Year Ended December 31,			
	2010		2009	
(in millions, except per share amounts)	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Equity in net earnings of consolidated subsidiaries	$ 440.6	$ 431.2	$ 363.1	$ 362.4
Other income (deductions)				
Administrative and general expenses	(11.4)	(11.3)	(12.6)	(12.6)
Total Other income (deductions)	(245.0)	(244.9)	(223.7)	(223.7)
Income from continuing operations before income taxes	195.6	186.3	139.4	138.7
Income taxes	(99.0)	(98.9)	(91.1)	(91.1)
Income from continuing operations	294.6	285.2	230.5	229.8
NET INCOME	$ 292.0	$ 282.6	$ 217.7	$ 217.0
Basic Earnings Per Share ($)				
Continuing operations	$ 1.06	$ 1.03	$ 0.84	$ 0.84
Basic Earnings Per Share	$ 1.05	$ 1.02	$ 0.79	$ 0.79
Diluted Earnings Per Share ($)				
Continuing operations	$ 1.05	$ 1.02	$ 0.84	$ 0.83
Diluted Earnings Per Share	$ 1.04	$ 1.01	$ 0.79	$ 0.78

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Twelve months ended December 31, 2011

($ in millions)	Balance Jan. 1, 2011	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, 2011
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:						
Reserve for accounts receivable	$ 37.4	$ 13.8	$ 76.6	$ -	$ 97.3	$ 30.5
Reserve for other investments	3.0	-	-	-	-	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:						
Reserve for cost of operational gas	2.7	-	-	-	-	2.7

Twelve months ended December 31, 2010

($ in millions)	Balance Jan. 1, 2010	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, 2010
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:						
Reserve for accounts receivable	$ 39.6	$ 17.6	$ 72.5	$ -	$ 92.3	$ 37.4
Reserve for other investments	3.0	-	-	-	-	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:						
Reserve for cost of operational gas	5.7	(2.9)	-	-	0.1	2.7

Twelve months ended December 31, 2009

($ in millions)	Balance Jan. 1, 2009	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, 2009
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:						
Reserve for accounts receivable	$ 45.3	$ 68.9	$ 75.7	$ -	$ 150.3	$ 39.6
Reserve for other investments	3.0	-	-	-	-	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:						
Reserve for cost of operational gas	5.7	-	-	-	-	5.7

* Charged to Other Accounts reflects the deferral of bad debt expense to a regulatory asset.

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 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 to provide reasonable assurance that financial information was processed, recorded and reported accurately.

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 2011, 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.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by NiSource in the reports that it files or submits under the Exchange Act is accumulated and communicated to NiSource's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Deloitte & Touche LLP, NiSource's independent registered public accounting firm, issued an attestation report on NiSource's internal controls over financial reporting which is contained in Item 8, "Financial Statements and Supplementary Data."

Changes in Internal Controls
There have been no 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 affect, NiSource's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

ITEM 10. DIRECTOR S, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

N I S OURCE I NC .

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 15, 2012, which information is incorporated by reference.

Information regarding NiSource's code of ethics, the audit committee and the audit committee financial expert and procedures for shareholder recommendations for director nominations will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which information is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATIO N

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 15, 2012, which information is incorporated by reference.

ITEM 12. SECURITY OW NERSHIP 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 15, 2012, which information is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required under this Item with respect to certain relationships and related transactions and director independence will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which information is incorporated by reference.

ITEM 14. PRINCIPAL ACC OUNTING FEES AND SERVICES

Information regarding principal 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 15, 2012, which information is incorporated by reference.

PART IV

ITEM 15. EXHIBITS, FI NANCIAL STATEMENT SCHEDULES

N I S OURCE I NC .

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.

SIGNA TURES

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 February 24, 2012

By: /s/ R OBERT C. S KAGGS , J R .
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 / R OBERT C. S KAGGS , J R . Robert C. Skaggs, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2012
/ S / S TEPHEN P. S MITH Stephen P. Smith	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2012
/ S / J ON D. V EURINK Jon D. Veurink	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 24, 2012
/ S / I AN M. R OLLAND Ian M. Rolland	Chairman and Director	February 24, 2012
/ S / R ICHARD A. A BDOO Richard A. Abdoo	Director	February 24, 2012
/ S / S TEVEN C. B EERING Steven C. Beering	Director	February 24, 2012
/ S / S IGMUND L. C ORNELIUS Sigmund L. Cornelius	Director	February 24, 2012
/ S / M ICHAEL E. J ESANIS Michael E. Jesanis	Director	February 24, 2012
/ S / M ARTY R. K ITTRELL Marty R. Kittrell	Director	February 24, 2012
/ S / W. L EE N UTTER W. Lee Nutter	Director	February 24, 2012
/ S / D EBORAH S. P ARKER Deborah S. Parker	Director	February 24, 2012
/ S / R ICHARD L. T HOMPSON Richard L. Thompson	Director	February 24, 2012
/ S / C AROLYN Y. W OO Carolyn Y. Woo	Director	February 24, 2012

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF ITEM
(3.1)	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Form 10-Q filed on August 4, 2008).
(3.2)	Bylaws of NiSource Inc., as amended and restated through May 11, 2010 (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Form 8-K filed on May 14, 2010).
(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)	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)).
(4.4)	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. Form 10-K for the period ended December 31, 2000).
(4.5)	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)).
(10.1)	2010 Omnibus Incentive Plan (incorporated by reference to Exhibit B to NiSource Inc. Definitive Proxy Statement to Shareholders held on May 11, 2010, filed on April 2, 2010).*
(10.2)	NiSource Inc. Nonemployee Director Stock Incentive Plan as amended and restated effective May 13, 2008 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.3)	NiSource Inc. Nonemployee Director Retirement Plan, as amended and restated effective May 13, 2008. (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.4)	Amended and Restated NiSource Inc. Directors' Charitable Gift Program effective May 13, 2008. (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.5)	Supplemental Life Insurance Plan effective January 1, 1991, as amended, (incorporated by reference to Exhibit 2 to the NIPSCO Industries, Inc. Form 8-K filed on March 25, 1992). *
(10.6)	NiSource Inc. Executive Deferred Compensation Plan, as amended and restated, effective January 1, 2008 (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Form 10-Q filed on November 4, 2008). *
(10.7)	Form of Change in Control and Termination Agreement (applicable to each named executive officer)(incorporated by reference to Exhibit 10.7 to the NiSource Inc. Form 10-Q filed on November 4, 2008). *
(10.8)	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. Form 10-K for the period ended December 31, 2002). *
(10.9)	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. Form 8-K filed on December 2, 2005). *
(10.10)	1st Amendment to NiSource Inc. 1994 Long Term Incentive Plan, effective January 22, 2009. (incorporated by reference to Exhibit 10.10 to the NiSource Inc. Form 10-K filed on February 27, 2009). *

EXHIBIT INDEX

(10.11)	Form of Nonqualified Stock Option Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Form 8-K filed on January 3, 2005). *
(10.12)	Form of Contingent Stock Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to NiSource Inc. Form 10-Q filed on May 4, 2010).*
(10.13)	Form of Performance Share Agreement under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.15 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*
(10.14)	Form of Restricted Stock Unit Award Agreement for Nonemployee Directors under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.16 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*
(10.15)	Form of Restricted Stock Unit Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.17 to the NiSource Inc. Form 10-K for the period ended December 31, 2010). *
(10.16)	Form of Restricted Stock Agreement under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.18 to the NiSource Inc. Form 10-K for the period ended December 31, 2010) *
(10.17)	Form of Restricted Stock Unit Award Agreement for Non-employee directors under the Non-employee Director Stock Incentive Plan. (incorporated by reference to Exhibit 10.19 to the NiSource Inc. Form 10-K for the period ended December 31, 2010)*
(10.18)	Form of Restricted Stock Unit Award Agreement for Nonemployee Directors under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to NiSource Inc. Form 10-Q filed on August 2, 2011).
(10.19)	Amended and Restated NiSource Inc. Supplemental Executive Retirement Plan effective May 13, 2011 (incorporated by reference to Exhibit 10.3 to NiSource Inc. Form 10-Q filed on October 28, 2011) .
(10.20)	Amended and Restated Pension Restoration Plan for NiSource Inc. and Affiliates effective May 13, 2011 (incorporated by reference to Exhibit 10.4 to NiSource Inc. Form 10-Q filed on October 28, 2011).
(10.21)	Amended Restated Savings Restoration Plan for NiSource Inc. and Affiliates effective May 13, 2011 (incorporated by reference to Exhibit 10.1 to NiSource Inc. Form 10-Q filed on October 28, 2011).
(10.22)	Amended and Restated NiSource Inc. Executive Deferred Compensation Plan effective May 13, 2011 (incorporated by reference to Exhibit 10.2 to NiSource Inc. Form 10-Q filed on October 28, 2011).
(10.23)	NiSource Inc. Executive Severance Policy, as amended and restated, effective January 1, 2010 (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Form 10-Q filed on May 4, 2010).
(10.24)	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). *
(10.25)	Letter Agreement dated August 29, 2011 between Christopher A. Helms and NiSource Inc. or any of its affiliates or subsidiaries (incorporated by reference to Exhibit 10.5 to NiSource Inc. Form 10-Q filed on October 28, 2011). *
(10.26)	Letter Agreement between NiSource Corporate Services Company and Jimmy Staton dated December 13, 2007 (incorporated by reference to Exhibit 10.23 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.27)	Letter Agreement between NiSource Corporate Services Company and Stephen P. Smith dated May 14, 2008. (incorporated by reference to Exhibit 10.24 to the NiSource Inc. Form 10-K filed on February 27, 2009).*

EXHIBIT INDEX

(10.28)	Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the lender parties thereto as Lenders, Credit Suisse AG, Cayman Islands Branch as Syndication Agent, The Bank Of Tokyo-Mitsubishi UFJ, Ltd., Citibank, N.A., and JPMorgan Chase Bank, N.A. as Co-Documentation Agents and Barclays Bank PLC, as Administrative Agent dated March 3, 2011 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 10-Q for the period ended March 30, 2011).
(10.29)	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).
(10.30)	Amendment No. 1, dated as of November 10, 2008, to the Note Purchase Agreement by and among NiSource Finance Corp., as issuer, NiSource Inc., as guarantor, and the purchasers whose names appear on the signature page thereto. (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Form 10-K filed on February 27, 2009).
(10.31)	Guaranty of NiSource Inc. in favor of JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 8-K filed on August 30, 2007).
(10.32)	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. Form 10-Q for the period ended June 30, 2005).
(10.33)	Amendment #4 to Agreement for Business Process and Support Services between NiSource Corporate Services Company and IBM, effective December 1, 2007 (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Form 10-K for the period ended December 31, 2007).*
(10.34)	Letter agreement, dated September 8, 2010 between NiSource Inc. and Credit Suisse International (incorporated by reference to Exhibit 1.2 to the NiSource Inc. Current Report on Form 8-K filed on September 14, 2010).
(10.35)	Letter agreement, dated September 9, 2010 between NiSource Inc. and Credit Suisse International (incorporated by reference to Exhibit 1.3 to the NiSource Inc. Current Report on Form 8-K filed on September 14, 2010).
(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 Stephen P. Smith, 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 Stephen P. Smith, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **
(101.INS)	XBRL Instance Document**
(101.SCH)	XBRL Schema Document**
(101.CAL)	XBRL Calculation Linkbase Document**
(101.LAB)	XBRL Labels Linkbase Document**
(101.PRE)	XBRL Presentation Linkbase Document**
(101.DEF)	XBRL Definition Linkbase Document**

* Management contract or compensatory plan or arrangement of NiSource Inc.
** Exhibit filed herewith.

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.

Exhibit 12

Ratio of Earnings to Fixed Charges

	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007
Earnings as defined in item 503(d) of Regulation S-K:					
Add:					
Pretax income from continuing Operations (b)(e)	$452,321,955	$405,669,857	$380,711,851	$535,956,665	$484,335,772
Fixed Charges	424,873,958	442,730,583	423,724,907	422,708,986	436,701,099
Amortization of capitalized interest (c)	-	-	-	-	-
Distributed income of equity investees	18,800,143	36,741,190	2,924,805	7,941,413	44,134,385
Share of pre-tax losses of equity investees for which charges arising guarantees are included in fixed charges	-	-	-	-	-
Deduct:					
Interest capitalized (c)	-	-	-	-	-
Preference security dividend requirements of consolidated subsidiaries (d)	-	-	-	-	-
Non-controlling interest in pre-tax income of subsidiaries that have not incurred fixed charges	-	(11,762)	(46,769)	(5,307)	(2,708)
	$895,996,056	$885,153,392	$807,408,332	$966,612,371	$965,173,964
Fixed charges as defined in item 503(d) of Regulation S-K:					
Interest on long-term debt	$362,913,295	$390,690,947	$386,737,382	$358,736,132	$353,404,387
Other interest	35,399,618	22,851,904	5,268,937	37,561,475	58,214,067
Capitalized interest during period (c)					
Amortization of premium, reacquisition premium, discount and expense on debt, net	8,941,809	10,287,487	13,020,255	7,682,146	7,284,066
Interest portion of rent expense	17,619,236	18,912,006	18,745,102	18,734,540	17,801,287
Non-controlling interest	-	(11,762)	(46,769)	(5,307)	(2,708)
	$424,873,958	$442,730,583	$423,724,907	$422,708,986	$436,701,099
Plus preferred stock dividends: Preferred dividend requirements of subsidiary	$ -	$ -	$ -	$ -	$ -
Preferred dividend requirements factor	0.65	0.68	0.58	0.67	0.65
Preference security dividend requirements of consolidated subsidiaries (d)	-	-	-	-	-
Fixed charges	424,873,958	442,730,583	423,724,907	422,708,986	436,701,099
	$424,873,958	$442,730,583	$423,724,907	$422,708,986	$436,701,099
Ratio of earnings to fixed charges	2.11	2.00	1.91	2.29	2.21

(a) Income Statement amounts have been adjusted for discontinued operations.

(b) Excludes adjustment for minority interest in consolidated subsidiaries or income or loss from equity investees.

(c) NiSource is a public utility following SFAS 71 and therefore does not add amortization of capitalized interest or subtract interest capitalized in determining earnings, nor reduces fixed charges for Allowance for Funds Used During Construction.

(d) Preferred dividends, as defined by SEC regulation S-K, are computed by dividing the preferred dividend requirement by one minus the effective income tax rate applicable to continuing operations.

(e) NiSource made correcting adjustments for the years ended December 31, 2010, 2009, 2008 and 2007. NiSource does not believe these corrections are material for any reported period. Refer to Form 10-K for the period ended December 31, 2011 for additional information.

SUBSIDIARIES OF NISOURCE

as of December 31, 2011

Segment/Subsidiary	State of Incorporation
GAS DISTRIBUTION OPERATIONS	
Bay State Gas Company d/b/a Columbia Gas of Massachusetts	Massachusetts
Columbia Gas of Kentucky, Inc.	Kentucky
Columbia Gas of Maryland, Inc.	Delaware
Columbia Gas of Ohio, Inc.	Ohio
Columbia Gas of Pennsylvania, Inc.	Pennsylvania
Columbia Gas of Virginia, Inc.	Virginia
Kokomo Gas and Fuel Company	Indiana
NiSource Retail Services, Inc.	Delaware
ELECTRIC OPERATIONS	
Northern Indiana Public Service Company*	Indiana
GAS TRANSMISSION AND STORAGE OPERATIONS	
Columbia Gas Transmission, LLC.	Delaware
Columbia Gulf Transmission Company	Delaware
Crossroads Pipeline Company	Indiana
Central Kentucky Transmission Company	Delaware
NiSource Gas Transmission & Storage Company	Delaware

Segment/Subsidiary	State of Incorporation
OTHER OPERATIONS	
NiSource Energy Technologies, Inc.	Indiana
NiSource Development Company, Inc.	Indiana
EnergyUSA, Inc.	Indiana
EnergyUSA-TPC Corp.	Indiana
CORPORATE	
Columbia Energy Group	Delaware
NiSource Finance Corp.	Indiana
NiSource Capital Markets, Inc.	Indiana
NiSource Corporate Services Company	Delaware
NiSource Insurance Corporation, Inc.	Utah
NIPSCO Accounts Receivable Corporation	Indiana
Columbia Gas of Ohio Receivables Corporation	Delaware
Columbia Gas of Pennsylvania Receivables Corporation	Delaware

* Reported under Gas Distribution Operations and Electric Operations.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-157943, 333-170385 and 333-170385-01 on Forms S-3, and Registration Statement Nos. 333-127811, 333-127812, 333-107743, 333-166888 and 333-170706 on Forms S-8 of our reports dated February 24, 2011, relating to the consolidated financial statements and financial statement schedules of NiSource Inc. and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Columbus, Ohio
February 24, 2012

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert C. Skaggs, Jr., certify that:

1. I have reviewed this Annual Report of NiSource Inc. on Form 10-K for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2011

By: /s/ Robert C. Skaggs, Jr
Robert C. Skaggs, Jr.
Chief Executive Officer

Exhibit 31.2

Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Stephen P. Smith, certify that:

1. I have reviewed this Annual Report of NiSource Inc. on Form 10-K for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2012

By: /s/ Stephen P. Smith
Stephen P. Smith
Executive Vice President and Chief Financial Officer

Exhibit 32.1

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of NiSource Inc. (the "Company") on Form 10-K for the year ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. Skaggs, Jr., Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert C. Skaggs, Jr
Robert C. Skaggs, Jr.
Chief Executive Officer

Date: February 24, 2012

Exhibit 32.2

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of NiSource Inc. (the "Company") on Form 10-K for the year ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen P. Smith Stephen P. Smith, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

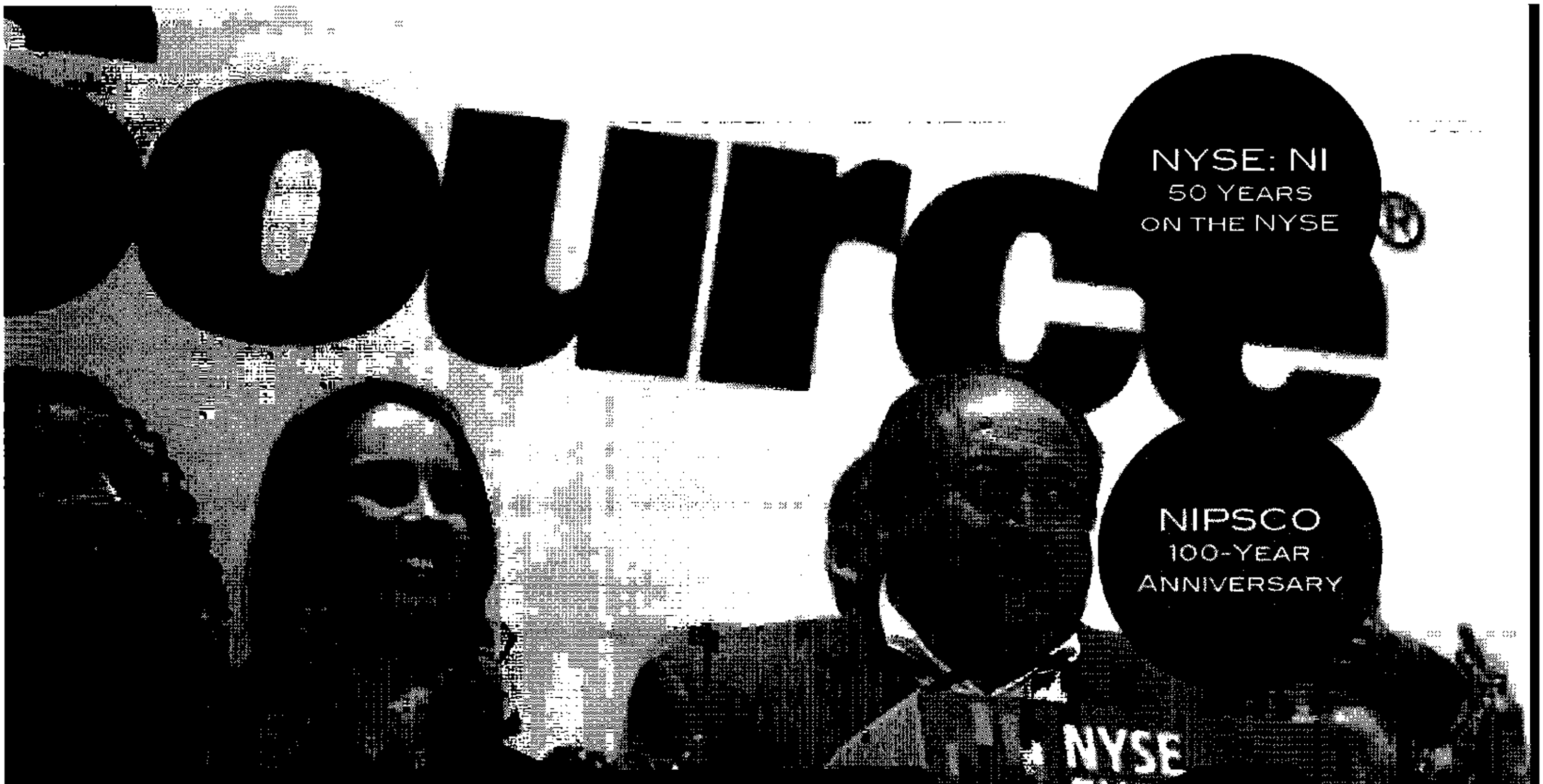
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stephen P. Smith
Stephen P. Smith
Executive Vice President and Chief Financial Officer

Date: February 24, 2012

2012 NiSource

ANNUAL MESSAGE TO STOCKHOLDERS



On Wednesday, Aug. 1, 2012, a group of NiSource employees journeyed to New York City to ring The Closing Bell at the New York Stock Exchange (NYSE). In addition to celebrating 50 years on the NYSE, NIPSCO commemorated its 100th anniversary.

- Non-GAAP* earnings per share of $1.46, an increase of 10.6 percent over 2011
- Total shareholder return of 8.5 percent, exceeding both the Dow Jones and S&P utility indices for the fourth straight year
- Four percent Common Stock dividend increase, our first in more than a decade
- Executed on a record $1.6 billion capital investment program
- Reached a landmark agreement to modernize our gas transmission network
- Advanced programs for systematically modernizing our core energy infrastructure
- Leveraged our strategic position in developing shale production areas
- Demonstrated ongoing financial and operational discipline, closing the year with nearly $1 billion in net available liquidity
- Identified a long-term investment inventory of more than $25 billion in growth and infrastructure modernization opportunities
- Added veteran energy industry executives Jim Stanley (NIPSCO) and Joe Hamrock (NiSource Gas Distribution) to our senior leadership team

** For a reconciliation to GAAP, see Schedule 1 of NiSource's Feb. 19, 2012 earnings release.*

A LETTER FROM NISOURCE'S PRESIDENT & CEO

FELLOW SHAREHOLDERS:

I'm pleased to report that 2012 was another year of consistent, disciplined execution across all facets of NiSource's well-established business strategy.

Anchored by a deep and growing inventory of infrastructure-focused capital investments, our strategy continues to produce value for our shareholders and tangible benefits for customers and other key stakeholders across our three core business units.

As you will see throughout this year's annual report, 2012 was a year in which our Team added to its established track record of delivering results:

- We successfully advanced a broad array of initiatives to strengthen our energy infrastructure, improve customer service and enhance environmental sustainability;
- We generated annual earnings per share in line with our guidance for the sixth consecutive year;
- We produced total shareholder returns that outperformed utility indices for the fourth consecutive year; and
- We increased our common stock dividend for the first time in more than a decade.

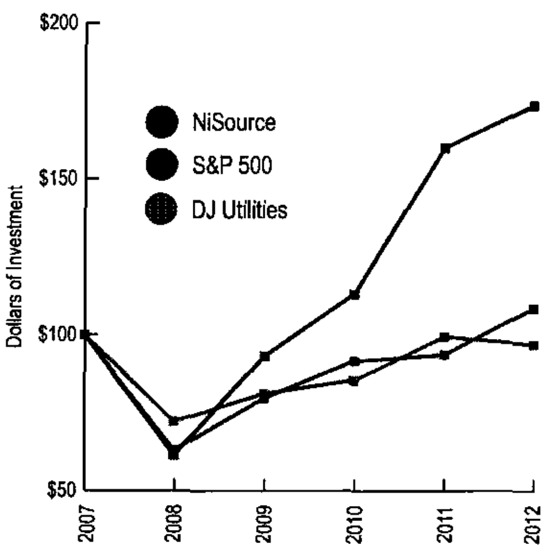
A number of key achievements fueled this performance, including strong execution of our industry-leading infrastructure modernization programs at our gas utilities, solid progress on significant environmental investments in our Indiana electric business, and the completion of a number of growth projects at our natural gas pipeline unit.

Our momentum from these achievements and others has continued to build in 2013. Of particular significance is the approval and initial implementation of a landmark infrastructure modernization program developed in 2012

ROBERT C. SKAGGS, JR.
PRESIDENT & CEO

BUILDING LONG-TERM SUSTAINABLE GROWTH

STOCK PRICE PERFORMANCE



	NI	S&P 500	DJ UTILITIES
2012	173.60	108.56	96.93
2011	159.96	93.60	99.41
2010	113.07	91.67	85.43
2009	93.23	79.67	81.19
2008	61.41	63.01	72.16
2007	100.0	100.0	100.0

by our largest gas pipeline, Columbia Gas Transmission. Another indication of our continuing progress is that NiSource's stock price reached a 10-year high in 2012, and continues to remain solid in early 2013.

DELIVERING ON AN ENHANCED INVESTMENT STRATEGY

As I noted above, the foundation of NiSource's success over the last several years has been our Team's demonstrated ability to execute on a broad and growing inventory of infrastructure-focused capital investment opportunities. In 2012, those capital investments reached nearly $1.6 billion.

Throughout this report, you'll see how we are continuing to enhance and expand that investment portfolio, leading to our record capital investment program of about $1.8 billion in 2013.

And, our investment opportunities extend well into the future. We have identified an inventory of accretive infrastructure investments spanning the next two decades that total $25 billion to $30 billion.

Our Team is intently focused on executing on these opportunities in a thoughtful, disciplined and transparent fashion. As we do so, we expect to achieve:

- An annual capital investment run-rate targeting $1.5 billion to $1.8 billion;
- Sustained annual earnings growth of 5 to 7 percent; and
- An annual dividend growth rate of 3 to 5 percent.

AN ESTABLISHED TRACK RECORD OF EXECUTION

LANDMARK PIPELINE MODERNIZATION PROGRAM

Our natural gas transmission modernization settlement – and its subsequent approval by the Federal Energy Regulatory Commission – was a signature achievement for Executive Vice President and Group CEO Jimmy Staton and the Team at Columbia Pipeline Group (CPG) – *formerly NiSource Gas Transmission & Storage.*

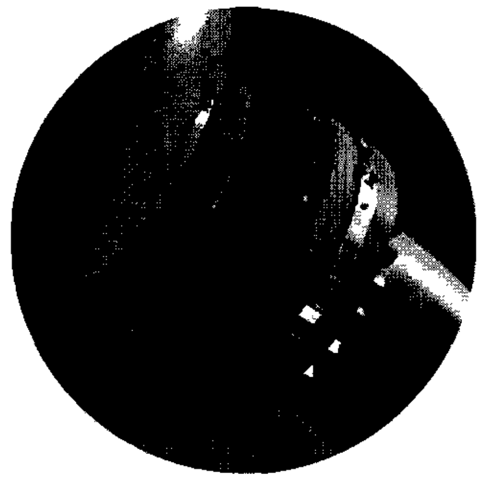
The settlement, the first of its kind in the interstate pipeline industry, establishes a clear path forward for enhancing the ongoing safety, reliability and flexibility of the Columbia Gas Transmission pipeline system. It provides an identified project stream under the modernization program, as well as a balanced and transparent recovery mechanism for our investments, which are ultimately expected to exceed $4 billion.

We believe this investment opportunity is a classic win-win for our customers, the company and our other key constituencies. Look for additional information about our modernization program elsewhere in this report.

SUPPLY- & MARKET-DRIVEN GROWTH

Our CPG Team also is hard at work developing and executing on a wide range of supply- and market-driven growth opportunities – many of which are driven by our strategic asset position in the developing Utica and Marcellus Shale production areas.

By investing in new pipeline and compression facilities – and in some cases modifying our existing facilities – we're adding additional system capacity and flexibility to enable competitively priced shale supplies to reach existing and new markets. In fact, during 2012, we had more than $500 million of these projects either completed or in-progress.

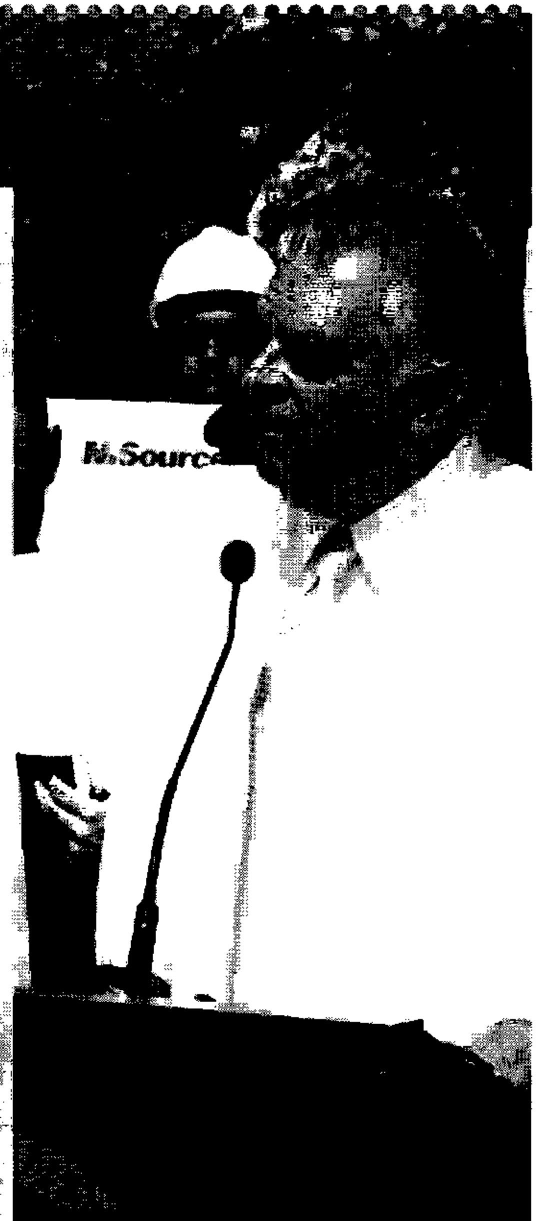


DOING THE RIGHT THING

NISOURCE'S MODERNIZATION PROGRAMS ARE PARTICULARLY IMPORTANT GIVEN THE GROWING PUBLIC FOCUS ON PIPELINE SAFETY. ALTHOUGH OUR COMPANIES HAVE STRONG AND WELL-ESTABLISHED SAFETY RECORDS, SEVERAL RECENT INDUSTRY INCIDENTS – INCLUDING ONE INVOLVING OUR COLUMBIA GAS OF MASSACHUSETTS UTILITY AND ONE INVOLVING A COLUMBIA GAS TRANSMISSION PIPELINE IN WEST VIRGINIA – SERVE TO UNDERSCORE THE CRITICAL IMPORTANCE OF PIPELINE SAFETY AND VALIDATE NISOURCE'S INFRASTRUCTURE MODERNIZATION STRATEGY.

FROM OUR DAY-TO-DAY FOCUS ON REGULATORY COMPLIANCE, TO OUR LONG-TERM COMMITMENT TO INVEST IN AND MAINTAIN SYSTEM INTEGRITY, WE ARE FIRMLY COMMITTED TO DOING THE RIGHT THING TO ENSURE THE SAFETY AND RELIABILITY OF OUR FACILITIES AND SYSTEMS.

A GROUNDBREAKING PIPELINE MODERNIZATION PROGRAM



LONG-TERM INFRASTRUCTURE ENHANCEMENTS

DURING 2012, COLUMBIA GAS TRANSMISSION ADVANCED A LONG-TERM PLAN TO SYSTEMATICALLY ENHANCE THE SAFETY, RELIABILITY AND FLEXIBILITY OF ITS 12,000-MILE SYSTEM.

THIS LANDMARK PROGRAM INCLUDES AN INVENTORY OF PROJECTS SPANNING UP TO 15 YEARS AND REQUIRING AN OVERALL INVESTMENT OF MORE THAN $4 BILLION. EARLIER THIS YEAR, THE FEDERAL ENERGY REGULATORY COMMISSION APPROVED A CUSTOMER SETTLEMENT OUTLINING THE INITIAL FIVE YEARS OF THE PROGRAM — ENCOMPASSING $1.5 BILLION IN INVESTMENTS. THIS IS IN ADDITION TO APPROXIMATELY $100 MILLION IN ANNUAL ONGOING MAINTENANCE INVESTMENTS.

IN TOTAL, THIS GROUNDBREAKING PROGRAM WILL:

- REPLACE ABOUT 1,000 MILES OF NATURAL GAS TRANSMISSION PIPELINE
- REPLACE OR MODERNIZE MORE THAN 50 CRITICAL COMPRESSOR UNITS
- INCREASE SYSTEM RELIABILITY BY UPRATING OR LOOPING SYSTEMS TO SUPPORT CRITICAL MARKETS
- IMPROVE THE COMPANY'S ABILITY TO PERFORM STATE-OF-THE-ART MAINTENANCE AND IN-LINE INSPECTIONS
- SPUR JOB CREATION AND ECONOMIC DEVELOPMENT, INCLUDING THE DIRECT CREATION OF MORE THAN 7,000 MODERNIZATION-RELATED JOBS
- HELP ASSURE THE CONTINUED SAFE, RELIABLE AND EFFICIENT OPERATION OF THE COMPANY'S PIPELINE SYSTEM FOR GENERATIONS TO COME

IN APRIL 2012, U.S. SECRETARY OF TRANSPORTATION RAY LAHOOD RECOGNIZED NISOURCE'S PIPELINE INFRASTRUCTURE MODERNIZATION AND REPLACEMENT INVESTMENT PLANS AT AN EVENT IN PITTSBURGH, PA.

SOLID OPERATIONAL & FINANCIAL PERFORMANCE

A prime example of the game-changing nature of emerging shale gas supplies are CPG's East Side Expansion and West Side Expansion projects, which together represent about $400 million in total investments providing about 800,000 dekatherms per day in new transportation capacity.

The East Side Expansion will reconfigure existing pipeline and compressor facilities to add about 300,000 dekatherms per day of capacity to serve Northeast and Mid-Atlantic markets. The West Side Expansion will reverse the flow of one leg of our Columbia Gulf system stretching from the Gulf Coast to Appalachia. This will enable shale gas supplies to reach growing Southeast markets and supports potential Gulf Coast liquefied natural gas (LNG) export opportunities.

MINERALS & MIDSTREAM OPPORTUNITIES

As a complement to our core pipeline growth and modernization strategy, we also are executing on a number of midstream pipeline and gas processing investments that leverage our production-area asset position.

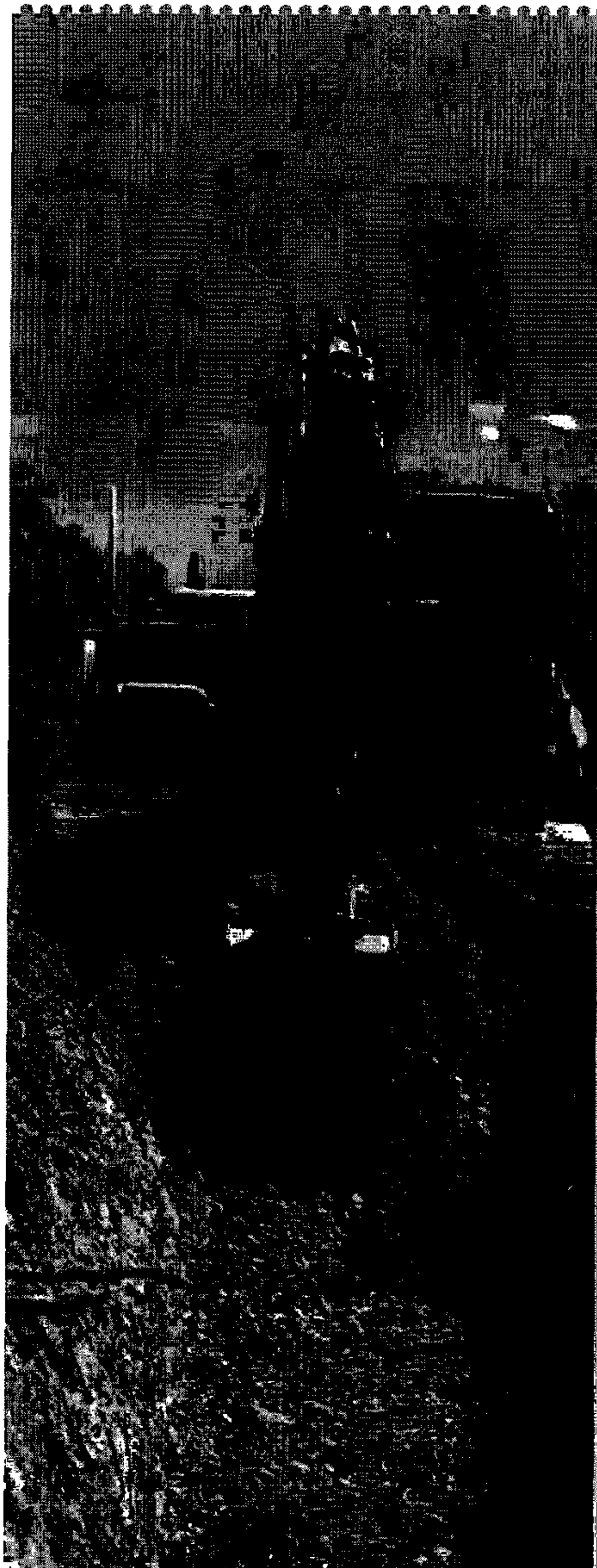
One of these projects, the Big Pine Gathering System, leverages existing rights-of-way to provide new midstream transportation service to an underserved, hydrocarbon-rich area of the Marcellus Shale in western Pennsylvania. Anchored by a long-term agreement with XTO Energy Inc., the $160 million project commenced an initial phase of service in late 2012 and will eventually provide up to 425 million cubic feet per day of capacity, with interconnections to multiple interstate pipeline markets.

Another significant midstream project launched in 2012 involves Pennant Midstream LLC, a joint venture with affiliates of Hilcorp Energy Company to develop pipeline and processing facilities in the Utica Shale region of

Columbia Pipeline Group℠

IN 2013, NISOURCE GAS TRANSMISSION & STORAGE REBRANDED ITSELF AS THE COLUMBIA PIPELINE GROUP. THE CHANGE LEVERAGES THE HISTORIC STRENGTH OF OUR COLUMBIA GAS TRANSMISSION AND COLUMBIA GULF BRANDS, AND THE TRADITION OF SERVICE AND RELIABILITY THEY REPRESENT.

MARKET- & SUPPLY-DRIVEN PROJECTS



northeast Ohio and western Pennsylvania. NiSource is responsible for about $150 million of the project's first investment phase, which will provide about 400 million cubic feet per day of additional gathering capacity and 200 million cubic feet per day in processing capacity. The project is expected to be in service in the second half of 2013, with future expansions anticipated as producer activity in the area develops.

Concurrent with our Pennant project, we entered into a separate joint arrangement with Hilcorp to develop the hydrocarbon potential on more than 100,000 combined acres in the Utica/Point Pleasant Shale formation. NiSource will invest alongside Hilcorp in the development of the acreage, owning both a working and overriding royalty interest. Notably, all of the Hilcorp/NiSource acreage is dedicated to the Pennant Midstream project.

Hilcorp completed several test wells in the combined acreage area during 2012, with encouraging early indications consistent with other active wells in the area. We anticipate additional drilling in the area during 2013, subject to continued scientific analysis and delineation of the northeast Utica Shale play.

As you can see, our CPG Team is maintaining a sharp focus on core growth and modernization projects while pursuing a number of value-adding midstream projects. This measured approach is designed to meet the evolving needs of the marketplace – ensuring the reliability, integrity and modernization of our infrastructure – while leveraging our assets and minerals position in the shale basins.

A DEEP INVENTORY OF INVESTMENT OPPORTUNITIES

MARKING 100 YEARS OF PROGRESS AT NIPSCO

For Northern Indiana Public Service Co. (NIPSCO), 2012 marked the company's 100th anniversary and another year of solid progress on the company's plan to deliver on core customer, reliability and environmental initiatives, while maintaining a sharp focus on long-term investment and growth.

Under the direction of new Executive Vice President and Group CEO Jim Stanley, NIPSCO continued to produce strong operating performance, including reaching an all-time record peak electric load of more than 3,700 megawatts on June 28, 2012. NIPSCO also continued to introduce new customer programs, including an air-conditioning cycling program, a green power rate program and new incentives for customers who drive electric vehicles.

Most notably, NIPSCO remains on track with significant multi-year environmental investments at our electric generation facilities. The company's more than $500 million flue gas desulfurization (FGD) project at its Schahfer Generating Station remains on budget and on schedule to be placed into service in 2014. NIPSCO also has begun work on a $250 million FGD project at its Michigan City Generating Station. These investments help promote cleaner air and long-term environmental compliance, and generate hundreds of local jobs and other economic benefits in NIPSCO's service area.

NIPSCO also is actively developing two significant electric transmission projects. These projects, slated for development later this decade, will reduce system congestion and strengthen the Midwest's electrical infrastructure. With investments totaling about $500 million, these projects likewise will generate hundreds of construction jobs and other economic benefits for Indiana.

Looking ahead, NIPSCO is advancing a long-term strategy – with corresponding regulatory and legislative

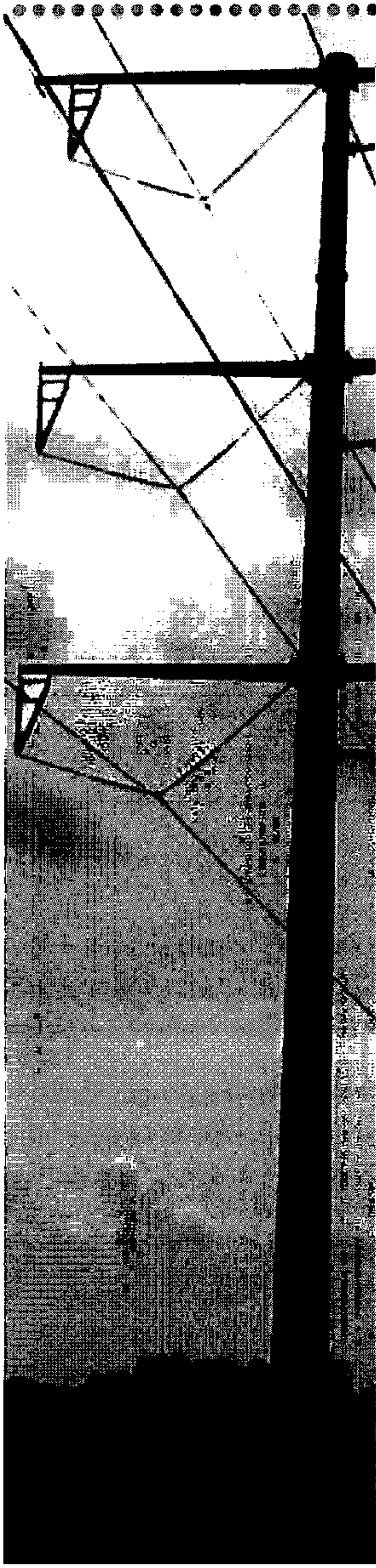
NIPSCO 1912 100 YEARS 2012

SUPPORTING NEIGHBORS IN NEED

WHILE SUPERSTORM SANDY BATTERED THE EAST COAST WITH 80-MPH WINDS AND 13-FOOT OCEAN SURGES IN LATE OCTOBER 2012, SOME COLUMBIA GAS AND NIPSCO EMPLOYEES KNEW THEY WOULD SOON BE HEADED EAST IN SUPPORT OF UTILITIES HIT BY SANDY.

EIGHTY NIPSCO EMPLOYEES AND MORE THAN 40 COLUMBIA GAS EMPLOYEES HELPED RESTORE ELECTRICITY AND NATURAL GAS SERVICE. LINEMEN, CONSTRUCTION COORDINATORS, SERVICE TECHNICIANS AND OTHERS VOLUNTEERED DESPITE KNOWING DAYS WOULD BE LONG, CONDITIONS TOUGH AND HOLIDAY ACTIVITIES WITH FAMILY AND FRIENDS WOULD BE PUT ON HOLD.

ELECTRIC TRANSMISSION INFRASTRUCTURE ENHANCEMENTS



IMPROVING INDIANA'S ELECTRIC SYSTEM

NIPSCO's electric service territory and assets are strategically located on the seam between two major electric transmission operating areas – The Midwest Independent Transmission Service Organization (MISO) and the PJM Interconnection (PJMI). Based on the significant and growing need to move electricity from west to east, there is an increased demand for an electric transmission superhighway.

Although NIPSCO does not plan to build the superhighway, we are well on our way to build the necessary on-ramps, off-ramps and loops for that system. This opportunity will serve to reduce congestion and provide increased access to various sources of electric generation, including renewables. We believe this transmission investment could reach up to $1 billion for NIPSCO over the next decade.

In 2012 NIPSCO outlined two approved electric transmission projects that are part of the MISO Multi-Value Initiative – a multi-state effort to strengthen the electric transmission system serving the Midwest. The two projects, involving an investment of more than $500 million over the next five-to-seven years will create jobs, enhance system reliability, offer environmental benefits and improve access to lower cost electricity.

REYNOLDS TO TOPEKA PROJECT

- 100-mile, 345-KV transmission project
- Approximately a $270 million investment
- Public outreach and route selection: 2013
- Construction to begin: 2015
- Projected in service: 2018

REYNOLDS TO GREENTOWN PROJECT

- 50/50 joint project
- 66-mile, 765-KV transmission project
- $300 – $400 million investment (NI Portion: $150 – $200 million)
- Projected in service: latter portion of decade

A GROWING INFRASTRUCTURE INVESTMENT INVENTORY

initiatives – to modernize the company's core electric transmission and distribution infrastructure. This effort is designed to support the accelerated replacement of transformers, poles, lines and other equipment. On the legislative front, the NIPSCO Team – together with other state utilities – is working tirelessly to advance legislation that would improve the efficiency of the regulatory process, as well as the framework for recovering costs associated with these ongoing infrastructure investments.

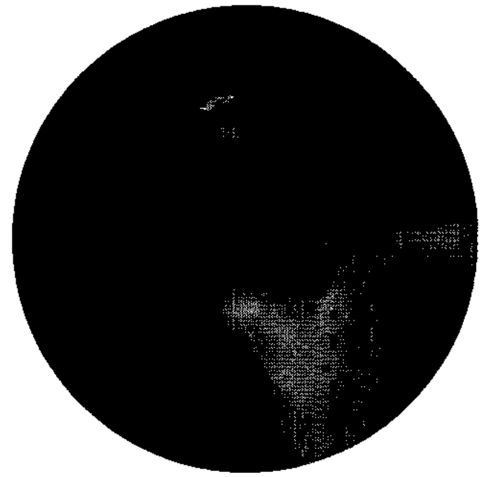
All told, 2012 represented another outstanding year of progress that positions NIPSCO to be a strong and vibrant partner in northern Indiana's progress for generations to come.

INDUSTRY-LEADING GAS UTILITY MODERNIZATION PROGRAMS

Under the direction of new Executive Vice President and Group CEO Joe Hamrock, our NiSource Gas Distribution (NGD) unit continues to deliver strong results from a well-established strategy of aligning long-term infrastructure modernization programs with complementary customer programs and regulatory initiatives.

In total, we invested nearly $400 million in these infrastructure programs during 2012. And these investments were in addition to about $250 million in distribution system growth and maintenance investments. Over time, we expect the inventory of gas distribution modernization projects across our NGD service territory to total more than $10 billion.

Utility investments on this scale call for efficient and innovative regulatory approaches. And on that front, our NGD Team continues to make solid progress.



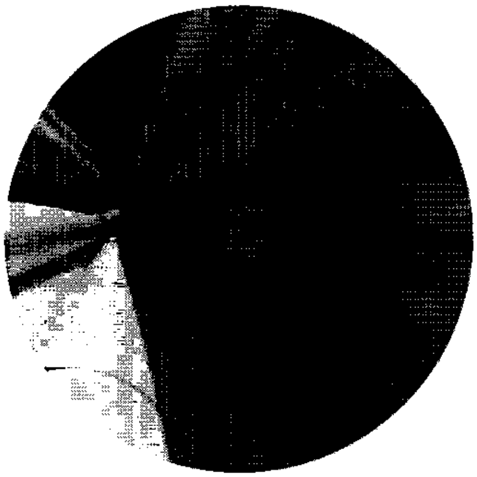
MORE ACCURATE METER READING

Automated Meter Reading (AMR) devices enable our utilities to obtain accurate meter readings remotely. Through a wireless transmission, we are able to read meters and transmit the data directly to our billing system.

NiSource Gas Distribution companies have been replacing manual-read meters with AMR devices throughout the last five years. As of the end of 2012, AMR devices were installed in approximately 70 percent of our gas customers' meters.

In 2012, NIPSCO will begin to pilot AMR devices. A $90 million investment, the devices will be installed on all 900,000 gas and electric meters by 2016. The technology will allow a meter reader to collect approximately 6,300 readings in four hours, compared to 300 readings now.

SOLID LONG-TERM TRAJECTORY TO GROW EARNINGS



GAS DISTRIBUTION MODERNIZATION

INFRASTRUCTURE MODERNIZATION PROJECTS ACROSS MUCH OF THE NGD TERRITORY CONTINUE TO GENERATE VALUE FOR STAKEHOLDERS AND SUSTAINABLE EARNINGS GROWTH. SUPPORTED BY REGULATORY INITIATIVES INTEGRATED WITH CUSTOMER PROGRAMS DESIGNED TO REDUCE ENERGY CONSUMPTION AND LOWER OVERALL BILLS, NISOURCE INVESTED NEARLY $400 MILLION IN THESE INFRASTRUCTURE PROGRAMS IN 2012.

THIS MORE THAN $10 BILLION LONG-TERM PROGRAM INCLUDES REPLACING AGING PIPELINES WITH MORE CORROSION-RESISTANT MATERIALS, INCLUDING COATED STEEL AND PLASTIC.

For example, the Columbia Gas of Virginia Team played a key role in advancing that state's Natural Gas Infrastructure Expansion for Economic Development – or NEED – legislation during 2012, as well as legislation enacted early this year permitting gas utilities to defer costs associated with system integrity programs for recovery in future rate cases.

In Maryland, the Team helped advance legislation that will permit gas utilities to file a pipeline modernization plan to recover costs associated with projected infrastructure replacement projects through a surcharge on customer bills. The new legislation is expected to take effect June 1, 2013.

In terms of rate case activity, in late 2012, Columbia Gas of Massachusetts received a base rate case order resulting in an annual revenue increase of about $8 million. And most recently, Columbia Gas of Pennsylvania filed a unanimous settlement with the parties in its 2012 base rate case. The settlement, pending Pennsylvania Public Utility Commission approval, increases annual revenues by about $55 million. Notably, the case includes a simplified residential rate design that includes a weather normalization adjustment and full recovery of safety-related expenditures. Columbia Gas of Pennsylvania is the first utility in the state to establish rates based on investments and expenses as reflected in a fully forecasted test year, consistent with Pennsylvania's recently enacted Act 11.

Again, our NGD game plan is well-established, straightforward and clear – sustained growth through long-term infrastructure investments supported by customer programs and progressive regulatory models.

CONTINUED GROWTH IN 2013 AND BEYOND

Based on the demonstrated strength of NiSource's business strategy – and the continued solid execution of that plan by our Teams – we are committed to long-term earnings growth in the range of 5 to 7 percent per year.

NISOURCE: A COMPELLING INVESTMENT

As I noted earlier, fueling this growth will be our record $1.8 billion capital investment program, nearly three-fourths of which is comprised of value-adding growth and modernization investments. While the plan reflects a fairly significant increase over 2012, the largest increase for 2013 relates to the modernization and growth initiatives at our pipeline group – adding to a foundation of growth and environmental investments at our other two business units. We are convinced that these investments will enhance and strengthen the long-term value of our assets.

As we continue to execute our investment-driven business strategy, I can assure you that we will remain balanced, disciplined and transparent in our approach, including the means by which we fund our capital requirements. A key part of that approach remains an unequivocal commitment to maintain NiSource's investment-grade credit ratings.

Before I close, I want to recognize the significant service and wise counsel of our Board Chairman Ian Rolland, who after 35 years of service is retiring from the NiSource Board of Directors. Ian has provided our Board with unwavering leadership, a strong moral compass and a balanced, long-term focus on the interests of our shareholders and other key constituencies. I deeply appreciate Ian's service, his guidance and his continued friendship.

With the full support of our Board, I am convinced that we have a compelling game plan, and the resources and capabilities to continue to deliver on our commitments.

Thank you for your continued interest in NiSource. We value your support and remain committed to delivering continuing value for your investment.

Robert C. Skaggs, Jr.
President & CEO
NiSource Inc.

MANAGEMENT TEAM

ROBERT C. SKAGGS, JR.
President & CEO

STEPHEN P. SMITH
Executive Vice President & CFO

CARRIE J. HIGHTMAN
Executive Vice President & CLO

JOSEPH HAMROCK
Executive Vice President & Group CEO
Gas Distribution

JIM L. STANLEY
Executive Vice President & Group CEO
NIPSCO

JIMMY D. STATON
Executive Vice President & Group CEO
Columbia Pipeline Group

ROBERT D. CAMPBELL
Senior Vice President, Human Resources

GLEN L. KETTERING
Senior Vice President, Corporate Affairs

VIOLET G. SISTOVARIS
Senior Vice President & CIO

LARRY J. FRANCISCO
Vice President, Audit

IAN ROLLAND'S ENDURING COMMITMENT TO NISOURCE

Ian Rolland, NiSource Chairman, announced his plans to retire from NiSource's Board of Directors, effective May 14, 2013. A member of the Board since 1978, Ian has served as NiSource's Chairman since Nov. 2006.

Since Ian joined the Board more than three decades ago, the company has experienced significant change, opportunities and challenges. During the most challenging times, Ian served as a stable and strong steward of customer, shareholder and employee interests. Most recently, he and the Board helped NiSource navigate the nation's difficult financial landscape and position the company for sustainable, long-term growth.

In April 2012, Indiana's then Governor Mitch Daniels bestowed Ian with the state's highest honor, the Sachem Award. The Governor proclaimed that Ian is "one of the great citizens in recent Indiana history: a superb businessman who created jobs by the thousands, a leader for civil rights and a host of civic causes, a champion of the environment and conservation, and always an exemplar of the highest standards of personal integrity."

In addition to his role as Chairman with NiSource, Ian sits on the boards of more than a dozen non-profit and charitable organizations. As a businessman, Ian has created significant positive economic impacts, and in his private life, he has been active in community issues as wide-ranging as school desegregation, historic preservation and protecting the environment.

Until his retirement in 1998, Ian served as Chairman and Chief Executive Officer of Lincoln National Corporation, a provider of financial products and services.

In Nov. 2012, Ian spoke to a group of more than 170 women leaders at NiSource about the importance of diversity in a company's success. Inclusion and diversity remain a strong priority of Ian's and of NiSource.

A LETTER FROM NISOURCE'S CHAIRMAN

As Bob's letter highlights, this was another solid year of progress for NiSource, its shareholders and other key stakeholders.

It also was a bittersweet year for me, as in May 2012, I announced I would retire from NiSource's Board of Directors at the completion of my current term in May 2013.

It has been my privilege to serve as a NiSource Board member for many years. With the benefit of that perspective, I can say without hesitation, that the Company is in the best position it's been in during my tenure and that its future prospects are bright.

I'm leaving the Board in good hands under the direction of incoming Chairman Richard Thompson, subject to his reelection at the 2013 Annual Meeting of Stockholders. Rich's strong business and financial knowledge, his unparalleled leadership integrity, and his deep understanding of NiSource's growth opportunities and challenges make him an excellent choice to serve as Chairman.

As I close out my formal role with NiSource, I am particularly proud of several key accomplishments of the Company and our Board during 2012, including:

- The Board's action to increase the dividend for the first time in more than 10 years, paired with its intention to grow the dividend on a consistent basis going forward. This, in combination with NiSource's commitment to sustainable earnings growth, reflects the Company's unwavering commitment to execute on its investment-based business strategy and continue to create shareholder value.

- Further development of an already-strong management team, including among others, the addition of veteran energy executives Joe Hamrock at NGD and Jim Stanley at NIPSCO.

"IAN PERSONIFIES WHAT IT MEANS TO 'DO THE RIGHT THING,' AND HE SERVES AS A TOWERING EXAMPLE FOR ALL OF US AT NISOURCE AS WE ASPIRE TO EXCELLENCE, INTEGRITY AND GENEROSITY IN OUR PROFESSIONAL AND PERSONAL LIVES. IT GOES WITHOUT SAYING THAT HE WILL LEAVE BIG SHOES TO FILL ON THE NISOURCE BOARD. ON BEHALF OF NISOURCE'S MORE THAN 8,000 TEAM MEMBERS – THANK YOU FOR YOUR SERVICE AND ENDURING COMMITMENT TO NISOURCE."

ROBERT C. SKAGGS, JR.
PRESIDENT & CEO

Dow Jones Sustainability Indexes
Member 2012/13

2013 WORLD'S MOST ETHICAL COMPANIES
WWW.ETHISPHERE.COM

A LETTER FROM NISOURCE'S CHAIRMAN

BOARD OF DIRECTORS

IAN M. ROLLAND
Chairman of the Board, NiSource Inc.

RICHARD A. ABDOO
Retired President, R.A. Abdoo & Co. LLC

ARISTIDES S. CANDRIS
Retired President & CEO, Westinghouse

SIGMUND L. CORNELIUS
Retired Senior Vice President, Finance & CFO, ConocoPhillips

MICHAEL E. JESANIS
Principal, Serrafix

MARTY P. KITTRELL
Retired Executive Vice President & CFO, Dresser, Inc.

W. LEE NUTTER
Retired Chairman, President & CEO, Rayonier, Inc.

DEBORAH S. PARKER
Senior Vice President, Quality & Environmental, Health & Safety, Alstom Power

ROBERT C. SKAGGS, JR.
President & CEO, NiSource Inc.

TERESA A. TAYLOR
Retired COO, Qwest Communications, Inc.

RICHARD L. THOMPSON
Chairman, Lennox International, Inc.

CAROLYN Y. WOO
President & CEO, Catholic Relief Services

- Continued strengthening of our Board with the addition of Aristides Candris and Teresa Taylor to our ranks. Aris and Teresa bring exceptional operational and leadership experience to our Board, and I am confident they will contribute to the Board's effectiveness for years to come.

- The Board's active engagement and support of the Company's record infrastructure investment plan, helping assure that it is taking the right steps to provide safe, reliable and improved service to its customers.

- Sustained recognition of NiSource's contemporary governance and industry-leading ethical practices, capped with the Company being named, for the second consecutive year, one of the World's Most Ethical Companies by The Ethisphere Institute.

I wish only the best to my colleagues at NiSource, and I can assure you that my wife Mimi and I will watch with great interest and pride as the Team continues to build an even stronger Company.

Ian M. Rolland

Ian M. Rolland
Chairman of the Board
NiSource Inc.

STOCK INFO

This document contains forward-looking statements. For a discussion of factors that could cause actual results to differ materially from those contained in such statements, please see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the NiSource Inc. annual report on Form 10-K included herein.

NiSource Inc. common stock is listed and traded on the New York Stock Exchange under the symbol NI. The shares are listed in financial stock quotations as NISOURCE. As of December 31, 2012, NiSource had 28,823 registered common stockholders.

04-30-13	05-20-13
07-31-13	08-20-13
10-31-13	11-20-13
02-03-14	02-20-14

The Board of Directors, effective January 25, 2013, has declared a quarterly dividend of $0.24 per share, equivalent to $0.96 per share on an annual basis.

Financial analysts and investment professionals should direct written and telephone inquiries to NiSource Investor Relations at 801 East 86th Avenue, Merrillville, IN 46410 or (219) 647-6209.

Copies of NiSource's financial reports are available by writing or calling the Investor Relations department at the address or phone number listed above. The materials are also available at www.nisource.com.

Questions about stockholder accounts, stock certificates, transfer of shares, dividend payments, automatic dividend reinvestment and stock purchase plan, and electronic deposit may be directed to Computershare at the following:

Computershare
P.O. Box 43006
Providence, RI 02940-3006
or
250 Royall Street
Canton, MA 02021

(888) 884-7790

TDD for Hearing Impaired
(800) 231-5469

Foreign Stockholders
(201) 680-6578

TDD Foreign Stockholders
(201) 680-6610

www.computershare.com/investor

On June 6, 2012, NiSource's Chief Executive Officer submitted to the New York Stock Exchange ("NYSE") an annual certification stating that as of that date he was not aware of any violation by the company of the New York Stock Exchange's corporate governance listing standards, as required by Section 303A.12(a) of the NYSE's Listed Company manual. NiSource's Chief Executive Officer and Chief Financial Officer have provided certifications to the U.S. Securities and Exchange Commission as required by Section 302 of the Sarbanes-Oxley Act of 2002. These certifications are included as Exhibits 31.1 and 31.2 to the company's 10-K for the year ended December 31, 2012.

STOCKHOLDER INQUIRIES

COMPUTERSHARE
SHAREOWNER SERVICES
(888) 884-7790

ANALYST INQUIRIES

INVESTOR RELATIONS
(219) 647-6209

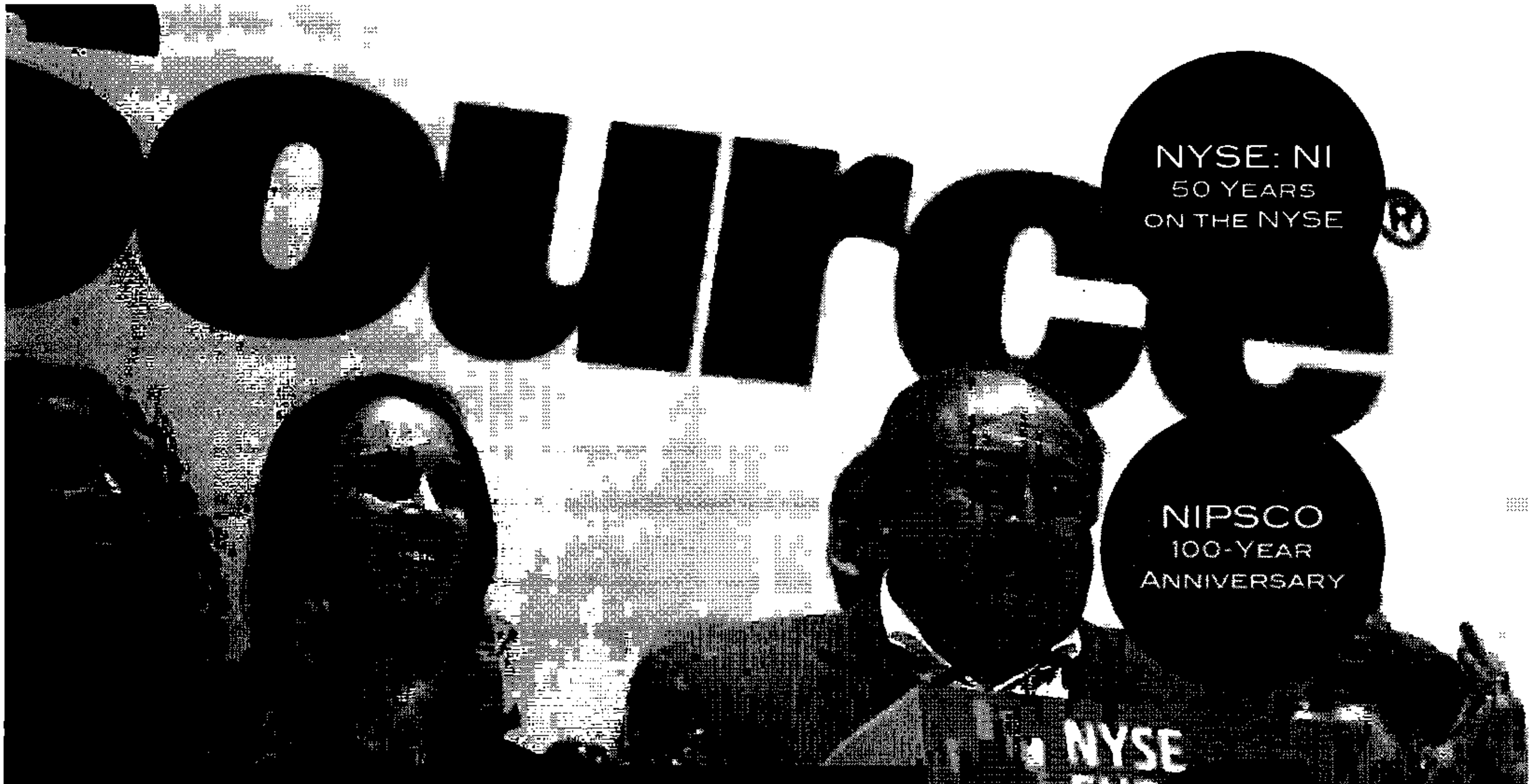
MEDIA INQUIRIES

COMMUNICATIONS
(219) 647-5581

801 East 86th Avenue
Merrillville, IN 46410
www.nisource.com

2012 NiSource
STATISTICAL SUMMARY

NiSource®



NYSE: NI
50 Years
on the NYSE

NIPSCO
100-Year
Anniversary

NiSource
Stock Reached
a 10-Year High
in 2012

On Wednesday, Aug. 1, 2012, a group of NiSource employees journeyed to New York City to ring The Closing Bell at the New York Stock Exchange (NYSE). In addition to celebrating 50 years on the NYSE, NIPSCO commemorated its 100th anniversary.

- Non-GAAP* earnings per share of $1.46, an increase of 10.6 percent over 2011
- Total shareholder return of 8.5 percent, exceeding both the Dow Jones and S&P utility indices for the fourth straight year
- Four percent Common Stock dividend increase, our first in more than a decade
- Executed on a record $1.6 billion capital investment program
- Reached a landmark agreement to modernize our gas transmission network
- Advanced programs for systematically modernizing our core energy infrastructure
- Leveraged our strategic position in developing shale production areas
- Demonstrated ongoing financial and operational discipline, closing the year with nearly $1 billion in net available liquidity
- Identified a long-term investment inventory of more than $25 billion in growth and infrastructure modernization opportunities
- Added veteran energy industry executives Jim Stanley (NIPSCO) and Joe Hamrock (NiSource Gas Distribution) to our senior leadership team

* For a reconciliation to GAAP, see Schedule 1 of NiSource's Feb. 19, 2013 earnings release.

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FINANCIAL

BUSINESS SEGMENTS

STOCKHOLDERS

OTHER INFORMATION

NISOURCE AT A GLANCE

GAS DISTRIBUTION

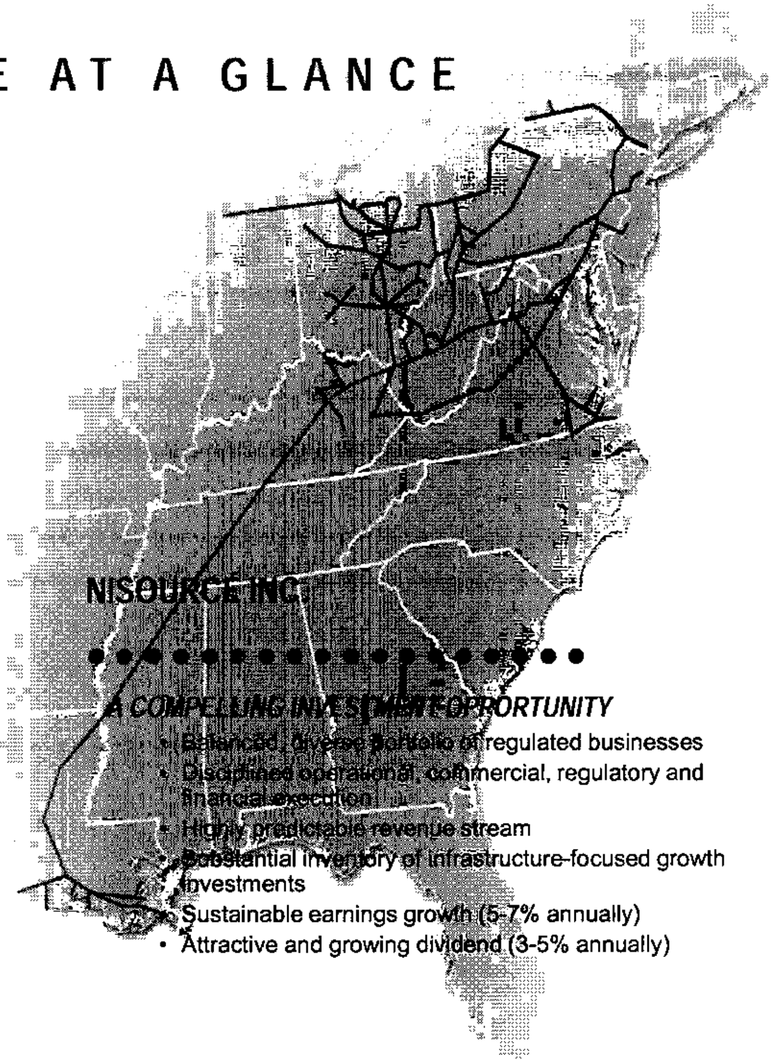
- One of the Nation's Largest Natural Gas Distribution Companies Serving More Than 3.3 Million Customers
- Established Best-in-Class Platform for Sustainable Earnings Growth Through:
  - Comprehensive Long-Term Infrastructure-Investment Programs
  - Responsive Customer Programs
  - Creative Regulatory Approaches

ELECTRIC OPERATIONS

- More than 450,000 Industrial, Commercial and Residential Electric Customers in a Stable Marketplace
- Environmentally Compliant Fleet of Electric Generation Facilities
- Total Generating Capability of 3,300 Megawatts
- Long-Term Infrastructure Investment Program

COLUMBIA PIPELINE GROUP

- 15,000 Mile Network of Interstate Natural Gas Pipelines
- One of the Nation's Largest Market-Area Storage Systems
- Unparalleled Strategic Footprint in the Marcellus and Utica Shale Production Region
- Deep Inventory of Attractive Investment Opportunities
- Long-Term Pipeline System Modernization Program



NISOURCE INC.

A COMPELLING INVESTMENT OPPORTUNITY

- Balanced, diverse portfolio of regulated businesses
- Disciplined operational, commercial, regulatory and financial execution
- Highly predictable revenue stream
- Substantial inventory of infrastructure-focused growth investments
- Sustainable earnings growth (5-7% annually)
- Attractive and growing dividend (3-5% annually)

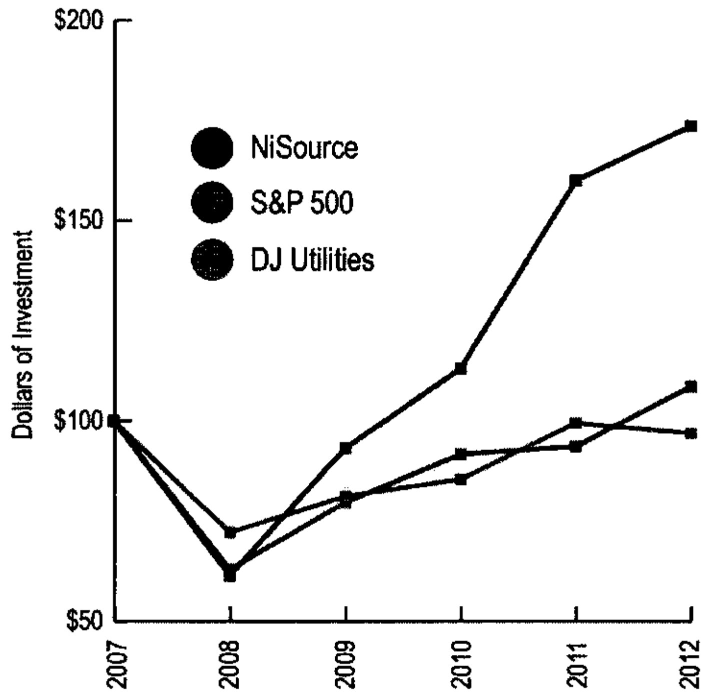
FINANCIAL HIGHLIGHTS (12/31/12)

Stock Price	\$24.92	Annual Dividend	\$0.96
Common Shares Outstanding	~310M	Market Capitalization	~\$7.7B

STABLE CREDIT RATINGS

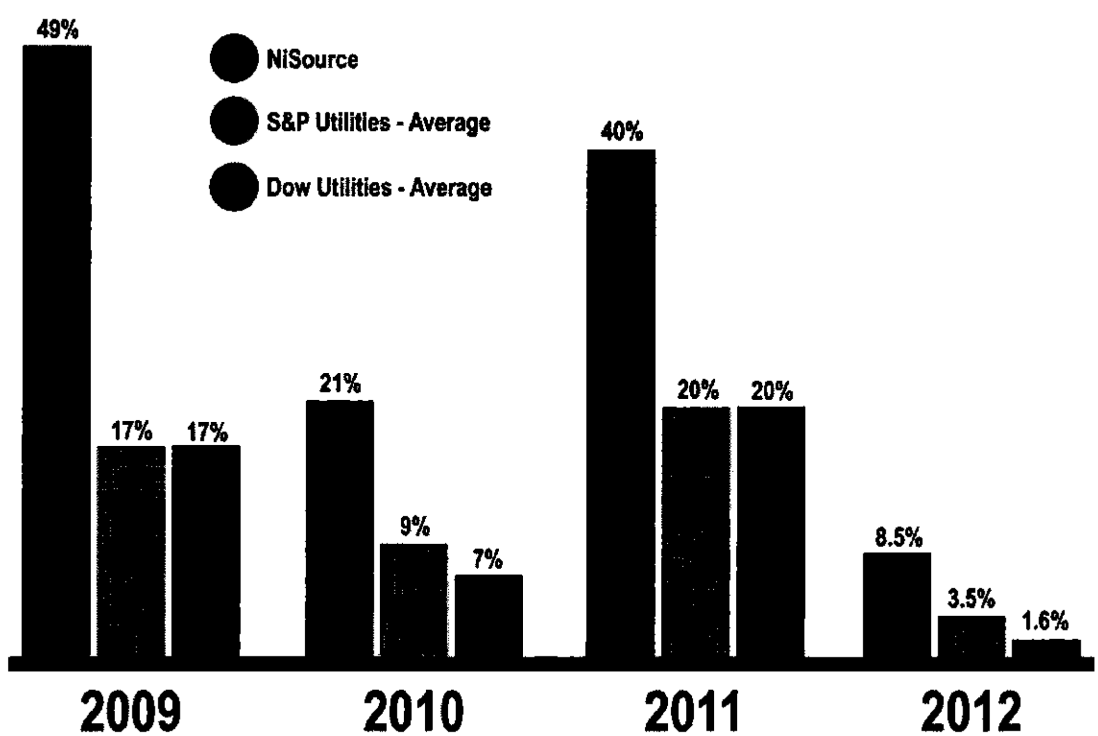
S&P	BBB-
Moody's	Baa3
Fitch	BBB-

STOCK PRICE PERFORMANCE



	NI	S&P 500	DJ UTILITIES
2012	173.60	108.56	96.93
2011	159.96	93.60	99.41
2010	113.07	91.67	85.43
2009	93.23	79.67	81.19
2008	61.41	63.01	72.16
2007	100.0	100.0	100.0

TOTAL SHAREHOLDER RETURN*



* Stock Appreciation + Reinvested Dividend (Indices are average)

Forward Looking Statements

This summary contains forward-looking statements within the meaning of federal securities laws. These forward-looking statements are subject to various risks and uncertainties. Examples of forward-looking statements in this summary include statements and expectations regarding future dividends, operating earnings growth, earnings per share growth, capital investments, financing needs and plans, and investment opportunities. Factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed in this summary include, 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; 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, and the matters set forth in the "Risk Factors" section in NiSource's 2012 Form 10-K (which section is incorporated herein by reference) and in conjunction with other SEC reports filed by NiSource, many of which are beyond the control of NiSource. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this summary's publication. Future earnings are illustrative only and do not constitute guidance by the Company. NiSource expressly disclaims a duty to update any of the forward-looking statements contained in this summary.

With regard to Net Operating Earnings Guidance for 2013 – it should be noted that there will likely be differences between net operating earnings and GAAP earnings due to weather and other factors. NiSource is not able to estimate the impact of such items on GAAP earnings and, as such, does not providing earnings guidance on a GAAP basis.

Regulation G Disclosure Statement

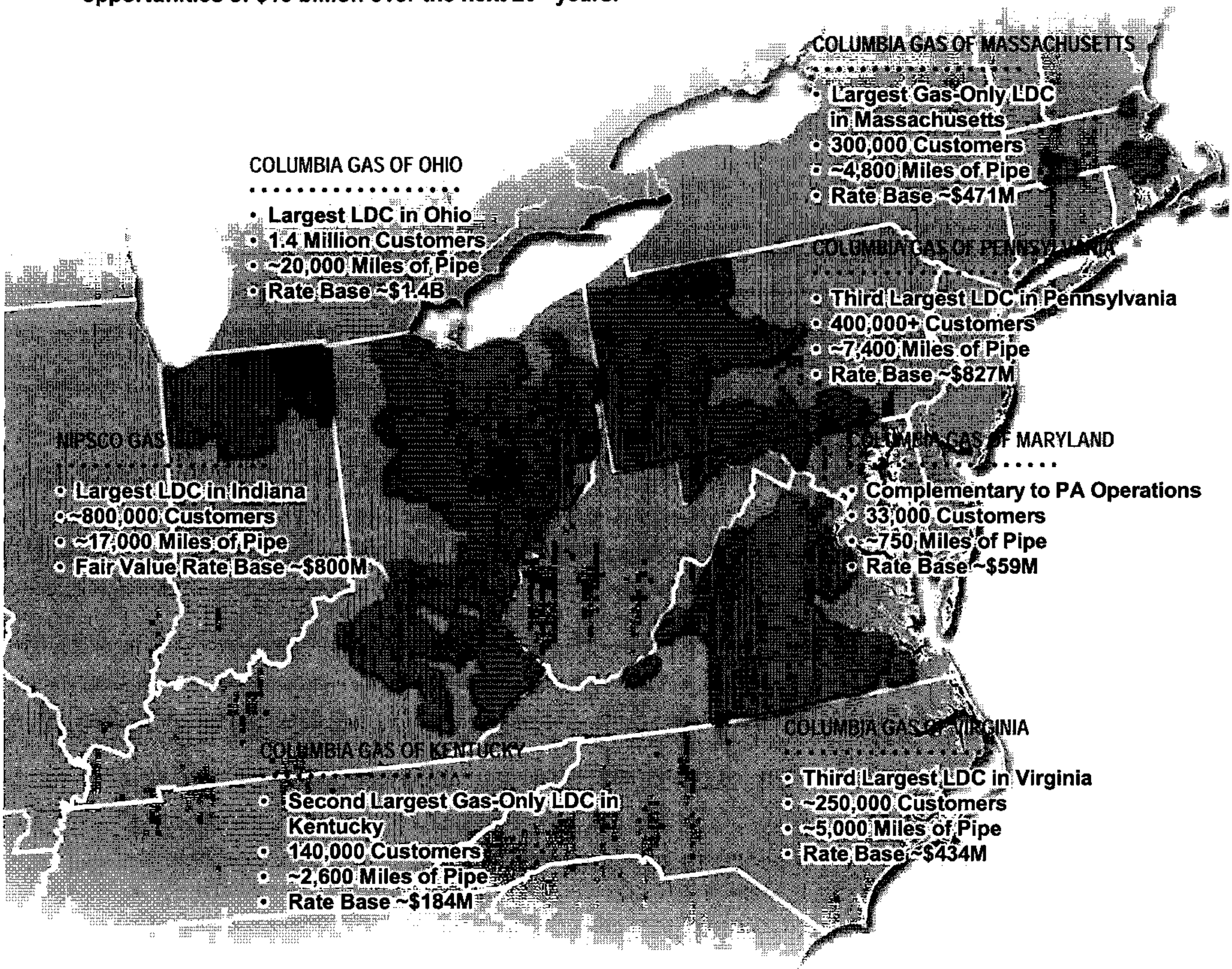
This summary includes certain non-GAAP financial measures as defined by the SEC's Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is contained in Schedules 1 and 2 of the NiSource annual earnings release and pages 12 and 19 through 22 in the 2012 Statistical Summary Book, both of which are available on the NiSource Investor Relations website at http://ir.nisource.com/results.cfm and http://ir.nisource.com/annuals.cfm.

NISOURCE GAS DISTRIBUTION

Our natural gas distribution operations serve more than 3.3 million customers in seven states and operate approximately 58,000 miles of pipeline. Under the banner of "Columbia Gas," NiSource owns six distribution subsidiaries that provide clean and affordable natural gas to approximately 2.5 million residential, commercial and industrial customers in Ohio, Pennsylvania, Maryland, Virginia, Kentucky and Massachusetts. NiSource also distributes natural gas to approximately 800,000 customers in Indiana through our Northern Indiana Public Service Company (NIPSCO) subsidiary.

NiSource gas distribution companies have established a best-in-class regulatory platform that focuses on de-risking earnings and synching long-term infrastructure replacement programs with complementary regulatory recovery mechanisms.

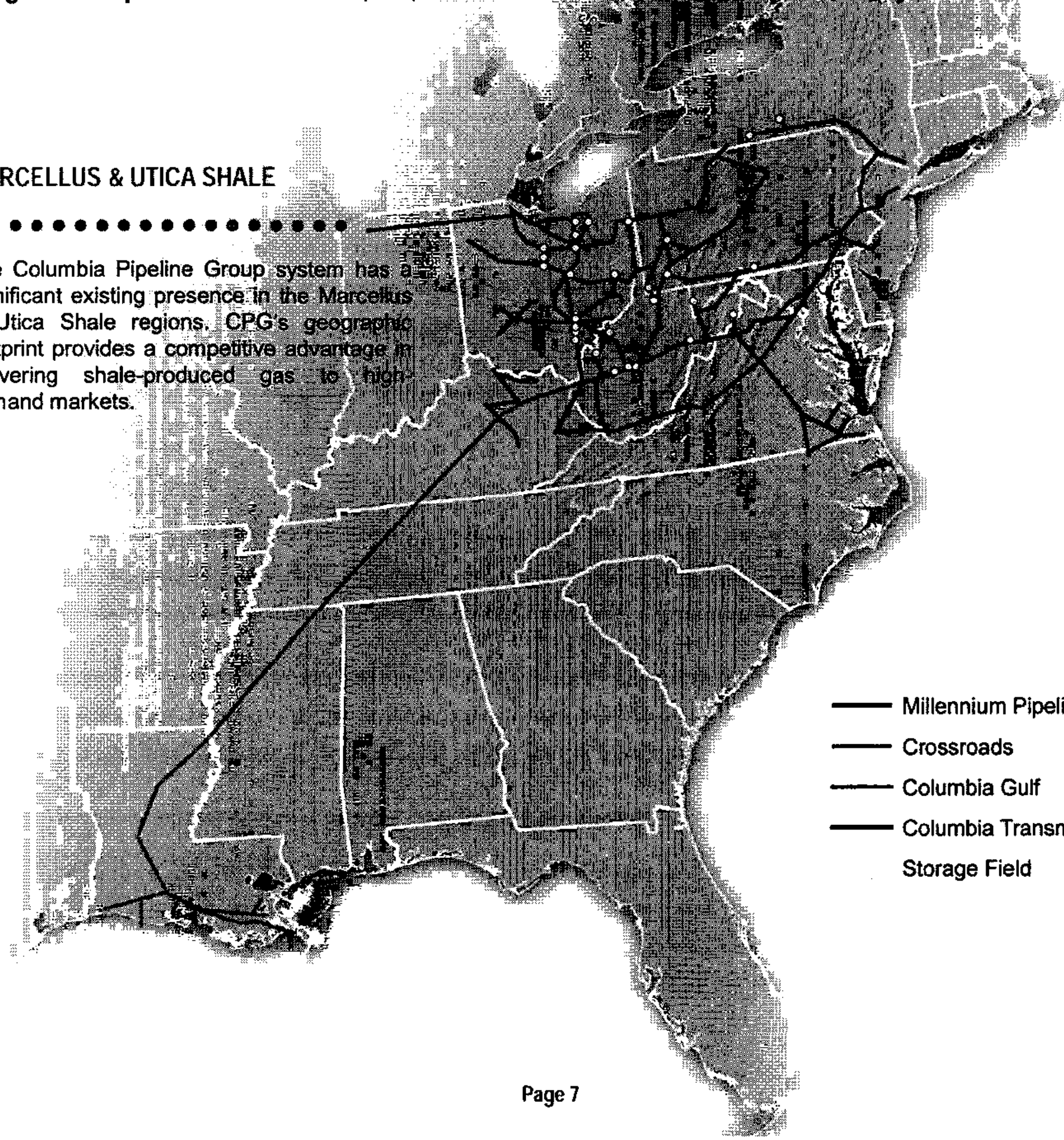
The NiSource Gas Distribution Team continues to execute on an industry-leading series of long-term infrastructure modernization and replacement programs, with total investment opportunities of $10 billion over the next 20+ years.



COLUMBIA PIPELINE GROUP

Columbia Pipeline Group (CPG), formerly NiSource Gas Transmission & Storage (NGT&S), operates an interstate natural gas transmission and storage system that transports natural gas through its 15,000 miles of pipeline, and stores natural gas in its 37 market area storage fields with total capacity of approximately 640 Bcf. From the Gulf Coast to the Midwest, Mid-Atlantic and Northeast, the system connects premium natural gas supplies with some of the nation's strongest energy markets. More than one trillion cubic feet of natural gas flows through CPG's pipelines and storage systems each year, providing competitively priced, clean energy for millions of homes, businesses and industries.

The CPG team established its '4M' investment strategy to capitalize on an infrastructure investment inventory of $8 - $10 billion. This strategy consists of: 1) Modernization – strengthening our system foundation, 2) Marketing – linking new supplies to growing markets, 3) Midstream – providing market access to shale supply, and 4) Minerals – leveraging our minerals assets. The cornerstone of this enhanced vision for CPG is the landmark modernization settlement achieved in 2012 that will provide a total investment opportunity of $1.5 billion over the next five years. Ultimately, the modernization program is expected to result in a $4 - $5 billion investment over the next 10 – 15 years.



MARCELLUS & UTICA SHALE

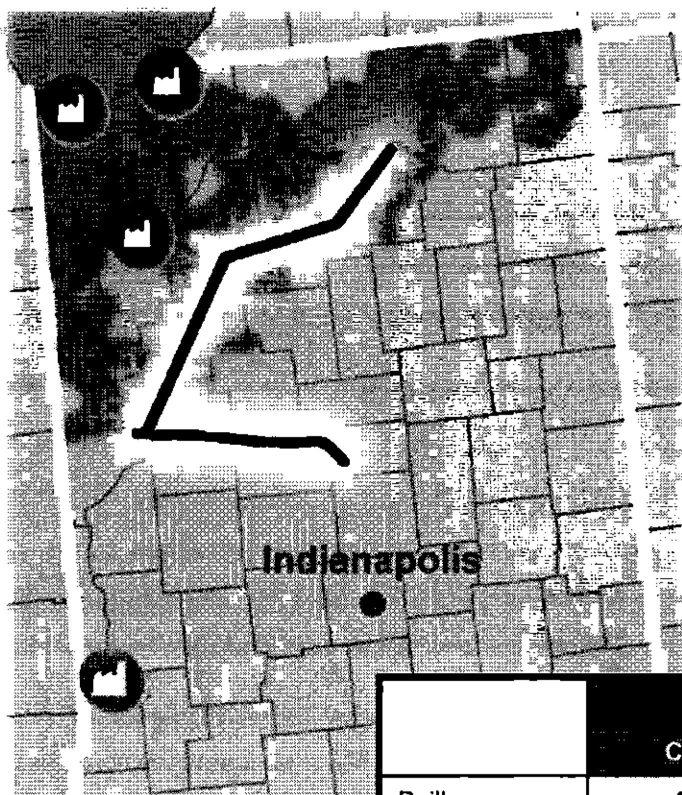
The Columbia Pipeline Group system has a significant existing presence in the Marcellus & Utica Shale regions. CPG's geographic footprint provides a competitive advantage in delivering shale-produced gas to high-demand markets.

ELECTRIC OPERATIONS

NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana Public Service Company (NIPSCO) to approximately 460,000 customers in 20 counties in northern Indiana. NIPSCO owns and operates four electric generating stations with a total generating capacity of approximately 3,300MW (78% coal, 22% natural gas). NIPSCO's transmission system consists of 2,800 circuit miles interconnecting with five neighboring electric utilities.

In 2012, NIPSCO advanced several key initiatives including approximately $800 million in multi-year 'tracked' environmental investment opportunities at the electric generation facilities. The team is also actively developing two significant FERC approved electric transmission projects totaling about $500 million.

Looking ahead, NIPSCO is developing a long-term program to modernize the company's electric transmission and distribution infrastructure. Notably, Indiana recently passed land-mark legislation to support such programs and to provide for the timely recovery of costs. Including this modernization program, NIPSCO has a long-term inventory of infrastructure investment opportunities of $6 – $8 billion over the next 15 – 20 years.



ELECTRIC DISTRIBUTION & TRANSMISSION

- 460,000 Electric Customers
- 10,000 Mile of Electric Distribution
- 2,800 Miles of Electric Transmission

ELECTRIC GENERATION

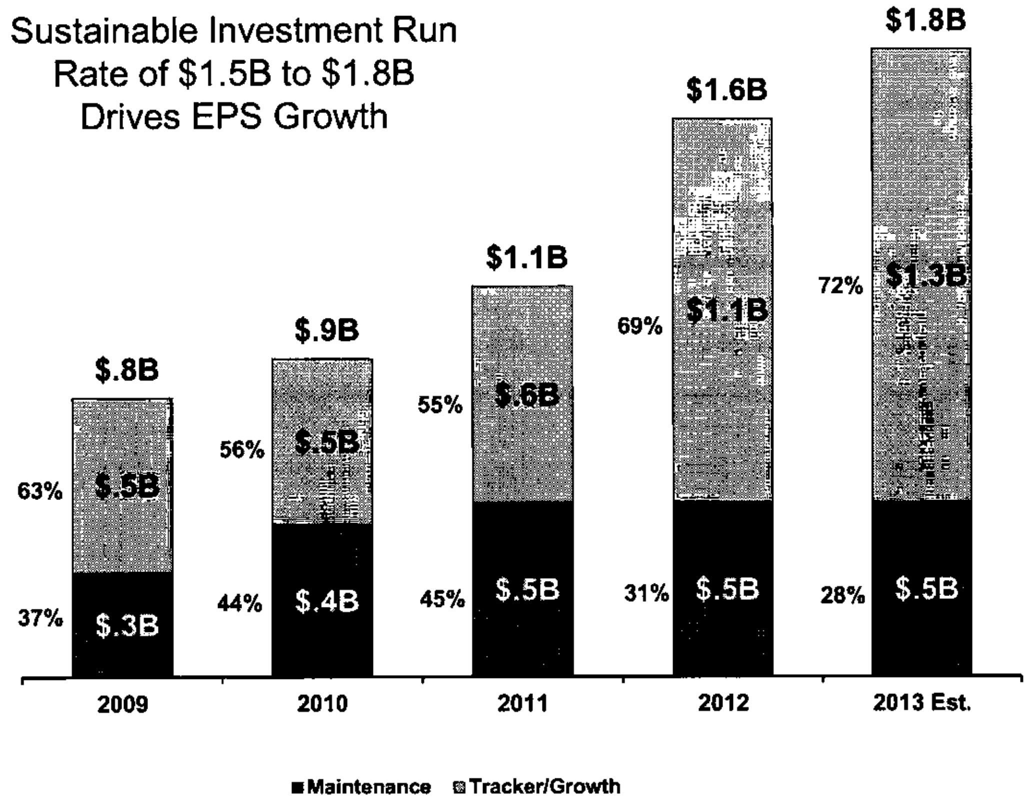
	Capacity (MW)			
	Coal	Natural Gas	Hydro	Total
Bailly	480	31	-	511
R.M. Schahfer	1,625	155	-	1,780
Michigan City	469	-	-	469
Sugar Creek	-	535	-	535
Oakdale &Norway	-	-	10	10
	2,574	**721**	**10**	**3,305**

INVESTMENT INVENTORY BY SEGMENT

	Investment Inventory
• Infrastructure Investment Trackers & Recovery Mechanisms Across Service Territory • Complimentary Customer Programs – Energy Conservation and Payment Programs	$10B 20+ Yrs.
• Environmental Tracker Investment • FERC Regulated Transmission Investment • Transmission and Distribution Modernization	$6-8B 15-20 Yrs.
• Modernization • Marketing • Midstream • Minerals	$8-10B 15-20 Yrs.
Deep Inventory of Tracked & Growth Investments	$25-30B

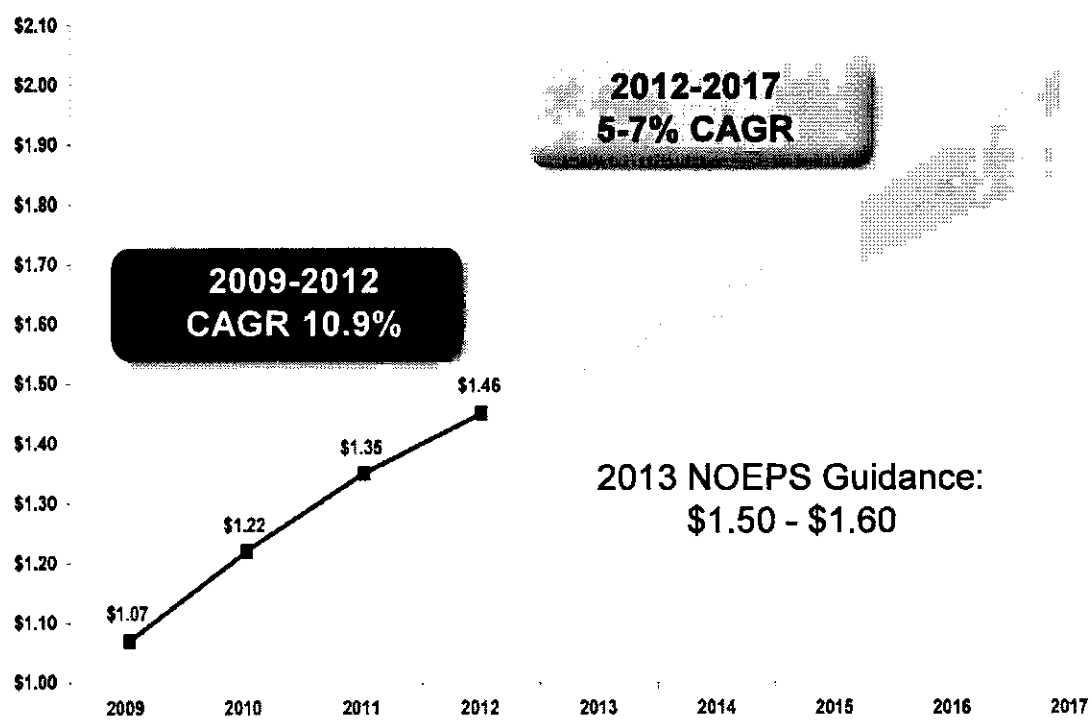
CAPITAL EXPENDITURES

NiSource



NOEPS GROWTH*

NiSource



* Net Operating Earnings per Share (non-GAAP)

SELECT FINANCIAL DATA

Year Ended December 31, (in millions, except per share amounts)	**2012**	2011	2010
Operating Earnings (Non-GAAP) *			
Gas Distribution Operations	**441.2**	424.9	329.8
Gas Transmission and Storage Operations	**397.8**	360.1	376.8
Electric Operations	**237.6**	201.9	216.0
Corporate and Other Operations	**(5.2)**	(40.6)	(21.1)
Consolidated	**1,071.4**	946.3	901.5

Net Property Plant and Equipment			
Gas Distribution Operations	**5,422.9**	4,918.2	4,505.2
Gas Transmission and Storage Operations	**3,336.5**	3,208.3	3,080.1
Electric Operations	**3,082.0**	3,063.4	3,066.2
Common Utility, Non-Utility & Other	**337.2**	202.1	159.2
Construction Work in Process	**737.3**	387.2	265.4
Total Net PP&E	**12,915.9**	11,779.2	11,076.1

	2013E			
Capital Expenditures				
Gas Distribution Operations	655.2	649.4	539.4	409.7
System Growth	**115.5**	**126.4**	81.5	94.1
Tracked	**359.0**	**391.7**	317.4	200.4
Maintenance & Other	**180.7**	**131.4**	140.5	115.2
Gas Transmission and Storage Operations	[illegible]	489.6	301.5	302.0
System Growth	**310.0**	**235.0**	81.5	152.4
Modernization	**263.6**	**121.0**	-	-
Maintenance & Other	**124.0**	**133.6**	220.0	149.6
Electric Operations	434.1	422.8	267.7	190.3
System Growth	**23.2**	**28.9**	28.0	25.8
Tracked	**246.2**	**276.9**	111.1	7.4
Maintenance & Other	**164.7**	**117.0**	128.6	157.1
Corporate and Other Operations	26.2	23.3	22.0	9.6
Consolidated	**1,813.1**	1,585.1	1,130.6	911.6

Common Stock Trading			
High	**$ 26.15**	$ 23.97	$ 17.96
Low	**$ 22.32**	$ 17.71	$ 14.13
Close	**$ 24.89**	$ 23.81	$ 17.62
Average Daily Trading Volume (millions)	**2.65**	3.01	2.81

Other Data			
Market Capitalization	7,723	6,711	4,914
P/E *	17.01	18.10	14.84
Dividends Paid per Common Share	$ 0.94	$ 0.92	$ 0.92
Dividend Yield on Common Stock (at December 31)	3.8%	3.9%	5.2%
Book Value of Common Stock	$ 17.90	$ 17.78	$ 17.66
Shares Outstanding at the End of the Year (in thousands)	310,281	281,854	278,855
Number of Common Shareholders	28,823	30,663	32,313
Total Number of Employees	8,286	7,957	7,604

* Based on operating earnings EPS

STATEMENTS OF CONSOLIDATED INCOME (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)	**2012**	2011	2010
Net Revenues			
Gas Distribution	**$ 2,006.3**	$ 2,927.6	$ 3,103.1
Gas Transportation and Storage	**1,462.4**	1,354.6	1,261.5
Electric	**1,497.5**	1,420.2	1,374.9
Other	**103.8**	53.9	51.6
Gross Revenues	**5,070.0**	5,756.3	5,791.1
Cost of Sales (excluding depreciation and amortization)	**1,517.7**	2,329.2	2,369.0
Total Net Revenues	**3,552.3**	3,427.1	3,422.1
Operating Expenses			
Operation and maintenance	**1,457.5**	1,472.4	1,417.0
Operation and maintenance - trackers	**205.9**	194.3	239.7
Depreciation and amortization	**549.1**	521.6	582.3
Depreciation and amortization - trackers	**12.8**	14.1	12.4
Other taxes	**220.9**	212.4	206.9
Other taxes - trackers	**66.9**	80.6	77.3
Total Operating Expenses	**2,513.1**	2,495.4	2,535.6
Equity Earnings in Unconsolidated Affiliates	**32.2**	14.6	15.0
Operating Earnings	**1,071.4**	946.3	901.5
Other Income (Deductions)			
Interest expense, net	**(418.3)**	(376.8)	(392.3)
Other, net	**2.4**	(7.4)	3.8
Operating Earnings From Continuing Operations Before Income Taxes	**655.5**	562.1	513.0
Income Taxes	**228.3**	193.3	183.1
Net Operating Earnings from Continuing Operations	**427.2**	368.8	329.9

[illegible]

Total items excluded from net operating earnings	[illegible]	(74.0)	(53.1)
GAAP Income from Continuing Operations	**$ 410.6**	$ 294.8	$ 276.8

Basic Net Operating Earnings Per Share from Continuing Operations	**1.46**	1.32	1.19
GAAP Basic Earnings Per Share from Continuing Operations	**1.41**	1.05	1.00

Basic Average Common Shares Outstanding (millions)	**291.9**	280.4	277.8

CONSOLIDATED BALANCE SHEETS

As of December 31, (in millions)	**2012**	2011	2010
ASSETS			
Property, Plant and Equipment			
Utility Plant	**$21,642.3**	$ 20,299.7	$ 19,459.0
Accumulated depreciation and amortization	**(8,986.4)**	(8,651.9)	(8,477.0)
Net utility plant	**12,655.9**	11,647.8	10,982.0
Other property, at cost, less accumulated depreciation	**260.0**	131.4	94.0
Net Property, Plant and Equipment	**12,915.9**	11,779.2	11,076.0
Investments and Other Assets			
Assets of discontinued operations and assets held for sale	**-**	0.2	7.9
Unconsolidated affiliates	**243.3**	204.7	200.9
Other investments	**194.4**	150.9	139.8
Total Investments and Other Assets	**437.7**	355.8	348.6
Current Assets			
Cash and cash equivalents	**36.3**	11.5	9.2
Restricted cash	**46.8**	160.6	202.9
Accounts receivable	**907.3**	850.6	1,075.1
Income tax receivable	**130.9**	0.9	99.0
Gas inventory	**326.6**	427.6	298.2
Underrecovered gas and fuel costs	**45.0**	20.7	120.7
Materials and supplies, at average cost	**97.4**	86.6	82.9
Electric production fuel, at average cost	**71.7**	50.9	46.0
Price risk management assets	**92.2**	137.2	159.5
Exchange gas receivable	**51.5**	64.9	62.7
Assets of discontinued operations and assets held for sale	**26.7**	26.1	26.0
Regulatory assets	**162.8**	169.7	143.8
Prepayments and other	**357.2**	261.8	120.9
Total Current Assets	**2,352.4**	2,269.1	2,446.9
Other Assets			
Price risk management assets	**56.0**	188.7	240.3
Regulatory assets	**2,024.4**	1,978.2	1,648.0
Goodwill	**3,677.3**	3,677.3	3,677.2
Intangible assets	**286.6**	297.6	308.6
Postretirement and postemployment benefits assets	**-**	31.5	35.1
Deferred charges and other	**94.4**	130.9	132.8
Total Other Assets	**6,138.7**	6,304.2	6,042.0
Total Assets	**$21,844.7**	$ 20,708.3	$ 19,913.5

CONSOLIDATED BALANCE SHEETS (CONTINUED)

As of December 31, (in millions)	**2012**	2011	2010
CAPITALIZATION AND LIABILITIES			
Capitalization			
Common Stockholders' Equity			
Common stock - $0.01 par value, 400,000,000 shares authorized	**$ 3.1**	$ 2.8	$ 2.8
Additional paid-in capital	**4,597.6**	4,167.7	4,103.9
Retained earnings	**1,059.6**	917.0	876.1
Accumulated other comprehensive income (loss)	**(65.5)**	(59.7)	(57.8)
Treasury stock	**(40.5)**	(30.5)	(27.4)
Total Common Stockholders' Equity	**5,554.3**	4,997.3	4,897.6
Long-term debt, excluding amounts due w ithin one year	**6,819.1**	6,267.1	5,936.1
Total Capitalization	**12,373.4**	11,264.4	10,833.7
Current Liabilities			
Current portion of long-term debt	**507.2**	327.3	34.2
Short-term borrow ings	**776.9**	1,359.4	1,382.5
Accounts payable	**538.9**	434.8	581.8
Dividends declared		-	0.1
Customer deposits and credits	**269.6**	313.6	318.1
Taxes accrued	**235.5**	220.9	221.1
Interest accrued	**133.7**	111.9	114.4
Overrecovered gas and fuel costs	**22.1**	48.9	21.4
Price risk management liabilities	**95.2**	167.8	173.9
Exchange gas payable	**146.2**	168.2	266.1
Deferred revenue	**42.8**	9.7	6.8
Regulatory liabilities	**171.6**	112.0	92.9
Accrued liability for postretirement and postemployment benefits	**6.1**	26.6	23.3
Liabilities of discontinued operations and liabilities held for sale	**3.9**	0.4	-
Legal and environmental reserves	**42.2**	43.9	86.0
Other accruals	**309.7**	301.0	343.8
Total Current Liabilities	**3,301.6**	3,646.4	3,666.4
Other Liabilities and Deferred Credits			
Price risk management liabilities	**20.3**	138.9	181.6
Deferred income taxes	**2,953.3**	2,541.9	2,193.1
Deferred investment tax credits	**24.8**	29.0	33.7
Deferred credits	**84.1**	78.9	68.6
Deferred revenue	**-**	-	0.2
Accrued liability for postretirement and postemployment benefits	**1,107.3**	953.8	1,039.6
Liabilities of discontinued operations and liabilities held for sale	**-**	-	-
Regulatory liabilities and other removal costs	**1,593.3**	1,663.9	1,595.8
Asset retirement obligations	**160.4**	146.4	138.8
Other noncurrent liabilities	**226.2**	244.7	162.0
Total Other Liabilities and Deferred Credits	**6,169.7**	5,797.5	5,413.4
Commitments and Contingencies	**-**	-	-
Total Capitalization and Liabilities	**$21,844.7**	$ 20,708.3	$ 19,913.5

STATEMENTS OF CONSOLIDATED CASH FLOW

Twelve Months Ended December 31, (in millions)	**2012**	2011	2010
Operating Activities			
Net income	**$ 416.1**	$ 299.1	$ 282.6
Adjustments to reconcile net income to net cash from continuing operations:			
Loss on early extinguishment of long-term debt	**-**	53.9	96.7
Depreciation and amortization	**561.9**	535.7	594.8
Net changes in price risk management assets and liabilities	**(18.5)**	38.1	(5.5)
Deferred income taxes and investment tax credits	**304.6**	178.4	193.8
Deferred revenue	**(8.3)**	2.2	(20.4)
Stock compensation expense and 401(k) profit sharing contribution	**45.0**	39.2	30.9
Loss (Gain) on sale of assets	**(4.1)**	0.1	(0.1)
Loss on impairment of assets	**0.3**	16.7	2.1
Income from unconsolidated affiliates	**(30.9)**	(13.7)	(14.8)
Loss (Gain) on disposition of discontinued operations, net of taxes	**-**	-	(0.1)
Loss (Income) from discontinued operations, net of taxes	**(5.5)**	(4.3)	(5.7)
Amortization of discount/premium on debt	**9.7**	8.9	10.3
AFUDC Equity	**(10.6)**	(2.4)	(6.1)
Distributions Received from Equity Earnings	**34.9**	18.8	12.9
Funds from Operations	**1,294.6**	1,170.7	1,171.4
Changes in assets and liabilities:			
Accounts receivable	**(51.3)**	219.6	(243.6)
Income tax receivable	**(130.0)**	98.1	51.5
Inventories	**62.4**	(141.7)	103.3
Accounts payable	**57.3**	(154.8)	37.7
Customer deposits and credits	**(44.0)**	(4.5)	(25.0)
Taxes accrued	**9.9**	2.3	(116.9)
Interest accrued	**21.8**	(2.5)	(10.7)
(Under) Overrecovered gas and fuel costs	**(51.1)**	127.5	(243.0)
Exchange gas receivable/payable	**(8.6)**	(100.1)	(14.2)
Other accruals	**(26.2)**	33.2	63.4
Prepayments and other current assets	**(4.5)**	(10.2)	(11.5)
Regulatory assets/liabilities	**(51.7)**	(322.9)	164.3
Postretirement and postemployment benefits	**123.0**	(92.7)	(146.6)
Deferred credits	**4.9**	(2.3)	(2.6)
Deferred charges and other noncurrent assets	**71.9**	6.9	7.9
Other noncurrent liabilities	**(14.1)**	82.0	(13.2)
Changes in Working Capital	**(30.3)**	(262.1)	(399.2)
Net Operating Activities from Continuing Operations	**1,264.3**	908.6	772.2
Net Operating Activities from or (used for) Discontinued Operations	**11.2**	(38.4)	(46.8)
Net Cash Flows from Operating Activities	**1,275.5**	870.2	725.4
Investing Activities			
Capital expenditures	**(1,498.8)**	(1,122.7)	(801.3)
Insurance recoveries	**6.5**	-	5.0
Proceeds from disposition of assets	**25.6**	9.4	0.5
Restricted cash (withdrawals) deposits	**114.2**	42.3	(28.2)
Contributions to Equity Investees	**(20.4)**	(6.4)	(87.9)
Distributions from Equity Investees	**-**	-	23.8
Other investing activities	**(49.0)**	(69.4)	(53.1)
Net Investing Activities used for Continuing Operations	**(1,421.9)**	(1,146.8)	(941.2)
Net Investing Activities from or (used for) Discontinued Operations	**(3.3)**	(2.5)	(2.1)
Net Cash Flows used for Investing Activities	**(1,425.2)**	(1,149.3)	(943.3)
Financing Activities			
Issuance of long-term debt	**991.4**	890.0	244.6
Retirement of long-term debt	**(331.6)**	(286.9)	(977.7)
Premiums and other costs to retire debt	**(3.4)**	(62.1)	(93.0)
Change in short-term debt	**(582.2)**	(23.1)	1,279.5
Issuance of common stock	**383.5**	24.4	14.4
Acquisition of treasury stock	**(10.0)**	(3.1)	(1.5)
Dividends paid - common stock	**(273.2)**	(257.8)	(255.6)
Net Cash Flows from (used for) Financing Activities	**174.5**	281.4	210.7
Change in cash and cash equivalents from continuing operations	**16.9**	43.2	41.7
Cash (contributions to) reciepts from discontinued operations	**7.9**	(40.9)	(48.9)
Cash and cash equivalents at beginning of period	**11.5**	9.2	16.4
Cash and cash equivalents at end of period	**$ 36.3**	$ 11.5	$ 9.2

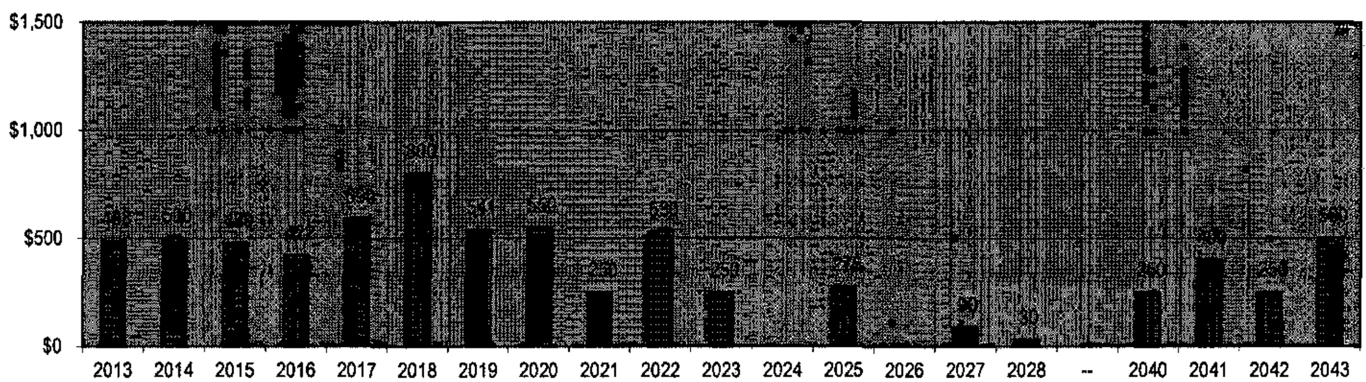
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

As of December 31, (in millions)		**2012**		2011		2010
NiSource Finance Corp.:						
Long-Term Notes -						
5.21% - due November 28, 2012	$	-	$	-	$	315.0
6.15% - due March 1, 2013		-		420.3		545.0
5.40% - due July 15, 2014		**500.0**		500.0		500.0
Variable Rate - due April 3, 2015		**250.0**		-		-
5.36% - due November 28, 2015		**230.0**		230.0		230.0
10.75% - due March 15, 2016		**201.5**		201.5		326.9
5.41% - due November 28, 2016		**90.0**		90.0		90.0
5.25% - due September 15, 2017		**450.0**		450.0		450.0
6.40% - due March 15, 2018		**800.0**		800.0		800.0
6.80% - due January 15, 2019		**500.0**		500.0		500.0
5.45% - due September 15, 2020		**550.0**		550.0		550.0
4.45% - due December 1, 2021		**250.0**		250.0		-
6.125% - due March 1, 2022		**500.0**		500.0		500.0
3.85% - due February 15, 2023		**250.0**		-		-
5.89% - due November 28, 2025		**265.0**		265.0		265.0
6.25% - due December 15, 2040		**250.0**		250.0		250.0
5.95% - due June 15, 2041		**400.0**		400.0		-
5.80% - due February 1, 2042		**250.0**		250.0		-
5.25% - due Ferbrury 15, 2043		**500.0**		-		-
Fair value adjustment of notes for interest rate swap agreements		**40.4**		56.7		61.1
Unamortized premium and discount on long-term debt		**(40.7)**		(36.8)		(32.5)
Total Long-Term debt of NiSource Finance Corp.	$	**6,236.2**	$	5,676.7	$	5,350.5
Northern Indiana Public Service Company:						
Capital lease obligations -						
Interest rate of 3.95% due June 30, 2022	$	**66.4**	$	-	$	-
Pollution Control Bonds -						
Reoffered interest rates between 5.60% and 5.85%, with a weighted average interest rate of 5.67% and various maturities between November 1, 2016 and April 1, 2019		**226.0**		244.0		244.0
Medium-Term Notes -						
Issued at interest rates between 7.02% and 7.69%, with a weighted average interest rate of 7.57% and various maturities between July 12, 2017 and August 4, 2027		**95.5**		145.5		145.5
Wind Generation Project Notes -						
Variable rate of 3.25% at December 31, 2012 with amounts due at July 1, 2014 and October 28, 2014		**0.9**		1.7		2.6
Unamortized premium and discount on long-term debt		**(0.6)**		(0.6)		(0.7)
Total Long-Term debt of Northern Indiana Public Service Company	$	**388.2**	$	390.6	$	391.4
Columbia of Massachusetts:						
Medium-Term Notes -						
Interest rates between 6.26% and 6.43% with a weighted average interest rate of 6.30% and maturities between December 15, 2025 and February 15, 2028	$	**40.0**	$	40.0	$	40.0
Total Long-Term debt of Bay State Gas Company	$	**40.0**	$	40.0	$	40.0
Columbia Energy Group:						
Subsidiary debt - Capital lease obligations		**11.1**		2.2		0.5
Total Long-Term debt of Columbia Energy Group		**11.1**		2.2		0.5
NiSource Capital Markets, Inc.:						
Senior Notes - 6.78%, due December 1, 2027	$	**3.0**	$	3.0	$	3.0
Medium-term notes -						
Issued at interest rates between 7.82% and 7.99%, with a weighted average interest rate of 7.92% and various maturities between March 27, 2017 and May 5, 2027		**106.0**		106.0		106.0
Total Long-Term debt of NiSource Capital Markets, Inc.	$	**109.0**	$	109.0	$	109.0
NiSource Corporate Services, Inc.:						
Capital Lease Obligations:						
Interest rate of 3.290% due between June 30, 2015 and September 30, 2015	$	**4.7**	$	6.1	$	-
Interest rate of 3.264% September 30, 2015		**1.2**		0.6		2.3
Interest rate of 6.709% due between December 31, 2014 and January 31, 2018		**20.8**		27.4		30.1
Interest rate of 9.840% due June 30, 2015		**0.3**		0.6		0.8
Interest rate of 5.586% due between December 31, 2013 and September 30, 2015		**2.1**		2.7		0.8
Total Long-Term debt of NiSource Corporate Services, Inc.	$	**29.1**	$	37.4	$	34.0
NiSource Development Company, Inc.:						
NDC Douglas Properties - Notes Payable -						
Interest rates between 4.00% and 5.56% with a weighted average interest rate of 4.70% and various maturities between May 1, 2028 and April 1, 2046	$	**5.5**	$	11.2	$	10.7
Total Long-Term debt of NiSource Development Company, Inc.	$	**5.5**	$	11.2	$	10.7
Total Long-Term Debt, excluding amount due within one year	$	**6,819.1**	$	6,267.1	$	5,936.1

SCHEDULE OF CAPITALIZATION

As of December 31, (in millions)	**2012**	2011	2010
CAPITALIZATION			
Current portion of long-term debt	**507.2**	327.3	34.2
Long-term debt, excluding amounts due within one year	**6,819.1**	6,267.1	5,936.1
Total Debt	**7,326.3**	6,594.4	5,970.3
	56.9%	*56.9%*	*54.9%*
Common Stockholders' Equity			
Common stock - $0.01 par value, 400,000,000 shares authorized	**$ 3.1**	$ 2.8	$ 2.8
Additional paid-in capital	**4,597.6**	4,167.7	4,103.9
Retained earnings	**1,059.6**	917.0	876.1
Accumulated other comprehensive income (loss)	**(65.5)**	(59.7)	(57.9)
Treasury stock	**(40.5)**	(30.5)	(27.4)
Total Common Shareholders' Equity	**5,554.3**	4,997.3	4,897.5
	43.1%	*43.1%*	*45.1%*
Total Capitalization	**$ 12,880.6**	$ 11,591.7	$ 10,867.8

PROFILE OF LONG-TERM DEBT MATURITIES
As of December 31, 2012 (in millions)



	2012	2011	2010
Weighted Average Maturity (yrs.)	**10.24**	9.52	7.94
Weighted Average Coupon	**5.80%**	6.05%	6.25%

STATEMENTS OF CONSOLIDATED COMMON SHAREHOLDERS' EQUITY & COMPREHENSIVE INCOME (LOSS)

(in millions)	Comprehensive Income	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance December 31, 2009		**$ 2.8**	**$ (25.9)**	**$ 4,057.6**	**$ 849.2**	**$ (45.9)**	**$ 4,837.8**
Comprehensive Income:							
Net Income	$ 282.6				282.6		282.6
Other comprehensive income, net of tax:							
Gain on available for sale securities - Unrealized	1.1					1.1	1.1
Net unrealized losses on derivatives qualifying as cash flow he	(13.8)					(13.8)	(13.8)
Unrecognized Pension Benefit and OPEB Costs	0.7					0.7	0.7
Total Comprehensive Income	$ 270.6						
Dividends:							
Common stock					(255.7)		(255.7)
Treasury stock acquired			(1.5)				(1.5)
Issued:							
Employee stock purchase plan				1.1			1.1
Long-term incentive plan				12.1			12.1
401K and profit sharing				24.2			24.2
Dividend reinvestment plan				8.9			8.9
Balance December 31, 2010		**$ 2.8**	**$ (27.4)**	**$ 4,103.9**	**$ 876.1**	**$ (57.9)**	**$ 4,897.5**
Comprehensive Income:							
Net Income	$ 299.1				299.1		299.1
Other comprehensive income, net of tax:							
Gain on available for sale securities - Unrealized	1.2					1.2	1.2
Net unrealized gains on derivatives qualifying as cash flow hed	3.0					3.0	3.0
Unrecognized Pension Benefit and OPEB Costs	(6.0)					(6.0)	(6.0)
Total Comprehensive Income	$ 297.3						
Dividends:							
Common stock					(258.2)		(258.2)
Treasury stock acquired			(3.1)				(3.1)
Issued:							
Employee stock purchase plan				1.3			1.3
Long-term incentive plan				21.4			21.4
401K and profit sharing				32.0			32.0
Dividend reinvestment plan				8.9			8.9
Tax benefit of options				0.2			0.2
Balance December 31, 2011		**$ 2.8**	**$ (30.5)**	**$ 4,167.7**	**$ 917.0**	**$ (59.7)**	**$ 4,997.3**
Comprehensive Income:							
Net Income	$ 416.1				416.1		416.1
Other comprehensive income, net of tax:							
Gain on available for sale securities - Unrealized	(2.3)					(2.3)	(2.3)
Net unrealized gains on derivatives qualifying as cash flow hed	3.2					3.2	3.2
Unrecognized Pension Benefit and OPEB Costs	(6.7)					(6.7)	(6.7)
Total Comprehensive Income	$ 410.3						
Dividends:							
Common stock					(273.5)		(273.5)
Treasury stock acquired			(10.0)				(10.0)
Issued:							
Common stock issuance		0.3					0.3
Employee stock purchase plan				1.8			1.8
Long-term incentive plan				44.6			44.6
401K and profit sharing				36.3			36.3
Dividend reinvestment plan				8.3			8.3
Forward equity settlement				338.9			338.9
Balance December 31, 2012		**$ 3.1**	**$ (40.5)**	**$ 4,597.6**	**$ 1,059.6**	**$ (65.5)**	**$ 5,554.3**

GAS DISTRIBUTION OPERATIONS (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)		**2012**		2011		2010
Net Revenues						
Sales Revenues	$	**2,710.1**	$	3,470.1	$	3,639.8
Less: Cost of gas sold		**1,166.9**		1,910.1		2,058.6
Total Net Revenues		**1,543.2**		1,560.0		1,581.2
Operating Expenses						
Operation and maintenance		**681.7**		680.1		684.6
Operation and maintenance - trackers		**75.7**		115.7		170.7
Depreciation and amortization		**189.9**		171.5		236.7
Other taxes		**87.8**		87.2		82.2
Other taxes - trackers		**66.9**		80.6		77.2
Total Operating Expenses		**1,102.0**		1,135.1		1,251.4
Operating Earnings	$	**441.2**	$	424.9	$	329.8

[redacted]

GAAP Operating Income	$	**394.1**	$	378.9	$	319.5

Sales and Transportation (MMDth)			
Residential	**226.5**	254.5	258.0
Commercial	**156.2**	168.6	166.8
Industrial	**478.2**	431.8	385.9
Off System	**61.5**	62.4	71.9
Other	**0.3**	0.3	0.7
Total	**922.7**	917.6	883.3
Weather Adjustment	**58.8**	12.7	5.1
Sales and Transportation Volumes - Excluding Weather	**981.5**	930.3	888.4

Heating Degree Days	**4,799**	5,434	5,547
Normal Heating Degree Days	**5,644**	5,633	5,633
% Colder (Warmer) than Normal	**(15%)**	(4%)	(2%)

Customers			
Residential	**3,058,839**	3,039,579	3,039,874
Commercial	**280,842**	280,521	281,473
Industrial	**7,552**	7,861	7,668
Other	**22**	19	65
Total	**3,347,255**	3,327,980	3,329,080

GAS TRANSMISSION AND STORAGE OPERATIONS (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)		**2012**		2011		2010
Net Revenues						
Transportation revenues	**$**	**721.8**	$	776.7	$	728.4
Storage revenues		**196.7**		196.1		198.7
Other revenues		**83.0**		32.8		22.1
Total Operating Revenues		**1,001.5**		1,005.6		949.2
Less: Cost of gas sold		**1.1**		-		-
Total Net Revenues		**1,000.4**		1,005.6		949.2
Operating Expenses						
Operation and maintenance		**361.8**		407.7		339.5
Operation and maintenance - trackers		**114.4**		65.8		59.9
Depreciation and amortization		**99.4**		130.0		130.6
Other taxes		**59.2**		56.6		57.4
Total Operating Expenses		**634.8**		660.1		587.4
Equity Earnings in Unconsolidated Affiliates		**32.2**		14.6		15.0
Operating Earnings	**$**	**397.8**	$	360.1	$	376.8

GAAP Adjustment (Items excluded from operating earnings)						
Net Revenues						
Operating Expenses						
Gain/(Loss) on sale of assets, asset impairments, other		[illegible]		(0.1)		(0.2)
Total items excluded from operating earnings		[illegible]		(0.1)		(0.2)
GAAP Operating Income	**$**	**398.4**	$	360.0	$	376.6

	2012	2011	2010
Throughput (MMDth)			
Columbia Transmission	**1,107.7**	1,117.5	1,092.4
Columbia Gulf	**894.3**	1,048.0	848.4
Crossroads Gas Pipeline	**15.7**	18.7	25.4
Intrasegment eliminations	**(422.6)**	(548.5)	(568.7)
Total	**1,595.1**	1,635.7	1,397.5

ELECTRIC OPERATIONS (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)	**2012**	2011	2010
Net Revenues			
Sales Revenues	**$ 1,499.5**	$ 1,422.3	$ 1,377.2
Less: Cost of sales	**495.9**	545.5	504.8
Total Net Revenues	**1,003.6**	876.8	872.4
Operating Expenses			
Operation and maintenance	**439.2**	390.9	377.1
Operation and maintenance - trackers	**15.8**	12.8	9.0
Depreciation and amortization	**236.8**	200.6	199.3
Depreciation and amortization - trackers	**12.8**	14.1	12.4
Other taxes	**61.4**	56.5	58.6
Total Operating Expenses	**766.0**	674.9	656.4
Operating Earnings	**$ 237.6**	$ 201.9	$ 216.0
[redacted]			
GAAP Operating Income	**$ 250.8**	$ 208.4	$ 219.8

Sales (Gigawatt Hours)			
Residential	**3,524.3**	3,526.5	3,625.6
Commercial	**3,863.1**	3,886.5	3,919.9
Industrial	**9,251.0**	9,257.6	8,459.0
Wholesale	**250.8**	651.6	817.1
Other	**119.1**	165.5	186.4
Total	**17,008.3**	17,487.7	17,008.0
Weather Adjustment	**(145.9)**	(101.1)	(174.1)
Sales Volumes - Excluding Weather impacts	**16,862.4**	17,386.6	16,833.9

Cooling Degree Days	**1054**	907	977
Normal Cooling Degree Days	**814**	808	808
% Warmer (Colder) than Normal	**29%**	12%	21%

Customers			
Residential	**401,177**	400,567	400,522
Commercial	**53,969**	54,029	53,877
Industrial	**2,445**	2,405	2,432
Wholesale	**725**	737	740
Other	**6**	17	15
Total	**458,322**	457,755	457,586

CORPORATE AND OTHER (NON-GAAP)

Year Ended December 31, (in millions, except per share amounts)		**2012**		2011		2010
Operating Loss	**$**	**(5.2)**	$	(40.6)	$	(21.1)
GAAP Adjustment (items excluded from operating earnings)						
Operating Revenues:						
Unregulated gas marketing business		2.7		14.5		6.2
Operating Expenses:						
Unregulated gas marketing business		[illegible]		(5.6)		(8.5)
Gain/(Loss) on sale of assets, asset impairments, other		4.6		(25.5)		(0.6)
Total items excluded from operating earnings		4.6		(16.6)		(2.9)
GAAP Operating Income	**$**	**(0.6)**	$	(57.2)	$	(24.0)

COMMON STOCKHOLDER (AS OF DECEMBER 31, 2012)

Geographical Breakdown of Shareholders

State	Holders	Percent of Total Holders	Shares	Percent of Total Shares
Alabama	115	0.40%	48,023	0.02%
Alaska	27	0.09%	9,092	0.00%
Arizona	356	1.24%	188,144	0.06%
Arkansas	79	0.27%	32,332	0.01%
California	1,328	4.61%	610,379	0.20%
Colorado	278	0.96%	148,948	0.05%
Connecticut	499	1.73%	226,077	0.07%
Delaware	80	0.28%	25,637	0.01%
Dist Col.	63	0.22%	356,827	0.11%
Florida	1,434	4.98%	749,487	0.24%
Georgia	296	1.03%	137,539	0.04%
Hawaii	57	0.20%	21,426	0.01%
Idaho	39	0.14%	13,351	0.00%
Illinois	2,181	7.57%	1,185,919	0.38%
Indiana	6,721	23.32%	6,924,386	2.22%
Iowa	151	0.52%	95,147	0.03%
Kansas	107	0.37%	33,545	0.01%
Kentucky	391	1.36%	150,347	0.05%
Louisiana	199	0.69%	52,100	0.02%
Maine	141	0.49%	52,425	0.02%
Maryland	570	1.98%	214,045	0.07%
Massachusetts	1,333	4.62%	825,724	0.26%
Michigan	898	3.12%	442,047	0.14%
Minnesota	300	1.04%	163,955	0.05%
Mississippi	84	0.29%	31,459	0.01%
Missouri	262	0.91%	129,936	0.04%
Montana	50	0.17%	21,477	0.01%
Nebraska	63	0.22%	23,899	0.01%
Nevada	93	0.32%	95,826	0.03%
New Hampshire	175	0.61%	78,201	0.03%
New Jersey	947	3.29%	474,194	0.15%
New Mexico	71	0.25%	34,558	0.01%
New York	1,827	6.34%	286,856,624	91.86%
North Carolina	343	1.19%	117,054	0.04%
North Dakota	25	0.09%	19,443	0.01%
Ohio	1,910	6.63%	674,095	0.22%
Oklahoma	89	0.31%	22,410	0.01%
Oregon	134	0.46%	47,461	0.02%
Pennsylvania	1,288	4.47%	9,534,869	3.05%
Rhode Island	79	0.27%	32,271	0.01%
South Carolina	175	0.61%	48,226	0.02%
South Dakota	34	0.12%	29,463	0.01%
Tennessee	218	0.76%	90,125	0.03%
Texas	807	2.80%	306,442	0.10%
Utah	55	0.19%	17,396	0.01%
Vermont	51	0.18%	16,859	0.01%
Virginia	859	2.98%	279,020	0.09%
Washington	226	0.78%	98,718	0.03%
West Virginia	619	2.15%	168,800	0.05%
Wisconsin	581	2.02%	295,710	0.09%
Wyoming	27	0.09%	6,919	0.00%
Canada	22	0.08%	6,660	0.00%
Other Foreign	66	0.23%	26,310	0.01%
Totals	**28,823**	**100%**	**312,291,317**	**100%**
Less Treasury Shares			(2,010,450)	
Total Shares Outstanding			**310,280,867**	

Common Shareholders - Share Size

	Holders	Percent of Total Holders	Shares	Percent of Total Shares
1 to 33.9	8,120	28.17%	81,604	0.03%
34 to 49.9	1,312	4.55%	53,190	0.02%
50 to 99.9	2,530	8.78%	182,765	0.06%
100 to 300.9	7,080	24.56%	1,303,653	0.42%
301 to 500.9	3,040	10.55%	1,196,579	0.38%
501 to 1000.9	3,303	11.46%	2,390,376	0.77%
1001 and over	3,438	11.93%	307,083,150	98.33%
Totals	**28,823**	**100%**	**312,291,317**	**100%**
Less Treasury Shares			(2,010,450)	
Total Shares Outstanding			**310,280,867**	

Common Shareholders - Category

Holder Category	Holders	Percent of Total Holders	Shares	Percent of Total Shares
Joint Tenants - Survivorship Rights	6,617	22.96%	4,159,346	1.33%
Individual - Female	8,036	27.88%	2,959,057	0.95%
Individual - Male	9,278	32.19%	4,246,576	1.36%
Corporations	118	0.41%	2,598,659	0.83%
Brokers/Depositories	10	0.03%	286,006,331	91.58%
Nominee	29	0.10%	9,303,662	2.98%
Trusts	4,528	15.71%	2,861,383	0.92%
Miscellaneous	207	0.72%	156,303	0.05%
Totals	**28,823**	**100%**	**312,291,317**	**100%**
Less Treasury Shares			(2,010,450)	
Total Shares Outstanding			**310,280,867**	

NISOURCE BOARD OF DIRECTORS

- Ian M. Rolland, Chairman of the Board, NiSource Inc.
- Richard A. Abdoo, Retired President, R.A. Abdoo & Co. LLC
- Aristides S. Candris, Retired President & CEO, Westinghouse
- Sigmund L. Cornelius, Retired Senior Vice President, Finance & CFO, ConocoPhilips
- Michael E. Jesanis, Principal, Serrafix
- Marty R. Kittrell, Retired Executive Vice President & CFO, Dresser, Inc.
- W. Lee Nutter, Retired Chairman, President and CEO, Rayonier, Inc.
- Deborah S. Parker, Senior Vice President, Quality & Environmental, Health & Safety, Alstom Power
- Robert C. Skaggs, Jr., President and CEO, NiSource Inc.
- Teresa A. Taylor, Retired COO, Qwest Communications, Inc.
- Richard L. Thompson, Chairman, Lennox International, Inc.
- Dr. Carolyn Y. Woo, President & CEO, Catholic Relief Services

NISOURCE MANAGEMENT TEAM

- Robert C. Skaggs, Jr., President & CEO
- Stephen P. Smith, Executive Vice President & CFO
- Carrie J. Hightman, Executive Vice President & CLO
- Joseph Hamrock, Executive Vice President & Group CEO, Gas Distribution
- Jim L. Stanley, Executive Vice President & Group CEO, NIPSCO
- Jimmy D. Staton, Executive Vice President & Group CEO, Columbia Pipeline Group
- Robert D. Campbell, Senior Vice President, Human Resources
- Glen L. Kettering, Senior Vice President, Corporate Affairs
- Violet G. Sistovaris, Senior Vice President & CIO
- Larry J. Francisco, Vice President, Audit

NISOURCE INVESTOR RELATIONS

Glen Kettering	*Senior Vice President, Corporate Affairs* gkettering@nisource.com or 219.647.5765
Randy Hulen	*Managing Director, Investor Relations* rghulen@nisource.com or 219.647.5688
Umair Quraishi	*Manager, Investor Relations* uquraishi@nisource.com or 219.647.4586
Jenn Moench	*Manager, Corporate Affairs* jmoench@nisource.com or 219.647.6209

NISOURCE SHAREHOLDER SERVICES

Penny Kljajic	*Senior Stockholder Services Representative* plkljajic@nisource.com or 219.647.6132

STOCKHOLDER ACCOUNT MAINTENANCE

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Canton, MA 02021

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TDD for Hearing Impaired
800.231.5469

Foreign Stockholders
201.680.6578

TDD Foreign Stockholders
201.680.6610

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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, 2012

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

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

I ndicate 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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
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 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, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer ☑	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐

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 29, 2012, closing price of $24.75 on the New York Stock Exchange) held by non-affiliates was approximately $7,017,170,104.

There were 311,188,068 shares of Common Stock, $0.01 Par Value outstanding as of February 12, 2013.

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 14, 2013.

CONTENTS

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates	
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
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 L.L.C.
CPRC	Columbia Gas of Pennsylvania 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
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
NEVCO	NiSource Energy Ventures, L.L.C.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company Inc.
NiSource Midstream	NiSource Midstream Services, L.L.C.
PEI	PEI Holdings, Inc.
Pennant	Pennant Midstream, L.L.C.
Whiting Clean Energy	Whiting Clean Energy, Inc.

Abbreviations	
2010 Health Care Act	The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 signed into law by the President on March 23, 2010 and March 30, 2010, respectively
AFUDC	Allowance for funds used during construction
AICPA	American Institute of Certified Public Accountants
AMI	Area of Mutual Interest
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent

DEFINED TERMS

AOCI	Accumulated other comprehensive income
ARP	Alternative Regulatory Plan
ARRs	Auction Revenue Rights
ASC	Accounting Standards Codification
BBA	British Banker Association
Bcf	Billion cubic feet
BNS	Bank of Nova Scotia
Board	Board of Directors
BPAE	BP Alternative Energy North America, Inc.
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
Ccf	Hundred cubic feet
CCGT	Combined Cycle Gas Turbine
CCRs	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
CO_2	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
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 generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DSIC	Distribution System Improvement Charge
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
Hilcorp	Hilcorp Energy Company

DEFINED TERMS

hp	Horsepower
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IFA	Indiana Finance Authority
IFRS	International Financial Reporting Standards
IIG	Indiana Industrial Group
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
kV	Kilovolt
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
MACT	Maximum Achievable Control Technology
Mcf	Thousand cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station
Mizuho	Mizuho Corporate Bank Ltd.
MMDth	Million dekatherms
mw	Megawatts
mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NLMK	Novolipetsk Steel
NOV	Notice of Violation
NO_2	Nitrogen dioxide
NOx	Nitrogen oxides
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUCC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PM	Particulate matter
PNC	PNC Bank N.A.
PPS	Price Protection Service
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RA	Resource Adequacy
RBS	Royal Bank of Scotland PLC
RCRA	Resource Conservation and Recovery Act

DEFINED TERMS

RDAF	Revenue decoupling adjustment factor
RTO	Regional Transmission Organization
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO_2	Sulfur dioxide
Sugar Creek	Sugar Creek electric generating plant
TIRF	Targeted Infrastructure Reinvestment Factor
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission
WACOG	Weighted Average Cost of Gas

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ITEM 1. BUSINESS

NISOURCE INC.

NiSource (the "Company") 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 on April 14, 1999.

NiSource is one of the nation's largest natural gas distribution companies, 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 Columbia of Massachusetts, a natural gas distribution company serving customers in Massachusetts. NiSource derives substantially all of its revenues and earnings from the operating results of its thirteen direct subsidiaries.

NiSource's business segments are: Gas Distribution Operations; Gas Transmission and Storage Operations; and Electric Operations. Following is a summary of the business for each reporting segment. Refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information for each segment.

Gas Distribution Operations
NiSource's natural gas distribution operations serve more than 3.3 million customers in seven states and operate approximately 58,000 miles of pipeline. Through its 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's subsidiary Northern Indiana also distributes natural gas to approximately 798,000 customers in northern Indiana. Additionally, NiSource's subsidiary, Columbia Gas of Massachusetts, distributes natural gas to approximately 303,000 customers in Massachusetts.

Gas Transmission and Storage Operations
NiSource's Gas Transmission and Storage Operations subsidiaries own and operate approximately 15,000 miles of pipeline and operate one of the nation's largest underground natural gas storage systems capable of storing approximately 637.8 Bcf of natural gas. Through its subsidiaries, Columbia Transmission, Columbia Gulf and Crossroads Pipeline, NiSource owns and operates an interstate pipeline network extending from the Gulf of Mexico to New York and the eastern seaboard. Together, these companies serve customers in 16 northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia.

NiSource's Gas Transmission and Storage Operations continue to develop a range of supply-driven growth initiatives, including mineral leasing and optimization, midstream projects and traditional pipeline expansion opportunities that leverage NiSource's strategically positioned pipeline and storage assets. A number of Gas Transmission and Storage Operations' new growth projects are designed to support increasing Marcellus and Utica shale production, while the segment also has continued to grow and adapt its system to provide critical transportation and storage services to markets across its high-demand service territory.

NiSource Midstream is an unregulated business that is a provider of midstream services including gathering, treating, conditioning, processing, compression and liquids handling. NiSource Midstream has entered into two fee-based transactions designed to support growing production in the Utica and Marcellus resource plays. The first transaction involves the construction of 57 miles of gathering pipeline capable of delivering 425 Mcf of gas per day produced from the Marcellus shale formation. The second transaction is a joint venture with 50 miles of gathering pipeline capable of gathering 600 Mcf per day and a gas processing plant with a capacity of 200 Mcf per day. Both projects are anchored by volumetric and acreage dedications from experienced resource play production companies.

NEVCO is an unregulated business that manages the company's mineral rights positions in the Marcellus and Utica shale areas. NEVCO has entered into multiple transactions to develop its minerals position including a joint venture with an established resource play producer to form an AMI in which NEVCO combined its production rights from a certain acreage position in northeast Ohio with the producer's much larger acreage position in the same area. The transaction resulted in NEVCO participating in the development of the entire acreage position through a non-operating working interest as well as an overriding royalty interest.

The Gas Transmission and Storage Operations subsidiaries are also involved in the joint ventures, Millennium and Hardy Storage, which effectively expand their facilities and throughput. Millennium, which includes 253 miles of 30-inch-diameter pipe across New York's Southern Tier and lower Hudson Valley, has the capability to transport up to 525,400 Dth per day of natural gas to markets along its route, as well as to the New York City markets through its pipeline interconnections. Millennium is jointly owned by affiliates of NiSource, DTE Energy and National Grid. Hardy Storage, which consists of underground natural gas storage facilities in West Virginia, has a working storage capacity of 12 Bcf and the ability to deliver 176,000 Dth of natural gas per day. Hardy Storage is jointly owned by affiliates of Columbia Transmission and Piedmont.

Electric Operations

NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 458,000 customers in 20 counties in the northern part of Indiana and engages in electric wholesale and transmission transactions. Northern Indiana operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,540 mw. Northern Indiana also owns and operates Sugar Creek, a CCGT plant with a 535 mw capacity rating, four gas-fired generating units located at Northern Indiana's coal-fired electric generating stations with a net capability of 206 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,291 mw. Northern Indiana's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,800 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities. During the year ended December 31, 2012, Northern Indiana generated 74.1% and purchased 25.9% of its electric requirements.

Northern Indiana participates in the MISO transmission service and wholesale energy market. The MISO is a nonprofit organization created in compliance with FERC regulations to improve the flow of electricity in the regional marketplace and to enhance electric reliability. Additionally, the MISO is responsible for managing the energy markets, managing transmission constraints, managing the day-ahead, real-time and FTR markets and managing the ancillary market. Northern Indiana transferred functional control of its electric transmission assets to the MISO and transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff.

Corporate and Other Operations

During the first quarter of 2010, NiSource made the decision to wind down its unregulated natural gas marketing activities as a part of the Company's long-term strategy of focusing on its core regulated business.

Divestiture of Non-Core Assets

In recent years, NiSource sold certain businesses judged to be non-core to NiSource's strategy. Lake Erie Land, a wholly-owned subsidiary of NiSource, is pursuing the sale of the real estate assets it owns. NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting its low income housing investments. NiSource began marketing to sell the service plan and leasing business lines of its Retail Services business in 2012. The sale of these business lines closed in January 2013. NiSource is also in the process of winding down its unregulated natural gas marketing business, where gas financial contracts are utilized to economically hedge expected future gas purchases associated with forward gas agreements.

Business Strategy

NiSource focuses its business strategy on its core, rate-regulated asset-based businesses with most of its operating income generated from the rate-regulated businesses. With one of the nation's largest natural gas pipelines, one of the largest natural gas distribution networks 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 over 40% of the nation's population and close to 50% of its natural gas 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.

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 purchase gas directly from producers and marketers as an open, competitive market for gas supplies has 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 LDCs. The LDCs 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. The Gas Transmission and Storage Operations compete for transportation customers based on the type of service a customer needs, operating flexibility, available capacity and price under tariff provisions.

ITEM 1. BUSINESS

NISOURCE INC.

Electric Competition . Northern Indiana currently dispatches all power from its plants into the MISO. Transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff.

Financing Subsidiary
NiSource Finance is a 100% 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 March 2000 under the laws of the state of Indiana. Prior to 2000, the function of NiSource Finance was performed by Capital Markets. NiSource Finance 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, 2012, NiSource had 8,286 employees of whom 3,360 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, proxy statements, 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, financial condition and cash flows. 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 had total consolidated indebtedness of $8,103.2 million outstanding as of December 31, 2012. 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;
- increase vulnerability to general adverse economic and industry conditions; and
- limit the ability of the Company to execute on its growth strategy, which is dependent upon access to capital to fund its substantial investment program.

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. Additionally, a drop in NiSource's credit rating could adversely impact the cost for NiSource to issue new debt securities.

A drop in NiSource's credit rating could adversely impact NiSource's liquidity.

On December 11, 2012, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 16, 2012, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 29, 2012, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. The collateral requirement that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately $27.8 million. In addition to agreements with ratings triggers, there are other agreements that contain "adequate assurance" or "material adverse change" provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business. Under Columbia of Pennsylvania's trade receivables sales program, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

Additionally, as a result of NiSource's participation in certain derivative activities, a credit downgrade could cause NiSource to be required to post substantial collateral in support of past and current transactions. These collateral requirements, combined with other potential negative effects on NiSource's liquidity in the event of a credit downgrade below an investment grade rating, could have a material adverse effect on earnings potential and cash flows. Lastly, a credit downgrade could adversely affect the availability and cost of capital needed to fund the growth investments which are a central element of the Company's long-term business strategy.

NiSource may not be able to execute its growth strategy as planned.

Because of changes in the business or regulatory environment, NiSource may not be able to execute its four-part business plan as intended. NiSource's commercial and regulatory initiatives may not achieve planned results; levels of commercial growth and expansion of the gas transmission and storage business may be less than its plan has anticipated; and the actual results of NiSource's financial management of the balance sheet, and process and expense management could deviate materially from planned outcomes.

ITEM 1A. RISK FACTORS

N I S OURCE I NC .

Adverse economic and market conditions or increases in interest rates could reduce net revenue growth, increase costs, decrease future net income and cash flows and impact capital resources and liquidity needs.

While the national economy is experiencing some recovery from the recent downturn, NiSource cannot predict how robust the recovery will be or whether or not it will be sustained.

Continued sluggishness in the economy impacting NiSource's operating jurisdictions could adversely impact NiSource's ability to grow its customer base and collect revenues from customers, which could reduce net revenue growth and increase operating costs. An increase in the interest rates NiSource pays would adversely affect future net income and cash flows. In addition, NiSource depends on debt to finance its operations, including both working capital and capital expenditures, and would be adversely affected by increases in interest rates. If the current economic recovery remains slow or credit markets again tighten, NiSource's ability to raise additional capital or refinance debt at a reasonable cost could be negatively impacted. Refer to Note 16, "Long-Term Debt," in the Notes to Consolidated Financial Statements for information related to outstanding long-term debt and maturities of that debt.

Capital market performance and other factors may decrease the value of benefit plan assets, which then could require significant additional funding and impact earnings.

The performance of the capital markets affects the value of the assets that are held in trust to satisfy future obligations under defined benefit pension and other postretirement benefit plans. NiSource has significant obligations in these areas and holds significant assets in these trusts. These assets are subject to market fluctuations and may yield uncertain returns, which fall below NiSource's projected rates of return. A decline in the market value of assets may increase the funding requirements of the obligations under the defined benefit pension and other postretirement benefit plans. Additionally, changes in interest rates affect the liabilities under these benefit plans; as interest rates decrease, the liabilities increase, which could potentially increase funding requirements. Further, the funding requirements of the obligations related to these benefits plans may increase due to changes in governmental regulations and participant demographics, including increased numbers of retirements or changes in life expectancy assumptions. Ultimately, significant funding requirements and increased pension expense could negatively impact NiSource's results of operations and financial position.

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

Most 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. These rate reviews determine the energy rates charged to customers and directly impact revenues. NiSource's financial results are dependent on frequent regulatory proceedings in order to ensure timely recovery of costs. Additionally, the costs of complying with future changes in environmental laws and regulations are expected to be significant, and their recovery through rates will be contingent on regulatory approval.

As a result of efforts to introduce market-based competition in certain of the markets where the regulated businesses conduct operations, NiSource may compete with independent marketers for customers. This competition exposes NiSource to the risk that certain stranded costs may not be recoverable and may affect results of NiSource's growth strategy and cash flows.

NiSource's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws and the recognition 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, solid waste, and coal combustion residuals. Compliance with these legal obligations requires NiSource to make 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. Furthermore, if NiSource's subsidiaries fail to comply with environmental laws and regulations or cause 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.

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. Moreover, such costs could materially affect the continued economic viability of one or more of NiSource's facilities.

Because NiSource's operations deal with natural gas and coal fossil fuels, emissions of GHGs are an expected aspect of the business. While NiSource attempts to reduce GHG emissions through efficiency programs, leak detection, and other programs, GHG emissions cannot be entirely eliminated. The current administration has made it clear that it is focused on reducing GHG emissions, through legislation and/or regulation. Imposing statutory or regulatory restrictions and/or costs on GHG emissions could increase NiSource's cost of producing energy, which could impact customer demand or NiSource's profitability. Compliance costs associated with these requirements could also affect NiSource's cash flow. The cost impact of any new or amended GHG legislation or regulations would depend upon the specific requirements enacted and cannot be determined at this time.

Even in instances where legal and regulatory requirements are already known, the original estimates for cleanup and environmental capital projects can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including the nature and extent of contamination, the method of cleanup, the cost of raw materials, contractor costs, and the availability of cost recovery from customers. Changes in costs could affect NiSource's financial position and cash flows.

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, usage 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 costs, thus affecting NiSource's financial results. Lastly, residential and commercial customers' usage has shown to be sensitive to economic conditions and the impact of macro-economic drivers such as unemployment, consumption and consumer confidence, which could also affect NiSource's financial results.

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

Business operations throughout NiSource's service territories have been and may continue to be adversely affected by economic events at the national and local level where it operates. In particular, sales to large industrial customers may be impacted by economic downturns. The U.S. manufacturing industry continues to adjust to changing market conditions including international competition, increasing costs, and fluctuating demand for its products.

Fluctuations in the price of energy commodities or their related transportation costs may have a negative impact on NiSource's financial results.

NiSource's electric generating fleet is dependent on coal and natural gas for fuel, and its gas distribution operations purchase and resell much of the natural gas they deliver. These energy commodities are vulnerable to price fluctuations and fluctuations in associated transportation costs. Hedging activities have been deployed in order to offset fluctuations in commodity supply prices and NiSource relies on regulatory recovery mechanisms in the various jurisdictions in order to fully recover the costs incurred in operations. However, while NiSource has historically been successful in recovery of costs related to such commodity prices, there can be no assurance that such costs will be fully recovered through rates in a timely manner. Additionally, increased gas and electricity costs could result in reduced demand from customers as a result of increased conservation activities.

NiSource is exposed to risk that customers will not remit payment for delivered energy or services, and that suppliers or counterparties will not perform under various financial or operating agreements.

NiSource's extension of credit is governed by a Corporate Credit Risk Policy, involves considerable judgment and is based on an evaluation of a customer or counterparty's financial condition, credit history and other factors. Credit risk exposure is monitored by obtaining credit reports and updated financial information for customers and suppliers, and by evaluating the financial status of its banking partners and other counterparties through the use of market-based metrics such as credit default swap pricing levels, and also through traditional credit ratings provided by the major credit rating agencies. Continued adverse economic conditions could increase credit risk and could result in a material adverse effect on NiSource.

ITEM 1A. RISK FACTORS

NiSource Inc.

NiSource has significant goodwill and definite-lived intangible assets. An impairment of goodwill or definite-lived intangible assets could result in a significant charge to earnings.

In accordance with GAAP, NiSource tests goodwill for impairment at least annually and reviews its definite-lived intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill would also be tested for impairment when factors, examples of which include reduced cash flow estimates, a sustained decline in stock price or market capitalization below book value, indicate that the carrying value may not be recoverable. NiSource would be required to record a charge in the financial statements during the period in which any impairment of the goodwill or definite-lived intangible assets is determined, negatively impacting the results of operations. A significant charge could impact the capitalization ratio covenant under certain financing agreements. A covenant in the five-year revolving credit facility requires NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%. As of December 31, 2012, the ratio was 59.3%.

Changes in taxation and the ability to quantify such changes could adversely affect NiSource's financial results.

NiSource is subject to taxation by the various taxing authorities at the federal, state and local levels where it does business. Legislation or regulation which could affect NiSource's tax burden could be enacted by any of these governmental authorities. NiSource cannot predict the timing or extent of such tax-related developments which could have a negative impact on the financial results. Additionally, NiSource uses its best judgment in attempting to quantify and reserve for these tax obligations. However, a challenge by a taxing authority, NiSource's ability to utilize tax benefits such as carryforwards or tax credits, or a deviation from other tax-related assumptions may cause actual financial results to deviate from previous estimates.

Changes in accounting principles may adversely affect NiSource's financial results.

Future changes in accounting rules, such as IFRS, and associated changes in regulatory accounting may negatively impact the way NiSource records revenues, expenses, assets and liabilities. These changes in accounting standards may adversely affect its financial results.

Transportation and storage of natural gas, as well as generation, transmission and distribution of electricity involve numerous risks that may result in accidents and other operating risks and costs.

NiSource's gas distribution and gas transmission and storage activities, as well as generation, transmission, and distribution of electricity, involve a variety of inherent hazards and operating risks, such as gas leaks, downed power lines, accidents, including third party damages, large scale outages, and mechanical problems, which could cause substantial financial losses. In addition, these risks could result in serious injury or loss of life to employees and the general public, significant damage to property, environmental pollution and impairment of its operations, which in turn could lead to substantial losses to NiSource. In accordance with customary industry practice, NiSource maintains insurance against some, but not all, of these risks and losses. The location of pipelines and storage facilities, or generation, transmission, substations and distribution facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect NiSource's financial position and results of operations.

Aging infrastructure may lead to increased costs and disruptions in operations that could negatively impact NiSource's financial results.

NiSource has risks associated with aging infrastructure assets. The age of these assets may result in a need for replacement, a higher level of maintenance costs and unscheduled outages despite diligent efforts by NiSource to properly maintain these assets through inspection, scheduled maintenance and capital investment. The failure to operate these assets as desired could result in NiSource's inability to meet firm service obligations, adversely impact revenues, and could result in increased capital expenditures and expenses, which may not be fully recoverable from customers.

ITEM 1A. RISK FACTORS

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Climate change, natural disasters, acts of terrorism, cyber-attacks or other catastrophic events may disrupt operations and reduce the ability to service customers.

A disruption or failure of natural gas transmission, storage or distribution systems or within electric generation, transmission or distribution systems in the event of a major hurricane, tornado, terrorist attack or other catastrophic event could cause delays in completing sales, providing services, or performing other critical functions. NiSource has experienced disruptions in the past from hurricanes and tornadoes and other events of this nature. The cost, availability and sufficiency of insurance for these risks could adversely affect NiSource's results of operations, financial position and cash flows.

There is also a concern that climate change may exacerbate the risks to physical infrastructure associated with heat and extreme weather conditions. Climate change and the costs that may be associated with its impacts have the potential to affect NiSource's business in many ways, including increasing the cost NiSource incurs in providing its products and services, impacting the demand for and consumption of its products and services (due to change in both costs and weather patterns), and affecting the economic health of the regions in which NiSource operates.

Additionally, NiSource's information systems experience ongoing, often sophisticated, cyber-attacks by a variety of sources with the apparent aim to breach NiSource's cyber defenses. Although NiSource attempts to maintain adequate defenses to these attacks and works through industry groups and trade associations to identify common threats and assess NiSource's countermeasures, a security breach of NiSource's information systems could (i) impact the reliability of NiSource's generation, transmission, storage and distribution systems and potentially negatively impact NiSource's compliance with certain mandatory reliability standards, (ii) subject NiSource to harm associated with theft or inappropriate release of certain types of information such as system operating information or information, personal or otherwise, relating to NiSource's customers or employees, or (iii) impact NiSource's ability to manage NiSource's businesses.

NiSource's capital projects subject it to construction risks and natural gas costs and supply risks.

NiSource Gas Transmission & Storage Operations continues to complete and advance customer-driven growth projects across its system, primarily surrounding the Marcellus and Utica shale production area in the states of Pennsylvania, Ohio and West Virginia. Additionally, NiSource is beginning its comprehensive interstate natural gas pipeline modernization program. These projects include constructing or purchasing pipelines and treatment and processing facilities, which subjects NiSource to construction risks and risks that gas supplies will not be available. Some projects may also be subject to risks related to fluctuation in gas costs. NiSource competes for these projects with companies of varying size and financial capabilities, including some that may have advantages competing for natural gas and liquid gas supplies, as well as acquisitions and other business opportunities. Similarly, NiSource Gas Distribution is engaged in an interstate natural gas pipeline modernization program to maintain system integrity and enhance service reliability and flexibility. Northern Indiana also is currently engaged in a number of capital projects, including air-quality related improvements to its electric generating stations, as well as the construction of new transmission facilities. As NiSource undertakes these projects, it may not be able to complete them on schedule or at the anticipated costs. Additionally, NiSource may construct or purchase some of these projects to capture anticipated future growth in natural gas production, which may not materialize, and may cause the construction to occur over an extended period of time. NiSource also may not receive material increases in revenue and cash flows until after the completion of the projects.

Sustained extreme weather conditions may negatively impact NiSource's operations.

NiSource conducts its operations across a wide geographic area subject to varied and potentially extreme weather conditions, which may from time to time persist for sustained periods of time. Despite preventative maintenance efforts, persistent weather related stress on NiSource's infrastructure may reveal weaknesses in its systems not previously known to the Company or otherwise present various operational challenges across all business segments. Although NiSource makes every effort to plan for weather related contingencies, adverse weather may affect its ability to conduct operations in a manner that satisfies customer expectations or contractual obligations. The Company endeavors to minimize such service disruptions, but may not be able to avoid them altogether.

ITEM 1A. RISK FACTORS

NiSource Inc.

Growing competition in the gas transportation industry could result in the failure by customers to renew existing contracts.

As a consequence of the increase in competition in the industry and the shift in natural gas production areas, end users and LDCs may be reluctant to enter into long-term service contracts. The renewal or replacement of existing contracts with NiSource's customers at rates sufficient to maintain current or projected revenues and cash flows depends on a number of factors beyond its control, including competition from other pipelines, gatherers, the proximity of supplies to the markets, and the price of, and demand for, natural gas. The inability of NiSource to renew, or replace its current contracts as they expire and respond appropriately to changing market conditions could materially impact its financial results.

NiSource is a holding company and is dependent on cash generated by subsidiaries to meet its debt obligations and pay dividends on its common stock.

NiSource is a holding company and conducts its operations primarily through its subsidiaries. Substantially all of NiSource's consolidated assets are held by its subsidiaries. Accordingly, NiSource's ability to meet its debt obligations or pay dividends on its common stock is largely dependent upon cash generated by these subsidiaries. In the event a major subsidiary is not able to pay dividends or transfer cash flows to NiSource, NiSource's ability to service its debt obligations or pay dividends could be negatively affected.

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, 2012.

Gas Distribution Operations. NiSource's Gas Distribution Operations subsidiaries own and operate a total of 57,975 miles of pipelines and certain related facilities. This includes: (i) for the six distribution companies of its Columbia system, 40,536 miles of pipelines, 1,350 reservoir acres of underground storage, eight storage wells, liquid propane facilities with a capacity of 2.9 million gallons, an LNG facility with a total capacity of 22.3 million gallons and one compressor station with 800 hp of installed capacity, and (ii) for its Northern Indiana system, 17,439 miles of pipelines, 27,129 reservoir acres of underground storage, 55 storage wells, one compressor station with a total of 4,000 hp of installed capacity and two LNG facilities with a storage capacity of 53.6 million gallons. The physical properties of the NiSource gas utilities are located throughout Ohio, Indiana, Pennsylvania, Virginia, Kentucky, Maryland, and Massachusetts.

Gas Transmission and Storage Operations. NiSource Gas Transmission and Storage subsidiaries own and operate 15,046 miles of natural gas transmission pipeline. Columbia Transmission owns and leases approximately 764,000 acres of underground storage, 3,454 storage wells, 11,425 miles of pipeline and 90 compressor stations with 622,470 hp of installed capacity. Columbia Transmission's operations are located in Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia, and West Virginia. Columbia Gulf has 3,370 miles of transmission pipeline and 11 compressor stations with 470,238 hp of installed capacity. Columbia Gulf's operations are located in Kentucky, Louisiana, Mississippi, Tennessee, Texas and Wyoming. Crossroads Pipeline has 203 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. NiSource Midstream owns approximately 106 miles of gathering pipeline and one compressor station with 5,280 hp of installed capacity. NEVCO owns production rights associated with Columbia Transmission's storage fields located in Ohio, Pennsylvania, and West Virginia. NiSource Gas Transmission and Storage Operations' offices are headquartered in Houston, Texas.

Electric Operations. NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 458,000 customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. Northern Indiana operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,540 mw. Northern Indiana also owns and operates Sugar Creek, a CCGT plant with a 535 mw capacity rating, four gas-fired generating units located at Northern Indiana's coal-fired electric generating stations with a net capability of 206 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,291 mw. Northern Indiana's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,800 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities. During the year ended December 31, 2012, Northern Indiana generated 74.1% and purchased 25.9 % of its electric requirements.

Corporate and Other Operations. NiSource owns the Southlake Complex, its 325,000 square foot headquarters building located in Merrillville, Indiana, and other residential and development property.

Character of Ownership. The principal offices and properties of NiSource and its subsidiaries are owned 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 routine 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 by NiSource and its subsidiaries, 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.

Majorsville Operations Center - PADEP Notice of Violation

In 1995, Columbia Transmission entered into an AOC with the EPA that requires Columbia Transmission to characterize and remediate environmental contamination at thousands of locations along Columbia Transmission's pipeline system. One of the facilities subject to the AOC is the Majorsville Operations Center, which was remediated under an EPA approved Remedial Action Work Plan in summer 2008. Pursuant to the Remedial Action Work Plan, Columbia Transmission completed a project that stabilized residual oil contained in soils at the site and in sediments in an adjacent stream.

On April 23, 2009, however, the PADEP issued Columbia Transmission an NOV, alleging that the remediation was not effective. The NOV asserts violations of the Pennsylvania Clean Streams Law and the Pennsylvania Solid Waste Management Act and contains a settlement demand in the amount of $1 million. Columbia Transmission is unable to estimate the likelihood or cost of potential penalties or additional remediation at this time.

EPA Administrative Complaints

On June 29, 2012, Region III EPA issued two Administrative Complaints alleging that Columbia Transmission discharged dredged and/or fill material to waters of the United States in violation of the Clean Water Act during road maintenance projects in West Virginia. Columbia Transmission had self-disclosed the activities to regulatory agencies in 2010 and has removed the fill pursuant to an EPA-approved plan. Columbia Transmission estimates that the penalty for these NOVs will be $75,000. A settlement is expected in 2013.

ITEM 4. Mine Safety Disclosures

NISOURCE INC.

Not applicable.

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 and offices held, as of February 1, 2013.

Name	Age	Office(s) Held in Past 5 Years
Robert C. Skaggs, Jr.	58	Chief Executive Officer of NiSource since July 2005.
		President of NiSource since October 2004.
Carrie J. Hightman	55	Executive Vice President and Chief Legal Officer of NiSource since December 2007.
Stephen P. Smith	51	Executive Vice President and Chief Financial Officer of NiSource since August 2008.
		Executive Vice President of NiSource from June 2008 to August 2008.
		Senior Vice President of Shared Services for American Electric Power Company from January 2008 to May 2008.
Jimmy D. Staton	52	Executive Vice President and Group Chief Executive Officer since March 2008.
		Senior Vice President, Gas Delivery, Dominion Resources, Inc. from January 2006 to 2008.
Jim L. Stanley	57	Executive Vice President and Group Chief Executive Officer of NiSource since October 2012.
		Senior Vice President, Duke Energy from June 2010 to September 2012.
		President, Duke Energy Indiana from November 2006 to May 2010.
Joseph Hamrock	49	Executive Vice President and Group Chief Executive Officer of NiSource since May 2012.
		President and Chief Operating Officer, American Electric Power Company - Ohio from 2008 to May 2012.
Robert D. Campbell	53	Senior Vice President, Human Resources, of NiSource since May 2006.
Glen L. Kettering	58	Senior Vice President, Corporate Affairs, since March 2006.
Jon D. Veurink	48	Vice President, Controller and Chief Accounting Officer since February 2010.
		Vice President at NiSource Corporate Services from October 2009 to February 2010.
		Vice President, Controller and Chief Accounting Officer, Exelon Generation L.L.C. from January 2004 until September 2009.

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 under the symbol "NI." The table below indicates the high and low sales prices of NiSource's common stock, on the composite tape, during the periods indicated.

	2012		2011	
	High	**Low**	High	Low
First Quarter	**24.55**	**22.32**	19.61	17.71
Second Quarter	**25.79**	**23.59**	20.67	18.62
Third Quarter	**26.15**	**23.93**	22.91	17.95
Fourth Quarter	**25.97**	**23.14**	23.97	20.31

As of December 31, 2012, NiSource had 28,823 common stockholders of record and 310,280,867 shares outstanding.

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. NiSource paid quarterly common dividends totaling $0.94 per share for the year ended December 31, 2012 and $0.92 per share for the years ended 2011, and 2010. At its January 25, 2013 meeting, the Board declared a quarterly common dividend of $0.24 per share, payable on February 20, 2013 to holders of record on February 4, 2013.

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.

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ITEM 6. SELECTED FINANCIAL DATA

NISOURCE INC.

The selected data presented below as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 are derived from the Consolidated Financial Statements of NiSource. The data should be read in connection with the Consolidated Financial Statements including the related notes included in Item 8 of this Form 10-K.

Year Ended December 31, (*dollars in millions except per share data*)	2012	2011	2010	2009	2008
Statement of Income Data:					
Gross Revenues					
Gas Distribution	$ 1,959.8	$ 2,917.9	$ 3,094.0	$ 3,296.2	$ 5,171.3
Gas Transportation and Storage	1,462.4	1,354.6	1,261.4	1,239.5	1,132.4
Electric	1,507.7	1,427.7	1,379.3	1,214.2	1,359.7
Other	131.3	274.5	636.5	861.2	1,182.9
Total Gross Revenues	5,061.2	5,974.7	6,371.2	6,611.1	8,846.3
Net Revenues (Gross Revenues less Cost of Sales, excluding depreciation and amortization)	3,519.7	3,428.9	3,407.4	3,301.4	3,220.0
Operating Income	1,042.7	890.1	891.8	786.2	894.5
Income from Continuing Operations	410.6	294.8	276.8	221.5	355.5
Results from Discontinued Operations - net of taxes	5.5	4.3	5.8	(4.5)	(283.9)
Net Income	416.1	299.1	282.6	217.0	71.6
Balance Sheet Data:					
Total Assets	21,844.7	20,708.3	19,913.4	19,262.5	20,023.7
Capitalization					
Common stockholders' equity	5,554.3	4,997.3	4,897.5	4,837.8	4,713.2
Long-term debt, excluding amounts due within one year	6,819.1	6,267.1	5,936.1	5,969.1	5,945.7
Total Capitalization	$ 12,373.4	$ 11,264.4	$ 10,833.6	$ 10,806.9	$ 10,658.9
Per Share Data:					
Basic Earnings (Loss) Per Share ($)					
Continuing operations	$ 1.41	$ 1.05	$ 1.00	$ 0.81	$ 1.30
Discontinued operations	0.02	0.01	0.02	(0.02)	(1.03)
Basic Earnings Per Share	$ 1.43	$ 1.06	$ 1.02	$ 0.79	$ 0.27
Diluted Earnings (Loss) Per Share ($)					
Continuing operations	$ 1.37	$ 1.02	$ 0.99	$ 0.80	$ 1.29
Discontinued operations	0.02	0.01	0.02	(0.02)	(1.03)
Diluted Earnings Per Share	$ 1.39	$ 1.03	$ 1.01	$ 0.78	$ 0.26
Other Data:					
Dividends paid per share ($)	$ 0.94	$ 0.92	$ 0.92	$ 0.92	$ 0.92
Shares outstanding at the end of the year (in thousands)	310,281	281,854	278,855	276,638	274,262
Number of common shareholders	28,823	30,663	32,313	34,299	36,194
Capital expenditures ($ in millions)	$ 1,585.1	$ 1,125.2	$ 803.8	$ 777.2	$ 1,299.9
Number of employees	8,286	7,957	7,604	7,616	7,981

- On September 4, 2012, Columbia Transmission filed a customer settlement with the FERC in support of its comprehensive pipeline modernization program, which was approved on January 24, 2013. As a result of this settlement, Columbia Transmission's gross revenues decreased $81.7 million, partially offset by a decrease in depreciation costs of $33.4 million.

- On February 14, 2012, Columbia of Ohio held its first standard choice offer auction which resulted in a retail price adjustment of $1.53 per Mcf. On February 14, 2012, the PUCO issued an entry that approved the results of the auction with the new retail price adjustment level effective April 1, 2012. As a result of the implementation of the standard choice offer, Columbia of Ohio reports lower gross revenues and lower cost of sales. There is no impact on net revenues.

- During 2012, NiSource began marketing to sell the service plan and leasing business lines of its Retail Service business. As of December

31, 2012, the assets and liabilities of the business lines met the criteria to be classified as held for sale in accordance with GAAP. Additionally, the results of operations and cash flows are classified as discontinued operations for all periods presented. The sale of the business lines closed in January 2013.

- On November 14, 2011, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately $125.3 million aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately $228.7 million aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which $124.7 million were accepted for purchase. NiSource Finance recorded a $53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

- For 2011 and 2010, Other gross revenues declined due to the decision to wind down the unregulated natural gas marketing activities in the second quarter of 2009 as a part of the Company's long-term strategy of focusing on its core regulated businesses.

- On December 30, 2010, NiSource Finance finalized a cash tender offer for $273.1 million aggregate principal amount of its outstanding 10.75% notes due in 2016. As a result of this tender offer, NiSource Finance incurred $96.7 million in early redemption fees, primarily attributable to early redemption premiums and unamortized discounts and fees, which is recorded as a loss on the early extinguishment of long-term debt reducing income from continuing operations.

- For 2009, Gas Distribution and Other gross revenues decreased due to a decline in natural gas commodity prices.

- For 2009, operating income decreased $25.3 million due to pre-tax restructuring charges, net of adjustments.

- For 2008, the Results from Discontinued Operations – net of taxes includes the after tax loss on disposition related to the sales of Whiting Clean Energy, Northern Utilities and Granite State Gas of $32.3 million, $63.3 million and $12.5 million, respectively, and an adjustment of $188.0 million for litigation.

- In the third quarter of 2008, NiSource Development Company sold its interest in JOF Transportation Company to Lehigh Service Corporation for a pre-tax gain of $16.7 million included within Other, net on the Statements of Consolidated Income.

- During the second quarter 2008, Northern Indiana purchased Sugar Creek for $329.7 million, which is included in the above capital expenditures amount for 2008.

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

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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, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, the impact of potential new environmental laws or regulations, the results of material litigation, changes in pension funding requirements, changes in general economic, capital and commodity market conditions, and counter-party credit risk, and the matters set forth in Item 1A, "Risk Factors" of this report, 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 in the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England and the generation, transmission and distribution of electricity in Indiana. NiSource generates most 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 sales 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.

For the twelve months ended December 31, 2012, NiSource reported income from continuing operations of $410.6 million, or $1.41 per basic share, compared to $294.8 million, or $1.05 per basic share for the same period in 2011.

Increases in income from continuing operations were due primarily to the following items:

- Electric Operations' net revenues increased $130.0 million from the same period in 2011, primarily due to the implementation of the electric rate case. Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for more information.

- Loss on early extinguishment of long-term debt decreased $53.9 million in 2012 due to early redemption fees related to tender offers finalized in the fourth quarter of 2011. Refer to Note 16 "Long-Term Debt," in the Notes to Consolidated Financial Statements for more information.

- Equity earnings increased by $17.6 million compared to the prior year, primarily from increased earnings at Millennium, as demand and commodity revenues have increased. Refer to the Gas Transmission and Storage Operations segment discussion for more information regarding Millennium.

Increases in income from continuing operations were partially offset due to the following items:

- NiSource incurred higher interest expense of $41.5 million resulting from issuances of long-term debt of $400.0 million in June 2011, $500.0 million in November 2011, $250.0 million in April 2012, $750.0 million in June 2012 and the expiration of the Sugar Creek deferral. These increases were partially offset by the repurchase of $125.3 million of the 2016 and $124.7 million of the 2013 notes in November 2011 and lower short-term borrowings and rates.

- Depreciation and amortization increased $26.2 million due primarily to higher capital expenditures and the additional depreciation related to the Sugar Creek facility due to the expiration of the deferral as a result of the electric rate case. This was partially offset by lower depreciation and amortization due to the Columbia Transmission customer settlement.

These factors and other impacts to the financial results are discussed in more detail within the following discussions of "Results of Operations" and "Results and Discussion of Segment Operations."

Platform for Growth

NiSource's business plan will continue to center on commercial and regulatory initiatives, commercial growth and expansion of the gas transmission and storage business, and financial management of the balance sheet.

Commercial and Regulatory Initiatives

Rate Development and Other Regulatory Matters . NiSource is moving forward with regulatory initiatives across several gas distribution company markets. Whether through full rate case filings or other approaches, NiSource's goal is to develop strategies that benefit all stakeholders as it addresses changing customer conservation patterns, develops more contemporary pricing structures, and embarks on long-term investment programs to enhance its infrastructure.

On January 2, 2013, Columbia of Pennsylvania filed a petition with the Pennsylvania PUC, seeking authority to implement a Distribution System Improvement Charge ("DSIC"), with a proposed effective date of March 3, 2013. DSIC has been available to water companies in Pennsylvania for several years, and was authorized for other utilities as of January 1, 2013 with the passage of Act 11 of 2012. Columbia of Pennsylvania is the first natural gas utility in Pennsylvania to seek DSIC approval. If approved by tariff, Columbia of Pennsylvania would be able to recover the cost of infrastructure not previously reflected in rate base that has been placed in service during the three-month period ending one month prior to the effective date of the DSIC. After the initial charge is established, the DSIC is updated quarterly to recover the cost of further plant additions. The DSIC cannot exceed 5% of distribution revenues. Once new base rates are established under a base rate proceeding, the DSIC will be set back to zero. This represents a significant opportunity to mitigate rate lag by permitting recovery of infrastructure costs without seeking that recovery in a full base rate proceeding.

On November 21, 2012, the IURC approved ECR-20 for net capital expenditures of $227.1 million. On February 1, 2013, Northern Indiana filed ECR-21, the filing implementing the ECT, which included $376.4 million of net capital expenditures and operation and maintenance and depreciation expenses of $1.1 million for the period ended December 31, 2012.

On September 28, 2012, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC, seeking a revenue increase of approximately $77.3 million annually and providing three options for residential rate design in order to mitigate revenue volatility associated with usage based rates. Columbia of Pennsylvania is the first utility in Pennsylvania to seek Pennsylvania PUC approval to design rates to recover costs that are projected to be incurred after the implementation of those new rates, as recently authorized by the Pennsylvania General Assembly with the passage of Act 11 of 2012. Accordingly, Columbia of Pennsylvania's filing sought to implement rates in July 2013 under which Columbia of Pennsylvania would immediately begin to recover costs that are projected for the twelve-month period ending June 30, 2014. On February 8, 2013, the parties reached a unanimous settlement in principle on all issues in the case, which the parties publicly disclosed to the Pennsylvania PUC on February 13, 2013. The terms of the settlement will be made public when the parties to the case submit a joint petition for approval of that settlement to the Pennsylvania PUC, which is due on March 18, 2013. Columbia of Pennsylvania expects that the Pennsylvania PUC will issue an order in the second quarter of 2013, with rates going into effect in the third quarter of 2013.

On September 4, 2012, Columbia Transmission reached an agreement with a majority of its customers and filed a customer settlement in support of its comprehensive interstate natural gas pipeline modernization program with the FERC. Only one party, the PSC of Maryland, filed a (limited) protest to the Settlement. On October 4, 2012, Columbia Transmission filed its reply addressing the issues raised by the PSC of Maryland. Columbia Transmission expects to invest approximately $1.5 billion over a five-year period to modernize its system to improve system integrity and enhance service reliability and flexibility. The settlement with firm customers includes an initial five-year term with provisions for potential extensions thereafter. The settlement proposes initial refunds totaling $50.0 million, adjustments to base rates and depreciation, and a Capital Cost Recovery Mechanism (CCRM), a tracker mechanism that provides recovery and return on the $1.5 billion program investment. Additional details of the settlement are as follows:

- A $50.0 million refund to max rate contract customers. The payment will be paid in the next monthly billing cycle that is at least 15 days after Columbia Transmission received the final FERC order approving the settlement;
- Base rate reductions, the first retroactive to January 1, 2012, which equates to approximately $35 million in revenues annually and the second beginning January 1, 2014, which equates to approximately $25 million in revenues annually thereafter;
- The CCRM will allow Columbia Transmission to recover, through an additive capital demand rate, its revenue requirement for capital investments made under Columbia Transmission's long-term plan to modernize its interstate transmission system. The mechanism provides for a 14% revenue requirement with a portion designated as a recovery of increased taxes other than income taxes. The additive demand rate is earned on costs associated with projects placed into service by October 31 each year. The CCRM will give Columbia Transmission the opportunity to recover its revenue requirement associated with the $1.5 billion investment in the modernization program, while maintaining competitive rates for its shippers. The CCRM recovers the revenue requirement associated with qualifying modernization costs that Columbia Transmission incurs after satisfying the requirement associated with $100.0 million in annual capital maintenance expenditure. The CCRM applies to Columbia Transmission's transportation shippers. The CCRM will not exceed $300.0 million per year, subject to a 15% annual tolerance and a total cap of $1.5 billion for the entire five-year Initial Term;
- Depreciation rate reduction to 1.5% and elimination of negative salvage rate, retroactive to January 1, 2012, which equates to approximately $35 million in reduced annual expenses that is linked to the base rate reduction above;
- A revenue sharing mechanism pursuant to which Columbia Transmission will share 75% of specified revenues earned in excess of an annual threshold;
- A moratorium through January 31, 2018 on changes to Columbia Transmission's reduced transportation base rates; and
- A commitment from Columbia Transmission that it will file a general NGA Section 4(e) rate application to be effective no later than February 1, 2019.

In 2012, Columbia Transmission recorded the $50.0 million refund obligation and the impact of the retroactive base rate reduction, which amounted to $31.7 million, and the reduction in depreciation expense that amounted to $33.4 million. The FERC approved the settlement on January 24, 2013. Refunds to customers are expected in March 2013.

On December 9, 2011, Columbia of Ohio filed a Notice of Intent to file an application to extend its Infrastructure Replacement Program. Columbia of Ohio filed an amended Notice of Intent and an amended Motion for Waiver on March 5, 2012. On May 8, 2012, Columbia of Ohio filed its application and supporting exhibits and testimony. On September 26, 2012 the parties filed a Joint Stipulation and Recommendation that provided for the extension of Columbia of Ohio's IRP process for an additional five years and settlement of all issues. On November 28, 2012, the PUCO issued an Opinion and Order in which it approved the stipulation.

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

NISOURCE INC.

On July 18, 2011, Northern Indiana filed with the IURC a settlement in its 2010 Electric Rate Case with the OUCC, Northern Indiana Industrial Group, NLMK Indiana and Indiana Municipal Utilities Group. The settlement agreement limited the proposed base rate impact to the residential customer class to a 4.5% increase. The parties also agreed to a rate of return of 6.98% based upon a 10.2% return on equity. The settlement resolved all pending issues related to compliance with the August 25, 2010 Order in the 2008 Electric Rate Case. On December 21, 2011, the IURC issued an Order approving the Settlement Agreement as filed, and new electric base rates became effective on December 27, 2011.

On March 22, 2011, Northern Indiana filed a petition with the IURC for a certificate of public convenience and necessity and associated relief for the construction of additional environmental projects required to comply with the NOV consent decree lodged in the United States District Court for the Northern District of Indiana on January 13, 2011 and EPA Regulations. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information. This petition was trifurcated into three separate phases. On December 28, 2011, February 15, 2012 and September 5, 2012, the IURC issued orders approving estimated project costs of approximately $800 million and granting the requested ratemaking and accounting relief associated with these projects through annual and semi-annual tracker filings.

As part of a multi-state effort to strengthen the electric transmission system serving the Midwest, Northern Indiana anticipates making investments in two projects that were authorized by the MISO and are scheduled to be in service during the latter part of the decade. On July 19, 2012 and December 19, 2012, the FERC issued an order approving construction work in progress in rate base and abandoned plant cost recovery requested by Northern Indiana, for the 100-mile, 345 kV transmission project and its right to develop 50 percent of the 66-mile, 765 kV project. On December 19, 2012, the FERC issued an order authorizing Northern Indiana's request to transition to forward looking rates, allowing more timely recovery of Northern Indiana's investment in transmission assets.

Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for a complete discussion of regulatory matters.

Commercial Growth and Expansion of the Gas Transmission and Storage Business

During 2012, Gas Transmission and Storage Operations placed into service strategic growth projects, primarily serving the Marcellus Shale production area. Below is a discussion of these projects as well as projects that are currently on-going.

Smithfield Project. The Gas Transmission and Storage Operations segment made approximately $14 million of capital investments for modifications to existing pipeline and compressor facilities to accommodate receipt of up to 150,000 Dth per day of additional Marcellus gas from connections near Smithfield, West Virginia and Waynesburg, Pennsylvania. Three anchor shippers agreed to long-term, firm transportation contracts, one contract that began in April 2011 and others that began in August 2011. The project was placed in service in May 2012.

Rimersburg Expansion Project. The Gas Transmission and Storage Operations segment invested approximately $8 million for this project that added capacity to north central Pennsylvania to meet the growing demands of producers in the area. The project expands Line 134 from the Brinker compressor station to the Iowa regulator, adding approximately 19,000 Dth per day of additional capacity, all of which has been sold through precedent agreements. The project was placed into service in May 2012.

Line WB Expansion Project. The Gas Transmission and Storage Operations segment expanded its WB system through investment in additional facilities, which provide transportation service on a firm basis from Loudoun, Virginia to Leach, Kentucky. The expansion totaled approximately $14 million, allowing producers to meet incremental transportation demand in the Marcellus/Appalachian Basin. Binding precedent agreements for approximately 175,000 Dth per day of firm transportation capacity were executed, some which began in January 2011. Final construction on all facilities was completed and placed into service in May 2012.

Big Pine Gathering System Project. The Gas Transmission and Storage Operations segment is making an investment of approximately $160 million, which includes right-of-way acquisitions and installation, refurbishment and operation of approximately 57 miles of pipeline facilities in the hydrocarbon-rich Western Pennsylvania shale production region. The newly constructed pipeline will have an initial combined capacity of 425,000 Dth per day. Natural gas will initially be sourced from XTO Energy Inc., a subsidiary of ExxonMobil, Butler County, Pennsylvania production, and delivered to Columbia Transmission and two other third-party pipelines in Pennsylvania. Pipe and rights of way were acquired and cleared with construction underway. The project is expected to be fully in service by April 2013.

Power Plant Generation Project. The Gas Transmission and Storage Operations segment is spending approximately $36 million on an expansion project, which includes new pipeline and modifications to existing compression assets, with Virginia Power Services Energy Corporation, Inc., the energy manager for Virginia Electric and Power Company. This project will expand the Columbia Transmission system in order to provide up to nearly 250,000 Dth per day of transportation capacity under a long-term, firm contract. The project is expected to be ready for commercial operations by mid-2014.

West Side Expansion. The Gas Transmission and Storage Operations segment is planning to invest approximately $200 million in new pipeline and compression to increase supply origination from the Smithfield and Waynesburg areas on the Columbia Transmission system and provides a backhaul transportation path to Gulf Coast markets on the Columbia Gulf system. This investment will increase capacity up to 444,000 Dth per day from the Smithfield and Waynesburg areas and up to 540,000 Dth per day from Leach to Rayne transporting Marcellus production under long-term, firm contracts. The project is expected to be in service by the fourth quarter 2014 with limited interim service provided in 2012 through 2014.

East Side Expansion. The Gas Transmission and Storage Operations segment entered into binding precedent agreements with customers to develop its East Side Expansion project, which will provide access for Marcellus supplies to the Northeastern and Mid-Atlantic Markets. The approximately $210 million project will add up to 300,000 Dth per day of capacity through pipeline looping and interconnects. The project is expected to be placed in service in mid-2015.

Financial Management of the Balance Sheet

NiSource remains committed to maintaining its liquidity position through management of capital spending, working capital and operational requirements, and its financing needs. NiSource has executed on its plan by taking the following actions:

- As of December 31, 2012, NiSource maintained approximately $974.4 million in net available liquidity.
- On September 10, 2012, NiSource settled its Forward Agreements by physically delivering the 24,265,000 shares of NiSource common stock and receiving cash proceeds of $339.1 million.
- On June 14, 2012, NiSource Finance issued $250.0 million of 3.85% senior unsecured notes that mature on February 15, 2023 and $500.0 million of 5.25% senior unsecured notes that mature on February 15, 2043.
- During May 2012, NiSource Finance amended its existing $1.5 billion revolving credit facility with a syndicate of banks led by Barclays Capital, extending the termination date to May 15, 2017 and reduced the cost of borrowing.
- On May 15, 2012, NiSource increased its quarterly dividend by 4.3%, resulting in an increase in the annualized Common Stock dividend from $0.92 to $0.96 per share.
- On April 5, 2012, NiSource Finance negotiated a $250.0 million three-year bank term loan with a syndicate of banks which matures on April 3, 2015. Borrowings under the term loan have an effective cost of LIBOR plus 137 basis points.

Credit Ratings . On December 11, 2012, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 16, 2012, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 29, 2012, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Ethics and Controls

NiSource has had a long term commitment to providing accurate and complete financial reporting as well as high standards for ethical behavior by its employees. 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 its mandatory ethics training program in which employees at every level throughout the organization participate.

Refer to "Management's Report on Internal Control over Financial Reporting" included in Item 9A.

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

N I S OURCE I NC .

Results of Operations

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

Income from Continuing Operations and Net Income
For the year ended December 31, 2012, NiSource reported income from continuing operations of $410.6 million , or $1.41 per basic share, compared to $294.8 million , or $1.05 per basic share in 2011. Income from continuing operations for the year ended December 31, 2010 was $276.8 million , or $1.00 per basic share.

Including results from discontinued operations, NiSource reported 2012 net income of $416.1 million , or $1.43 per basic share, 2011 net income of $299.1 million , or $1.06 per basic share, and 2010 net income of $282.6 million , or $1.02 per basic share.

Comparability of line item operating results was impacted by regulatory and tax trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses were offset by increases in net revenues and had essentially no impact on income from continuing operations. A decrease in operating expenses of $3.4 million for the 2012 year was offset by a corresponding decrease to net revenues reflecting these tracked costs. In the 2011 period, a decrease in operating expenses of $40.4 million for trackers was offset by a corresponding decrease to net revenues reflecting recovery of these costs.

Net Revenues
NiSource analyzes the operating results using net revenues. Net revenues are calculated as revenues less the associated cost of sales (excluding depreciation and amortization). NiSource believes net revenues is a better measure to analyze profitability than gross operating revenues since the majority of the cost of sales are tracked costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in gross operating revenues.

Total consolidated net revenues for the year ended December 31, 2012, were $3,519.7 million , a $90.8 million increase compared with 2011. Net revenues increased primarily due to increased Electric Operations' net revenues of $130.0 million partially offset by lower Gas Distribution Operations' net revenue of $53.6 million and decreased Gas Transmission and Storage Operations' net revenues of $5.2 million.

- Electric Operations' net revenues increased primarily due to increased industrial, commercial and residential usage and margins of $66.5 million mainly due to the implementation of the electric rate case. Additionally, there were lower revenue credits of $57.6 million as the electric rate case discontinued these credits. Net revenues also increased as a result of an increase in a RTO recovery mechanism of $10.6 million and the recognition of emission allowances that were deferred in previous periods of $6.2 million. These increases were partially offset by a decrease in environmental cost recovery of $21.3 million due to the plant balance eligible for recovery being reset to zero as a result of the electric rate case.

- Gas Distribution Operations' net revenues decreased primarily due to lower regulatory and tax trackers, which are offset in expense, of $53.7 million, and the effects of warmer weather of $36.9 million. These decreases in net revenues were partially offset by an increase of $34.9 million for regulatory and service programs, including the impact of new rates under Columbia of Ohio's approved infrastructure replacement program and the 2011 rate case at Columbia of Pennsylvania.

- Gas Transmission and Storage Operations' net revenues decreased primarily due to the customer settlement at Columbia Transmission which decreased net revenues by $81.7 million. This decrease was partially offset by increased regulatory trackers, which are offset in expense, of $48.6 million, higher demand margin revenue of $21.9 million primarily as a result of growth projects placed into service and an increase of $8.3 million from the impact of higher rates at Columbia Gulf.

Total consolidated net revenues for the twelve months ended December 31, 2011 were $3,428.9 million , a $21.5 million increase compared with 2010. Net revenues increased primarily due to increased Gas Transmission and Storage Operations' net revenues of $56.4 million and increased Electric Operations' net revenues of $7.1 million, partially offset by lower Gas Distribution Operations' net revenues of $21.5 million.

- Gas Transmission and Storage Operations' net revenues increased primarily due to higher demand margin revenue of $32.3 million as a result of new growth projects. Additionally, there was an increase of $14.8 million due to the net impact of the rate case filing at Columbia Gulf. Net revenues also increased due to increased midstream revenue of $10.6 million, higher mineral rights royalty revenues of $8.4 million, increased regulatory trackers of $5.9 million, which are offset in expense, and a one-time settlement of $2.8 million. These increases in net revenues were partially offset by the impact of $8.3 million related to the recognition in 2010 of revenue for a previously deferred gain for native gas contributed to Hardy Storage from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, revenues decreased due to lower shorter term transportation and storage services of $6.7 million and the impact of $5.4 million of fees received from a contract buy-out during 2010.

- Electric Operations' net revenues increased primarily due to increased industrial usage and margins of $18.7 million resulting from improved economic conditions, $9.5 million in lower revenue credits compared to the prior year, and higher environmental trackers of $5.5 million, which are offset in expense. These increases were partially offset by a decrease in residential and commercial margins of $12.2 million, and lower environmental cost recovery of $12.0 million due to a decrease in net plant eligible for a return and a decrease in the allowed rate of return.

- Gas Distribution Operations' net revenues decreased due primarily to a decrease in net regulatory and tax trackers of $51.8 million, which are offset in expense, lower off-system sales of $18.8 million primarily as a result of the standard service offer auction at Columbia of Ohio in the second quarter of 2010, and a decrease in industrial margins of $7.6 million. The decreases in net revenues were partially offset by an increase of $30.3 million for other regulatory and service programs, including impacts from the implementation of new rates under Columbia of Ohio's approved infrastructure replacement program and rate cases at various NiSource LDCs. Additionally, there was an increase of $14.1 million in residential and commercial margins. Net revenues also increased $5.7 million as the result of a contract accrual that was established in 2010, $2.8 million from Bear Garden Station which was placed into service in July of 2010, and $2.5 million related to a reserve for unaccounted for gas recorded in 2010.

Expenses

Operating expenses were $2,509.2 million in 2012, a decrease of $44.2 million from the comparable 2011 period. This decrease was primarily due to a decrease in operation and maintenance expenses of $43.6 million, lower impairment charges of $20.6 million and decreased other taxes of $6.2 million, partially offset by an increase in depreciation and amortization of $26.2 million. The decrease in operation and maintenance is due primarily to decreased environmental costs attributable to the 2011 MGP remediation refresh and a decrease in employee and administrative costs driven largely by a decrease in pension contributions at Gas Transmission and Storage Operations. These decreases in operation and maintenance expenses were partially offset by increased MISO fees which were previously deferred and the 2011 electric rate case resulted in the expiration of the deferral, higher outside services, and increased regulatory trackers, which are offset in revenue. Lower impairment costs are primarily due to the $14.7 million impairment related to Lake Erie Land recorded in the fourth quarter of 2011. These decreases were partially offset by an increase in depreciation and amortization primarily as a result of the expiration of deferrals of depreciation expense for Sugar Creek as a result of the 2011 electric rate case and higher depreciation due to increased capital expenditures. These increases were partially offset by lower depreciation and amortization as a result of the Columbia Transmission customer settlement.

Operating expenses were $2,553.4 million in 2011, an increase of $22.8 million from the comparable 2010 period. This increase was primarily due to an increase in operation and maintenance expenses of $59.8 million, higher impairment charges of $14.8 million and increased other taxes of $7.3 million. The increase in operation and maintenance is due primarily to an increase in employee and administrative costs driven largely by an increase in pension contributions at Gas Transmission and Storage Operations. As provided by its rate cases, GAAP pension expense is deferred to a regulatory asset and pension contributions are recorded to expense. Additionally, during fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded $35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers. Higher impairment costs relate to the additional impairment of $14.7 million recorded in the fourth quarter of 2011 related to Lake Erie Land. These increases were partially offset by a decrease of $59.1 million in depreciation and amortization expense primarily as a result of the new depreciation rates at Northern Indiana as a result of the implementation of the gas rate case.

Equity Earnings in Unconsolidated Affiliates

Equity Earnings in Unconsolidated Affiliates were $32.2 million in 2012, an increase of $17.6 million compared with 2011. Equity Earnings in Unconsolidated Affiliates includes investments in Millennium and Hardy Storage which are integral to the Gas Transmission and Storage Operations business. Equity earnings increased primarily from increased earnings at Millennium due to higher demand and commodity revenues.

Equity Earnings in Unconsolidated Affiliates were $14.6 million in 2011, a decrease of $0.4 million compared with 2010. Equity Earnings in Unconsolidated Affiliates includes investments in Millennium and Hardy Storage which are integral to the Gas Transmission and Storage Operations business. Equity earnings decreased primarily resulting from lower earnings from Columbia Transmission's investment in Millennium.

Other Income (Deductions)

Other Income (Deductions) in 2012 reduced income $416.6 million compared to a reduction of $438.1 million in 2011. The decrease in other deductions is due to a loss on early extinguishment of debt of $53.9 million in the prior year. Also, there was an increase in other, net due primarily to an increase in AFUDC at Northern Indiana. These increases to Other Income were partially offset by increased interest expense of $41.5 million. Interest expense increased primarily due to the issuances of long-term debt of $400.0 million in June 2011, $500.0 million in November 2011, $250.0 million in April 2012, $750.0 million in June 2012, and the expiration of the Sugar Creek deferral. These increases were partially offset by the repurchase of $125.3 million of the 2016 and $124.7 million of the 2013 notes in November 2011 and lower short-term borrowings and rates.

Other Income (Deductions) in 2011 reduced income $438.1 million compared to a reduction of $485.2 million in 2010. The increase in other income is due to a decrease in the loss on early extinguishment of debt of $42.8 million in the current year as a result of less redemptions of high interest debt in the fourth quarter of 2011 as compared to the fourth quarter of 2010. Also, there was a decrease in interest expense of $15.5 million. Interest expense decreased due to the repurchase of a portion of the 2016 and 2013 notes in November 2011 and a portion of the 2016 notes in December 2010 and a long-term debt maturity of $681.8 million in November 2010. The benefits were partially offset by incremental interest expense associated with a swap maturity in November 2010, the issuance of $500.0 million of long-term debt in November 2011, $400.0 million in June 2011 and $250.0 million in December 2010, and higher average short-term borrowings and rates. These decreases were partially offset by an increase of $11.1 million in other, net due primarily to an increase in charitable contributions in the current year.

Income Taxes

The effective income tax rates were 34.4%, 34.8%, and 31.9% in 2012, 2011 and 2010, respectively. The change in effective income tax rate was relatively flat in 2012 compared to 2011. The 2.9% increase in the overall effective tax rate in 2011 versus 2010 was primarily due to a tax rate change in Indiana in 2011 and the 2010 rate settlements that resulted in the flow through of certain tax benefits in rates.

On May 12, 2011, the governor of Indiana signed into law House Bill 1004, which among other things, lowers the corporate income tax rate from 8.5% to 6.5% over four years beginning on July 1, 2012. The reduction in the tax rate will impact deferred income taxes and tax related regulatory assets and liabilities recoverable in the rate making process. In addition, other deferred tax assets and liabilities, primarily deferred tax assets related to Indiana net operating loss carry forward, will be reduced to reflect the lower rate at which these temporary differences and tax benefits will be realized. In the second quarter of 2011, NiSource recorded tax expense of $6.8 million to reflect the effect of this rate change. The expense is largely attributable to the re-measurement of the Indiana net operating loss at the 6.5% rate. The majority of the Company's tax temporary differences are related to Northern Indiana's utility plant. The re-measurement of these temporary differences at 6.5% was recorded as a reduction of a regulatory asset.

The 2010 Health Care Act includes a provision eliminating, effective January 1, 2013, the tax deductibility of retiree health care costs to the extent of federal subsidies received under the Retiree Drug Subsidy program. When the Retiree Drug Subsidy was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, NiSource recorded a deferred tax asset reflecting the exclusion of the expected future Retiree Drug Subsidy from taxable income. At the same time, an offsetting regulatory liability was established to reflect NiSource's obligation to reduce income taxes collected in future rates. ASC Topic 740 – Income Taxes requires the impact of a change in tax law to be immediately recognized in continuing operations in the income statement for the period that includes the enactment date. In the first quarter of 2010, NiSource reversed its deferred tax asset of $6.2 million related to previously excludable Retiree Drug Subsidy payments expected to be received after January 1, 2013, which was completely offset by the reversal of the related regulatory liability.

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

NISOURCE INC.

Discontinued Operations

Discontinued operations reflected income of \$5.5 million , or \$0.02 per basic share, in 2012, \$4.3 million , or \$0.01 per basic share, in 2011 and income of \$5.7 million , or \$0.02 per basic share, in 2010.

The income in 2012, 2011 and 2010 include activities associated with the service plan and leasing business lines of NiSource's Retail Services business, partially offset by losses at CER and other former subsidiaries where NiSource has retained certain liabilities. During 2012, NiSource began actively marketing the service plan and leasing business lines of its Retail Services business. As of December 31, 2012, the assets and liabilities of the business lines met the criteria to be classified as held for sale in accordance with GAAP. Additionally, the results of operations and cash flows are classified as discontinued operations for all periods presented. The sale of the business lines closed in January 2013 resulting in gain from the disposal of discontinued operations of \$36.3 million after taxes which will be recorded in the first quarter of 2013.

Liquidity and Capital Resources

A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, are 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 and perform necessary maintenance of facilities. NiSource believes that through income generated from operating activities, amounts available under its short-term revolver, commercial paper program, long-term debt agreements and NiSource's ability to access the capital markets there is adequate capital available to fund its operating activities and capital expenditures in 2013.

Operating Activities

Net cash from operating activities for the year ended December 31, 2012 was \$1,275.5 million , an increase of \$405.3 million from a year ago. The increase in net cash from operating activities was primarily due to pension and postretirement contributions of \$51.0 million in 2012 compared to \$447.1 million in 2011.

Net cash from operating activities for the year ended December 31, 2011 was \$870.2 million, an increase of \$144.8 million from the prior year. During 2011, gas price decreases and the collection of the 2010 under-recovered gas cost resulted in a \$127.5 million source of working capital related to under-recovered gas costs. The \$219.6 million source of working capital associated with accounts receivable in 2011 was primarily due to warmer weather in 2011. These sources of working capital were partially offset by a decrease in working capital of \$141.8 million related to inventories primarily due to an increase in the weighted average cost rate. Additionally, there was a use of working capital related to accounts payable of \$154.8 million in the current year as a result of a decrease in gas purchases due to warmer weather in December 2011 compared to December 2010.

Pension and Other Postretirement Plan Funding . In 2012, NiSource contributed \$3.7 million to its pension plans and \$47.3 million to its postretirement medical and life plans. In 2013, NiSource expects to make contributions of approximately \$11.3 million to its pension plans and approximately \$40.4 million to its postretirement medical and life plans. At December 31, 2012 , NiSource's pension and other post-retirement benefit plans were underfunded by \$631.0 million and \$462.5 million , respectively.

Investing Activities

The tables below reflect actual capital expenditures and certain other investing activities by segment for 2010, 2011 and 2012, and estimates for 2013.

(in millions)	2013E	**2012**	2011	2010
Gas Distribution Operations	\$ 655.2	**\$ 649.4**	\$ 539.4	\$ 409.7
Gas Transmission and Storage Operations	697.6	**489.6**	301.5	302.0
Electric Operations	434.1	**422.8**	267.7	190.3
Corporate and Other Operations	26.2	**23.3**	22.0	9.6
Total	\$ 1,813.1	**\$ 1,585.1**	\$ 1,130.6	\$ 911.6

For 2013, the projected capital program and certain other investing activities are expected to be \$1,813.1 million , which is \$228.0 million higher than the 2012 capital program. This increased spending is mainly due to higher expenditures at the Gas Transmission and Storage Operations segment for integrity management pipeline spending and planned pipeline replacements related to the modernization replacement program.

For 2012 , the capital expenditures and certain other investing activities were $1,585.1 million , an increase of $454.5 million compared to 2011 . This increased spending is mainly due to higher expenditures for the infrastructure replacement programs in the Gas Distribution Operations segment, increased spending in the Gas Transmission and Storage Operations segment for various growth projects primarily in the Marcellus and Utica Shale areas, as well as expenditures under its modernization replacement program. Additionally, there were increased expenditures in the Electric Operations segment due primarily to the FGD projects.

For 2011 , capital expenditures and certain other investing activities were $1,130.6 million , an increase of $219.0 million compared to 2010 . This increased spending is mainly due to higher expenditures for the infrastructure replacement programs in the Gas Distribution Operations segment and increased growth expenditures in the Electric Operations segment which is primarily due to the FGD projects.

Restricted cash was $46.8 million and $160.6 million as of December 31, 2012 and 2011 , respectively. The decrease in restricted cash was primarily a result of the winding down of NiSource's unregulated natural gas marketing business.

NiSource received insurance proceeds for capital repairs of $6.5 million , zero and $5.0 million in 2012 , 2011 and 2010 , respectively.

Contributions to equity investees were $20.4 million , $6.4 million , and $87.9 million for 2012 , 2011 and 2010 , respectively. The increase in 2012 was the result of cash required for Millennium's expansion projects.

Financing Activities

Long-term Debt. Refer to Note 16, "Long-Term Debt," in the Notes to Consolidated Financial Statements for information on long-term debt.

Credit Facilities. During May 2012, NiSource Finance amended its existing $1.5 billion revolving credit facility with a syndicate of banks led by Barclays Capital extending the termination date to May 15, 2017 and also reducing the borrowing costs under the facility. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource's commercial paper program, provide for issuance of letters of credit, and also for general corporate purposes.

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to $500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. The program capacity was expanded to $1.5 billion with the addition of RBS as a fifth dealer on February 15, 2013. Commercial paper issuances are supported by available capacity under NiSource's $1.5 billion unsecured revolving credit facility, which expires in May 2017.

NiSource Finance had $44.0 million borrowings outstanding under its five-year revolving credit facility at December 31, 2012 and borrowings of $725.0 million at December 31, 2011 , at a weighted average interest rate of 3.73% and 1.99% , respectively. In addition, NiSource Finance had $499.6 million in commercial paper outstanding at December 31, 2012 , at a weighted average interest rate of 1.11% and $402.7 million in commercial paper outstanding at December 31, 2011 , at a weighted average interest rate of 1.01% .

As of December 31, 2012 and December 31, 2011 , NiSource had $233.3 million and $231.7 million , respectively, of short-term borrowings recorded on the Consolidated Balance Sheets and cash from financing activities in the same amount relating to its accounts receivable securitization facilities. See Note 19, "Transfers of Financial Assets" in the notes to Consolidated Financial Statements.

As of December 31, 2012 NiSource had $36.4 million of stand-by letters of credit outstanding of which $18.3 million were under the revolving credit facility. At December 31, 2011 , NiSource had $37.5 million of stand-by letters of credit outstanding of which $19.2 million were under the revolving credit facility.

As of December 31, 2012 , an aggregate of $938.1 million of credit was available under the credit facility.

Forward Agreements. On September 14, 2010, NiSource and Credit Suisse Securities (USA) LLC, as forward seller, closed an underwritten registered public offering of 24,265,000 shares of NiSource's common stock. All of the shares sold were borrowed and delivered to the underwriters by the forward seller. In connection with the public offering, NiSource entered into forward sale agreements ("Forward Agreements") with an affiliate of the forward seller covering an aggregate of 24,265,000 shares of NiSource's common stock. On September 10, 2012, NiSource settled the Forward Agreements by physically delivering the 24,265,000 shares of NiSource common stock and receiving cash proceeds of $339.1 million . Cash proceeds related to the settlement of the Forward Agreements are recorded in the issuance of common stock line in the financing activities section of the Statement of Consolidated Cash Flows for the period ended December 31, 2012 . Additionally, refer to Note 1-M, "Earnings Per Share" in the Notes to Consolidated Financial Statements, for information regarding the dilutive impact to EPS of the Forward Agreements.

Debt Covenants **.** NiSource is subject to a financial covenant under its five-year revolving credit facility and its three-year term loan issued April 5, 2012, which requires NiSource to maintain a debt to capitalization ratio that does not exceed 70% . A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75% . As of December 31, 2012 , the ratio was 59.3% .

NiSource is also subject to certain other non-financial covenants under the revolving credit facility. 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 subset of assets equal to $150 million . 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 and dispositions for a price not materially less than the fair market value of the assets disposed of that do not impair the ability of NiSource and NiSource Finance to perform obligations under the revolving credit facility, and that, together with all other such dispositions, would not have a material adverse effect. The revolving credit facility also includes 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 indentures generally do not contain any financial maintenance covenants. However, NiSource's 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 subset of assets capped at 10% of NiSource's consolidated net tangible assets.

Sale of Trade Accounts Receivables **.** Refer to Note 19, "Transfers of Financial Assets," in the Notes to Consolidated Financial Statements for information on the sale of trade accounts receivable.

All accounts receivable sold to the commercial paper conduits are valued at face value, which approximates fair value due to their short-term nature. The amount of the undivided percentage ownership interest in the accounts receivables sold is determined, in part, by required loss reserves under the agreements.

Credit Ratings **.** On December 11, 2012, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 16, 2012, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 29, 2012, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. The collateral requirement that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately $27.8 million . In addition to agreements with ratings triggers, there are other agreements that contain "adequate assurance" or "material adverse change" provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business. Under Columbia of Pennsylvania's trade receivables sales program, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

Contractual Obligations . NiSource has certain contractual obligations requiring payments at specified periods. The obligations include long-term debt, lease obligations, energy commodity contracts and service obligations for various services including pipeline capacity and IBM outsourcing. The total contractual obligations in existence at December 31, 2012 and their maturities were:

(in millions)	Total	2013	2014	2015	2016	2017	After
Long-term debt [1]	$ 7,237.4	$ 489.2	$ 541.3	$ 480.0	$ 421.5	$ 589.5	$ 4,715.9
Capital leases [2]	258.1	24.9	25.2	24.5	20.9	20.9	141.7
Interest payments on long-term debt	4,227.8	373.6	363.2	356.0	328.7	300.9	2,505.4
Operating leases	172.9	43.4	39.1	28.5	22.5	15.7	23.7
Energy commodity contracts	374.2	187.1	105.9	73.8	1.5	1.5	4.4
Service obligations:							
Pipeline service obligations	1,529.5	242.5	228.4	202.4	160.4	141.0	554.8
IBM service obligations	186.8	75.0	72.3	34.3	3.4	1.8	—
Vertex Outsourcing LLC service obligations	30.7	12.3	12.3	6.1	—	—	—
Other service obligations	267.3	94.3	82.2	84.9	3.9	2.0	—
Other liabilities	51.7	51.7	—	—	—	—	—
Total contractual obligations	$ 14,336.4	$ 1,594.0	$ 1,469.9	$ 1,290.5	$ 962.8	$ 1,073.3	$ 7,945.9

[1] Long-term debt balance excludes unamortized discounts of $41.3 million and non-recourse debt of $5.5 million related to NDC Douglas Properties.
[2] Capital lease payments shown above are inclusive of interest totaling $84.6 million. Also included are minimum lease payments for an office building that the Company will not occupy until 2014.

NiSource calculated estimated interest payments for long-term debt as follows: for the fixed-rate debt, interest is calculated based on the stated coupon and payment dates; for variable-rate debt, interest rates are used that are in place as of December 31, 2012. For 2013, NiSource projects that it will be required to make interest payments of approximately $433.5 million, which includes $373.6 million of interest payments related to its long-term debt outstanding as of December 31, 2012. At December 31, 2012, NiSource also had $776.9 million in short-term borrowings outstanding.

NiSource Corporate Services has a license agreement with Rational Systems, LLC for pipeline business software requiring annual payments of $5.8 million, which is recorded as a capital lease.

NiSource's subsidiaries have entered into various energy commodity contracts to purchase physical quantities of natural gas, electricity and coal. These amounts represent the minimum quantities of these commodities NiSource is obligated to purchase at both fixed and variable prices.

In July 2008, the IURC issued an order approving Northern Indiana's purchase power agreements with subsidiaries of Iberdrola Renewables, Buffalo Ridge I LLC and Barton Windpower LLC. These agreements provide Northern Indiana the opportunity and obligation to purchase up to 100 mw of wind power commencing in early 2009. The contracts extend 15 and 20 years, representing 50 mw of wind power each. No minimum quantities are specified within these agreements due to the variability of electricity production from wind, so no amounts related to these contracts are included in the table above. Upon any termination of the agreements by Northern Indiana for any reason (other than material breach by Buffalo Ridge I LLC or Barton Windpower LLC), Northern Indiana may be required to pay a termination charge that could be material depending on the events giving rise to termination and the timing of the termination. Northern Indiana began purchasing wind power in April 2009.

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2013 to 2045, require NiSource to pay fixed monthly charges.

NiSource Corporate Services continues to pay IBM to provide business process and support functions to NiSource for amended services under a combination of fixed or variable charges, with the variable charges fluctuating based on the actual need for such services. In December 2011, NiSource elected to extend certain information technology services. Under the amended agreement, at December 31, 2012, NiSource Corporate Services expects to pay $186.8 million to IBM in service fees as shown in the table above.

NiSource Corporate Services signed a service agreement with Vertex Outsourcing LLC, a business process outsourcing company, to provide customer contact center services for NiSource subsidiaries through June 2015. Services under this contract commenced on July 1, 2008, and NiSource Corporate Services pays for the services under a combination of fixed and variable charges, with the variable charges fluctuating based on actual need for such services. Based on the currently projected usage of these services, NiSource Corporate Services expects to pay $30.7 million to Vertex Outsourcing LLC in service fees over the remaining two and one-half year term.

Northern Indiana has contracts with four major rail operators providing for coal transportation services for which there are certain minimum payments. These service contracts extend for various periods through 2015 and are included within "Other service obligations" in the table of contractual obligations.

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 July 1, 1992 and expired on June 30, 2012. The agreement was renewed effective July 1, 2012 for ten years and Northern Indiana will continue to pay for the services under a combination of fixed and variable charges. In accordance with GAAP, the renewed agreement was evaluated to determine whether the arrangement qualified as a lease. Based on the terms of the agreement, the arrangement qualified for capital lease accounting. As the effective date of the new agreement was July 1, 2012, NiSource capitalized this lease beginning in the third quarter of 2012. Future payments for this capital lease are included within "Capital leases" in the table of contractual obligations.

NiSource's expected payments included within "Other liabilities" in the table of contractual commitments above contains employer contributions to pension and other postretirement benefits plans expected to be made in 2013. Plan contributions beyond 2013 are dependent upon a number of factors, including actual returns on plan assets, which cannot be reliably estimated at this time. In 2013, NiSource expects to make contributions of approximately $11.3 million to its pension plans and approximately $40.4 million to its postretirement medical and life plans. Refer to Note 12, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for more information.

Not included in the table above are $28.4 million of estimated federal and state income tax liabilities, including interest. If or when such amounts may be settled is uncertain and cannot be estimated at this time. Refer to Note 11, "Income Taxes," in the Notes to Consolidated Financial Statements for more information.

NiSource cannot reasonably estimate the settlement amounts or timing of cash flows related to long-term obligations classified as, "Other Liabilities and Deferred Credits," on the Consolidated Balance Sheets, other than those described above.

NiSource also has obligations associated with income, property, gross receipts, franchise, payroll, sales and use, and various other taxes and expects to make tax payments of approximately $328.0 million in 2013, which are not included in the table above.

Off Balance Sheet Items

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.

NiSource has issued guarantees that support up to approximately $52.2 million of commodity-related payments for its current and former subsidiaries involved in energy marketing activities. 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 $250.0 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 outstanding. Refer to Note 20-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

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 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 oversight by the Risk Management Committee 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 processes, 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.

Commodity Price Risk

NiSource is exposed to commodity price risk as a result of its subsidiaries' operations involving natural gas and power. To manage this market risk, NiSource's subsidiaries use derivatives, including commodity futures contracts, swaps and options. NiSource is not involved in speculative energy trading activity.

Commodity price risk resulting from derivative 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, including gains or losses on these derivative instruments. 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. Some of NiSource's rate-regulated utility subsidiaries offer commodity price risk products to their customers for which derivatives are used to hedge forecasted customer usage under such products. These subsidiaries do not have regulatory recovery orders for these products and are subject to gains and losses recognized in earnings due to hedge ineffectiveness.

All derivatives classified as hedges are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as regulatory assets or liabilities as appropriate. During 2012 and 2011, no income was recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind-down of the unregulated natural gas marketing business. During 2012, NiSource settled a majority of the contracts related to the reserve noted above and wrote off $ 43.8 million of price risk assets. Additionally, NiSource has a notes receivable balance related to the settlements of $ 12.1 million as of December 31, 2012.

Refer to Note 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for further information on NiSource's various derivative programs for managing commodity price risk.

NiSource subsidiaries are required to make cash margin deposits with their brokers to cover actual and potential losses in the value of outstanding exchange traded derivative contracts. The amount of these deposits, which are reflected in NiSource's restricted cash balance, may fluctuate significantly during periods of high volatility in the energy commodity markets.

Interest Rate Risk

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under its revolving credit agreement, commercial paper program and accounts receivable programs, 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 its $250 million three-year bank term loan which reprices monthly, and 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 (or decrease) in short-term interest rates of 100 basis points (1%) would have increased (or decreased) interest expense by $14.2 million and $16.5 million for the years 2012 and 2011 , respectively.

Contemporaneously with the pricing of the 5.25% notes 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.

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 receives payments based upon a fixed 5.40% interest rate and pays 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 July 15, 2013.

As of December 31, 2012, $500.0 million of NiSource Finance's existing long-term debt is subject to fluctuations in interest rates as a result of these fixed-to-variable interest rate swap transactions.

Credit Risk

Due to the nature of the industry, credit risk is embedded in many of NiSource's business activities. NiSource's extension of credit is governed by a Corporate Credit Risk Policy. In addition, Risk Management Committee guidelines are in place which document management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation efforts. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of commercial operations. Credit risk arises due to 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 forward commodity contracts, credit risk arises when counterparties are obligated to deliver or purchase defined commodity units of gas or power to NiSource at a future date per execution of contractual terms and conditions. Exposure to credit risk is measured in terms of both current obligations and the market value of forward positions net of any posted collateral such as cash, letters of credit and qualified guarantees of support.

NiSource closely monitors the financial status of its banking credit providers and interest rate swap counterparties. NiSource evaluates the financial status of its banking partners through the use of market-based metrics such as credit default swap pricing levels, and also through traditional credit ratings provided by the major credit rating agencies.

On October 31, 2011, cash and derivatives broker-dealer MF Global filed for Chapter 11 bankruptcy protection. MF Global brokered NYMEX hedges of natural gas futures on behalf of NiSource affiliates. At the date of bankruptcy, NiSource affiliates had contracts open with MF Global with settlement dates ranging from November 2011 to February 2014. On November 3, 2011, these contracts were measured at a mark-to-market loss of approximately $46.4 million. NiSource affiliates had posted initial margin to open these accounts of $6.9 million and additional maintenance margin for mark-to-market losses, for a total cash balance of $53.3 million. Within the first week after the filing, at the direction of the Bankruptcy Court, a transfer of assets was initiated on behalf of NiSource affiliates to a court-designated replacement broker for future trade activity. The existing futures positions were closed and then rebooked with the replacement broker at the new closing prices as of November 3, 2011. Initial margin on deposit at MF Global of $5.7 million was transferred to the court-designated replacement broker. The maintenance margin was retained by MF Global to offset the loss positions of the open contracts on November 3, 2011. NiSource affiliates are monitoring the activity in the bankruptcy case and have filed a proof of claim at the Court's direction. As of December 31, 2012 , NiSource affiliates maintained a reserve for the $1.2 million difference between the initial margin posted with MF Global and the cash transferred to the court-designated replacement broker as a loss contingency.

Fair Value Measurement

NiSource measures certain financial assets and liabilities at fair value. The level of the fair value hierarchy disclosed is based on the lowest level of input that is significant to the fair value measurement. NiSource's financial assets and liabilities include price risk assets and liabilities, available-for-sale securities and a deferred compensation plan obligation.

Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures.

Price risk management assets also include fixed-to-floating interest-rate swaps, which are designated as fair value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. NiSource uses a calculation of future cash inflows and estimated future outflows related to the swap agreements, which are discounted and netted to determine the current fair value. Additional inputs to the present value calculation include the contract terms, as well as market parameters such as current and projected interest rates and volatility. As they are based on observable data and valuations of similar instruments, the interest-rate swaps are categorized in Level 2 in the fair value hierarchy. Credit risk is considered in the fair value calculation of the interest rate swap.

Refer to Note 18, "Fair Value Disclosures," in the Notes to the Consolidated Financial Statements for additional information on NiSource's fair value measurements.

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 gas marketing group that utilizes a variance/covariance methodology. The daily market exposure for the gas marketing portfolio on an average, high and low basis was $0.1 million , $0.2 million and zero during 2012 , respectively. Prospectively, management has set the VaR limit at $0.4 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk.

Refer to "Critical Accounting Policies" included in this Item 7 and Note 1-U, "Accounting for Risk Management and Energy Marketing Activities," and Note 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

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. ASC Topic 980, *Regulated Operations* , 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. 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 $2,187.2 million and $1,764.9 million at December 31, 2012 , and $2,147.9 million and $1,775.9 million at December 31, 2011 , respectively. For additional information, refer to Note 8, "Regulatory Matters," 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 ASC Topic 980, *Regulated Operations* . 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 GAAP 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 ASC Topic 980, *Regulated Operations* , NiSource would be required to apply the provisions of ASC Topic 980-20, *Discontinuation of Rate-Regulated Accounting* . In management's opinion, NiSource's regulated subsidiaries will be subject to ASC Topic 980, *Regulated Operations* 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. Regulatory assets requiring specific regulatory action amounted to $146.2 million at December 31, 2012 . 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.

Pensions and Postretirement Benefits. NiSource has defined benefit plans for both pensions and other postretirement benefits. 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 12, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements.

Goodwill. NiSource's goodwill assets at December 31, 2012 were $3,677.3 million , most of which resulted from the acquisition of Columbia on November 1, 2000. In addition, Northern Indiana Gas Distribution Operations' goodwill assets at December 31, 2012 , related to the purchase of Northern Indiana Fuel and Light in March 1993 and Kokomo Gas in February 1992, were $18.8 million . As required, NiSource tests for impairment of goodwill on an annual basis and on an interim basis when events or circumstances indicate that a potential impairment may exist. NiSource's annual goodwill test takes place in the second quarter of each year and was most recently finalized as of May 1, 2012. The goodwill test utilized both an income approach and a market approach. In performing the goodwill test, NiSource made certain required key assumptions, such as long-term growth rates, discount rates and fair market values.

These key assumptions required significant judgment by management which are subjective and forward-looking in nature. To assist in making these judgments, NiSource utilized third-party valuation specialists in both determining and testing key assumptions used in the analysis. NiSource based its assumptions on projected financial information that it believes is reasonable; however, actual results may differ materially from those projections. NiSource used discount rates of 5.60% for both Columbia Transmission Operations and Columbia Distribution Operations. The step 1 goodwill impairment test resulted in the fair value of both Columbia Transmission Operations and Columbia Distribution Operations reporting units to be above carrying value by approximately $1,643.0 million and $1,682.0 million , respectively.

Goodwill at Northern Indiana Gas Distribution Operations related to the acquisition of Northern Indiana Fuel and Light and Kokomo Gas of $18.8 million was also tested for impairment as of May 1, 2012. The income approach was used to determine the fair value of the Northern Indiana Gas Distribution reporting unit. Key assumptions in the income approach were a discount rate of 5.60% and a growth rate based on the cash flow from operations. These cash flows factor in the regulatory environment and planned growth initiatives. The step 1 goodwill impairment test resulted in the fair value of the Northern Indiana Gas Distribution reporting unit to be above the carrying value by $356.0 million .

Although there was no goodwill asset impairment as of May 1, 2012, an interim impairment test could be triggered by the following: actual earnings results that are materially lower than expected, significant adverse changes in the operating environment, an increase in the discount rate, changes in other key assumptions which require judgment and are forward looking in nature, or if NiSource's market capitalization stays below book value for an extended period of time. No impairment triggers were identified subsequent to May 1, 2012.

Refer to Notes 1-J and 6, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

Revenue Recognition. Revenue is 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 but not billed.

Recently Issued Accounting Pronouncements

Refer to Note 2, "Recent Accounting Pronouncements," in the Notes to Consolidated Financial Statements for information on recently issued accounting pronouncements.

Environmental Matters

NiSource is subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. NiSource believes that it is in substantial compliance with those environmental regulations currently applicable to NiSource's business and operations. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters.

Bargaining Unit Contract

As of December 31, 2012 , NiSource had 8,286 employees of whom 3,360 were subject to collective bargaining agreements. Agreements were reached with the respective unions whose collective bargaining agreements were set to expire during 2012. Two additional collective bargaining contracts, covering approximately 149 employees, are set to expire during 2013.

Dodd-Frank Financial Reform Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Act") was passed by Congress on July 15, 2010 and was signed into law on July 21, 2010. The Act, among other things, establishes a Financial Stability Oversight Council ("FSOC") and a Consumer Financial Protection Bureau ("CFPB") whose duties will include the monitoring of domestic and international financial regulatory proposals and developments, as well as the protection of consumers. The FSOC may submit comments to the SEC and any standard-setting body with respect to an existing or proposed accounting principle, standard or procedure. The Act also creates increased oversight of the over-the-counter ("OTC") derivative market, requiring certain OTC transactions in instruments defined as "swaps" under the new regulations to be cleared through a clearing house and requiring cash margins to be posted for those transactions. During 2012, the Commodity Futures Trading Commission ("CFTC') finalized most of its remaining key regulations under the Act, which started to go into effect in late 2012 in accordance with a schedule promulgated by the CFTC. Under the CFTC's final rules, very few of NiSource's transactions will be considered uncleared "swaps." To the extent any of NiSource's transactions come within the definition of a swap, it is expected that NiSource will qualify as an "end user" and, therefore, various exemptions from mandatory clearing and real-time reporting will apply to most such transactions. While the Act and the new regulations are expected to have some impact on capital markets and derivatives markets generally, NiSource does not expect the Act to have any material effect on its operations.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of 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. The NiSource Chief Executive Officer is the chief operating decision maker.

NiSource's operations are divided into three 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 and Massachusetts. 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 20 counties in the northern part of Indiana.

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

NISOURCE INC.
Gas Distribution Operations

Year Ended December 31, *(in millions)*	**2012**	2011	2010
Net Revenues			
Sales Revenues	$ **2,663.5**	$ 3,460.4	$ 3,630.5
Less: Cost of gas sold (excluding depreciation and amortization)	**1,166.9**	1,910.2	2,058.8
Net Revenues	**1,496.6**	1,550.2	1,571.7
Operating Expenses			
Operation and maintenance	**757.3**	831.0	855.8
Depreciation and amortization	**189.9**	171.5	237.0
Impairment and loss on sale of assets, net	**0.6**	1.0	—
Other taxes	**154.7**	167.8	159.4
Total Operating Expenses	**1,102.5**	1,171.3	1,252.2
Operating Income	$ **394.1**	$ 378.9	$ 319.5
Revenues ($ in Millions)			
Residential	$ **1,685.2**	$ 2,220.9	$ 2,134.8
Commercial	**549.0**	724.8	707.7
Industrial	**174.3**	218.0	215.4
Off-System Sales	**176.2**	267.2	295.4
Other	**78.8**	29.5	277.2
Total	$ **2,663.5**	$ 3,460.4	$ 3,630.5
Sales and Transportation (MMDth)			
Residential sales	**226.5**	254.5	258.0
Commercial sales	**156.2**	168.6	166.8
Industrial sales	**478.2**	431.8	385.9
Off-System Sales	**61.5**	62.4	71.9
Other	**0.3**	0.3	0.7
Total	**922.7**	917.6	883.3
Heating Degree Days	**4,799**	5,434	5,547
Normal Heating Degree Days	**5,664**	5,633	5,633
% Warmer than Normal	**15%**	4%	2%
Customers			
Residential	**3,058,839**	3,039,579	3,039,874
Commercial	**280,842**	280,521	281,473
Industrial	**7,552**	7,861	7,668
Other	**22**	19	65
Total	**3,347,255**	3,327,980	3,329,080

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, similar gas provider competition is also common. Gas competes with fuel oil and propane in the Massachusetts market 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.

NISOURCE INC.
Gas Distribution Operations (continued)

Market Conditions
During 2012, spot prices at the Henry Hub for the winter of 2012-2013 have primarily been in the $3.02 - $3.70/Dth range compared to prices in the $2.80 - $3.70/Dth range experienced during the winter of 2011-2012.

Entering the 2012-2013 winter season, national storage levels were 109 Bcf below the prior year but 244 Bcf ahead of the 5 year average inventory levels (based on 11/8/2012 Energy Information Administration storage report). During the summer of 2012, prices ranged between $2.04 and $3.01/Dth which were lower than those prices experienced in the summer of 2011.

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 as under-recovered or over-recovered gas cost to be included in future customer billings.

The Gas Distribution Operations companies have pursued non-traditional revenue sources within the evolving natural gas marketplace. These efforts include the sale of products and services upstream of the companies' service territory, the sale of products and services in the companies' 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 with their customers. Certain Gas Distribution Operations companies continue to offer choice opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in their respective jurisdictions.

Capital Expenditures and Other Investing Activities
The table below reflects actual capital expenditures and other investing activities by category for 2010, 2011 and 2012 and estimates for 2013.

(in millions)	2013E	**2012**	2011	2010
System Growth	$ 115.5	**$ 126.4**	$ 81.5	$ 94.1
Maintenance and Other	539.7	**523.0**	457.9	315.6
Total	$ 655.2	**$ 649.4**	$ 539.4	$ 409.7

The Gas Distribution Operations segment's capital expenditures and other investing activities were $ 649.4 million in 2012 and are projected to be $ 655.2 million in 2013. Capital expenditures for 2012 were higher than 2011 by approximately $110.0 million primarily due to increased spending on infrastructure replacement projects. The estimated 2013 capital expenditures are comparable to 2012 and continue to reflect spending on infrastructure replacement programs in Ohio, Kentucky, Pennsylvania, Virginia, Maryland and Massachusetts. Capital expenditures for 2011 were higher than 2010 by approximately $129.7 million primarily due to increased spending on infrastructure replacement projects.

Regulatory Matters
Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for information on significant rate developments and cost recovery and trackers for the Gas Distribution Operations segment.

Customer Usage. Increased efficiency of natural gas appliances and improvements in home building codes and standards has contributed to a long-term trend of declining average use per customer. In addition, usage for the year ended December 31, 2012 declined from the same period last year primarily due to warmer than normal weather. While historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge, operating costs are largely incurred on a fixed basis, and do not fluctuate due to changes in customer usage. As a result, the NiSource LDCs have pursued changes in rate design to more effectively match recoveries with cost incurrence. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing changes to rate design. Columbia of Ohio restructured its rate design through a base rate proceeding and has adopted a "de-coupled" rate design

NISOURCE INC.
Gas Distribution Operations (continued)

which more closely links the recovery of fixed costs with fixed charges. Columbia of Massachusetts and Columbia of Virginia received regulatory approval of decoupling mechanisms which adjust revenues to an approved benchmark level through a volumetric adjustment factor. In its 2011 rate case, Columbia of Pennsylvania implemented a higher fixed residential customer charge. In its 2010 rate case, Northern Indiana implemented a higher fixed customer charge for residential and small customer classes, moving toward full straight fixed variable rate design. This rate design was also incorporated in the settlement of the 2011 merger of the three Indiana LDCs: Northern Indiana, Kokomo Gas and Northern Indiana Fuel and Light.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of December 31, 2012, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Distribution Operations segment.

Springfield, MA Incident
On November 23, 2012, while Columbia of Massachusetts was investigating the source of an odor of gas at a service location in Springfield, Massachusetts, a gas service line was pierced and an explosion occurred. While this explosion impacted multiple buildings and resulted in several injuries, no life threatening injuries or fatalities have been reported. Columbia of Massachusetts is fully cooperating with both the Massachusetts DPU and the Occupational Safety & Health Administration in their investigations of this incident. Columbia of Massachusetts believes any costs associated with damages, injuries, and other losses related to this incident are substantially covered by insurance. Any amounts not covered by insurance are not expected to have a material impact on NiSource's consolidated financial statements.

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 65 degrees. NiSource composite heating degree-days reported do not directly correlate to the weather related dollar impact on the results of Gas Distribution operations. Heating degree-days experienced during different times of the year or in different operating locations may have more or less impact on volume and dollars depending on when and where they occur. When the detailed results are combined for reporting, there may be weather related dollar impacts on operations when there is not an apparent or significant change in the aggregated NiSource composite heating degree-day comparison.

Weather in the Gas Distribution Operations service territories for 2012 was about 15% warmer than normal and was about 12% warmer than 2011, decreasing net revenues by approximately $37 million for the year ended December 31, 2012 compared to 2011.

Weather in the Gas Distribution Operations service territories for 2011 was about 4% warmer than normal and was about 2% warmer than 2010, decreasing net revenues by approximately $6 million for the year ended December 31, 2011 compared to 2010.

Throughput
Total volumes sold and transported for the year ended December 31, 2012 were 922.7 MMDth, compared to 917.6 MMDth for 2011. This increase is primarily attributable to higher throughput to industrial customers due mainly to the improved economy, partially offset by decreased throughput to residential and commercial customers as a result of warmer weather experienced in 2012.

Total volumes sold and transported for the year ended December 31, 2011 were 917.6 MMDth, compared to 883.3 MMDth for 2010. This increase reflected higher throughput to industrial customers attributable mainly to the improved economy.

NiSource throughput reported does not directly correlate to the results of Gas Distribution Operations.

NiSource Inc.
Gas Distribution Operations (continued)

Net Revenues
Net revenues for 2012 were $1,496.6 million , a decrease of $53.6 million from the same period in 2011, due primarily to lower regulatory and tax trackers, which are offset in expense, of $53.7 million, and the effects of warmer weather of $36.9 million. These decreases in net revenues were partially offset by an increase of $34.9 million for regulatory and service programs, including the impact of new rates under Columbia of Ohio's approved infrastructure replacement program and the 2011 rate case at Columbia of Pennsylvania.

Net revenues for 2011 were $1,550.2 million , a decrease of $21.5 million from the same period in 2010, due primarily to a decrease in net regulatory and tax trackers of $51.8 million, which are offset in expense, lower off-system sales of $18.8 million primarily as a result of the standard service offer auction at Columbia of Ohio in the second quarter of 2010, and a decrease in industrial margins of $7.6 million. The decreases in net revenues were partially offset by an increase of $30.3 million for other regulatory and service programs, including impacts from the implementation of new rates under Columbia of Ohio's approved infrastructure replacement program and rate cases at various NiSource LDCs. Additionally, there was an increase of $14.1 million in residential and commercial margins. Net revenues also increased $5.7 million as the result of a contract accrual that was established in 2010, $2.8 million from Bear Garden Station which was placed into service in July of 2010, and $2.5 million related to a reserve for unaccounted for gas recorded in 2010.

At Northern Indiana, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased gas costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustments to Other gross revenues for the twelve months ended December 31, 2012 and 2011 were a revenue increase of $31.3 million and a revenue decrease of $180.3 million, respectively.

Operating Income
For 2012, Gas Distribution Operations reported operating income of $394.1 million , an increase of $15.2 million from the comparable 2011 period. Operating income increased due to lower operating expenses partially offset by lower net revenues, described above. Operating expenses decreased $68.8 million due to lower regulatory and tax trackers, which are offset in net revenue, of $53.7 million and decreased environmental costs of $35.0 million primarily attributable to estimated MGP remediation incurred in 2011. Additionally, operating expenses declined due to decreased employee and administrative costs, primarily pension, of $3.5 million and a decline in uncollectibles of $2.5 million. These decreases were partially offset by increased depreciation and amortization of $18.3 million as a result of an increase in capital expenditures, higher outside services of $5.9 million and increased materials and supplies of $3.6 million.

For 2011, Gas Distribution Operations reported operating income of $378.9 million , an increase of $59.4 million from the comparable 2010 period. The increase in operating income was primarily attributable to lower operating expenses partially offset by lower net revenues described above. Operating expenses decreased $80.9 million as a result of a decrease of $65.5 million in depreciation costs primarily due to new approved depreciation rates at Northern Indiana and $55.0 million as a result of lower regulatory trackers, which are offset in net revenue. These decreases were partially offset by an increase in environmental costs of $25.8 million as a result of the increase in estimated MGP remediation costs and higher employee and administrative costs of $13.3 million.

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

NISOURCE INC.
Gas Transmission and Storage Operations

Year Ended December 31, *(in millions)*	2012	2011	2010
Net Revenues			
Transportation revenues	$ 721.8	$ 775.4	$ 728.4
Storage revenues	196.7	196.1	198.7
Other revenues	83.0	34.1	22.1
Total Sales Revenue	1,001.5	1,005.6	949.2
Less: Cost of sales (excluding depreciation and amortization)	1.1	—	—
Net Revenues	1,000.4	1,005.6	949.2
Operating Expenses			
Operation and maintenance	476.3	473.5	399.6
Depreciation and amortization	99.3	130.0	130.7
(Gain)/loss on sale of assets and impairment, net	(0.6)	0.1	(0.1)
Other taxes	59.2	56.6	57.4
Total Operating Expenses	634.2	660.2	587.6
Equity Earnings in Unconsolidated Affiliates	32.2	14.6	15.0
Operating Income	$ 398.4	$ 360.0	$ 376.6
Throughput (MMDth)			
Columbia Transmission	1,107.7	1,117.5	1,092.4
Columbia Gulf	894.3	1,048.0	848.4
Crossroads Gas Pipeline	15.7	18.7	25.4
Intrasegment eliminations	(422.6)	(548.5)	(568.7)
Total	1,595.1	1,635.7	1,397.5

Growth Projects Placed into Service

Smithfield Project . The Gas Transmission and Storage Operations segment made approximately $14 million of capital investments for modifications to existing pipeline and compressor facilities to accommodate receipt of up to 150,000 Dth per day of additional Marcellus gas from connections near Smithfield, West Virginia and Waynesburg, Pennsylvania. Three anchor shippers agreed to long-term, firm transportation contracts, one contract that began in April 2011 and others that began in August 2011. The project was placed in service in May 2012.

Rimersburg Expansion Project . The Gas Transmission and Storage Operations segment invested approximately $8 million for this project that added capacity to north central Pennsylvania to meet the growing demands of producers in the area. The project expands Line 134 from the Brinker compressor station to the Iowa regulator, adding approximately 19,000 Dth per day of additional capacity, all of which has been sold through precedent agreements. The project was placed into service in May 2012.

Line WB Expansion Project . The Gas Transmission and Storage Operations segment expanded its WB system through investment in additional facilities, which provide transportation service on a firm basis from Loudoun, Virginia to Leach, Kentucky. The expansion totaled approximately $14 million, allowing producers to meet incremental transportation demand in the Marcellus/Appalachian Basin. Binding precedent agreements for approximately 175,000 Dth per day of firm transportation capacity were executed, some which began in January 2011. Final construction on all facilities was completed and placed into service in May 2012.

Majorsville, PA Project . The Gas Transmission and Storage Operations segment executed three separate projects totaling approximately $80 million in the Majorsville, PA vicinity to aggregate Marcellus Shale gas production for downstream transmission. Fully contracted, the pipeline and compression assets allow the Gas Transmission and Storage Operations segment to gather and deliver more than 325,000 Dth per day of Marcellus production gas to the Majorsville MarkWest Liberty processing plants developed by MarkWest Liberty Midstream & Resources L.L.C.

NiSource Inc.
Gas Transmission and Storage Operations

In 2010, Columbia Transmission received approval from the FERC to refunctionalize certain transmission assets to gathering and transferred these pipeline facilities to a newly formed affiliate, NiSource Midstream. These facilities are included in providing non-FERC jurisdiction gathering services to producers in the Majorsville, PA vicinity. Two of the three projects were completed and placed into service on August 1, 2010, creating an integrated gathering and processing system serving Marcellus production in southwestern Pennsylvania and northern West Virginia. Precedent agreements were executed by anchor shippers in the fourth quarter of 2009, which were superseded by the execution of long-term service agreements in August and September 2010. In the fourth quarter of 2010, construction began on the third project on a pipeline to deliver residue gas from the Majorsville MarkWest Liberty processing plant to the Texas Eastern Wind Ridge compressor station in southwestern Pennsylvania to provide significant additional capacity to eastern markets. This project was placed into service in April 2011.

Clendenin Project . Construction began on this approximately $18 million capital project in 2010 to modify existing facilities in the Clendenin, West Virginia area to move Marcellus production to liquid market centers. The Clendenin project provides the Gas Transmission and Storage Operations segment the ability to meet incremental transportation demand of up to 150,000 Dth per day. Long-term firm transportation contracts for 133,100 Dth have been executed, some of which began in the third quarter of 2010 and others that began in June 2011.

Cobb Compressor Station Project . This project continued the Gas Transmission and Storage Operations segment strategy to meet producers' near-term, incremental transportation demand in the Appalachian Basin. Shippers executed precedent agreements for a total of approximately 25,500 Dth per day of long-term firm transportation service associated with a facility expansion at Cobb Compressor Station in Kanawha County, West Virginia. The Cobb expansion totaled approximately $15 million in construction costs and was placed into service in May 2010.

Growth Projects in Progress

Big Pine Gathering System Project . The Gas Transmission and Storage Operations segment is making an investment of approximately $160 million, which includes right-of-way acquisitions and installation, refurbishment and operation of approximately 57 miles of pipeline facilities in the hydrocarbon-rich Western Pennsylvania shale production region. The newly constructed pipeline will have an initial combined capacity of 425,000 Dth per day. Natural gas will initially be sourced from XTO Energy Inc., a subsidiary of ExxonMobil, Butler County, Pennsylvania production, and delivered to Columbia Transmission and two other third-party pipelines in Pennsylvania. The project is expected to be fully in service by April 2013.

Power Plant Generation Project . The Gas Transmission and Storage Operations segment is spending approximately $36 million on an expansion project, which includes new pipeline and modifications to existing compression assets, with Virginia Power Services Energy Corporation, Inc., the energy manager for Virginia Electric and Power Company. This project will expand the Columbia Transmission system in order to provide up to nearly 250,000 Dth per day of transportation capacity under a long-term, firm contract. The project is expected to be ready for commercial operations by mid-2014.

West Side Expansion . The Gas Transmission and Storage Operations segment is planning to invest approximately $200 million in new pipeline and compression to increase supply origination from the Smithfield and Waynesburg areas on the Columbia Transmission system and provide a backhaul transportation path to Gulf Coast markets on the Columbia Gulf system. This investment will increase capacity up to 444,000 Dth per day from the Smithfield and Waynesburg areas and up to 540,000 Dth per day from Leach to Rayne transporting Marcellus production under long-term, firm contracts. The project is expected to be in service by the fourth quarter of 2014 with limited interim service provided in 2012 through 2014.

East Side Expansion . The Gas Transmission and Storage Operations segment entered into binding precedent agreements with customers to develop its East Side Expansion project, which will provide access for Marcellus supplies to the Northeastern and Mid-Atlantic markets. The approximately $210 million project will add up to 300,000 Dth per day of capacity through pipeline looping and interconnects. The project is expected to be placed in service in mid-2015.

Equity Investments

Pennant . NiSource Midstream entered into a 50:50 joint venture in 2012 with affiliates of Hilcorp to construct new wet natural gas gathering pipeline infrastructure and natural gas liquids (NGL) processing facilities to support natural gas production in the Utica Shale region of northeastern Ohio and western Pennsylvania. NiSource Midstream and Hilcorp jointly own Pennant with NiSource Midstream serving as the operator of Pennant and the facilities. NiSource accounts for the joint venture under the equity method of accounting.

Pennant is investing in the construction of approximately 50 miles of 20-24 inch wet gas gathering pipeline facilities with a capacity of approximately 600 Mcf per day. In addition, Pennant is installing an initial 200 Mcf per day cryogenic natural gas processing plant in Ohio. Consistent with the terms of the joint venture, NiSource Midstream will operate the cryogenic processing facility and associated wet gas gathering system. The joint venture is designed and anticipated to serve other producers with significant acreage development in the area with interest in obtaining capacity on the system. NiSource Midstream's initial investment in this area, including the pipeline and the processing plant, is expected to be approximately $150 million. The facilities are expected to be in service in the second half of 2013.

During 2012, NiSource Midstream made cash and property contributions to Pennant of $2.9 million and $19.8 million, respectively.

Millennium . Millennium operates approximately 250 miles of pipeline granted under the authority of the FERC. The Millennium pipeline has the capability to transport up to 525,400 Dth per day of natural gas to markets along its route, which lies between Corning, New York and Ramapo, New York, as well as to the New York City market through its pipeline interconnections. Columbia Transmission owns a 47.5% interest in Millennium and acts as operator for the pipeline in partnership with DTE Millennium Company and National Grid Millennium LLC, which each own an equal remaining share of the company.

In 2012, Columbia Transmission made contributions of $17.6 million to Millennium to fund its share of capital projects and received distributions of earnings of $31.4 million. For the same period last year, contributions of $6.2 million were made and distributions of earnings of $14.3 million were received.

Hardy Storage . Hardy Storage is a joint venture between subsidiaries of Columbia Transmission and Piedmont that manages an underground storage field in Hardy and Hampshire counties in West Virginia. Columbia Transmission serves as operator of the company, which is regulated by the FERC. Hardy Storage has a working storage capacity of 12 Bcf and the ability to deliver 176,000 Dth of natural gas per day.

NiSource received $3.5 million and $4.5 million of available accumulated earnings in 2012 and 2011, respectively. NiSource made no contributions during 2012 or 2011.

Regulatory Matters

Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for information on regulatory matters for the Gas Transmission and Storage Operations segment.

Capital Expenditures and Other Investing Activities

The table below reflects actual capital expenditures and other investing activities by category for 2010, 2011 and 2012 and estimates for 2013.

(in millions)	2013E	**2012**	2011	2010
System Growth	$ 310.0	$ **235.0**	$ 81.5	$ 152.4
Modernization and Maintenance	387.6	**254.6**	220.0	149.6
Total	$ 697.6	$ **489.6**	$ 301.5	$ 302.0

Capital expenditures in the Gas Transmission and Storage Operations segment in 2012 increased by $188.1 million relative to 2011 due to system growth in the Marcellus Shale area. The capital expenditure program and other investing activities in 2013 are projected to be approximately $ 697.6 million , which is an increase of $208.0 million over 2012 . The increase from 2012 to 2013 is expected for the modernization program and system growth primarily in the Marcellus and Utica Shale areas.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Sales and Percentage of Physical Capacity Sold
Columbia Transmission and Columbia Gulf compete for transportation customers based on the type of service a customer needs, operating flexibility, available capacity and price. Columbia Gulf and Columbia Transmission provide a significant portion of total transportation services under firm contracts and derive a smaller portion of revenues through interruptible contracts, with management seeking to maximize the portion of physical capacity sold under firm contracts.

Firm service contracts require pipeline capacity to be reserved for a given customer between certain receipt and delivery points. Firm customers generally pay a "capacity reservation" fee based on the amount of capacity being reserved regardless of whether the capacity is used, plus an incremental usage fee when the capacity is used. Annual capacity reservation revenues derived from firm service contracts generally remain constant over the life of the contract because the revenues are based upon capacity reserved and not whether the capacity is actually used. The high percentage of revenue derived from capacity reservation fees mitigates the risk of revenue fluctuations within the Gas Transmission and Storage Operations segment due to changes in near-term supply and demand conditions. The following percentages exclude the impact of the $50 million refund recorded in the third quarter of 2012 resulting from the Columbia Transmission customer settlement. For the year ended December 31, 2012, approximately 91.4% of the transportation revenues were derived from capacity reservation fees paid under firm contracts and 5.7% of the transportation revenues were derived from usage fees under firm contracts compared to approximately 91.7% and 6.1% respectively, for the year ended December 31, 2011.

Interruptible transportation service is typically short term in nature and is generally used by customers that either do not need firm service or have been unable to contract for firm service. These customers pay a usage fee only for the volume of gas actually transported. The ability to provide this service is limited to available capacity not otherwise used by firm customers, and customers receiving services under interruptible contracts are not assured capacity in the pipeline facilities. Gas Transmission and Storage Operations provides interruptible service at competitive prices in order to capture short term market opportunities as they occur and interruptible service is viewed by management as an important strategy to optimize revenues from the gas transmission assets. For the year ended December 31, 2012 and 2011, approximately 2.9% and 2.2%, respectively, of the transportation revenues were derived from interruptible contracts.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of December 31, 2012, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Transmission and Storage Operations segment.

Sissonville, WV Incident
On December 11, 2012, a buried 20-inch diameter gas pipeline owned by Columbia Transmission ruptured in Sissonville, West Virginia. The incident resulted in no fatalities or life threatening injuries. Columbia Transmission is fully cooperating with the National Transportation Safety Board, the U.S. Pipeline and Hazardous Materials Safety Administration, the West Virginia Public Service Commission and other state and local authorities to thoroughly test, inspect, and verify the safety and operational integrity of the system. Columbia Transmission believes any costs associated with damages, injuries, and other losses related to this incident are substantially covered by insurance. Any amounts not covered by insurance are not expected to have a material impact on NiSource's consolidated financial statements.

Throughput
Columbia Transmission provides transportation and storage services for LDCs and other customers across its system, which covers portions of northeastern, mid-Atlantic, midwestern, and southern states and the District of Columbia. Billed throughput for Columbia Transmission consists of deliveries off of its system excluding gas delivered to storage for later delivery. Billed throughput for Columbia Gulf reflects transportation services for gas delivered through its mainline and laterals. Crossroads Pipeline's throughput comes from deliveries it makes to its customers and other pipelines that are located in northern Indiana and Ohio. Intersegment eliminations represent gas delivered to affiliated pipelines within the segment.

Throughput for the Gas Transmission and Storage Operations segment totaled 1,595.1 MMDth for 2012, compared to 1,635.7 MMDth for the same period in 2011. The decrease of 40.6 MMDth was primarily attributable to warmer winter weather in 2012, which drove a vast majority of the decrease on the Columbia Transmission system. Fewer deliveries were made on the Columbia Gulf system to Columbia Transmission at Leach, Kentucky because of the impact from increased production of Appalachian shale gas and the warmer winter weather. The increase in shale gas from the Appalachian, Haynesville and Barnett shale areas has also led to an increase in non-traditional throughput on Columbia Gulf in the form of deliveries to other interstate pipelines at liquid market centers on the Columbia Gulf system.

Throughput for the Gas Transmission and Storage Operations segment totaled 1,635.7 MMDth for 2011, compared to 1,397.5 MMDth in 2010. The increase of 238.2 MMDth was primarily due to increased transportation from the Marcellus, Haynesville and Barnett shale areas and increased deliveries to the power generation plants of the LDCs due to the more advantageous pricing of gas compared to coal. Additionally, there were increased deliveries to local utilities to satisfy heating demand during a colder than normal winter early in 2011.

Net Revenues

Net revenues were $1,000.4 million for 2012, a decrease of $5.2 million from the same period in 2011, primarily due to the customer settlement at Columbia Transmission which decreased net revenues by $81.7 million. Additionally, there was a decrease in condensate revenue of $4.3 million, and a settlement of $2.8 million during the second quarter of 2011 and lower retainage revenues of $2.4 million primarily due to reversal of gas retained reserves in the fourth quarter of 2011. These decreases were partially offset by increased regulatory trackers, which are offset in expense, of $48.6 million, higher demand margin revenue of $21.9 million primarily as a result of growth projects placed into service, an increase of $8.3 million from the impact of higher rates at Columbia Gulf, an increase of $6.1 million from shorter term transportation services, and higher mineral rights royalty revenue of $4.1 million.

Net revenues were $1,005.6 million for 2011, an increase of $56.4 million from the same period in 2010, primarily due to higher demand margin revenue of $32.3 million as a result of new growth projects. Additionally, there was an increase of $14.8 million due to the net impact of the rate case filing at Columbia Gulf. Net revenues also increased due to increased midstream revenue of $10.6 million, higher mineral rights royalty revenues of $8.4 million, increased regulatory trackers of $5.9 million, which are offset in expense, and a one-time settlement of $2.8 million. These increases in net revenues were partially offset by the impact of $8.3 million related to the recognition in 2010 of revenue for a previously deferred gain for native gas contributed to Hardy Storage from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, revenues decreased due to lower shorter term transportation and storage services of $6.7 million and the impact of $5.4 million of fees received from a contract buy-out during the second quarter of 2010.

Operating Income

Operating income was $ 398.4 million for 2012, an increase of $38.4 million from the comparable period in 2011. Operating income increased as a result of a decrease in operating expenses and an increase in equity earnings partially offset by lower net revenues, as described above. Operating expenses decreased $26.0 million primarily due to a decrease in employee and administrative costs of $44.7 million, driven primarily by decreased pension contributions, lower depreciation and amortization of $30.7 million largely as a result of the Columbia Transmission customer settlement, decreased environmental costs of $12.1 million primarily due to the 2011 environmental remediation liability adjustment, and a decrease in software costs of $4.9 million. These decreases were partially offset by increased regulatory trackers, which are offset in revenue, of $48.6 million, increased outside services of $6.2 million primarily due to the timing of maintenance projects, the write-off of capital project costs of $4.3 million, higher other taxes of $2.6 million, primarily attributable to higher property taxes on increased plant investments, higher costs associated with leases and rent of $2.1 million, and increased retainage costs of $1.9 million. Equity earnings increased $17.6 million primarily from increased earnings at Millennium due to higher demand and commodity revenues.

Operating income was $360.0 million for 2011, a decrease of $16.6 million from the comparable period in 2010. Operating income decreased as a result of higher operating expenses and lower equity earnings partially offset by higher net revenues, as described above. Operating expenses increased $72.6 million primarily due to an increase in employee and administrative costs of $50.8 million, driven largely by pension contributions, higher environmental costs of $12.4 million, and higher regulatory trackers of $5.9 million, which are offset in net revenues. Additionally, there was an increase of $4.9 million in software costs and $4.1 million in separation costs. These increases were partially offset by a decrease of $8.0 million in outside service costs. Equity earnings decreased $0.4 million compared to 2010 as a result of lower earnings at Millennium.

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

NISOURCE INC.
Electric Operations

Year Ended December 31, *(in millions)*		**2012**		2011		2010
Net Revenues						
Sales revenues	$	**1,509.7**	$	1,429.3	$	1,381.5
Less: Cost of sales (excluding depreciation and amortization)		**495.9**		545.5		504.8
Net Revenues		**1,013.8**		883.8		876.7
Operating Expenses						
Operation and maintenance		**451.9**		403.8		386.5
Depreciation and amortization		**249.7**		214.7		211.8
Impairment and (gain)/loss on sale of assets, net		**—**		0.4		—
Other taxes		**61.4**		56.5		58.6
Total Operating Expenses		**763.0**		675.4		656.9
Operating Income	$	**250.8**	$	208.4	$	219.8
Revenues ($ in millions)						
Residential	$	**410.4**	$	393.9	$	393.2
Commercial		**413.7**		382.1		372.7
Industrial		**589.3**		582.1		508.9
Wholesale		**19.0**		27.6		30.4
Other		**77.3**		43.6		76.3
Total	$	**1,509.7**	$	1,429.3	$	1,381.5
Sales (Gigawatt Hours)						
Residential		**3,524.3**		3,526.5		3,625.6
Commercial		**3,863.1**		3,886.5		3,919.9
Industrial		**9,251.0**		9,257.6		8,459.0
Wholesale		**250.8**		651.6		817.1
Other		**119.1**		165.5		186.4
Total		**17,008.3**		17,487.7		17,008.0
Cooling Degree Days		**1,054**		907		977
Normal Cooling Degree Days		**814**		808		808
% Warmer than Normal		**29%**		12%		21%
Electric Customers						
Residential		**401,177**		400,567		400,522
Commercial		**53,969**		54,029		53,877
Industrial		**2,445**		2,405		2,432
Wholesale		**725**		737		740
Other		**6**		17		15
Total		**458,322**		457,755		457,586

Electric Supply
On October 28, 2011, Northern Indiana filed its 2011 Integrated Resource Plan with the IURC. The plan evaluates demand-side and supply-side resource alternatives to reliably and cost-effectively meet Northern Indiana customers' future energy requirements over the next twenty years. Existing resources are expected to be sufficient, assuming favorable outcomes for environmental upgrades, to meet customers' needs for the next decade. Northern Indiana continues to monitor and assess economic, regulatory and legislative activity, and will update its resource plan as appropriate.

NISOURCE INC.
Electric Operations (continued)

Market Conditions
Northern Indiana's mwh sales to steel-related industries accounted for approximately 63.4% and 64.0% of the total industrial mwh sales for the year ended December 31, 2012 and 2011, respectively. Northern Indiana's industrial sales volumes and revenues stayed flat in 2012 as compared to 2011 as the steel industry stabilized at higher production levels. Predominant factors are global and domestic manufacturing demand and industry consolidation. Steel-related mwh volumes and demands have stabilized considerably since the volatility of the 2008-2009 period and the steel producers in Northern Indiana's service territory continue to see modest increases in production.

Capital Expenditures and Other Investing Activities
The table below reflects actual capital expenditures and other investing activities by category for 2010, 2011 and 2012 and estimates for 2013.

(in millions)	2013E	**2012**	2011	2010
System Growth	$ 23.2	$ **28.9**	$ 28.0	$ 25.8
Maintenance and Other	410.9	**393.9**	239.7	164.5
Total	$ 434.1	$ **422.8**	$ 267.7	$ 190.3

The Electric Operations' capital expenditure program and other investing activities in 2012 were higher by $155.1 million compared to 2011. The increase was primarily attributable to increased environmental tracker capital for FGD projects in the generation fleet. The estimated 2013 capital expenditures are comparable to 2012 and continue to reflect spending on the environmental tracker capital projects in the generation fleet.

The Electric Operations' capital expenditure program and other investing activities in 2011 were higher by $77.4 million versus 2010. The increase in capital was primarily attributable to increased environmental tracker capital for FGD projects in the generation fleet.

Regulatory Matters
Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for information on significant rate developments, MISO, and cost recovery and trackers for the Electric Operations segment.

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of December 31, 2012, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Sales
Electric Operations sales were 17,008.3 gwh for the year ended 2012, a decrease of 479.4 gwh compared to 2011. The 2.7% decrease is primarily attributable to a decrease in off system sales opportunities related to lower market prices.

Electric Operations sales were 17,487.7 gwh for the year ended 2011, an increase of 479.7 gwh compared to 2010. The 2.8% increase occurred primarily from higher industrial volumes as a result of improvement in overall economic conditions.

Net Revenues
Net revenues were $1,013.8 million for 2012, an increase of $130.0 million from the same period in 2011, primarily due to increased industrial, commercial and residential margins of $66.5 million mainly due to the implementation of the electric rate case. Additionally, there were lower revenue credits of $57.6 million as the electric rate case discontinued these credits. Net revenues also increased as a result of an increase in a RTO recovery mechanism of $10.6 million and the recognition of emission allowances that were deferred in previous periods of $6.2 million. Additionally, net revenues increased $3.5 million due to recovered margins related to lost consumption due to Northern Indiana's participation in energy savings programs, $2.6 million due to the effects of weather and increased environmental trackers, which are offset in expense, of $1.7 million. These increases were partially offset by a decrease in environmental cost recovery of $21.3 million due to the plant balance eligible for recovery being reset to zero as a result of the electric rate case.

NISOURCE INC.
Electric Operations (continued)

Net revenues were $883.8 million for 2011, an increase of $7.1 million from the same period in 2010, primarily due to increased industrial usage and margins of $18.7 million from improved economic conditions, $9.5 million in lower revenue credits compared to the prior year, and higher environmental trackers of $5.5 million, which are offset in expense. The increases were partially offset by a decrease in residential and commercial margins of $12.2 million, and lower environmental cost recovery of $12.0 million due to a decrease in net plant eligible for a return and a decrease in the allowed rate of return.

At Northern Indiana, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased fuel costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustment to Other gross revenues for the twelve months ended December 31, 2012 and 2011 were revenue decreases of $2.2 million and $20.6 million, respectively.

Operating Income

Operating income for 2012 was $ 250.8 million , an increase of $42.4 million from the same period in 2011 primarily due to an increase in net revenues, as described above, partially offset by an increase in operating expenses. Operating expenses increased $87.6 million primarily due to higher depreciation costs of $35.0 million mainly related to depreciation for Sugar Creek and an increase in MISO fees of $16.0 million, both of which were previously deferred and the electric rate case resulted in the expiration of those deferrals. Additionally, operating expenses increased due to higher employee and administration expenses of $17.7 million primarily due to increased pension costs and increased employee headcount, increased electric generation costs of $9.2 million, and higher property taxes of $4.7 million as a result of increased tax rates and basis. Additionally, there was an increase due to environmental reserves of $2.8 million, increased environmental trackers, which are offset in revenue, of $1.7 million, and higher storm damage costs of $1.9 million. These increases were partially offset by decreased rate case filing expenses of $6.3 million related to the 2011 electric rate case filing.

Operating income for 2011 was $208.4 million , a decrease of $11.4 million from the same period in 2010 due to higher operating expenses partially offset by higher net revenues described above. Operating expenses increased $18.5 million due primarily to increased employee and administrative costs of $14.8 million and higher outside service costs of $8.4 million. These increases were partially offset by a $4.9 million one-time inventory adjustment recorded in 2010.

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.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NiSource Inc.:

We have audited the accompanying consolidated balance sheets and statements of consolidated long-term debt of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedules listed in the Index at item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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 a reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 19, 2013

NiSource Inc.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NiSource Inc.:

We have audited the internal control over financial reporting of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2012, based on 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 maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2012, of the Company and our report dated February 19, 2013 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 19, 2013

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED INCOME

Year Ended December 31, *(in millions, except per share amounts)*		2012		2011		2010
Net Revenues						
Gas Distribution	$	**1,959.8**	$	2,917.9	$	3,094.0
Gas Transportation and Storage		**1,462.4**		1,354.6		1,261.4
Electric		**1,507.7**		1,427.7		1,379.3
Other		**131.3**		274.5		636.5
Gross Revenues		**5,061.2**		5,974.7		6,371.2
Cost of Sales (excluding depreciation and amortization)		**1,541.5**		2,545.8		2,963.8
Total Net Revenues		**3,519.7**		3,428.9		3,407.4
Operating Expenses						
Operation and maintenance		**1,662.8**		1,706.4		1,646.6
Depreciation and amortization		**561.9**		535.7		594.8
(Gain)/loss on sale of assets and impairment, net		**(3.8)**		16.8		2.0
Other taxes		**288.3**		294.5		287.2
Total Operating Expenses		**2,509.2**		2,553.4		2,530.6
Equity Earnings in Unconsolidated Affiliates		**32.2**		14.6		15.0
Operating Income		**1,042.7**		890.1		891.8
Other Income (Deductions)						
Interest expense, net		**(418.3)**		(376.8)		(392.3)
Other, net		**1.7**		(7.4)		3.8
Loss on early extinguishment of long-term debt		**—**		(53.9)		(96.7)
Total Other Deductions		**(416.6)**		(438.1)		(485.2)
Income from Continuing Operations before Income Taxes		**626.1**		452.0		406.6
Income Taxes		**215.5**		157.2		129.8
Income from Continuing Operations		**410.6**		294.8		276.8
Income from Discontinued Operations - net of taxes		**5.5**		4.3		5.7
Gain on Disposition of Discontinued Operations - net of taxes		**—**		—		0.1
Net Income	$	**416.1**	$	299.1	$	282.6
Basic Earnings Per Share ($)						
Continuing operations	$	**1.41**	$	1.05	$	1.00
Discontinued operations		**0.02**		0.01		0.02
Basic Earnings Per Share	$	**1.43**	$	1.06	$	1.02
Diluted Earnings Per Share ($)						
Continuing operations	$	**1.37**	$	1.02	$	0.99
Discontinued operations		**0.02**		0.01		0.02
Diluted Earnings Per Share	$	**1.39**	$	1.03	$	1.01
Dividends Declared Per Common Share	$	**0.94**	$	0.92	$	0.92
Basic Average Common Shares Outstanding (millions)		**291.9**		280.4		277.8
Diluted Average Common Shares (millions)		**300.4**		288.5		280.1

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

Year Ended December 31, (in millions, net of taxes)	**2012**	2011	2010
Net Income	**$ 416.1**	$ 299.1	$ 282.6
Other comprehensive income (loss):			
Net unrealized (loss) gain on available-for-sale securities [1]	**(2.3)**	1.2	1.1
Net unrealized gain (loss) on cash flow hedges [2]	**3.2**	3.0	(13.8)
Unrecognized pension benefit and OPEB costs [3]	**(6.7)**	(6.0)	0.7
Total other comprehensive loss	**(5.8)**	(1.8)	(12.0)
Total Comprehensive Income	**$ 410.3**	$ 297.3	$ 270.6

(1) Net unrealized (losses) gains on available-for-sale securities, net of $1.7 million tax benefit, $0.7 million and $0.8 million tax expense in 2012, 2011 and 2010, respectively.

(2) Net unrealized gains (losses) on derivatives qualifying as cash flow hedges, net of $2.1 million tax expense, $1.1 million tax benefit and $7.6 million tax expense in 2012, 2011 and 2010, respectively. Net unrealized gains on cash flow hedges includes gains of $1.0 million and $1.4 million , and losses of $15.4 million related to the unrealized gains and losses of interest rate swaps held by NiSource's unconsolidated equity method investments in 2012, 2011 and 2010, respectively.

(3) Unrecognized pension benefit and OPEB costs, net of $4.2 million tax benefit, $3.7 million and $0.4 million tax expense in 2012, 2011 and 2010, respectively.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
CONSOLIDATED BALANCE SHEETS

(in millions)		December 31, 2012		December 31, 2011
ASSETS				
Property, Plant and Equipment				
Utility Plant	$	21,642.3	$	20,299.7
Accumulated depreciation and amortization		(8,986.4)		(8,651.9)
Net utility plant		12,655.9		11,647.8
Other property, at cost, less accumulated depreciation		260.0		131.4
Net Property, Plant and Equipment		12,915.9		11,779.2
Investments and Other Assets				
Assets of discontinued operations and assets held for sale		—		0.2
Unconsolidated affiliates		243.3		204.7
Other investments		194.4		150.9
Total Investments and Other Assets		437.7		355.8
Current Assets				
Cash and cash equivalents		36.3		11.5
Restricted cash		46.8		160.6
Accounts receivable (less reserve of $24.0 and $30.5, respectively)		907.3		850.6
Income tax receivable		130.9		0.9
Gas inventory		326.6		427.6
Underrecovered gas and fuel costs		45.0		20.7
Materials and supplies, at average cost		97.4		86.6
Electric production fuel, at average cost		71.7		50.9
Price risk management assets		92.2		137.2
Exchange gas receivable		51.5		64.9
Assets of discontinued operations and assets held for sale		26.7		26.1
Regulatory assets		162.8		169.7
Prepayments and other		357.2		261.8
Total Current Assets		2,352.4		2,269.1
Other Assets				
Price risk management assets		56.0		188.7
Regulatory assets		2,024.4		1,978.2
Goodwill		3,677.3		3,677.3
Intangible assets		286.6		297.6
Postretirement and postemployment benefits assets		—		31.5
Deferred charges and other		94.4		130.9
Total Other Assets		6,138.7		6,304.2
Total Assets	$	21,844.7	$	20,708.3

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

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)		**December 31, 2012**		December 31, 2011
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common Stockholders' Equity				
Common stock - $0.01 par value, 400,000,000 shares authorized; 310,280,867 and 281,853,571 shares issued and outstanding, respectively	$	**3.1**	$	2.8
Additional paid-in capital		**4,597.6**		4,167.7
Retained earnings		**1,059.6**		917.0
Accumulated other comprehensive loss		**(65.5)**		(59.7)
Treasury stock		**(40.5)**		(30.5)
Total Common Stockholders' Equity		**5,554.3**		4,997.3
Long-term debt, excluding amounts due within one year		**6,819.1**		6,267.1
Total Capitalization		**12,373.4**		11,264.4
Current Liabilities				
Current portion of long-term debt		**507.2**		327.3
Short-term borrowings		**776.9**		1,359.4
Accounts payable		**538.9**		434.8
Customer deposits and credits		**269.6**		313.6
Taxes accrued		**235.5**		220.9
Interest accrued		**133.7**		111.9
Overrecovered gas and fuel costs		**22.1**		48.9
Price risk management liabilities		**95.2**		167.8
Exchange gas payable		**146.2**		168.2
Deferred revenue		**42.8**		9.7
Regulatory liabilities		**171.6**		112.0
Accrued liability for postretirement and postemployment benefits		**6.1**		26.6
Liabilities of discontinued operations and liabilities held for sale		**3.9**		0.4
Legal and environmental reserves		**42.2**		43.9
Other accruals		**309.7**		301.0
Total Current Liabilities		**3,301.6**		3,646.4
Other Liabilities and Deferred Credits				
Price risk management liabilities		**20.3**		138.9
Deferred income taxes		**2,953.3**		2,541.9
Deferred investment tax credits		**24.8**		29.0
Deferred credits		**84.1**		78.9
Accrued liability for postretirement and postemployment benefits		**1,107.3**		953.8
Regulatory liabilities and other removal costs		**1,593.3**		1,663.9
Asset retirement obligations		**160.4**		146.4
Other noncurrent liabilities		**226.2**		244.7
Total Other Liabilities and Deferred Credits		**6,169.7**		5,797.5
Commitments and Contingencies (Refer to Note 20)		**—**		—
Total Capitalization and Liabilities	**$**	**21,844.7**	$	20,708.3

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS

Year Ended December 31, *(in millions)*	2012	2011	2010
Operating Activities			
Net Income	$ 416.1	$ 299.1	$ 282.6
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:			
Loss on early extinguishment of debt	—	53.9	96.7
Depreciation and amortization	561.9	535.7	594.8
Net changes in price risk management assets and liabilities	(18.5)	38.1	(5.5)
Deferred income taxes and investment tax credits	304.6	178.4	193.8
Deferred revenue	(8.3)	2.2	(20.4)
Stock compensation expense and 401(k) profit sharing contribution	45.0	39.2	30.9
(Gain) Loss on sale of assets	(4.1)	0.1	(0.1)
Loss on impairment of assets	0.3	16.7	2.1
Income from unconsolidated affiliates	(30.9)	(13.7)	(14.8)
Gain on disposition of discontinued operations - net of taxes	—	—	(0.1)
Income from discontinued operations - net of taxes	(5.5)	(4.3)	(5.7)
Amortization of discount/premium on debt	9.7	8.9	10.3
AFUDC equity	(10.6)	(2.4)	(6.1)
Distribution Received from Equity Earnings	34.9	18.8	12.9
Changes in Assets and Liabilities:			
Accounts receivable	(51.3)	219.6	(243.6)
Income tax receivable	(130.0)	98.1	51.5
Inventories	62.4	(141.7)	103.3
Accounts payable	57.3	(154.8)	37.7
Customer deposits and credits	(44.0)	(4.5)	(25.0)
Taxes accrued	9.9	2.3	(116.9)
Interest accrued	21.8	(2.5)	(10.7)
(Under) Over recovered gas and fuel costs	(51.1)	127.5	(243.0)
Exchange gas receivable/payable	(8.6)	(100.1)	(14.2)
Other accruals	(26.2)	33.2	63.4
Prepayments and other current assets	(4.5)	(10.2)	(11.5)
Regulatory assets/liabilities	(51.7)	(322.9)	164.3
Postretirement and postemployment benefits	123.0	(92.7)	(146.6)
Deferred credits	4.9	(2.3)	(2.6)
Deferred charges and other noncurrent assets	71.9	6.9	7.9
Other noncurrent liabilities	(14.1)	82.0	(13.2)
Net Operating Activities from Continuing Operations	1,264.3	908.6	772.2
Net Operating Activities provided by (used for) Discontinued Operations	11.2	(38.4)	(46.8)
Net Cash Flows from Operating Activities	1,275.5	870.2	725.4
Investing Activities			
Capital expenditures	(1,498.8)	(1,122.7)	(801.3)
Insurance recoveries	6.5	—	5.0
Proceeds from disposition of assets	25.6	9.4	0.5
Restricted cash deposits (withdrawals)	114.2	42.3	(28.2)
Contributions to equity investees	(20.4)	(6.4)	(87.9)
Distributions from equity investees	—	—	23.8
Other investing activities	(49.0)	(69.4)	(53.1)
Net Investing Activities used for Continuing Operations	(1,421.9)	(1,146.8)	(941.2)
Net Investing Activities used for Discontinued Operations			

	(3.3)	(2.5)	(2.1)
Net Cash Flows used for Investing Activities	**(1,425.2)**	(1,149.3)	(943.3)
Financing Activities			
Issuance of long-term debt	**991.4**	890.0	244.6
Retirement of long-term debt	**(331.6)**	(286.9)	(977.7)
Premium and other debt related costs	**(3.4)**	(62.1)	(93.0)
Change in short-term debt, net	**(582.2)**	(23.1)	1,279.5
Issuance of common stock	**383.5**	24.4	14.4
Acquisition of treasury stock	**(10.0)**	(3.1)	(1.5)
Dividends paid - common stock	**(273.2)**	(257.8)	(255.6)
Net Cash Flows from Financing Activities	**174.5**	281.4	210.7
Change in cash and cash equivalents from continuing operations	**16.9**	43.2	41.7
Change in cash and cash equivalents from discontinued operations	**7.9**	(40.9)	(48.9)
Cash and cash equivalents at beginning of period	**11.5**	9.2	16.4
Cash and Cash Equivalents at End of Period	**$ 36.3**	$ 11.5	$ 9.2

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)*	**2012**	2011
Columbia of Massachusetts:		
Medium-Term Notes -		
Interest rates between 6.26% and 6.43% with a weighted average interest rate of 6.30% and maturities between December 15, 2025 and February 15, 2028	**$ 40.0**	$ 40.0
Total long-term debt of Columbia of Massachusetts	**40.0**	40.0
Columbia:		
Subsidiary debt - Capital lease obligations	**11.1**	2.2
Total long-term debt of Columbia	**11.1**	2.2
Capital Markets:		
Senior Notes - 6.78%, due December 1, 2027	**3.0**	3.0
Medium-term notes -		
Issued at interest rates between 7.82% and 7.99%, with a weighted average interest rate of 7.92% and various maturities between March 27, 2017 and May 5, 2027 [1]	**106.0**	106.0
Total long-term debt of Capital Markets	**109.0**	109.0
NiSource Corporate Services:		
Capital lease obligations -		
Interest rate of 3.290% due between June 30, 2015 and September 30, 2015	**4.7**	6.1
Interest rate of 3.264% due September 30, 2015	**1.2**	0.6
Interest rate of 6.709% due between June 30, 2015 and January 31, 2018	**20.8**	27.4
Interest rate of 9.840% due June 30, 2015	**0.3**	0.6
Interest rate of 5.586% due between June 30, 2015 and September 30, 2015	**2.1**	2.7
Total long-term debt of NiSource Corporate Services	**29.1**	37.4
NiSource Development Company:		
NDC Douglas Properties - Notes Payable -		
Interest rates between 4.00% and 5.56% with a weighted average interest rate of 4.70% and various maturities between May 1, 2028 and April 1, 2046 [1]	**5.5**	11.2
Total long-term debt of NiSource Development Company	**5.5**	11.2

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)*		2012		2011
NiSource Finance:				
Long-Term Notes -				
6.15% - due March 1, 2013		—		420.3
5.40% - due July 15, 2014		500.0		500.0
Variable rate - due April 3, 2015		250.0		—
5.36% - due November 28, 2015		230.0		230.0
10.75% - due March 15, 2016		201.5		201.5
5.41% - due November 28, 2016		90.0		90.0
5.25% - due September 15, 2017		450.0		450.0
6.40% - due March 15, 2018		800.0		800.0
6.80% - due January 15, 2019		500.0		500.0
5.45% - due September 15, 2020		550.0		550.0
4.45% - due December 1, 2021		250.0		250.0
6.125% - due March 1, 2022		500.0		500.0
3.85% - due February 15, 2023		250.0		—
5.89% - due November 28, 2025		265.0		265.0
6.25% - due December 15, 2040		250.0		250.0
5.95% - due June 15, 2041		400.0		400.0
5.80% - due February 1, 2042		250.0		250.0
5.25% - due February 15, 2043		500.0		—
Fair value adjustment of notes for interest rate swap agreements		40.4		56.7
Unamortized premium and discount on long-term debt		(40.7)		(36.8)
Total long-term debt of NiSource Finance		6,236.2		5,676.7
Northern Indiana:				
Capital lease obligations -				
Interest rate of 3.95% due June 30, 2022		66.4		—
Pollution control bonds -				
Reoffered interest rates between 5.60% and 5.85%, with a weighted average interest rate of 5.67% and various maturities between November 1, 2016 and April 1, 2019 (1)		226.0		244.0
Medium-term notes -				
Issued at interest rates between 7.02% and 7.69%, with a weighted average interest rate of 7.57% and various maturities between June 12, 2017 and August 4, 2027 (1)		95.5		145.5
Wind generation projects notes -				
Variable rate of 3.25% at December 31, 2012 with amounts due at July 1, 2014 and October 28, 2014		0.9		1.7
Unamortized discount on long-term debt		(0.6)		(0.6)
Total long-term debt of Northern Indiana		388.2		390.6
Total long-term debt, excluding amount due within one year	$	6,819.1	$	6,267.1

(1) Interest rates and maturities shown are as of December 31, 2012 . Refer to Note 16 "Long-Term Debt" for changes in debt outstanding.

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

NiSource Inc.
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of January 1, 2010	**$ 2.8**	**$ (25.9)**	**$ 4,057.6**	**$ 849.2**	**$ (45.9)**	**$ 4,837.8**
Comprehensive Income (Loss):						
Net Income	—	—	—	282.6	—	282.6
Other comprehensive income (loss), net of tax	—	—	—	—	(12.0)	(12.0)
Dividends:						
Common stock	—	—	—	(255.7)	—	(255.7)
Treasury stock acquired	—	(1.5)	—	—	—	(1.5)
Issued:						
Employee stock purchase plan	—	—	1.1	—	—	1.1
Long-term incentive plan	—	—	12.1	—	—	12.1
401(k) and profit sharing issuance	—	—	24.2	—	—	24.2
Dividend reinvestment plan	—	—	8.9	—	—	8.9
Balance as of December 31, 2010	**$ 2.8**	**$ (27.4)**	**$ 4,103.9**	**$ 876.1**	**$ (57.9)**	**$ 4,897.5**
Comprehensive Income (Loss):						
Net Income	—	—	—	299.1	—	299.1
Other comprehensive income (loss), net of tax	—	—	—	—	(1.8)	(1.8)
Dividends:						
Common stock	—	—	—	(258.2)	—	(258.2)
Treasury stock acquired	—	(3.1)	—	—	—	(3.1)
Issued:						
Employee stock purchase plan	—	—	1.3	—	—	1.3
Long-term incentive plan	—	—	21.4	—	—	21.4
401(k) and profit sharing issuance	—	—	32.0	—	—	32.0
Dividend reinvestment plan	—	—	8.9	—	—	8.9
Tax benefits of options	—	—	0.2	—	—	0.2
Balance as of December 31, 2011	**$ 2.8**	**$ (30.5)**	**$ 4,167.7**	**$ 917.0**	**$ (59.7)**	**$ 4,997.3**

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of December 31, 2011	**$ 2.8**	**$ (30.5)**	**$ 4,167.7**	**$ 917.0**	**$ (59.7)**	**$ 4,997.3**
Comprehensive Income (Loss):						
Net Income	—	—	—	416.1	—	416.1
Other comprehensive income (loss), net of tax	—	—	—	—	(5.8)	(5.8)
Dividends:						
Common stock	—	—	—	(273.5)	—	(273.5)
Treasury stock acquired	—	(10.0)	—	—	—	(10.0)
Issued:						
Common stock issuance	0.3	—	—	—	—	0.3
Employee stock purchase plan	—	—	1.8	—	—	1.8
Long-term incentive plan	—	—	44.6	—	—	44.6
401(k) and profit sharing issuance	—	—	36.3	—	—	36.3
Dividend reinvestment plan	—	—	8.3	—	—	8.3
Forward equity settlement	—	—	338.9	—	—	338.9
Balance as of December 31, 2012	**$ 3.1**	**$ (40.5)**	**$ 4,597.6**	**$ 1,059.6**	**$ (65.5)**	**$ 5,554.3**

Shares *(in thousands)*	Common Shares	Treasury Shares	Outstanding Shares
Balance January 1, 2010	**277,947**	**(1,309)**	**276,638**
Treasury stock acquired		(97)	(97)
Issued:			
Employee stock purchase plan	62	—	62
Long-term incentive plan	191	—	191
Dividend reinvestment	563	—	563
Retirement savings plan	1,498	—	1,498
Balance December 31, 2010	**280,261**	**(1,406)**	**278,855**
Treasury stock acquired		(165)	(165)
Issued:			
Employee stock purchase plan	67	—	67
Long-term incentive plan	1,064	—	1,064
Dividend reinvestment	439	—	439
Retirement savings plan	1,594	—	1,594
Balance December 31, 2011	**283,425**	**(1,571)**	**281,854**
Treasury stock acquired		(439)	(439)
Issued:			
Employee stock purchase plan	73	—	73
Long-term incentive plan	2,692	—	2,692
Dividend reinvestment	340	—	340
Retirement savings plan	1,496	—	1,496
Forward equity settlement	24,265	—	24,265
Balance December 31, 2012	**312,291**	**(2,010)**	**310,281**

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 derives substantially all of its revenues and earnings from the operating results of its thirteen 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. NiSource also consolidates variable interest entities for which NiSource is the primary beneficiary.

B. Use of Estimates. The preparation of financial statements in conformity with GAAP 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.

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 as restricted cash. 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 Statements of Consolidated Cash Flows.

Restricted cash was $ 46.8 million and $ 160.6 million as of December 31, 2012 and 2011, respectively. The decrease in restricted cash was primarily a result of the winding down of NiSource's unregulated natural gas marketing business.

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 in large part on weather impacts and price volatility. NiSource's accounts receivable on the Consolidated Balance Sheets includes unbilled revenue, less reserves, in the amounts of $285.7 million and $281.5 million for the years ended December 31, 2012 and 2011, respectively. The reserve for uncollectible receivables is the Company's best estimate of the amount of probable credit losses in the existing accounts receivable. The Company determined the reserve based on historical experience and in consideration of current market conditions. Account balances are charged against the allowance when it is anticipated the receivable will not be recovered.

E. Investments in Debt and Equity Securities. NiSource's investments in debt and equity 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 (loss). 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. No material impairment charges were recorded for the years ended December 31, 2012, 2011 and 2010.

F. Basis of Accounting for Rate-Regulated Subsidiaries. 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 regulatory accounting. In such an 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 regulatory accounting, NiSource would be required to apply the provisions of Discontinuation of Rate-Regulated Accounting. In management's opinion, NiSource's regulated subsidiaries will be subject to regulatory accounting for the foreseeable future. Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for additional information.

G. Utility Plant and Other Property and Related Depreciation and Maintenance . Property, plant and equipment (principally utility plant) is 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 as approved by the appropriate regulators.

The weighted average depreciation provisions for utility plant, as a percentage of the original cost, for the periods ended December 31, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Electric Operations	**3.4%**	3.5%	3.5%
Gas Distribution and Transmission Operations	**1.9%**	2.1%	2.8%

For rate-regulated companies, AFUDC is capitalized on all classes of property except organization costs, 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 placed in service. The pre-tax rate for AFUDC was 3.3% in 2012, 3.6% in 2011 and 4.9% in 2010. Short-term borrowings were primarily used to fund construction efforts for all three years presented; however, long-term borrowings and equity funds were used more extensively in 2010 to fund construction than in the comparative periods.

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 regulated 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 in accordance with composite 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 debt-based 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 debt-based carrying charges and deferred depreciation related to Sugar Creek in accordance with the February 18, 2008 Order of the IURC. The deferral of Sugar Creek debt based carrying charges and the deferral of depreciation ceased in December 2011 and deferred balances are being amortized over five years beginning January 2012. As of December 31, 2012, the remaining balance to be amortized is \$57.3 million . An additional \$13.9 million is deferred for consideration in Northern Indiana's next electric base rate case.

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. The amount of depreciation that would have been recorded for 2005 through 2012 had Columbia of Ohio not been subject to rate regulation is a combined \$347.9 million , a \$46.9 million decrease over the \$394.8 million reflected in rates. The regulatory asset was \$84.8 million and \$90.7 million as of December 31, 2012 and 2011, respectively. The amount of depreciation that would have been recorded for 2012 had Columbia of Ohio not been subject to rate regulation is \$61.2 million , a \$5.9 million decrease over the \$67.1 million reflected in rates.

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. Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis generally over a period of five years. NiSource amortized \$30.6 million in 2012 , \$29.0 million in 2011 and \$25.9 million in 2010 related to software costs. NiSource's unamortized software balance was \$142.6 million and \$120.8 million at 2012 and 2011 , respectively.

NiSource Inc.
Notes to Consolidated Financial Statements

J. Goodwill and Other Intangible Assets. NiSource has approximately $4 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 Columbia of Massachusetts, a wholly-owned subsidiary of NiSource, which is being amortized on a straight-line basis over forty years from the date of acquisition. Refer to Note 6, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

K. Long-lived Assets. NiSource's Consolidated Balance Sheets contain significant long-lived assets other than goodwill and intangible assets discussed above which are not subject to recovery under regulatory accounting. As a result, NiSource assesses the carrying amount and potential earnings of these assets whenever events or changes in circumstances indicate that the carrying value could be impaired. Refer to Note 3, "Impairments and Other Charges," in the Notes to Consolidated Financial Statements for further information.

L. Revenue Recognition. Revenue is 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 but not billed. 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. For shorter term transportation and storage service revenues, cash is received at inception of the service period resulting in the recording of deferred revenues that are recognized in revenues over the period the services are provided.

Deferred revenue also includes a gain on conveyance related to a pooling of assets (production rights) in a joint undertaking of NEVCO intended to find, develop, or produce oil or gas from a particular property or group of properties. NiSource has a working interest in the joint venture. The gain was deferred as NiSource has a substantial obligation for future performance. NiSource will proportionately recognize the gain on conveyance into earnings as the obligation is satisfied.

M. 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 and the Forward Agreements (see Note 14). The calculation of diluted earnings per share excludes stock options which had an anti-dilutive effect. These options were zero , 2.8 million and 4.1 million for 2012 , 2011 , and 2010 , respectively.

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	**2012**	2011	2010
Denominator *(thousands)*			
Basic average common shares outstanding	**291,927**	280,442	277,797
Dilutive potential common shares			
Nonqualified stock options	**144**	9	—
Shares contingently issuable under employee stock plans	**557**	1,017	910
Shares restricted under stock plans	**544**	339	697
Forward Agreements [1]	**7,229**	6,684	684
Diluted Average Common Shares	**300,401**	288,491	280,088

[1] On September 10, 2012, NiSource settled the Forward Agreements. Amounts included in diluted average common shares for the year ended December 31, 2012 are weighted for the period prior to settlement.

N. 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.

O. Accounts Receivable Transfer Program. Certain of NiSource's subsidiaries have agreements with third parties to sell certain accounts receivable without recourse. These transfers of accounts receivable are accounted for as secured borrowings. The entire gross receivables balance remains on the December 31, 2012 and 2011 Consolidated Balance Sheets and short-term debt is recorded in the amount of proceeds received from the commercial paper conduits involved in the transactions. Fees associated with the securitization transactions are recorded as interest expense. Refer to Note 19, "Transfers of Financial Assets," in the Notes to Consolidated Financial Statements for further information.

P. Fuel Adjustment Clause. Northern Indiana defers most differences between fuel and power purchase costs and the recovery of such costs in revenue, and adjusts future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

Q. Gas Cost Adjustment Clause. All of NiSource's Gas Distribution Operations subsidiaries 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.

R. Gas Inventory. Both the LIFO inventory methodology and the weighted average cost methodology are used to value natural gas in storage, as approved by regulators for each of NiSource's regulated subsidiaries. Inventory valued using LIFO was $48.4 million and $150.0 million at December 31, 2012 , and 2011 , respectively. Based on the average cost of gas using the LIFO method, the estimated replacement cost of gas in storage was less than the stated LIFO cost by $13.2 million at December 31, 2012 and exceeded the stated LIFO cost by $21.9 million at December 31, 2011 . Inventory valued using the weighted average cost methodology was $278.2 million at December 31, 2012 and $277.6 million at December 31, 2011 .

S. Accounting for Exchange and Balancing Arrangements of Natural Gas. NiSource's Gas Transmission and Storage and Gas Distribution Operations subsidiaries enter into balancing and exchange arrangements of natural gas as part of their operations and off-system sales programs. NiSource records a receivable or payable for its respective cumulative gas imbalances and for any gas inventory borrowed or lent under an exchange agreement for Gas Distribution Operations. These receivables and payables are recorded as "Exchange gas receivable" or "Exchange gas payable" on NiSource's Consolidated Balance Sheets, as appropriate.

T. Accounting for Emissions Allowances. Northern Indiana has obtained SO_2 and NOx emissions allowances from the EPA based upon its electric generation operations that the utility may sell, trade or hold for future use. Northern Indiana utilizes the inventory model in accounting for these emissions allowances, whereby these allowances were recognized at zero cost upon receipt from the EPA. Pursuant to the December 21, 2011 IURC Order, all purchases and sales of emission allowances will be recovered or refunded through the EERM.

U. Accounting for Risk Management and Energy Marketing Activities. NiSource accounts for its derivatives and hedging activities in accordance with ASC 815. NiSource recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value, unless such contracts are exempted as a normal purchase normal sale 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. Refer to Note 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for additional information.

V. Income Taxes and Investment Tax Credits. NiSource records income taxes to recognize full interperiod tax allocations. Under the liability method, deferred income taxes are provided 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 on the balance sheet and are being amortized to book income over the regulatory 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 refund to ratepayers deferred income taxes provided at rates higher than the current federal income tax rate. Such amounts are credited to ratepayers using either the average rate assumption method or the reverse South Georgia method.

Pursuant to the Internal Revenue Code and relevant state taxing authorities, NiSource and its subsidiaries file consolidated income tax returns for federal and certain state jurisdictions. NiSource and its subsidiaries are parties to an agreement (Tax Allocation Agreement) that provides for the allocation of consolidated tax liabilities. The Tax Allocation Agreement generally provides that each party is allocated an amount of tax similar to that which would be owed had the party been separately subject to tax. Any net benefit attributable to the parent is reallocated to other members.

W. 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 estimated site-specific costs where assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. 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 "Legal and environmental reserves" for short-term portions of these liabilities and "Other noncurrent liabilities" for the respective long-term portions of these liabilities. Rate-regulated subsidiaries applying regulatory accounting 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 20, "Other Commitments and Contingencies," in the Notes to Consolidated Financial Statements for further information.

X. 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.

2. Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements

Balance Sheet Disclosure. In December 2011, the FASB issued Accounting Standards Update 2011-11, which requires additional disclosures regarding the nature of an entity's rights to offset positions associated with its financial and derivative instruments. These new disclosures will provide additional information about the entity's gross and net financial exposure. The amendment is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013 with retrospective application required. NiSource is currently reviewing the provisions of this new standard to determine the impact on its Consolidated Financial Statements and Notes to Consolidated Financial Statements.

3. Impairments and Other Charges

Impairments. 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 first step of the test for impairment compares the carrying amount of the long lived asset to the fair value sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

Lake Erie Land, which is wholly-owned by NiSource and within the Company's Corporate and Other Segment, was in the process of selling real estate over a 10 -year period as a part of an agreement reached in June 2006 with a private real estate development group.

In April 2011, NiSource settled a mortgage foreclosure action against the developer, reacquired the Sand Creek Country Club, and purchased additional properties owned by the developer to be marketed along with the existing Lake Erie Land properties to prospective purchasers. This transaction qualified as a business combination in accordance with GAAP. The properties were acquired at fair value and included the Sand Creek Country Club and additional commercial properties for a total of $15.8 million as well as $3.5 million of land. As a result of these acquisitions, NiSource's total investment in Lake Erie Land was $51.3 million . As a part of the process to sell the Lake Erie Land properties in 2011, independent appraisals were obtained. The Company compared the carrying value of the assets to the fair value, determined primarily through the independent appraisals, and recorded an impairment loss of $14.7 million . There were no material impairments recorded during 2012. At December 31, 2012 and December 31, 2011, the total book value of these properties was $35.4 million and $36.6 million , respectively, and is included in Other investments and Other property in the Consolidated Balance Sheets. NiSource is seeking to market the Lake Erie Land properties, but has determined that the sale would not be probable within a year and, therefore, did not meet the criteria to be classified as assets held for sale in accordance with GAAP as of December 31, 2012 or December 31, 2011. The revenue and earnings of Sand Creek Country Club are not material.

4. Discontinued Operations and Assets and Liabilities Held for Sale

During 2012, NiSource began marketing to sell the service plan and leasing business lines of its Retail Services business. As of December 31, 2012, the assets and liabilities of the business lines met the criteria to be classified as held for sale in accordance with GAAP. Additionally, the results of operations and cash flows are classified as discontinued operations for all periods presented. The sale of the business lines closed in January 2013 resulting in gain from the disposal of discontinued operations of $36.3 million after taxes which will be recorded in the first quarter of 2013.

The assets and liabilities of discontinued operations and held for sale on the Consolidated Balance Sheet at December 31, 2012 by segment were:

(in millions)

Assets of discontinued operations and held for sale:	**Property, plant and equipment, net**	**Other Assets**	**Total**
Gas Distribution Operations	$ 21.5	$ 4.5	$ **26.0**
Electric Operations	—	0.7	**0.7**
Total	**$ 21.5**	**$ 5.2**	**$ 26.7**

Liabilities of discontinued operations and held for sale:	**Other Liabilities**	**Total**
Gas Distribution Operations	$ 3.3	$ **3.3**
Electric Operations	0.6	**0.6**
Total	**$ 3.9**	**$ 3.9**

The assets and liabilities of discontinued operations and held for sale on the Consolidated Balance Sheet at December 31, 2011 by segment were:

(in millions)

Assets of discontinued operations and held for sale:	**Property, plant and equipment, net**	**Other Assets**	**Total**
Gas Distribution Operations	$ 20.9	$ 4.2	$ **25.1**
Electric Operations	—	1.0	**1.0**
Total	**$ 20.9**	**$ 5.2**	**$ 26.1**

Liabilities of discontinued operations and held for sale:	**Other Liabilities**	**Total**
Gas Distribution Operations	$ 0.4	$ **0.4**
Electric Operations	—	—
Total	**$ 0.4**	**$ 0.4**

Total assets and liabilities of discontinued operations and held for sale in the tables above relate to the service plan and leasing lines of business of NiSource's Retail Services business.

Results from discontinued operations are provided in the following table. These results are primarily from NiSource's Retail Services business, and reserve changes from NiSource's former exploration and production subsidiary, CER.

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Year Ended December 31, *(in millions)*		2012		2011		2010
Revenues from Discontinued Operations	$	41.5	$	44.4	$	44.1
Income from discontinued operations		8.7		7.4		9.5
Income tax expense		3.2		3.1		3.8
Income from Discontinued Operations - net of taxes	$	5.5	$	4.3	$	5.7
Gain on Disposition of Discontinued Operations - net of taxes	$	—	$	—	$	0.1

5. Property, Plant and Equipment

NiSource's property, plant and equipment on the Consolidated Balance Sheets are classified as follows:

At December 31, *(in millions)*		2012		2011
Property Plant and Equipment				
Gas Distribution Utility [1]	$	8,261.7	$	7,694.8
Gas Transmission Utility		6,151.4		5,956.1
Electric Utility [1]		6,347.0		6,136.8
Common Utility		144.9		124.8
Construction Work in Process		737.3		387.2
Non-Utility and Other		298.6		179.4
Total Property, Plant and Equipment	$	21,940.9	$	20,479.1
Accumulated Depreciation and Amortization				
Gas Distribution Utility [1]	$	(2,838.8)	$	(2,776.6)
Gas Transmission Utility		(2,814.9)		(2,747.8)
Electric Utility [1]		(3,265.0)		(3,073.4)
Common Utility		(67.7)		(54.1)
Non-Utility and Other		(38.6)		(48.0)
Total Accumulated Depreciation and Amortization	$	(9,025.0)	$	(8,699.9)
Net Property, Plant and Equipment	$	12,915.9	$	11,779.2

[1] Northern Indiana's common utility plant and associated accumulated depreciation and amortization are allocated between Gas Distribution Utility and Electric Utility Property, Plant and Equipment.

6. Goodwill and Other Intangible Assets

NiSource tests its goodwill for impairment annually unless indicators, events, or circumstances would require an immediate review. Goodwill is tested for impairment at a level of reporting referred to as a reporting unit, which generally is an operating segment or a component of an operating segment as defined by GAAP. In accordance with GAAP, certain components of an operating segment with similar economic characteristics are aggregated and deemed a single reporting unit. Goodwill is generally allocated to the reporting units based upon the amounts allocated at the time of their respective acquisition. The goodwill impairment test is a two-step process which requires NiSource to make estimates regarding the fair value of the reporting unit. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is not required. However, if the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss (if any), which compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

During the second quarter of 2012, NiSource changed its method of applying an accounting principle whereby the annual impairment test of goodwill will be performed as of May 1 st each year instead of June 30 th , the previous testing date. This change is preferable under the circumstances as it more closely aligns the impairment testing date with the long-range planning and forecasting process. The change also provides NiSource with additional time to complete the required testing and evaluate the results prior to the quarter-end closing and reporting activities when resources are more constrained. The change in the annual goodwill impairment testing date is not intended to nor does it delay, accelerate, or avoid an impairment charge. As it was impracticable to objectively determine projected cash flows and related valuation estimates as of each May 1 for periods prior to May 1, 2012, NiSource has prospectively applied the change in the annual goodwill impairment testing date from May 1, 2012.

NiSource has three reporting units that are allocated goodwill. NiSource's goodwill assets at December 31, 2012 were $3.7 billion pertaining primarily to the acquisition of Columbia on November 1, 2000. Of this amount, approximately $2.0 billion is allocated to Columbia Transmission Operations and $1.7 billion is allocated to Columbia Distribution Operations. In addition, Northern Indiana Gas Distribution Operations' goodwill assets at December 31, 2012 related to the purchase of Northern Indiana Fuel and Light in March 1993 and Kokomo Gas in February 1992 were $18.8 million .

In estimating the fair value of the Columbia Transmission Operations and Columbia Distribution Operations reporting units for the May 1, 2012 test, NiSource used a weighted average of the income and market approaches. The income approach utilized a discounted cash flow model. This model is based on management's short-term and long-term forecast of operating performance for each reporting unit. The two main assumptions used in the models are the growth rates, which are based on the cash flows from operations for each of the reporting units, and the weighted average cost of capital, or discount rate. The starting point for each reporting unit's cash flow from operations is the detailed five year plan, which takes into consideration a variety of factors such as the current economic environment, industry trends, and specific operating goals set by management. The discount rates are based on trends in overall market as well as industry specific variables and include components such as the risk-free rate, cost of debt, and company volatility at May 1, 2012. Under the market approach, NiSource utilized three market-based models to estimate the fair value of the reporting units: (i) the comparable company multiples method, which estimated fair value of each reporting unit by analyzing EBITDA multiples of a peer group of publicly traded companies and applying that multiple to the reporting unit's EBITDA, (ii) the comparable transactions method, which valued the reporting unit based on observed EBITDA multiples from completed transactions of peer companies and applying that multiple to the reporting unit's EBITDA, and (iii) the market capitalization method, which used the NiSource share price and allocated NiSource's total market capitalization among both the goodwill and non-goodwill reporting units based on the relative EBITDA, revenues, and operating income of each reporting unit. Each of the three market approaches were calculated with the assistance of a third party valuation firm, using multiples and assumptions inherent in today's market. The degree of judgment involved and reliability of inputs into each model were considered in weighting the various approaches. The resulting estimate of fair value of the reporting units, using the weighted average of the income and market approaches, exceeded their carrying values, indicating that no impairment exists under step 1 of the annual impairment test.

Certain key assumptions used in determining the fair values of the reporting units included planned operating results, discount rates and the long-term outlook for growth. NiSource used discount rates of 5.60% for both Columbia Transmission Operations and Columbia Distribution Operations, resulting in excess fair values of approximately $1,643.0 million and $1,682.0 million , respectively. The results of the impairment test indicated that each of the reporting units passed step 1 of the impairment test.

Goodwill at Northern Indiana Gas Distribution Operations related to the acquisition of Northern Indiana Fuel and Light and Kokomo Gas of $18.8 million was also tested for impairment as of May 1, 2012. The income approach was used to determine the fair value of the Northern Indiana Gas Distribution reporting unit. Key assumptions in the income approach were a discount rate of 5.60% and a growth rate based on the cash flow from operations. These cash flows factor in the regulatory environment and planned growth initiatives. The step 1 goodwill impairment test resulted in the fair value of the Northern Indiana Gas Distribution reporting unit to be above the carrying value by $356.0 million .

NiSource considered whether there were any events or changes in circumstances subsequent to the annual test that would reduce the fair value of any of the reporting units below their carrying amounts and necessitate another goodwill impairment test. No such indicators were noted that would require goodwill impairment testing subsequent to May 1, 2012.

NiSource's intangible assets, apart from goodwill, consist of franchise rights, which were identified as part of the purchase price allocations associated with the acquisition in February 1999 of Columbia of Massachusetts. These amounts were $286.6 million and $297.6 million , net of accumulated amortization of $155.5 million and $144.6 million , at December 31, 2012 , and 2011 , respectively and are being amortized over forty years from the date of acquisition. NiSource recorded amortization expense of $11.0 million in 2012 , 2011 , and 2010 related to its intangible assets.

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7. Asset Retirement Obligations

Changes in NiSource's liability for asset retirement obligations for the years 2012 and 2011 are presented in the table below:

(in millions)		**2012**		2011
Beginning Balance	**$**	**146.4**	$	138.8
Accretion expense		**1.1**		0.6
Accretion recorded as a regulatory asset		**8.9**		8.1
Additions		**1.6**		6.6
Settlements		**(1.4)**		(3.1)
Change in estimated cash flows		**3.8**		(4.6)
Ending Balance	**$**	**160.4**	$	146.4

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, 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, the lives of these wells are indeterminable until management establishes plans for closure. Additionally, NiSource has a significant obligation associated with the decommissioning of its two hydro facilities located in Indiana. These hydro facilities 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 are classified as regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

8. Regulatory Matters

Regulatory Assets and Liabilities

NiSource follows the accounting and reporting requirements of ASC Topic 980, which provides that regulated entities account for and report assets and liabilities consistent with the economic effect of regulatory rate-making procedures 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 or expense are deferred on the balance sheet and are recognized in the income statement as the related amounts are included in service rates and recovered from or refunded to customers.

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Regulatory assets were comprised of the following items:

At December 31, *(in millions)*		**2012**		2011
Assets				
Reacquisition premium on debt	$	**8.6**	$	10.9
R. M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation (see Note 1-H)		**5.5**		8.7
Unrecognized pension benefit and other postretirement benefit costs (see Note 12)		**1,345.7**		1,244.2
Other postretirement costs		**66.3**		76.1
Environmental costs (see Note 20-D)		**77.5**		84.7
Regulatory effects of accounting for income taxes (see Note 1-V)		**245.7**		254.5
Underrecovered gas and fuel costs (see Note 1-P and 1-Q)		**45.0**		20.7
Depreciation (see Note 1-H)		**113.9**		115.4
Uncollectible accounts receivable deferred for future recovery		**6.1**		8.0
Asset retirement obligations (see Note 7)		**16.1**		14.4
Losses on derivatives (see Note 9)		**17.1**		44.7
Post-in-service carrying charges		**61.2**		51.6
EERM operation and maintenance and depreciation deferral		**9.8**		37.4
MISO (see Note 8)		**28.8**		42.4
Sugar Creek carrying charges and deferred depreciation (see Note 1-H)		**71.2**		85.5
Other		**113.7**		69.4
Total Assets	$	**2,232.2**	$	2,168.6
Less amounts included as Underrecovered gas and fuel cost		**(45.0)**		(20.7)
Total Regulatory Assets reflected in Current Regulatory Assets and Other Regulatory Assets	$	**2,187.2**	$	2,147.9

Regulatory liabilities were comprised of the following items:

At December 31, *(in millions)*		**2012**		2011
Liabilities				
Overrecovered gas and fuel costs (see Notes 1-P and 1-Q)	$	**22.1**	$	48.9
Cost of removal (see Note 7)		**1,437.5**		1,476.5
Regulatory effects of accounting for income taxes (see Note 1-V)		**76.9**		109.3
Other postretirement costs		**97.4**		95.7
Percentage of income plan		**16.0**		12.0
Off-system sales margin sharing		**5.8**		5.1
Emission allowances (see Note 8)		**0.8**		7.4
Other		**130.5**		69.9
Total Liabilities	$	**1,787.0**	$	1,824.8
Less amounts included as Overrecovered gas and fuel cost		**(22.1)**		(48.9)
Total Regulatory Liabilities reflected in Current Regulatory Liabilities and Other Regulatory Liabilities and Other Removal Costs	$	**1,764.9**	$	1,775.9

Regulatory assets, including underrecovered gas and fuel cost, of approximately $1,240.1 million as of December 31, 2012 are not earning a return on investment. Regulatory assets of approximately $2,086.0 million include expenses that are recovered as components of the cost of service and are covered by regulatory orders. These costs are recovered over a remaining life of up to 43 years. Regulatory assets of approximately $146.2 million at December 31, 2012, require specific rate action.

As noted below, regulatory assets for which costs have been incurred or accrued are included (or expected to be included, for costs incurred subsequent to the most recently approved rate case) in certain companies' rate base, thereby providing a return on invested costs. Certain regulatory assets do not result from cash expenditures and therefore do not represent investments included in rate base or have offsetting liabilities that reduce rate base.

Assets:

Reacquisition premium on debt – The unamortized premiums for debt redeemed by Northern Indiana are deferred, amortized and recovered over the term of the replacement issue.

R.M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation – Northern Indiana obtained approval from the IURC to capitalize the debt-based carrying charges and deferred depreciation for Schahfer Unit 17 and Unit 18 due to regulatory lag and to amortize such costs over the remaining service life of each unit.

Unrecognized pension benefit and other postretirement benefit costs – In 2007, NiSource adopted certain updates of ASC 715 which required, among other things, the recognition in other comprehensive income or loss of the actuarial gains or losses and the prior service costs that arise during the period but that are not immediately recognized as components of net periodic benefit costs. Certain subsidiaries defer the costs as a regulatory asset in accordance with regulatory orders or as a result of regulatory precedent, to be recovered through base rates.

Other postretirement costs – Primarily comprised of costs approved through rate orders to be collected through future base rates, revenue riders or tracking mechanisms.

Environmental costs – Includes certain recoverable costs of investigating, testing, remediating and other costs related to gas plant sites, disposal sites or other sites onto which material may have been migrated. Certain companies defer the costs as a regulatory asset in accordance with regulatory orders, to be recovered in future base rates, billing riders or tracking mechanisms.

Regulatory effects of accounting for income taxes – Represents the deferral and under collection of deferred taxes in the rate making process. In prior years, NiSource has lowered customer rates in certain jurisdictions for the benefits of accelerated tax deductions. Amounts are expensed for financial reporting purposes as NiSource recovers deferred taxes in the rate making process.

Underrecovered gas and fuel costs – Represents the difference between the costs of gas and fuel and the recovery of such costs in revenue, and is used to adjust future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions. Recovery of these costs is achieved through tracking mechanisms.

Depreciation – Relates to the difference between the depreciation expense recorded by Columbia of Ohio due to a regulatory order and the depreciation expense recorded in accordance with GAAP. The regulatory asset is currently being amortized over the life of the assets. Also included is depreciation associated with the Columbia of Ohio IRP program. Recovery of these costs is achieved through base rates and rider mechanisms. Refer to Note 1-H for more information.

Uncollectible accounts receivable deferred for future recovery – Represents the difference between certain uncollectible expenses and the recovery of such costs to be collected through cost tracking mechanisms per regulatory orders.

Asset retirement obligations – Represents the timing difference between expense recognition for future obligations and current recovery in rates.

Losses on derivatives – Certain companies are permitted by regulatory orders to participate in commodity price programs to protect customers against the volatility of commodity prices. Unrealized and realized gains or losses related to NiSource's commodity price risk programs may be deferred per specific orders and the recovery of changes in fair value is dependent upon the individual specific company's cost recovery or sharing mechanisms in place. Amounts for derivative gains and losses will continue to be deferred as long as the programs are in existence.

Post-in-service carrying charges – Columbia of Ohio has approval from the PUCO by regulatory order to defer debt-based post-in-service carrying charges as a regulatory asset for future recovery. As such, Columbia of Ohio capitalizes a carrying charge on eligible property, plant and equipment from the time it is placed into utility service until recovery of the property, plant and equipment is included in customer rates in base rates or through a rider mechanism. Inclusion in customer rates generally occurs when Columbia of Ohio files its next rate proceeding following the in-service date of the property, plant and equipment.

EERM operation and maintenance and depreciation deferral – Northern Indiana obtained approval from the IURC to recover certain environmental related costs including operation and maintenance and depreciation expense once the environmental facilities become operational. Recovery of these costs will continue until such assets are included in rate base through an electric base rate case. The EERM deferred charges represent expenses that will be recovered from customers through an annual EERM Cost Tracker which authorizes the collection of deferred balances over a twelve month period.

MISO – As part of Northern Indiana's participation in the MISO transmission service, wholesale energy and ancillary service markets, certain administrative fees and non-fuel costs have been deferred. The IURC authorized the deferral of certain non-fuel related costs until new electric rates were implemented on December 27, 2011. The deferred balances are being amortized over four years commencing January 2012.

Sugar Creek carrying charges and deferred depreciation – The IURC approved the deferral of debt-based carrying charges and the deferral of depreciation expense for the Sugar Creek assets. Northern Indiana continued to defer such amounts until new electric rates were approved and implemented on December 27, 2011. Balances are being amortized over five years beginning January 2012. As of December 31, 2012, the remaining unamortized balance is $57.3 million . An additional $13.9 million is deferred for consideration in Northern Indiana's next electric rate case.

Liabilities:

Overrecovered gas and fuel costs – Represents the difference between the costs of gas and fuel and the recovery of such costs in revenues, and is the basis to adjust future billings for such recoveries on a basis consistent with applicable state-approved tariff provisions. Refunding of these revenues is achieved through tracking mechanisms.

Cost of removal – Represents anticipated 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 for future costs to be incurred.

Regulatory effects of accounting for income taxes – Represents amounts owed to customers for deferred taxes collected at a higher rate than the current statutory rates and liabilities associated with accelerated tax deductions owed to customers that are established during the rate making process.

Other postretirement costs – Primarily represents cash contributions in excess of postretirement benefit expense that is deferred as a regulatory liability by certain subsidiaries in accordance with regulatory orders.

Percentage of income plan – Represents the difference between costs incurred under a customer assistance program by Columbia of Ohio for targeted low income customers and the recovery of such costs through cost tracking mechanisms per regulatory orders. For 2012 and 2011, Columbia of Ohio was in an overcollected position for this program, resulting in a regulatory liability to be refunded through future billings.

Off-system sales margin sharing – Revenue generated from off-system sales and capacity release programs are subject to incentive sharing mechanism in which NiSource shares a defined percentage of its margins with customers . Refunding of these revenues is achieved through rate refund mechanisms.

Emission allowances – Represents proceeds from the banked emission allowances sold into the EPA auction market.

Gas Distribution Operations Regulatory Matters

Significant Rate Developments . On March 15, 2012, the IURC approved a settlement agreement with Northern Indiana and all participating parties to extend its product and services contained in its current gas ARP indefinitely.

On December 28, 2011, the IURC issued an Order approving Northern Indiana's proposed gas energy efficiency programs and budgets, including a conservation program and recovery of all start-up and deferred cost. A three year budget of $42.4 million was approved. Northern Indiana received IURC approval of DSM on June 27, 2012 authorizing recovery of $7.5 million for the six month period ending December 2012. On December 27, 2012, the IURC approved a second DSM authorizing the recovery of program expenses of $6.5 million for the six month period ending June 2013.

On June 27, 2011, Northern Indiana filed a settlement agreement with the IURC in which regulatory stakeholders agreed that Northern Indiana should adopt the WACOG accounting methodology for gas in storage instead of LIFO, Northern Indiana's historical method. On August 31, 2011, the IURC approved the settlement and Northern Indiana transitioned to WACOG accounting methodology beginning January 1, 2012.

On May 3, 2010, Northern Indiana filed a natural gas rate case with the IURC. Northern Indiana entered into a comprehensive settlement with all parties on August 24, 2010. The Settlement Agreement was approved in entirety by Order issued on November 4, 2010 and new rates were placed into effect November 5, 2010. The Order resulted in a decrease in revenue of approximately $14.9 million when compared to a normalized test year ended December 31, 2009. The IURC authorized Northern Indiana to increase the monthly fixed charge for residential customers from $6.36 to $11.00 . The IURC also approved revised depreciation accrual rates for gas plant and authorized Northern Indiana to reduce current period gas plant depreciation expense by up to $25.7 million annually for the next four years or until further order of the IURC, whichever occurs first.

On November 30, 2012, Columbia of Ohio filed a Notice of Intent to file an application to adjust rates associated with its IRP and DSM Riders. The Notice of Intent indicated that Columbia of Ohio would be seeking to increase revenues by approximately $29 million .

In 2009, the PUCO granted Columbia of Ohio an exemption from the regulation of natural gas commodity prices. The 2009 Order also shielded Columbia of Ohio's capacity contract levels from prudency audits for three years, and approved a mechanism for sharing off-system sales and capacity release revenues for three years. On October 4, 2012, Columbia of Ohio and other parties filed a non-unanimous stipulation that would extend key provisions of the 2009 agreement for an additional five years, i.e., Columbia of Ohio's capacity contracts, capacity allocation process, off-system sales and capacity release revenue sharing mechanism. The stipulation also provides a process for the possible exit of the merchant function. On November 27, 2012, Columbia of Ohio filed an amended stipulation that removed the opposition of the Ohio Consumer's Counsel. By Order dated January 9, 2013, the PUCO approved the stipulation.

On December 9, 2011, Columbia of Ohio filed a Notice of Intent to file an application to extend its Infrastructure Replacement Program. Columbia of Ohio filed an amended Notice of Intent and an amended Motion for Waiver on March 5, 2012. On May 8, 2012, Columbia of Ohio filed its application and supporting exhibits and testimony. On September 26, 2012, the parties filed a Joint Stipulation and Recommendation that provided for the extension of Columbia of Ohio's IRP process for an additional five years and settlement of all issues. On November 28, 2012, the PUCO issued an Opinion and Order in which it approved the stipulation.

On September 9, 2011, Columbia of Ohio filed an application with PUCO to continue and expand its DSM program. In its application, Columbia of Ohio proposed to spend $20 million annually (adjusted for inflation) on weatherization programs for residential and commercial customers for calendar years 2012 through 2016. Columbia of Ohio will continue to recover program expenses through Rider DSM and has proposed a shared savings incentive not to exceed $3.9 million over the five-year program. By Order dated December 14, 2011, the PUCO approved a stipulation filed in the case.

On April 30, 2012, Columbia of Ohio filed an application to adjust its Interim, Emergency and Temporary Percentage of Income Payment Plan Rider ("PIPP") from $0.1274 per Mcf to $0.0294 per Mcf to provide for the passback of an overrecovery of approximately $10.9 million and the recovery of its annual change in PIPP arrears. The PUCO approved the application and the revised PIPP Rider went into effect for the first billing unit of July 2012.

On April 19, 2012, Columbia of Ohio filed an application that requests authority to increase its uncollectible expense rider rate in order to generate an additional $14.6 million in annual revenue in order to offset anticipated increases in uncollectible expenses. On May 30, 2012, the PUCO issued an Entry that provided for approval of Columbia of Ohio's April 19, 2012 application for adjustment of its uncollectible expense rider with the new rate effective May 30, 2012.

On January 30, 2009, Columbia of Ohio filed an application with the PUCO to implement a gas supply auction. The auction replaced Columbia of Ohio's current GCR mechanism for providing commodity gas supplies to its sales customers. By Order dated December 2, 2009, the PUCO approved a stipulation that resolved all issues in the case. Pursuant to the stipulation, Columbia of Ohio conducted two consecutive one-year long standard service offer auction periods starting April 1, 2010 and April 1, 2011. On February 23, 2010, Columbia of Ohio held the first standard service offer auction which resulted in a final retail price adjustment of $1.93 per Mcf. On February 24, 2010 the PUCO issued an entry that approved the results of the auction and directed Columbia of Ohio to proceed with the implementation of the standard service offer process. On February 8, 2011, Columbia of Ohio held its second standard service offer auction which resulted in a retail price adjustment of $1.88 per Mcf. On February 9, 2011, the PUCO issued an entry that approved the results of the auction with the new retail price adjustment to become effective April 1, 2011. Several parties have challenged the transition from a standard service offer auction to a standard choice offer auction and on September 7, 2011, the PUCO issued an Order authorizing Columbia of Ohio to implement a standard choice offer auction in February 2012. On October 7, 2011, the OCC filed an application for rehearing of the PUCO's Order. By Entry on Rehearing dated November 1, 2011, the PUCO denied the OCC's Application for Rehearing. On February 14, 2012, Columbia of Ohio held its first standard choice offer auction which resulted in a retail price adjustment of $1.53 per Mcf. On February 14, 2012, the PUCO issued an entry that approved the results of the auction with the new retail price adjustment to become effective April 1, 2012. With the implementation of the standard choice offer, Columbia of Ohio will report lower gross revenues and lower cost of sales. There is no impact on net revenues.

On January 2, 2013, Columbia of Pennsylvania filed a petition with the Pennsylvania PUC, seeking authority to implement a Distribution System Improvement Charge ("DSIC"), with a proposed effective date of March 3, 2013. DSIC has been available to water companies in Pennsylvania for several years, and was authorized for other utilities as of January 1, 2013 with the passage of Act 11 of 2012. Columbia of Pennsylvania is the first natural gas utility in Pennsylvania to seek DSIC approval. If approved, by tariff, Columbia of Pennsylvania would be able to recover the cost of infrastructure not previously reflected in rate base that has been placed in service during the three-month period ending one month prior to the effective date of the DSIC. After the initial charge is established, the DSIC is updated quarterly to recover the cost of further plant additions. The DSIC cannot exceed 5% of distribution revenues. Once new base rates are established under a base rate proceeding, the DSIC will be set back to zero. This represents a significant opportunity to mitigate rate lag by permitting recovery of infrastructure costs without seeking that recovery in a full base rate proceeding.

On September 28, 2012, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC, seeking a revenue increase of approximately $77.3 million annually and providing three options for residential rate design in order to mitigate revenue volatility associated with usage based rates. Columbia of Pennsylvania is the first utility in Pennsylvania to seek Pennsylvania PUC approval to design rates to recover costs that are projected to be incurred after the implementation of those new rates, as recently authorized by the Pennsylvania General Assembly with the passage of Act 11 of 2012. Accordingly, Columbia of Pennsylvania's filing sought to implement rates in July 2013 under which Columbia of Pennsylvania would immediately begin to recover costs that are projected for the twelve-month period ending June 30, 2014. On February 8, 2013, the parties reached a unanimous settlement in principle on all issues in the case, which the parties publicly disclosed to the Pennsylvania PUC on February 13, 2013. The terms of the settlement will be made public when the parties to the case submit a joint petition for approval of that settlement to the Pennsylvania PUC, which is due on March 18, 2013. Columbia of Pennsylvania expects that the Pennsylvania PUC will issue an order in the second quarter of 2013, with rates going into effect in the third quarter of 2013.

On January 14, 2011, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC, seeking a revenue increase of approximately $37.8 million annually. The parties jointly filed a petition for approval of a partial settlement on July 1, 2011. The partial settlement resolved all issues except residential rate design and a challenge to the structure of one of Columbia of Pennsylvania's customer programs. The settlement provides for an annual revenue increase of $17.0 million . The Pennsylvania PUC issued an order on October 14, 2011 approving the annual revenue increase of $17.0 million . New rates went into effect on October 18, 2011. The Pennsylvania PUC's ruling increased the minimum residential customer charge from $12.25 to $18.73 , which includes an allowance for 20 Ccf of distribution charges. However, the customer pays for gas commodity on all usage.

On May 3, 2010, Columbia of Virginia filed a base rate case with the VSCC seeking an annual revenue increase of $13.0 million to recover an updated level of costs upon the expiration of its Performance Based Regulation Plan on December 31, 2010. Columbia of Virginia also sought a Weather Normalization Adjustment ("WNA"), cost recovery of certain gas-related items through its Purchased Gas Adjustment ("PGA") mechanism rather than base rates, and forward looking adjustments predicted to occur during the rate year ending December 31, 2011. On November 16, 2010, Columbia of Virginia, the VSCC Staff and the other parties filed a Proposed Stipulation and Recommendation ("Stipulation") that would result in an annual revenue increase of $4.9 million , including authorization of the WNA and recovery of certain gas-related items through the PGA mechanism. The Chief Hearing Examiner issued a Report on December 2, 2010 recommending approval of the Stipulation. The VSCC issued a Final Order on December 17, 2010 adopting the Stipulation. New rates became effective January 1, 2011.

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Notes to Consolidated Financial Statements

On April 13, 2012, Columbia of Massachusetts submitted a filing with the Massachusetts DPU requesting an annual revenue requirement increase of $29.2 million which was subsequently adjusted to $27.4 million . Columbia of Massachusetts filed using a historic test year ended December 31, 2011. Additionally, Columbia of Massachusetts proposed "rate-year, rate base" treatment for recovery of defined capital expenditures beyond the end of the historic test year, as well as expansion of eligible facilities to be recovered through modification to the Targeted Infrastructure Reinvestment Factor ("TIRF"). The Massachusetts DPU issued an order on November 1, 2012 approving an annual revenue increase of $7.8 million , effective November 1, 2012, rejecting the rate-year, rate-base proposal, but approving the expansion of eligible facilities to be recovered through the TIRF.

Columbia of Massachusetts filed its application for approval of its second Off-peak Period RDAF on March 16, 2012. The DPU issued its final order approving $1.7 million of decoupling revenue for the Off-peak Period RDAF on November 15, 2012. On September 17, 2012, Columbia of Massachusetts filed a petition for approval of its third Peak Period RDAF, with a proposed effective date for recovery of November 1, 2012. This RDAF filing proposes $16.4 million of decoupling revenue, of which $10.5 million falls under the current season recovery cap, with the remaining $5.9 million deferred for recovery in subsequent Peak Period. On October 23, 2012, the Massachusetts DPU approved the November 2012 through April 2013 recovery of the $10.5 million through the application of Columbia of Massachusetts' proposed adjustment factor subject to further investigation and reconciliation.

On August 2, 2012, Columbia of Massachusetts filed its Peak Period Local Distribution Adjustment Factor ("LDAF") and on September 14, 2012, Columbia of Massachusetts filed its Pension Expense Factor and Residential Assistance Adjustment Factor, each with a proposed effective date of November 1, 2012. The Peak Period LDAF of $33.0 million in additional costs beginning on November 1, 2012 was approved on October 31, 2012. The Pension Expense Factor and Residential Assistance Adjustment Factor components of the LDAF were approved subject to further investigation and reconciliation.

Cost Recovery and Trackers . A significant portion of the distribution companies' revenue is related to the recovery of gas costs, the review and recovery of which occurs via standard regulatory proceedings. All states require periodic review of actual gas procurement activity to determine prudence and to permit the recovery of prudently incurred costs related to the supply of gas for customers. NiSource distribution companies have historically been found prudent in the procurement of gas supplies to serve customers.

Certain operating costs of the NiSource distribution companies are significant, recurring in nature, and generally outside the control of the distribution companies. Some states allow the recovery of such costs via cost tracking mechanisms. Such tracking mechanisms allow for abbreviated regulatory proceedings in order for the distribution companies to implement charges and recover appropriate costs. Tracking mechanisms allow for more timely recovery of such costs as compared with more traditional cost recovery mechanisms. Examples of such mechanisms include GCR adjustment mechanisms, tax riders, and bad debt recovery mechanisms.

Comparability of Gas Distribution Operations line item operating results is impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Increases in the expenses that are the subject of trackers, result in a corresponding increase in net revenues and therefore have essentially no impact on total operating income results.

Certain of the NiSource distribution companies have completed rate proceedings involving infrastructure replacement or are embarking upon regulatory initiatives to replace significant portions of their operating systems that are nearing the end of their useful lives. Each LDC's approach to cost recovery may be unique, given the different laws, regulations and precedent that exist in each jurisdiction.

Gas Transmission and Storage Operations Regulatory Matters

Columbia Transmission Customer Settlement. Columbia Transmission reached an agreement with a majority of its customers and filed a customer settlement in support of its comprehensive interstate natural gas pipeline modernization program with the FERC on September 4, 2012. Only one party, the PSC of Maryland, filed a (limited) protest to the Settlement. On October 4, 2012, Columbia Transmission filed its reply addressing the issues raised by the PSC of Maryland. Columbia Transmission expects to invest approximately $1.5 billion over a five-year period to modernize its system to improve system integrity and enhance service reliability and flexibility. The settlement with firm customers includes an initial five-year term with provisions for potential extensions thereafter. The settlement proposes initial refunds totaling $50.0 million , adjustments to base rates and depreciation, and a Capital Cost Recovery Mechanism (CCRM), a tracker mechanism that provides recovery and return on the $1.5 billion program investment. Additional details of the settlement are as follows:

- A $50.0 million refund to max rate contract customers. The payment will be paid in the next monthly billing cycle that is at least 15 days after Columbia Transmission received the final FERC order approving the settlement;
- Base rate reductions, the first retroactive to January 1, 2012, which equates to approximately $35 million in revenues annually and the second beginning January 1, 2014, which equates to approximately $25 million in revenues annually thereafter;
- The CCRM will allow Columbia Transmission to recover, through an additive capital demand rate, its revenue requirement for capital investments made under Columbia Transmission's long-term plan to modernize its interstate transmission system. The mechanism provides for a 14% revenue requirement with a portion designated as a recovery of increased taxes other than income taxes. The additive demand rate is earned on costs associated with projects placed into service by October 31 each year. The CCRM will give Columbia Transmission the opportunity to recover its revenue requirement associated with $1.5 billion investment in the modernization program, while maintaining competitive rates for its shippers. The CCRM recovers the revenue requirement associated with qualifying modernization costs that Columbia Transmission incurs after satisfying the requirement associated with $100.0 million in annual capital maintenance expenditure. The CCRM applies to Columbia Transmission's transportation shippers. The CCRM will not exceed $300.0 million per year, subject to a 15% annual tolerance and a total cap of $1.5 billion for the entire five-year Initial Term;
- Depreciation rate reduction to 1.5% and elimination of negative salvage rate, retroactive to January 1, 2012, which equates to approximately $35 million in reduced annual expenses that is linked to the base rate reduction above;
- A revenue sharing mechanism pursuant to which Columbia Transmission will share 75% of specified revenues earned in excess of an annual threshold;
- A moratorium through January 31, 2018 on changes to Columbia Transmission's reduced transportation base rates; and
- A commitment from Columbia Transmission that it will file a general NGA Section 4(e) rate application to be effective no later than February 1, 2019.

In 2012, Columbia Transmission recorded the $50.0 million refund obligation and a pro rata share of the retroactive base rate reduction, which amounted to $31.7 million , and the pro rata reduction in depreciation expense that amounted to $33.4 million . The FERC approved the settlement on January 24, 2013. Refunds to customers are expected in March 2013.

Columbia Gulf Rate Case. On October 28, 2010, Columbia Gulf filed a rate case with the FERC, proposing a rate increase and tariff changes. Among other things, the filing proposed a revenue increase of approximately $50 million to cover increases in the cost of services, which includes adjustments for operation and maintenance expenses, capital investments, adjustments to depreciation rates and expense, rate of return, and increased federal, state and local taxes. On November 30, 2010, the FERC issued an Order allowing new rates to become effective by May 2011, subject to refund. Columbia Gulf placed new rates into effect, subject to refund, on May 1, 2011. Columbia Gulf and the active parties to the case negotiated a settlement, which was filed with the FERC on September 9, 2011. On September 30, 2011, the Chief Judge severed the issues relating to a contesting party for separate hearing and decision. On October 4, 2011, the Presiding Administrative Law Judge certified the settlement agreement as uncontested to the FERC with severance of the contesting party from the settlement. On November 1, 2011, Columbia Gulf began billing interim rates to customers. On December 1, 2011, the FERC issued an order approving the settlement without change. The key elements of the settlement, which was a "black box agreement", include: (1) increased base rate to $0.1520 per Dth and (2) establishing a postage stamp rate design. No protests to the order were filed and therefore, pursuant to the Settlement, the order became final on January 1, 2012 which made the settlement effective on February 1, 2012. On February 2, 2012, the Presiding Administrative Law Judge issued an initial decision granting a joint motion terminating the remaining litigation with the contesting party and allowing it to become a settling party. The FERC issued an order on March 15, 2012, affirming the initial decision, which terminated the remaining litigation with the contesting party. Refunds of approximately $16.0 million , accrued as of December 31, 2011, were disbursed to settling parties in March 2012.

Cost Recovery Trackers and other similar mechanisms. A significant portion of the transmission and storage regulated companies' revenue is related to the recovery of their operating costs, the review and recovery of which occurs via standard regulatory proceedings with the FERC under section 7 of the Natural Gas Act. However, certain operating costs of the NiSource regulated transmission and storage companies are significant and recurring in nature, such as fuel for compression and lost and unaccounted for gas. The FERC allows for the recovery of such costs via cost tracking mechanisms. These tracking mechanisms allow the transmission and storage companies' rates to fluctuate in response to changes in certain operating costs or conditions as they occur to facilitate the timely recovery of its costs incurred. The tracking mechanisms involve a rate adjustment that is filed at a predetermined frequency, typically annually, with the FERC and is subject to regulatory review before new rates go into effect. Other such costs under regulatory tracking mechanisms include upstream pipeline transmission, electric compression, environmental, and operational purchase and sales of natural gas.

The CCRM will allow Columbia Transmission to recover, through an additive capital demand rate, its revenue requirement for capital investments made under Columbia Transmission's long-term plan to modernize its interstate transmission system.

Electric Operations Regulatory Matters

Significant Rate Developments . On July 18, 2011, Northern Indiana filed with the IURC a settlement in its 2010 Electric Rate Case with the OUCC, Northern Indiana Industrial Group, NLMK Indiana and Indiana Municipal Utilities Group. The settlement agreement limited the proposed base rate impact to the residential customer class to a 4.5% increase. The parties also agreed to a rate of return of 6.98% based upon a 10.2% return on equity. The settlement resolved all pending issues related to compliance with the August 25, 2010 Order in the 2008 Electric Rate Case. On December 21, 2011, the IURC issued an Order approving the Settlement Agreement as filed, and new electric base rates became effective on December 27, 2011.

Northern Indiana received a favorable regulatory order on February 18, 2009, related to its actions to increase its electric generating capacity and advance its electric rate case. Acting on a settlement reached among Northern Indiana and its regulatory stakeholders, the IURC ruled that Northern Indiana's Sugar Creek electric generating plant was in service for ratemaking purposes as of December 1, 2008. The IURC also approved the deferral of depreciation expenses and debt-based carrying costs associated with the $330.0 million Sugar Creek investment. Northern Indiana purchased Sugar Creek on May 30, 2008 and effective December 1, 2008, Sugar Creek was accepted as an internal designated network resource within the MISO. The annual deferral for Sugar Creek was reduced by the annual depreciation on the Mitchell plant of $4.5 million , pursuant to the FAC-71 settlement. On December 21, 2011 the IURC issued an Order in the Electric rate case and new customer rates became effective on December 27, 2011. The deferral of Sugar Creek debt based carrying charges and the deferral of depreciation ceased December 2011 and the deferred balances are being amortized over five years beginning January 2012. As of December 31, 2012, the remaining balance to be amortized is $57.3 million . An additional $13.9 million is deferred for consideration in Northern Indiana's next electric base rate case.

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 provided that certain electric customers of Northern Indiana would receive bill credits of approximately $55.1 million each year. The credits continued at approximately the same annual level and per the same methodology, until the IURC approval and implementation of new customer rates, which occurred on December 27, 2011. Credits amounting to $51.0 million and $60.5 million were recognized for electric customers for 2011 and 2010, respectively. A final reconciliation of the credits was completed in the fourth quarter of 2012, which resulted in recoveries of $6.6 million in 2012.

Cost Recovery and Trackers . A significant portion of Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana.

As part of a multi-state effort to strengthen the electric transmission system serving the Midwest, Northern Indiana anticipates making investments in two projects that were authorized by the MISO and are scheduled to be in service during the latter part of the decade. On July 19, 2012 and December 19, 2012, the FERC issued an order approving construction work in progress in rate base and abandoned plant cost recovery requested by Northern Indiana, for the 100-mile, 345 kV transmission project and its right to develop 50 percent of the 66-mile, 765 kV project. On December 19, 2012, the FERC issued an order authorizing Northern

Indiana's request to transition to forward looking rates, allowing more timely recovery of Northern Indiana's investment in transmission assets.

On February 8, 2012, Pioneer Transmission, LLC filed a complaint with the FERC, seeking to obtain 100 percent of the investment rights in this second project. In response on July 19, 2012, the FERC issued an order which denied the complaint filed by Pioneer Transmission, LLC and affirmed that Northern Indiana and Duke Energy are the appropriate parties to share equally in the development of the 66-mile, 765 kV transmission project extending between Reynolds, Indiana and Greentown, Indiana. On August 20, 2012, Pioneer Transmission, LLC, Northern Indiana, and MISO filed a settlement agreement resolving the Pioneer complaint case establishing Northern Indiana's right to develop 50 percent of the project. The Settlement is currently pending at the FERC.

As participants in the MISO transmission service, wholesale energy and ancillary service markets, Northern Indiana incurs certain ongoing non-fuel costs and revenues. Prior to the December 21, 2011 Order, IURC orders authorized the deferral for consideration in a future rate case proceeding all non-fuel related costs and revenues incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. In the Order issued on December 21, 2011, Northern Indiana was authorized to recover through new electric base rates the cumulative amount of non-fuel costs and revenues that were deferred as of June 30, 2011 over a period of four years. The deferral of these costs ceased during December 2011 and the amortization of the deferred costs and revenues commenced in January 2012. As of December 31, 2012, Northern Indiana had a remaining balance of deferred net MISO costs of $28.8 million .

On December 9, 2009, the IURC issued an Order in its generic DSM investigation proceeding establishing an overall annual energy savings goal of 2% to be achieved by Indiana jurisdictional electric utilities in 10 years, with interim savings goals established in years one through nine . On May 25, 2011, the IURC issued an Order approving a tracker mechanism to recover the costs associated with these energy efficiency programs. On July 27, 2011, the IURC issued an order approving Northern Indiana's portfolio of electric energy efficiency programs and on August 8, 2012, approved recovery of lost margins associated with those programs through semi-annual tracker filings.

On December 27, 2012, the IURC approved DSM-3 authorizing the recovery of program expenses and lost margins in the amount of approximately $4.4 million and $6.6 million , respectively, to be recovered over six months beginning January 2013.

In the Order issued on December 21, 2011, the IURC also approved a semi-annual RTO tracker for recovery of MISO non-fuel costs and revenues and off-system sales sharing and ordered that purchased power costs and fuel-related MISO charge types be recovered in the FAC. The IURC also authorized the recovery, through the RTO tracker, of all net costs deferred between July 1, 2011 and the IURC's approval of new electric base rates. On October 31, 2012, the IURC approved RTO-2 authorizing the recovery of non-fuel costs and revenues in the amount of $5.0 million , to be recovered over six months commencing November 1, 2012. On August 22, 2012, the IURC issued an order authorizing Northern Indiana to retain certain revenues under MISO Schedule 26-A to support investments in Northern Indiana's Multi-Value Projects under MISO's 2011 transmission expansion plan.

In the Order issued on December 21, 2011, the IURC also approved a semi-annual RA tracker for recovery of certain capacity charges and costs associated with credits paid for interruptible load. On October 31, 2012, the IURC approved RA-2 authorizing the recovery of charges and credits in the amount of $14.1 million , to be recovered over six months commencing November 1, 2012.

Northern Indiana has approval from the IURC to recover certain environmental related costs through 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 environmental compliance plan projects through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. The IURC approved the continued use of the ECRM and the EERM trackers in its December 21, 2011 Order. As a result of new customer rates, the cost relating to environmental projects that were in service as of June 30, 2010, will be recovered through base rates and will no longer be tracked through the ECRM and EERM.

On March 22, 2011, Northern Indiana filed a petition with the IURC for a certificate of public convenience and necessity and associated relief for the construction of additional environmental projects required to comply with the NOV consent decree lodged in the United States District Court for the Northern District of Indiana on January 13, 2011 and EPA Regulations. Refer to Note

20-D, "Environmental Matters," for additional information. This petition was trifurcated into three separate phases. On December 28, 2011, February 15, 2012 and September 5, 2012, the IURC issued orders approving estimated project costs of approximately $800.0 million and granting the requested ratemaking and accounting relief associated with these projects through annual and semi-annual tracker filings.

On November 21, 2012, the IURC approved ECR-20 for net capital expenditures of $227.1 million . On February 1, 2013, Northern Indiana filed ECR-21, the filing implementing the ECT, which included $376.4 million of net capital expenditures and operation and maintenance and depreciation expenses of $1.1 million for the period ended December 31, 2012.

9. Risk Management and Energy Marketing Activities

NiSource is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are commodity price risk and interest rate risk. Derivative natural gas contracts are entered into to manage the price risk associated with natural gas price volatility and to secure forward natural gas prices. Interest rate swaps are entered into to manage interest rate risk associated with NiSource's fixed-rate borrowings. NiSource designates some of its commodity forward contracts as cash flow hedges of forecasted purchases of commodities and designates its interest rate swaps as fair value hedges of fixed-rate borrowings. Additionally, certain NiSource subsidiaries enter into forward physical contracts with various third parties to procure or sell natural gas or power. Certain forward physical contracts are derivatives which qualify for, and for which NiSource may elect, the normal purchase and normal sales exception which do not require mark-to-market accounting.

Accounting Policy for Derivative Instruments. The ASC topic on accounting for derivatives and hedging 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 such as a normal purchase and normal sale contract under the provisions of the ASC topic. 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, basis contracts, 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 derivative contracts that qualify for the normal purchase and normal sales exception, a contract's fair value is not recognized in the Consolidated Financial Statements until the contract is settled.

Unrealized and realized gains and losses are recognized each period as components of AOCI, regulatory assets and liabilities or earnings depending on the designation of the derivative instrument. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to AOCI and are recognized in earnings concurrent with the disposition of the hedged risks. If a forecasted transaction corresponding to a cash flow hedge is no longer probable 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 together 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 or passed back to customers in revenues through rates. When gains and losses are recognized in earnings, they are recognized in revenues or 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.

NiSource has elected not to net fair value amounts for its derivative instruments or the fair value amounts recognized for its right to receive cash collateral or obligation to pay cash collateral arising from those derivative instruments recognized at fair value, which are executed with the same counterparty under a master netting arrangement. NiSource discloses amounts recognized for the right to reclaim cash collateral within "Restricted cash" and amounts recognized for the right to return cash collateral within "Other accruals" on the Consolidated Balance Sheets.

Commodity Price Risk Programs . NiSource and NiSource's utility customers are exposed to variability in cash flows associated with natural gas purchases and volatility in natural gas prices. NiSource purchases natural gas for sale and delivery to its retail, commercial and industrial customers, and for most customers the variability in the market price of gas is passed through in their rates. Some of NiSource's utility subsidiaries offer programs where variability in the market price of gas is assumed by the respective utility. The objective of NiSource's commodity price risk programs is to mitigate this gas cost variability, for NiSource or on behalf of its customers, associated with natural gas purchases or sales by economically hedging the various gas cost components by using a combination of futures, options, forward physical contracts, basis swap contracts or other derivative contracts. Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These commodity price risk programs and their respective accounting treatment are described below.

Northern Indiana, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX futures and NYMEX options to minimize risk associated with gas price volatility. These derivative programs must be marked to fair value, but because these derivatives are used within the framework of the companies' GCR or FAC mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana and Columbia of Virginia offer a fixed price program as an alternative to the standard GCR mechanism. These services provide certain customers with the opportunity to either lock in their gas cost or place a cap on the gas costs that would be charged in future months. In order to hedge the anticipated physical purchases associated with these obligations, forward physical contracts, NYMEX futures and NYMEX options are used to secure forward gas prices. The accounting treatment elected for these contracts is varied in that certain of these contracts have been accounted for as cash flow hedges while some contracts are not. The accounting treatment is based on the election of the company. The normal purchase and normal sales exception is elected for forward physical contracts associated with these programs where delivery of the commodity is probable to occur.

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 in future months at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, forward physical contracts, NYMEX futures and NYMEX options have been used to secure forward gas prices. The normal purchase and normal sales exception is elected for forward physical contracts associated with these programs where delivery of the commodity is probable to occur.

Northern Indiana enters into gas 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, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

Columbia of Kentucky, Columbia of Ohio and Columbia of Pennsylvania enter into contracts that allow counterparties the option to sell gas to them at first of the month prices for a particular month of delivery. These 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. These Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability based on the regulatory customer sharing mechanisms in place, with the remaining changes in fair value recognized currently in earnings.

As part of the MISO Day 2 initiative, Northern Indiana was allocated or has purchased FTRs. These FTRs help Northern Indiana offset congestion costs due to the MISO Day 2 activity. The FTRs are marked to fair value and are not accounted for as a hedge, but since congestion costs are recoverable through the fuel cost recovery mechanism, the related gains and losses associated with marking these derivatives to market are recorded as a regulatory asset or liability. In the second quarter of 2008, MISO changed its allocation procedures from an allocation of FTRs to an allocation of ARRs, whereby Northern Indiana was allocated ARRs based on its historical use of the MISO administered transmission system. ARRs entitle the holder to a stream of revenues or charges based on the price of the associated FTR in the FTR auction, so ARRs can be used to purchase FTRs in the FTR auction. ARRs are not derivatives.

NiSource is in the process of winding down its unregulated natural gas marketing business, where gas financial contracts are utilized to economically hedge expected future gas purchases associated with forward gas agreements. These financial contracts, as well as the associated forward physical sales contracts, are derivatives and are marked-to-market with all associated gains and losses recognized to income. NiSource established a reserve of $ 0.7 million and $ 25.6 million against certain derivatives as of December 31, 2012 and December 31, 2011, respectively. This amount represents reserves related to the creditworthiness of certain

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customers, fair value of future cash flows, and the cost of maintaining significant amounts of restricted cash. The physical sales contracts marked-to-market had a fair value of approximately $ 35.4 million at December 31, 2012 and $ 136.8 million at December 31, 2011, while the financial derivative contracts marked-to-market had a fair value loss of $ 33.2 million at December 31, 2012, and $ 155.5 million at December 31, 2011. During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business. During 2012, NiSource settled a majority of the contracts related to the reserve noted above and wrote off $ 43.8 million of price risk assets. Additionally, NiSource has a notes receivable balance related to the settlements of $ 12.1 million as of December 31, 2012.

On October 31, 2011, cash and derivatives broker-dealer MF Global filed for Chapter 11 bankruptcy protection. MF Global brokered NYMEX hedges of natural gas futures on behalf of NiSource. At the date of bankruptcy, NiSource affiliates had contracts open with MF Global with settlement dates ranging from November 2011 to February 2014. On November 3, 2011, these contracts were measured at a mark-to-market loss of approximately $ 46.4 million . NiSource affiliates had posted initial margin to open these accounts of $ 6.9 million and additional maintenance margin for mark-to-market losses of $46.4 million, for a total restricted cash balance of $ 53.3 million . Within the first week after the filing, at the direction of the Bankruptcy Court, a transfer of assets was initiated on behalf of NiSource affiliates to a court-designated replacement broker for future trade activity. The existing futures positions were closed and then rebooked with the court-designated replacement broker at the new closing prices as of November 3, 2011. Initial margin on deposit at MF Global of $ 5.7 million was transferred to the court-designated replacement broker. The maintenance margin was retained by MF Global to offset the loss positions of the open contracts on November 3, 2011. NiSource affiliates are monitoring the activity in the bankruptcy case and have filed a proof of claim at the Court's direction. As of December 31, 2012, NiSource affiliates maintained a reserve for the $ 1.2 million difference between the initial margin posted with MF Global and the cash transferred to the court-designated replacement broker as a loss contingency.

Commodity price risk program derivative contracted gross volumes are as follows:

	December 31, 2012	December 31, 2011
Commodity Price Risk Program:		
Gas price volatility program derivatives (MMDth)	**26.3**	26.1
Price Protection Service program derivatives (MMDth)	**1.2**	1.0
DependaBill program derivatives (MMDth)	**0.3**	0.3
Regulatory incentive program derivatives (MMDth)	**—**	0.9
Gas marketing program derivatives (MMDth) (1)	**9.1**	28.5
Gas marketing forward physical derivatives (MMDth) (2)	**8.4**	27.1
Electric energy program FTR derivatives (mwh) (3)	**8,927.3**	8,578.5

(1) Basis contract volumes not included in the above table were 8.2 MMDth and 15.9 MMDth as of December 31, 2012 and December 31, 2011, respectively.

(2) Basis contract volumes not included in the above table were 9.2 MMDth and 29.9 MMDth as of December 31, 2012 and December 31, 2011, respectively.

(3) Megawatt hours reported in thousands.

Interest Rate Risk Activities . NiSource recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure. NiSource Finance has entered into various "receive fixed" and "pay floating" interest rate swap agreements which modify the interest rate characteristics of a portion of its outstanding long-term debt from fixed to variable rate. These interest rate swaps also serve to hedge the fair market value of NiSource Finance's outstanding debt portfolio. As of December 31, 2012, NiSource had $ 7.1 billion of outstanding fixed rate debt, of which $ 500 million is subject to fluctuations in interest rates as a result of the fixed-to-variable interest rate swap transactions. These interest rate swaps are designated as fair value hedges. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness for the twelve months ended December 31, 2012 and 2011.

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 eleven -year term. NiSource Finance receives payments based upon a fixed 5.40% interest rate and pays 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 July 15, 2013.

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Contemporaneously with the issuance on September 16, 2005 of $ 1 billion of its 5.25% and 5.45% notes, 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 from accumulated other comprehensive loss to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88% , respectively. As of December 31, 2012, accumulated other comprehensive loss includes $ 9.8 million related to forward starting interest rate swap settlement. These derivative contracts are accounted for as a cash flow hedge.

As of December 31, 2012, NiSource holds a 47.5% interest in Millennium. As NiSource reports Millennium as an equity method investment, NiSource is required to recognize a proportional share of Millennium's OCI. NiSource's proportionate share of the remaining unrealized loss associated with a settled interest rate swap is $ 18.7 million , net of tax, as of December 31, 2012. Millennium is amortizing the unrealized loss related to these terminated interest rate swaps into earnings using the effective interest method through interest expense as interest payments are made. NiSource records its proportionate share of the amortization as Equity Earnings in Unconsolidated Affiliates in the Statements of Consolidated Income.

NiSource's location and fair value of derivative instruments on the Consolidated Balance Sheets were:

Asset Derivatives *(in millions)*	**December 31, 2012**	December 31, 2011
Balance Sheet Location	**Fair Value**	Fair Value [1]
Derivatives designated as hedging instruments		
Interest rate risk activities		
Price risk management assets (current)	$ —	$ —
Price risk management assets (noncurrent)	**40.4**	56.7
Total derivatives designated as hedging instruments	$ 40.4	$ 56.7
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management assets (current)	$ **92.2**	$ 141.8
Price risk management assets (noncurrent)	**15.6**	150.0
Total derivatives not designated as hedging instruments	$ **107.8**	$ 291.8
Total Asset Derivatives	$ **148.2**	$ 348.5

[1] During the fourth quarter of 2011, NiSource recorded a reserve of $ 22.6 million ($ 4.6 million current and $ 18.0 million noncurrent) on certain assets related to the wind down of the unregulated natural gas marketing business. During 2012, NiSource wrote off these impaired derivative contracts as all contracts have been settled. The write-off was consistent with the reserve recorded in 2011. The non-designated price risk asset amounts above are shown gross and have not been adjusted for the reserves.

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Liability Derivatives *(in millions)*	**December 31, 2012**	December 31, 2011
Balance Sheet Location	**Fair Value**	Fair Value
Derivatives designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	**$ 0.1**	$ 0.4
Price risk management liabilities (noncurrent)	**—**	0.1
Total derivatives designated as hedging instruments	**$ 0.1**	$ 0.5
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	**$ 95.1**	$ 167.4
Price risk management liabilities (noncurrent)	**20.3**	138.8
Total derivatives not designated as hedging instruments	**$ 115.4**	$ 306.2
Total Liability Derivatives	**$ 115.5**	$ 306.7

The effect of derivative instruments on the Statements of Consolidated Income were:

Derivatives in Cash Flow Hedging Relationships

Twelve Months Ended *(in millions)*

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivative (Effective Portion)		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Commodity price risk programs	**$ 0.7**	$ —	$ 0.1
Interest rate risk activities	**1.5**	1.6	1.5
Total	**$ 2.2**	$ 1.6	$ 1.6

Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Cost of sales	**$ (0.9)**	$ 1.1	$ 1.2
Interest expense, net	**(2.6)**	(2.6)	(2.6)
Total	**$ (3.5)**	$ (1.5)	$ (1.4)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

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Twelve Months Ended *(in millions)*

Derivatives in Cash Flow Hedging Relationships	Location of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain Recognized in Income of Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Commodity price risk programs	Cost of Sales	$ —	$ —	$ —
Interest rate risk activities	Interest expense, net	—	—	—
Total		$ —	$ —	$ —

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 accumulated other comprehensive income (loss) of approximately $ 0.2 million of loss, net of taxes.

Derivatives in Fair Value Hedging Relationships

Twelve Months Ended *(in millions)*

Derivatives in Fair Value Hedging Relationships	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Interest rate risk activities	Interest expense, net	$ **(16.3)**	$ (4.4)	$ (8.7)
Total		$ **(16.3)**	$ (4.4)	$ (8.7)

Twelve Months Ended (*in millions*)

Hedged Item in Fair Value Hedge Relationships	Location of Gain Recognized in Income on Related Hedged Item	Amount of Gain Recognized in Income on Related Hedged Items Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Interest rate risk activities	Interest expense, net	$ **16.3**	$ 4.4	$ 8.7
Total		$ **16.3**	$ 4.4	$ 8.7

Derivatives not designated as hedging instruments

Twelve Months Ended (*in millions*)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Realized/Unrealized Gain (Loss) Recognized in Income on Derivatives [1] Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Commodity price risk programs	Gas Distribution revenues	$ 0.3	$ —	$ (55.6)
Commodity price risk programs	Other revenues	27.5	62.6	115.3
Commodity price risk programs	Cost of Sales	(46.1)	(66.9)	(95.4)
Total		$ (18.3)	$ (4.3)	$ (35.7)

[1] For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, losses of $ 20.3 million , $ 33.9 million , and $ 36.7 million for 2012, 2011 and 2010, respectively, were deferred per regulatory orders. These amounts will be amortized to income over future periods of up to twelve months per regulatory order.

NiSource has not made any material reclassifications to earnings from AOCI to Cost of Sales due to the probability that certain forecasted transactions would not occur for the twelve months ended December 31, 2012 and 2011.

NiSource's derivative instruments measured at fair value as of December 31, 2012 and 2011 do not contain any credit-risk-related contingent features.

Certain NiSource affiliates have physical commodity purchase agreements that contain "ratings triggers" that require increases in collateral if the credit rating of NiSource or certain of its affiliates are rated below BBB- by Standard & Poor's or below Baa3 by Moody's. These agreements are primarily for the physical purchase or sale of natural gas and electricity. As of December 31, 2012, the collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $ 0.9 million . In addition to agreements with ratings triggers, there are some agreements that contain "adequate assurance" or "material adverse change" provisions that could result in additional credit support such as letters of credit and cash collateral to transact business.

NiSource had $ 45.7 million and $ 158.2 million of cash on deposit with brokers for margin requirements associated with open derivative positions reflected within "Restricted cash" on the Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011, respectively.

10. Variable Interest Entities and Equity Method Investments

A. Variable Interest Entities . In general, a VIE is an entity which (1) has an insufficient amount of at-risk equity to permit the entity to finance its activities without additional financial subordinated support provided by any other parties, (2) whose at-risk equity owners, as a group, do not have power, through voting rights or similar rights, to direct activities of the entity that most significantly impact the entity's economic performance or (3) whose at-risk owners do not absorb the entity's losses or receive the entity's residual return. A VIE is required to be consolidated by a company if that company is determined to be the primary beneficiary of the VIE.

NiSource consolidates those VIEs for which it is the primary beneficiary. Prior to the adoption of the new FASB guidance on consolidation of variable interest entities, the prevalent method for determining the primary beneficiary was through a quantitative method. With the adoption of the guidance, NiSource also considers qualitative elements in determining the primary beneficiary. These qualitative measures include the ability to control an entity and the obligation to absorb losses or the right to receive benefits.

NiSource's analysis under GAAP includes an assessment of guarantees, operating leases, purchase agreements, and other contracts, as well as its investments and joint ventures. For items that have been identified as variable interests, or where there is involvement with an identified variable interest entity, an in-depth review of the relationship between the relevant entities and NiSource is made to evaluate qualitative and quantitative factors to determine the primary beneficiary, if any, and whether additional disclosures would be required under the current standard.

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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 July 1, 1992 and expired on June 30, 2012. The agreement was renewed effective July 1, 2012 for ten years and Northern Indiana will continue to pay for the services under a combination of fixed and variable charges. NiSource has made an exhaustive effort to obtain information needed from Pure Air to determine the status of Pure Air as a VIE. However, Northern Indiana has not been able to obtain this information and as a result, it is unclear whether Pure Air is a VIE and if Northern Indiana is the primary beneficiary. Northern Indiana will continue to request the information required to determine whether Pure Air is a VIE. Northern Indiana has no exposure to loss related to the service agreement with Pure Air and payments under this agreement were $ 21.6 million and $ 23.2 million for the years ended December 31, 2012 and 2011, respectively. In accordance with GAAP, the renewed agreement was evaluated to determine whether the arrangement qualifies as a lease. Based on the terms of the agreement, the arrangement qualified for capital lease accounting. As the effective date of the new agreement was July 1, 2012, NiSource capitalized this lease beginning in the third quarter of 2012.

B. Equity Method Investments . Certain investments of NiSource are accounted for under the equity method of accounting. Income and losses from Millennium and Hardy Storage are reflected in Equity Earnings in Unconsolidated Affiliates on NiSource's Statements of Consolidated Income. These investments are integral to the Gas Transmission and Storage Operations business. Income and losses from all other equity investments are reflected in Other, net on NiSource's Statements of Consolidated Income. All investments shown as limited partnerships are limited partnership interests.

The following is a list of NiSource's equity method investments at December 31, 2012:

Investee	Type of Investment	% of Voting Power or Interest Held
The Wellingshire Joint Venture	General Partnership	50.0%
Hardy Storage Company, L.L.C.	LLC Membership	50.0%
Pennant Midstream, L.L.C.	LLC Membership	50.0%
Millennium Pipeline Company, L.L.C.	LLC Membership	47.5%
House Investments - Midwest Corporate Tax Credit Fund, L.P.	Limited Partnership	12.2%
Nth Power Technologies Fund II, L.P.	Limited Partnership	4.2%
Nth Power Technologies Fund II-A, L.P.	Limited Partnership	4.2%
Nth Power Technologies Fund IV, L.P.	Limited Partnership	1.8%

As the Millennium and Hardy Storage investments are considered integral to the Gas Transmission and Storage Operations business, the following table contains condensed summary financial data. These investments are accounted for under the equity method of accounting and, therefore, are not consolidated into NiSource's Consolidated Balance Sheets and Statements of Consolidated Income. These investments are recorded within Unconsolidated affiliates on the Consolidated Balance Sheets and NiSource's portion of the results are reflected in Equity Earnings in Unconsolidated Affiliates on the Statements of Consolidated Income.

Given the immaterial nature of the other equity method investments, a condensed summary of financial data was determined not to be necessary.

Year Ended December 31, *(in millions)*		**2012**		2011		2010
Millennium						
Statement of Income Data:						
Net Revenues	$	**152.3**	$	119.3	$	103.9
Operating Income		**97.7**		63.7		55.9
Net Income		**57.1**		20.5		22.1
Balance Sheet Data:						
Total Assets		**1,047.1**		1,045.0		1,060.6
Total Liabilities		**674.1**		703.4		725.5
Total Members' Equity		**373.0**		341.6		335.1
Hardy Storage						
Statement of Income Data:						
Net Revenues	$	**24.4**	$	24.4	$	23.9
Operating Income		**16.4**		16.5		16.2
Net Income		**10.0**		9.7		9.0
Balance Sheet Data:						
Total Assets		**173.8**		176.1		184.8
Total Liabilities		**109.4**		114.8		124.1
Total Members' Equity		**64.4**		61.3		60.7

Equity in the retained earnings of Millennium and Hardy Storage at December 31, 2012 was $ 19.1 million and $ 7.5 million , respectively. Contributions to Millennium, Hardy Storage and other equity investees were $ 20.4 million , $ 6.4 million , and $ 87.9 million for 2012, 2011 and 2010, respectively. Millennium distributed $ 31.4 million and $ 14.3 million of earnings to Columbia Transmission during 2012 and 2011, respectively. Hardy Storage distributed $ 3.5 million and $ 4.5 million of earnings to NiSource during 2012 and 2011, respectively.

11. Income Taxes

The components of income tax expense were as follows:

Year Ended December 31, *(in millions)*		**2012**		2011		2010
Income Taxes						
Current						
Federal	$	**(94.8)**	$	(19.1)	$	(66.2)
State		**5.7**		(2.1)		2.2
Total Current		**(89.1)**		(21.2)		(64.0)
Deferred						
Federal		**289.9**		151.8		182.3
State		**18.8**		31.4		17.4
Total Deferred		**308.7**		183.2		199.7
Deferred Investment Credits		**(4.1)**		(4.8)		(5.9)
Income Taxes from Continuing Operations	$	**215.5**	$	157.2	$	129.8

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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)*	**2012**		2011		2010	
Book income from Continuing Operations before income taxes	**$ 626.1**		$ 452.0		$ 406.6	
Tax expense at statutory federal income tax rate	**219.1**	**35.0 %**	158.2	35.0 %	142.3	35.0 %
Increases (reductions) in taxes resulting from:						
State income taxes, net of federal income tax benefit	**15.9**	**2.5**	19.3	4.2	11.9	3.0
Regulatory treatment of depreciation differences	**(6.1)**	**(0.9)**	(8.2)	(1.8)	(16.2)	(4.0)
Amortization of deferred investment tax credits	**(4.1)**	**(0.7)**	(4.8)	(1.1)	(5.9)	(1.5)
Nondeductible expenses	**1.9**	**0.3**	2.5	0.6	1.8	0.4
Employee Stock Ownership Plan Dividends	**(3.4)**	**(0.5)**	(3.1)	(0.7)	(2.9)	(0.7)
Regulatory treatment of AFUDC-Equity	**(3.1)**	**(0.5)**	(0.6)	(0.1)	(1.9)	(0.5)
Tax accrual adjustments and other, net	**(4.7)**	**(0.8)**	(6.1)	(1.3)	0.7	0.2
Income Taxes from Continuing Operations	**$ 215.5**	**34.4 %**	$ 157.2	34.8 %	$ 129.8	31.9 %

The effective income tax rates were 34.4% , 34.8% and 31.9% in 2012 , 2011 and 2010 , respectively. The change in the overall effective tax rate in 2012 versus 2011 was minimal. The 2011 rate increased compared to 2010 rate due to the 2010 rate settlement in Pennsylvania and for the change in Indiana state taxes, discussed below.

On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012 (ATRA). ATRA, among other things, extends retroactively the research credit under Internal Revenue Code section 41 until December 31, 2013, and also extends and modifies 50% bonus depreciation for 2013. In general, 50% bonus depreciation will be available for property placed in service before January 1, 2014, or in the case of certain property having longer production periods, January 1, 2015. NiSource will record the effects of ATRA in the first quarter 2013. NiSource does not believe that the retroactive extension of the research credit will have a significant effect on net income. At December 31, 2012, NiSource is reflecting $162.8 million of current deferred tax assets related to federal net operating loss carryforwards based upon when it expected to use net operating losses according to the tax law in effect as of the balance sheet date. The extension of bonus depreciation under ATRA will more likely than not change the timing of the usage of the federal net operating loss to a period beyond 12 months from the balance sheet date. Accordingly, NiSource expects that in the first quarter of 2013, the majority of the deferred tax asset related to the federal net operating loss carryforward will be presented as non-current.

During the third quarter of 2009, NiSource received permission from the IRS to change its tax method of capitalizing certain costs which it applied on a prospective basis to the federal and state income tax returns filed for its 2008 tax year. As a result of the new tax accounting method, NiSource recorded federal and state income tax receivables of $295.7 million . Refunds of $263.5 million were received in October 2009, with additional refunds of $25.3 million received in December 2009 and January and February 2010. The balance of the refunds was received during 2010.

On August 19, 2011, the IRS issued Revenue Procedure 2011-43, which provided a safe harbor method that taxpayers may use to determine whether certain expenditures related to electric transmission and distribution assets must be capitalized. This revenue procedure provided procedures for obtaining automatic consent from the IRS to adopt the safe harbor method for the first or second taxable year beginning after December 30, 2010. NiSource changed its method of tax accounting related to certain expenditures, including those related to electric transmission and distribution assets, in 2008. At December 31, 2011 and 2010, NiSource had $80.9 million and $107.4 million , respectively, of unrecognized tax benefits related to this method change pending resolution on audit or further guidance from the IRS or United States Treasury Department. As a result of the issuance of the revenue procedure NiSource revised its estimates and recorded tax benefits of $12.9 million in the third quarter of 2011. Excluding minor amounts of interest, the revision of estimate did not impact total income tax expense. On its 2011 federal income tax return filed in September 2012, NiSource included an automatic change in tax accounting method related to electric transmission and distribution repairs in conformity with Revenue Procedure 2011-43.

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On December 27, 2011, the United States Treasury Department and the IRS issued temporary and proposed regulations effective for years beginning on or after January 1, 2012 that, among other things, provided guidance on whether expenditures qualified as deductible repairs (the "Tangible Property Regulations"). In addition to repairs related rules, the proposed and temporary regulations provided additional guidance related to capitalization of tangible property. Among other things, these rules provide guidance for the treatment of materials and supplies, dispositions of property, and related elections. On March 15, 2012, the IRS issued a directive to discontinue exam activity related to positions on this issue taken on original tax returns for years beginning before January 1, 2012 (commonly referred to as the "Stand-down Position").

On October 2, 2012 and later incorporated by reference in the Revenue Agent's Report dated November 14, 2012 for the 2008 to 2010 tax years, NiSource received an audit adjustment that adopted the Stand-down Position. The effect of this adjustment is to allow the repairs claims as filed and to defer review until a new method is adopted in 2012 or a subsequent acceptable year.

On November 20, 2012, the Treasury Department and IRS issued Notice 2012-73, which in relevant part stated that (i) final regulations would be issued in 2013, and (ii) the final regulations will contain changes from the temporary regulations. The Notice in essence defers the requirement of adopting the temporary regulations until 2013 and the final regulations until 2014. NiSource will evaluate the final regulations when issued and at that time will assess the proper period for adoption.

On May 12, 2011, the governor of Indiana signed into law House Bill 1004, which among other things, lowered the corporate income tax rate from 8.5% to 6.5% over four years beginning on July 1, 2012. The reduction in the tax rate impacted deferred income taxes and tax related regulatory assets and liabilities recoverable in the rate making process. In addition, other deferred tax assets and liabilities, primarily deferred tax assets related to Indiana net operating loss carry forward, was reduced to reflect the lower rate at which these temporary differences and tax benefits will be realized. In the second quarter 2011, NiSource recorded tax expense of $6.8 million to reflect the effect of this rate change. The expense is largely attributable to the re-measurement of the Indiana net operating loss at the 6.5% rate. The majority of the Company's tax temporary differences are related to Northern Indiana's utility plant. The re-measurement of these temporary differences at 6.5% was recorded as a reduction of a regulatory asset.

In the fourth quarter of 2010, NiSource received permission from the IRS to change its method of accounting for capitalized overhead costs under Section 263A of the Internal Revenue Code. The change was effective for the 2009 tax year. The Company recorded a net long-term receivable of $31.5 million , net of uncertain tax positions, in the fourth quarter of 2010 to reflect this change. There was no material impact on the effective tax rate as a result of this method change. In 2011, the Company revised its calculation related to the change in method and recorded an increase to the net long-term receivable of $3.3 million , net of uncertain tax positions, to reflect the change in estimate. Excluding minor amounts of interest, the revision in estimate did not impact total income tax expense. In 2012, the IRS completed fieldwork for the audit for the years 2008-2010. The audit is subject to Joint Committee review, which is expected to be completed in 2013. The Company has revised its estimate of unrecognized tax benefit related to this issue to incorporate 2012 activity and has reflected $34.4 million as a current receivable.

In the third quarter of 2010, NiSource recorded a $15.2 million reduction to income tax expense in connection with the Pennsylvania PUC approval of the Columbia of Pennsylvania base rate case settlement on August 18, 2010. The adjustment to income tax expense resulted from the settlement agreement to flow through in current rates the tax benefits related to a tax accounting method change for certain capitalized costs approved by the IRS. As a result of the Pennsylvania Commission Order on October 14, 2011, Columbia of Pennsylvania will continue to flow through in rates unamortized tax benefits of approximately $15.6 million through January 2014 related to the unit of property tax method change. The amortization of excess tax benefits was $14.9 million in 2012. On a prospective basis, Columbia of Pennsylvania will recognize deferred tax expense rather than flow through in rates the tax benefits resulting from this method change.

The 2010 Health Care Act includes a provision eliminating, effective January 1, 2013, the tax deductibility of retiree health care costs to the extent of federal subsidies received under the Retiree Drug Subsidy program. When the Retiree Drug Subsidy was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, NiSource recorded a deferred tax asset reflecting the exclusion of the expected future Retiree Drug Subsidy from taxable income. At the same time, an offsetting regulatory liability was established to reflect NiSource's obligation to reduce income taxes collected in future rates. ASC Topic 740 - Income Taxes requires the impact of a change in tax law to be immediately recognized in continuing operations in the income statement for the period that includes the enactment date. In the first quarter of 2010, NiSource reversed its deferred tax asset of $6.2 million related to previously excludable Retiree Drug Subsidy payments expected to be received after January 1, 2013, which was completely offset by the reversal of the related regulatory liability.

Deferred income taxes result 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)*		2012		2011
Deferred tax liabilities				
Accelerated depreciation and other property differences	$	**3,306.6**	$	2,943.0
Unrecovered gas and fuel costs		**23.2**		14.6
Other regulatory assets		**840.0**		858.8
Premiums and discounts associated with long-term debt		**12.1**		12.8
Total Deferred Tax Liabilities		**4,181.9**		3,829.2
Deferred tax assets				
Deferred investment tax credits and other regulatory liabilities		**(191.5)**		(73.9)
Cost of removal		**(523.4)**		(557.9)
Pension and other postretirement/postemployment benefits		**(353.6)**		(369.8)
Environmental liabilities		**(49.0)**		(63.6)
Net operating loss carryforward and AMT credit carryforward		**(218.9)**		(250.3)
Other accrued liabilities		**(55.4)**		(45.7)
Other, net		**(55.9)**		(56.9)
Total Deferred Tax Assets		**(1,447.7)**		(1,418.1)
Net Deferred Tax Liabilities		**2,734.2**		2,411.1
Less: Deferred income taxes related to current assets and liabilities [(1)]		**(219.1)**		(130.8)
Non-Current Deferred Tax Liability	$	**2,953.3**	$	2,541.9

[(1)] Current deferred taxes is located in Prepayments and other on the Consolidated Balance Sheets.

State income tax net operating loss benefits were recorded at their realizable value. NiSource anticipates it is more likely than not that it will realize $39.4 million and $35.8 million of these benefits as of December 31, 2012 and December 31, 2011 , respectively, prior to their expiration. The remaining net operating loss carry forward represents a Federal carry forward of $176.5 million that will expire in 2032 and an Alternative Minimum Tax credit of $3.0 million that will carry forward indefinitely. The state amounts are primarily for Indiana, Pennsylvania, and West Virginia. The loss carryforward periods expire in various tax years from 2024 through 2032 .

The following table reconciles the change in the net accumulated deferred income tax liability to the deferred income tax expense included in the income statement for the period:

(in millions)		2012		2011
Beginning net accumulated deferred tax liability	$	**2,411.1**	$	2,230.2
Deferred income tax expense for the period		**308.7**		183.2
Change in tax effects of income tax related regulatory assets and liabilities		**23.5**		3.2
Deferred taxes recorded to other comprehensive income/(loss)		**(3.8)**		1.0
Deferred taxes transferred to taxes accrued and other charges		**(5.3)**		(6.5)
Ending net accumulated deferred tax liability per above table	$	**2,734.2**	$	2,411.1

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Reconciliation of Unrecognized Tax Benefits *(in millions)*	2012	2011	2010
Unrecognized Tax Benefits - Opening Balance	**$ 105.3**	$ 129.2	$ 117.7
Gross increases - tax positions in prior period	**0.2**	5.7	1.2
Gross decreases - tax positions in prior period	**(85.4)**	(29.6)	(8.2)
Gross increases - current period tax positions	**8.4**	—	18.5
Unrecognized Tax Benefits - Ending Balance	**$ 28.5**	$ 105.3	$ 129.2
Offset for outstanding IRS refunds	**(16.0)**	(87.9)	(114.2)
Offset for net operating loss carryforwards	**(10.2)**	(13.3)	(17.2)
Balance - Net of Refunds and NOL Carryforwards	**$ 2.3**	$ 4.1	$ (2.2)

As discussed above, NiSource was granted permission to change its tax method of accounting for capitalizing certain costs and has taken certain positions related to this change in its 2008 income tax return. NiSource's determination of what constitutes a capital cost versus ordinary expense was subject to revision on audit by the IRS. As such, the status of this tax return position was uncertain. During 2009, NiSource added $114.4 million to its liability for unrecognized tax benefits for uncertain tax positions related to this issue. On August 19, 2011, the IRS issued Revenue Procedure 2011-43, which provided a safe harbor method that taxpayers may use to determine whether certain expenditures related to electric transmission and distribution assets must be capitalized. This revenue procedure provided procedures for obtaining automatic consent from the IRS to adopt the safe harbor method for the first or second taxable year beginning after December 30, 2010. As a result of the issuance of the revenue procedure, NiSource revised its estimates and recorded tax benefits of $12.9 million in the third quarter of 2011. Excluding minor amounts of interest, the revision in estimate did not impact total income tax expense.

Based upon its intent to comply with Internal Revenue Procedures, Tangible Property Regulations and the Stand-down Position audit adjustment, NiSource has determined that the unrecognized tax benefit associated with the requested change in tax accounting method filed for 2008 related to electric generation and gas transmission and distribution required a re-measurement under the provisions of ASC 740. Therefore, in the fourth quarter of 2012 NiSource recognized an income tax receivable of $85.7 million related to the 2008 and 2009 tax years and increases in net operating loss carryforwards of $6.8 million for the tax years 2010-2012, previously unrecognized. Except for interest recorded on the tax receivables, the recognition of the receivables and net operating loss carryforwards did not materially affect tax expense or net income.

In 2010, NiSource received permission to change its method of accounting for capitalizing overhead costs. The Company recorded an unrecognized tax benefit related to this uncertain tax position of $17.6 million in 2010. In 2011, this estimate was revised to $19.9 million . In 2012, the IRS completed fieldwork for the audit for the years 2008-2010, which is pending Joint Committee review. The Company has revised the unrecognized tax benefit related to this issue to incorporate 2012 activity. At December 31, 2012, the unrecognized tax benefits were $21.1 million .

Offsetting the liability for unrecognized tax benefits are $26.2 million of related outstanding tax receivables and net operating loss carryforwards resulting in a net balance of $3.2 million , including interest, related to the tax method change issues.

Except as discussed above, there have been no other material changes in 2012 to NiSource's uncertain tax positions recorded as of December 31, 2011.

The total amount of unrecognized tax benefits at December 31, 2012, 2011 and 2010 that, if recognized, would affect the effective tax rate is $2.2 million , $2.4 million and $3.9 million , respectively. As of December 31, 2011, NiSource did not anticipate any significant changes to its liability for unrecognized tax benefits over the twelve months ended December 31, 2012. It is reasonably possible that a $20.5 million decrease in unrecognized tax benefits could occur in 2013 due primarily to Joint Committee on Taxation review of the 2008-2010 federal audit. Other amounts that are reasonably possible to be settled in 2013 are not significant.

NiSource recognizes accrued interest on unrecognized tax benefits, accrued interest on other income tax liabilities, and tax penalties in income tax expense. With respect to its unrecognized tax benefits, NiSource recorded $0.2 million , $(0.1) million and $0.1 million in interest expense in the Statements of Consolidated Income for the years ended December 31, 2012, 2011 and 2010, respectively. For the years ended December 31, 2012 and December 31, 2011, NiSource reported $0.9 million and $0.7 million , respectively, of accrued interest payable on unrecognized tax benefits on its Consolidated Balance Sheets. There were no accruals for penalties recorded in the Statement of Consolidated Income for the years ended December 31, 2012, December 31, 2011 and December 31, 2010 and there were no balances for accrued penalties recorded on the Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011.

NiSource is subject to income taxation in the United States and various state jurisdictions, primarily Indiana, West Virginia, Virginia, Pennsylvania, Kentucky, Massachusetts, Louisiana, Mississippi, Maryland, Tennessee, New Jersey and New York.

Because NiSource is part of the IRS's Large and Mid-Size Business program, each year's federal income tax return is typically audited by the IRS. As of December 31, 2012, tax years through 2007 have been audited and are effectively closed to further assessment. The audit of tax years 2008, 2009, and 2010 is now in Joint Committee review.

The statute of limitations in each of the state jurisdictions in which NiSource operates remain open until the years are settled for federal income tax purposes, at which time amended state income tax returns reflecting all federal income tax adjustments are filed. As of December 31, 2012, there were no state income tax audits in progress that would have a material impact on the consolidated financial statements.

12. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover the majority of 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, 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 Pension and Other Postretirement Benefit Plans' Asset Management . 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.

NiSource utilizes 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.

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 for the postretirement welfare plan assets represents a long-term view and are listed in the following table.

In 2012, a dynamic asset allocation policy for the pension fund was approved. This policy calls for a gradual reduction in the allocation to return-seeking assets (equities, real estate, private equity and hedge funds) and a corresponding increase in the allocation to liability-hedging assets (fixed income) as the funded status of the plans increase above 90% (as measured by the Projected Benefit Obligations of the qualified pension plans divided by the market value of qualified pension plan assets). The asset mix and acceptable minimum and maximum ranges established by the policy for the pension fund at the pension plans funded status on December 31, 2012 are as follows:

Asset Mix Policy of Funds:

	Defined Benefit Pension Plan		Postretirement Welfare Plan	
Asset Category	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Domestic Equities	25%	45%	35%	55%
International Equities	15%	25%	15%	25%
Fixed Income	23%	37%	20%	50%
Real Estate/Private Equity/Hedge Funds	0%	15%	0%	0%
Short-Term Investments	0%	10%	0%	10%

Pension Plan and Postretirement Plan Asset Mix at December 31, 2012 and December 31, 2011 :

(in millions)	Defined Benefit Pension Assets	12/31/2012	Postretirement Welfare Plan Assets	12/31/2012
Asset Class	**Asset Value**	**% of Total Assets**	**Asset Value**	**% of Total Assets**
Domestic Equities	$ 809.0	37.4%	$ 171.0	45.3%
International Equities	453.3	21.0%	72.9	19.3%
Fixed Income	662.6	30.7%	132.2	35.0%
Real Estate/Private Equity/Hedge Funds	222.4	10.3%	—	—
Cash/Other	13.7	0.6%	1.5	0.4%
Total	**$ 2,161.0**	100.0%	**$ 377.6**	100.0%

(in millions)	Defined Benefit Pension Assets	12/31/2011	Postretirement Welfare Plan Assets	12/31/2011
Asset Class	**Asset Value**	**% of Total Assets**	**Asset Value**	**% of Total Assets**
Domestic Equities	$ 788.6	37.8%	$ 149.7	45.4%
International Equities	427.3	20.5%	60.0	18.2%
Fixed Income	618.7	29.6%	117.1	35.5%
Real Estate/Private Equity/Hedge Funds	219.8	10.5%	—	—
Cash/Other	33.4	1.6%	3.0	0.9%
Total	**$ 2,087.8**	100.0%	**$ 329.8**	100.0%

The categorization of investments into the asset classes in the table above are based on definitions established by the NiSource Benefits Committee. As of December 31, 2012 , $814.4 million of defined benefit pension assets and $23.7 million of other postretirement benefit assets included in international equities, domestic equities or fixed income asset classes in the table above would be considered alternative investments, as that term is defined by the AICPA, in addition to those investments in the real estate/private equity/hedge funds asset class. As of December 31, 2011 , $670.2 million of defined benefit pension assets and $21.3 million of other postretirement benefit assets included in international equities, domestic equities or fixed income asset classes in the table above would be considered alternative investments, in addition to those investments in the real estate/private equity/hedge funds asset class. Alternative investments are defined by the AICPA practice aid, *Alternative Investments-Audit Considerations,* as investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications or the exchanges.

Fair Value Measurements. The following table sets forth, by level within the fair value hierarchy, the Master Trust and OPEB investment assets at fair value as of December 31, 2012 and 2011 . Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Total Master Trust and OPEB investment assets at fair value classified within Level 3 were $326.7 million and $326.8 million as of December 31, 2012 and December 31, 2011 , respectively. Such amounts were approximately 13% and 14% of the Master Trust and OPEB's total investments as reported on the statement of net assets available for benefits at fair value as of December 31, 2012 and 2011 , respectively.

Valuation Techniques Used to Determine Fair Value:

Level 1 Measurements

Most common and preferred stock are traded in active markets on national and international securities exchanges and are valued at closing prices on the last business day of each period presented. Cash is stated at cost which approximates their fair value, with the exception of cash held in foreign currencies which fluctuates with changes in the exchange rates. Government bonds, short-term bills and notes are priced based on quoted market values.

Level 2 Measurements

Most U.S. Government Agency obligations, mortgage/asset-backed securities, and corporate fixed income securities are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. To the extent that quoted prices are not available, fair value is determined based on a valuation model that includes inputs such as interest rate yield curves and credit spreads. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Other fixed income includes futures and options which are priced on bid valuation or settlement pricing.

Commingled funds that hold underlying investments that have prices which are derived from the quoted prices in active markets are classified as Level 2. The funds' underlying assets are principally marketable equity and fixed income securities. Units held in commingled funds are valued at the unit value as reported by the investment managers. The fair value of the investments in commingled funds has been estimated using the net asset value per share of the investments.

Level 3 Measurements

Commingled funds that hold underlying investments that have prices which are not derived from the quoted prices in active markets are classified as Level 3. The respective fair values of these investments are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Units held in commingled funds are valued at the unit value as reported by the investment managers. These investments are often valued by investment managers on a periodic basis using pricing models that use market, income, and cost valuation methods.

The hedge funds of funds invest in several strategies including fundamental long/short, relative value, and event driven. Hedge fund of fund investments may be redeemed annually, usually with 100 days' notice. Private equity investment strategies include buy-out, venture capital, growth equity, distressed debt, and mezzanine debt. Private equity investments are held through limited partnerships.

Limited partnerships are valued at estimated fair market value based on their proportionate share of the partnership's fair value as recorded in the partnerships' audited financial statements. Partnership interests represent ownership interests in private equity funds and real estate funds. Real estate partnerships invest in natural resources, commercial real estate and distressed real estate. The fair value of these investments is determined by reference to the funds' underlying assets, which are principally securities, private businesses, and real estate properties. The value of interests held in limited partnerships, other than securities, is determined by the general partner, based upon third-party appraisals of the underlying assets, which include inputs such as cost, operating results, discounted cash flows and market based comparable data. Private equity and real estate limited partnerships typically call capital over a 3 to 5 year period and pay out distributions as the underlying investments are liquidated. The typical expected life of these limited partnerships is 10-15 years and these investments typically cannot be redeemed prior to liquidation.

For the year ended December 31, 2012, there were no significant changes to valuation techniques to determine the fair value of NiSource's pension and other postretirement benefits' assets.

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Fair Value Measurements at December 31, 2012 :

(in millions)	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension plan assets:				
Cash	$ 6.1	$ 6.1	$ —	$ —
Equity securities				
U.S. equities	530.9	528.7	2.2	—
International equities	147.8	146.6	1.2	—
Fixed income securities				
Government	172.1	119.8	51.9	0.4
Corporate	105.4	—	105.4	—
Mortgages/Asset backed securities	109.3	—	109.1	0.2
Other fixed income	0.8	—	0.8	—
Commingled funds				
Short-term money markets	59.7	—	59.7	—
U.S. equities	232.7	—	232.7	—
International equities	298.8	—	298.8	—
Fixed income	282.9	—	178.3	104.6
Hedge fund of funds				
Multi-strategy [1]	52.5	—	—	52.5
Equities-market neutral [2]	31.5	—	—	31.5
Private equity limited partnerships				
U.S. multi-strategy [3]	62.3	—	—	62.3
International multi-strategy [4]	43.4	—	—	43.4
Distressed opportunities	11.5	—	—	11.5
Real estate	20.3	—	—	20.3
Pension plan assets subtotal	2,168.0	801.2	1,040.1	326.7
Other postretirement benefit plan assets:				
Commingled funds				
Short-term money markets	0.7	—	0.7	—
U.S. equities	23.7	—	23.7	—
Mutual funds				
U.S. equities	146.6	146.6	—	—
International equities	74.4	74.4	—	—
Fixed income	132.2	132.2	—	—
Other postretirement benefit plan assets subtotal	377.6	353.2	24.4	—
Due to brokers, net [5]	(10.5)			
Accrued investment income/dividends	3.3			
Receivables/payables	0.2			
Total pension and other post-retirement benefit plan assets	$ 2,538.6	$ 1,154.4	$ 1,064.5	$ 326.7

[1] This class includes hedge fund of funds that invest in a diverse portfolio of strategies including relative value, event driven and long/short equities.

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(2) This class includes hedge fund of funds that invest in long/short equities, which in total maintain a relatively net market neutral position.
(3) This class includes limited partnerships/fund of funds that invest in a diverse portfolio of private equity strategies, including buy-outs, venture capital, growth capital, special situations and secondary markets, primarily inside the United States.
(4) This class includes limited partnerships/fund of funds that invest in diverse portfolio of private equity strategies, including buy-outs, venture capital, growth capital, special situations and secondary markets, primarily outside the United States.
(5) This class represents pending trades with brokers.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2012 :

	Balance at January 1, 2012	Total gains or losses (unrealized / realized)	Purchases	(Sales)	Transfers into/(out of) level 3	Balance at December 31, 2012
Fixed income securities						
Government	$ 0.5	$ —	$ —	$ (0.1)	$ —	$ 0.4
Mortgages/Asset backed securities	1.2	0.2	—	—	(1.2)	0.2
Other fixed income	0.1	—	—	(0.1)	—	—
Commingled funds						
Fixed income	105.4	7.1	3.1	(11.0)	—	104.6
Hedge fund of funds						
Multi-strategy	49.4	3.1	—	—	—	52.5
Equities-market neutral	33.0	(1.5)	—	—	—	31.5
Private equity limited partnerships						
U.S. multi-strategy	61.1	(2.2)	9.5	(6.1)	—	62.3
International multi-strategy	42.5	(3.0)	4.8	(0.9)	—	43.4
Distressed opportunities	12.7	(0.7)	1.3	(1.8)	—	11.5
Real estate	20.9	1.5	0.6	(2.7)	—	20.3
Total	$ 326.8	$ 4.5	$ 19.3	$ (22.7)	$ (1.2)	$ 326.7

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Fair Value Measurements at December 31, 2011 :

(in millions)	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension plan assets:				
Cash	$ 10.4	$ 10.4	$ —	$ —
Equity securities				
U.S. equities	631.0	630.9	0.1	—
International equities	144.0	143.0	1.0	—
Fixed income securities				
Government	133.5	91.2	41.8	0.5
Corporate	101.7	—	101.7	—
Mortgages/Asset backed securities	115.6	—	114.4	1.2
Other fixed income	0.4	—	0.3	0.1
Commingled funds				
Short-term money markets	66.5	—	66.5	—
U.S. equities	125.8	—	125.8	—
International equities	278.5	—	278.5	—
Fixed income	265.8	—	160.4	105.4
Hedge fund of funds				
Multi-strategy [(1)]	49.4	—	—	49.4
Equities-market neutral [(2)]	33.0	—	—	33.0
Private equity limited partnerships				
U.S. multi-strategy [(3)]	61.1	—	—	61.1
International multi-strategy [(4)]	42.5	—	—	42.5
Distressed opportunities	12.7	—	—	12.7
Real Estate	20.9	—	—	20.9
Pension plan assets subtotal	2,092.8	875.5	890.5	326.8
Other postretirement benefit plan assets:				
Commingled funds				
Short-term money markets	2.9	—	2.9	—
U.S. equities	21.3	—	21.3	—
Mutual funds				
U.S. equities	127.4	127.4	—	—
International equities	61.8	61.8	—	—
Fixed income	116.4	116.4	—	—
Other postretirement benefit plan assets subtotal	329.8	305.6	24.2	—
Due to brokers, net [(5)]	(38.7)			
Accrued investment income/dividends	3.7			
Receivables/payables	30.0			
Total pension and other post-retirement benefit plan assets	$ 2,417.6	$ 1,181.1	$ 914.7	$ 326.8

[(1)] This class includes hedge fund of funds that invest in a diverse portfolio of strategies including relative value, event driven and

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long/short equities.
(2) This class includes hedge fund of funds that invest in long/short equities, which in total maintain a relatively net market neutral position.
(3) This class includes limited partnerships/fund of funds that invest in a diverse portfolio of private equity strategies, including buy-outs, venture capital, growth capital, special situations and secondary markets, primarily in the United States.
(4) This class includes limited partnerships/fund of funds that invest in a diverse portfolio of private equity strategies, including buy-outs, venture capital, growth capital, special situations and secondary markets, primarily outside the United States.
(5) This class represents pending trades with brokers.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2011 :

	Balance at January 1, 2011	Total gains or losses (unrealized / realized)	Purchases	(Sales)	Transfers into/(out of) level 3	Balance at December 31, 2011
Equity securities						
U.S. equities	$ 0.1	$ —	$ —	$ —	$ (0.1)	$ —
Fixed income securities						
Government	0.6	—	—	(0.1)	—	0.5
Corporate	0.4	(0.5)	0.1	—	—	—
Mortgages/Asset backed securities	0.5	(0.2)	0.5	—	0.4	1.2
Other fixed income	0.5	—	0.5	(0.9)	—	0.1
Commingled funds						
Fixed income	111.4	(0.1)	2.0	(7.9)	—	105.4
Hedge fund of funds						
Multi-strategy	49.0	0.4	—	—	—	49.4
Equities-market neutral	31.5	1.5	—	—	—	33.0
Private equity limited partnerships						
U.S. multi-strategy	58.8	(4.6)	14.3	(7.4)	—	61.1
International multi-strategy	36.2	2.3	5.2	(1.2)	—	42.5
Distress opportunities	9.3	(0.4)	4.5	(0.7)	—	12.7
Real estate	15.8	2.0	3.1	—	—	20.9
Total	$ 314.1	$ 0.4	$ 30.2	$ (18.2)	$ 0.3	$ 326.8

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NiSource Pension and Other Postretirement Benefit Plans' Funded Status and Related Disclosure . The following table provides a reconciliation of the plans' funded status and amounts reflected in NiSource's Consolidated Balance Sheets at December 31 based on a December 31 measurement date:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2012**	2011	**2012**	2011
Change in projected benefit obligation [1]				
Benefit obligation at beginning of year	$ **2,560.7**	$ 2,478.4	$ **786.3**	$ 756.0
Service cost	**37.7**	37.5	**11.2**	9.9
Interest cost	**112.8**	119.5	**37.5**	38.6
Plan participants' contributions	**—**	—	**6.9**	7.0
Plan amendments	**1.1**	0.2	**(2.0)**	(0.5)
Actuarial loss	**271.2**	122.5	**52.3**	30.8
Settlement loss	**0.6**	—	**—**	—
Benefits paid	**(192.1)**	(197.4)	**(53.0)**	(56.4)
Estimated benefits paid by incurred subsidy	**—**	—	**0.9**	0.9
Projected benefit obligation at end of year	$ **2,792.0**	$ 2,560.7	$ **840.1**	$ 786.3
Change in plan assets				
Fair value of plan assets at beginning of year	$ **2,087.8**	$ 1,900.0	$ **329.8**	$ 326.8
Actual return on plan assets	**261.6**	(8.3)	**46.6**	(1.2)
Employer contributions	**3.7**	393.5	**47.3**	53.6
Plan participants' contributions	**—**	—	**6.9**	7.0
Benefits paid	**(192.1)**	(197.4)	**(53.0)**	(56.4)
Fair value of plan assets at end of year	$ **2,161.0**	$ 2,087.8	$ **377.6**	$ 329.8
Funded Status at end of year	$ **(631.0)**	$ (472.9)	$ **(462.5)**	$ (456.5)
Amounts recognized in the statement of financial position consist of:				
Noncurrent assets	$ **—**	$ —	$ **—**	$ 31.5
Current liabilities	**(3.4)**	(3.3)	**(0.7)**	(21.1)
Noncurrent liabilities	**(627.6)**	(469.6)	**(461.8)**	(466.9)
Net amount recognized at end of year [2]	$ **(631.0)**	$ (472.9)	$ **(462.5)**	$ (456.5)
Amounts recognized in accumulated other comprehensive income or regulatory asset/liability [3]				
Unrecognized transition asset obligation	$ **—**	$ —	$ **0.5**	$ 1.7
Unrecognized prior service cost	**(5.1)**	(6.0)	**(6.7)**	(4.3)
Unrecognized actuarial loss	**1,205.2**	1,113.6	**215.3**	192.2
	$ **1,200.1**	$ 1,107.6	$ **209.1**	$ 189.6

[1] The change in benefit obligation for Pension Benefits represents the change in Projected Benefit Obligation while the change in benefit obligation for Other Postretirement Benefits represents the change in Accumulated Postretirement Benefit Obligation.

[2] NiSource recognizes in its Consolidated Balance Sheets the underfunded and overfunded status of its various defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation.

[3] NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement benefits costs is probable. These rate-regulated subsidiaries recorded regulatory assets and liabilities of $1,345.7 million and $0.4 million , respectively, as of December 31, 2012 , and $1,244.2 million and zero , respectively, as of December 31, 2011 that would otherwise have been recorded to accumulated other comprehensive income (loss).

NiSource's accumulated benefit obligation for its pension plans was $2,771.6 million and $2,523.5 million as of December 31, 2012 and 2011 , respectively. The accumulated benefit obligation as of a date is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered prior to that date and based on current and past compensation levels. The accumulated benefit obligation differs from the projected benefit obligation disclosed in the table above in that it includes no assumptions about future compensation levels.

NiSource pension plans were underfunded by $631.0 million at December 31, 2012 compared to being underfunded at December 31, 2011 by

$472.9 million . The decline in funded status was due primarily to a decrease in discount rate from the prior measurement

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date and reduced employer contributions in 2012 , partially offset by favorable asset returns in 2012 . NiSource contributed $3.7 million and $393.5 million to its pension plans in 2012 and 2011 , respectively.

NiSource's funded status for its other postretirement benefit plans declined by $6.0 million to an underfunded status of $462.5 million primarily due to a decrease in discount rate, partially offset by favorable asset returns in 2012 . NiSource contributed approximately $47.3 million and $53.6 million to its other postretirement benefit plans in 2012 and 2011 , respectively. No amounts of NiSource's pension or other postretirement plans' assets are expected to be returned to NiSource or any of its subsidiaries in 2013.

In 2012, a NiSource pension plan had year to date payouts exceeding the plan's 2012 service cost plus interest cost and therefore meeting the requirement for settlement accounting. A one-time settlement charge of $1.9 million was recorded during the third quarter of 2012. As a result of the settlement, the pension plan was remeasured resulting in an increase to the pension benefit obligation, net of plan assets, of $3.0 million and net increases to regulatory assets and accumulated other comprehensive income of $1.0 million and $0.1 million , respectively. Net periodic pension benefit cost for 2012 was decreased by $0.1 million as a result of the remeasurement.

A provision of the 2010 Health Care Act requires the elimination, effective January 1, 2011, of lifetime and restrictive annual benefit limits from certain active medical plans. The NiSource Consolidated Flex Medical Plan (the "Consolidated Flex Plan"), a component welfare benefit plan of the NiSource Life and Medical Benefits Program, covered both active and retired employees and capped lifetime benefits to certain retirees. NiSource examined the provisions of the 2010 Health Care Act and determined the enactment of the law in the first quarter of 2010 qualified as a significant event requiring remeasurement of other postretirement benefit obligations and plan assets as of March 31, 2010. Effective September 1, 2010, NiSource amended the Consolidated Flex Plan and established the NiSource Post-65 Retiree Medical Plan (the "Post-65 Retiree Plan") as a separate ERISA plan. In accordance with the amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan, Medicare supplement plan options for NiSource post-age 65 retirees and their eligible post-age 65 dependents are now offered under the Post-65 Retiree Plan, a retiree-only plan, and not under the Consolidated Flex Plan. The Post-65 Retiree Plan is not subject to the provisions of the 2010 Health Care Act requiring elimination of lifetime and restrictive annual benefit limits. The amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan required a second remeasurement of other postretirement benefit obligations and plan assets as of September 1, 2010. The effect of the change in the legislation and the plan amendment resulted in an increase to the other postretirement benefit obligation, net of plan assets, of $31.0 million and corresponding increases to regulatory assets and AOCI of $29.4 million and $1.6 million , respectively. Net periodic postretirement benefit cost for 2010 was also increased by approximately $2.2 million , of which $1.3 million was recognized during the second quarter of 2010 and $0.9 million was recognized during the third quarter of 2010.

The following table provides the key assumptions that were used to calculate the pension and other postretirement benefits obligations for NiSource's various plans as of December 31:

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	**2012**	2011
Weighted-average assumptions to Determine Benefit Obligation				
Discount Rate	**3.63%**	4.60%	**3.95%**	4.88%
Rate of Compensation Increases	**4.00%**	4.00%	**—**	—
Health Care Trend Rates				
Trend for Next Year	**—**	—	**7.25%**	7.50%
Ultimate Trend	**—**	—	**5.00%**	5.00%
Year Ultimate Trend Reached	**—**	—	**2018**	2017

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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	$ 4.5	$ (3.6)
Effect on accumulated postretirement benefit obligation	67.9	(56.7)

NiSource expects to make contributions of approximately $11.3 million to its pension plans and approximately $40.4 million to its postretirement medical and life plans in 2013.

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 NiSource'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 Postretirement Benefits**	**Federal Subsidy Receipts**
Year(s)			
2013	$ 229.6	$ 51.8	$ 1.5
2014	229.9	52.9	1.7
2015	224.7	53.9	1.9
2016	232.0	54.9	2.0
2017	231.4	55.6	2.0
2018-2022	1,050.3	285.4	9.1

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

	Pension Benefits			**Other Postretirement Benefits**		
(in millions)	**2012**	2011	2010	**2012**	2011	2010
Components of Net Periodic Benefit Cost (Income)						
Service cost	$ **37.7**	$ 37.5	$ 39.2	$ **11.2**	$ 9.9	$ 9.8
Interest cost	**112.8**	119.5	125.7	**37.5**	38.6	41.4
Expected return on assets	**(164.6)**	(167.0)	(143.7)	**(26.7)**	(26.6)	(23.8)
Amortization of transitional obligation	**—**	—	—	**1.2**	1.2	1.3
Amortization of prior service cost	**0.2**	0.2	2.0	**0.3**	(0.5)	1.1
Recognized actuarial loss	**81.2**	55.7	57.8	**9.4**	6.6	6.7
Net Periodic Benefit Costs	**67.3**	45.9	81.0	**32.9**	29.2	36.5
Additional loss recognized due to:						
Settlement loss	**1.9**	—	1.3	**—**	—	—
Total Net Periodic Benefits Cost	$ **69.2**	$ 45.9	$ 82.3	$ **32.9**	$ 29.2	$ 36.5

NiSource recognized cost of $69.2 million for its pension plans in 2012 compared to cost of $45.9 million in 2011 due primarily to a decrease in the discount rate in 2012 compared to 2011 and unfavorable returns on plan assets experienced in 2011 . For its other postretirement benefit plans, NiSource recognized $32.9 million in cost in 2012 compared to $29.2 million in cost in 2011 due primarily to a decrease in the discount rate in 2012 compared to 2011 and unfavorable returns on plan assets experienced in 2011 . For 2012 and 2011 , pension and other postretirement benefit cost of approximately $25.1 million and $58.3 million , respectively, was capitalized as a component of plant or recognized as a regulatory asset or liability consistent with regulatory orders for certain of NiSource's regulated businesses.

The following table provides the key assumptions that were used to calculate the net periodic benefits cost for NiSource's various plans:

	Pension Benefits			Postretirement Benefits		
	2012	2011	2010	**2012**	2011	2010
Weighted-average Assumptions to Determine Net Periodic Benefit Cost						
Discount Rate	**4.60%**	5.00%	5.54%	**4.88%**	5.29%	5.86%
Expected Long-Term Rate of Return on Plan Assets	**8.30%**	8.75%	8.75%	**8.13%**	8.75%	8.75%
Rate of Compensation Increases	**4.00%**	4.00%	4.00%	**—**	—	—

NiSource believes it is appropriate to assume an 8.30% rate of return on pension plan assets for its calculation of 2012 pension benefits cost. This is primarily based on asset mix and historical rates of return.

The following table provides other changes in plan assets and projected benefit obligations recognized in other comprehensive income or regulatory asset or liability:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2012**	2011	**2012**	2011
Other Changes in Plan Assets and Projected Benefit Obligations Recognized in Other Comprehensive Income or Regulatory Asset or Liability				
Settlements	**$ (1.9)**	$ —	**$ —**	$ —
Net prior service cost/(credit)	**1.1**	0.2	**(2.1)**	(0.5)
Net actuarial loss	**174.7**	297.9	**32.5**	58.7
Less: amortization of transitional (asset)/obligation	**—**	—	**(1.2)**	(1.3)
Less: amortization of prior service cost	**(0.2)**	(0.2)	**(0.3)**	0.5
Less: amortization of net actuarial (gain) loss	**(81.2)**	(55.7)	**(9.4)**	(6.6)
Total Recognized in Other Comprehensive Income or Regulatory Asset or Liability	**$ 92.5**	$ 242.2	**$ 19.5**	$ 50.8
Amount Recognized in Net Periodic Benefits Cost and Other Comprehensive Income or Regulatory Asset or Liability	**$ 161.7**	$ 288.1	**$ 52.4**	$ 80.0

Based on a December 31 measurement date, the net unrecognized actuarial loss, unrecognized prior service cost (credit), and unrecognized transition obligation that will be amortized into net periodic benefit cost during 2013 for the pension plans are $84.1 million , $0.3 million and zero , respectively, and for other postretirement benefit plans are $11.0 million , $(0.7) million and $0.5 million , respectively.

13. Authorized Classes of Cumulative Preferred and Preference Stocks

NiSource has 20,000,000 authorized shares of Preferred Stock with a $0.01 par value, of which 4,000,000 shares are designated Series A Junior Participating Preferred Shares.

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; and 3,000,000 shares of Cumulative Preference with no par value.

As of December 31, 2012 , NiSource and Northern Indiana had no preferred shares outstanding. All of NiSource's retained earnings at December 31, 2012 are free of restrictions.

14. Common Stock

As of December 31, 2012 , NiSource had 400,000,000 authorized shares of common stock with a $0.01 par value.

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. NiSource has paid quarterly common dividends totaling $0.94 , $0.92 and $0.92 per share for the years ended December 31, 2012, 2011 and 2010, respectively. The Board, at its meeting on January 25, 2013, declared a quarterly common dividend of $0.24 per share, payable on February 20, 2013 to holders of record on February 4, 2013. NiSource has certain debt covena nts which could potentially limit the amount of dividends the Company could pay in order to maintain compliance with these covenants. Refer to Note 16, " Long-Term Debt," for more information. As of December 31, 2012, these covenants did not restrict the amount of dividends that were available to be paid. There are no other effective limitations with respect to the Company's ability to pay dividends.

Dividend Reinvestment and Stock Purchase Plan. NiSource offers a Dividend Reinvestment and Stock Purchase Plan which allows participants to reinvest dividends and make voluntary cash payments to purchase additional shares of common stock on the open market.

Forward Agreements. On September 14, 2010, NiSource and Credit Suisse Securities (USA) LLC, as forward seller, closed an underwritten registered public offering of 24,265,000 shares of NiSource's common stock. All of the shares sold were borrowed and delivered to the underwriters by the forward seller. In connection with the public offering, NiSource entered into forward sale agreements ("Forward Agreements") with an affiliate of the forward seller covering an aggregate of 24,265,000 shares of NiSource's common stock. On September 10, 2012, NiSource settled the Forward Agreements by physically delivering the 24,265,000 shares of NiSource common stock and receiving cash proceeds of $339.1 million . Cash proceeds related to the settlement of the Forward Agreements are recorded in the issuance of common stock line in the financing activities section of the Statement of Consolidated Cash Flows for the period ended December 31, 2012 . Additionally, refer to Note 1-M, "Earnings Per Share," for information regarding the dilutive impact to EPS of the Forward Agreements.

15. Share-Based Compensation

The stockholders approved and adopted the NiSource Inc. 2010 Omnibus Incentive Plan (the "Omnibus Plan"), at the Annual Meeting of Stockholders held on May 11, 2010. The Omnibus Plan provides for awards to employees and non-employee directors of incentive and nonqualified stock options, stock appreciation rights, restricted stock and restricted stock units, performance shares, performance units, cash-based awards and other stock-based awards. The Omnibus Plan provides that the number of shares of common stock of NiSource available for awards is 8,000,000 plus the number of shares subject to outstanding awards granted under either the 1994 Plan or the Director Plan (described below) that expire or terminate for any reason. No further awards are permitted to be granted under the prior 1994 Plan or the Director Plan. At December 31, 2012 , there were 7,359,009 shares reserved for future awards under the Omnibus Plan.

Prior to May 11, 2010, NiSource issued long-term equity incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 ("1994 Plan"). The types of equity awards previously authorized under the 1994 Plan did not significantly differ from those permitted under the Omnibus Plan.

NiSource recognized stock-based employee compensation expense of $17.8 million , $13.4 million and $11.2 million during 2012 , 2011 and 2010 , respectively, as well as related tax benefits of $6.1 million , $4.7 million and $3.7 million , respectively.

As of December 31, 2012 , the total remaining unrecognized compensation cost related to nonvested awards amounted to $17.6 million , which will be amortized over the weighted-average remaining requisite service period of 1.9 years.

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Stock Options. Option grants may be awarded with an exercise price equal to the average of the high and low market price on the day of the grant. As of December 31, 2012 , the weighted average remaining contractual life of the options outstanding and exercisable was 1.5 years. Stock option transactions for the year ended December 31, 2012 were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at December 31, 2011	2,818,715	22.09
Granted	—	—
Exercised	(1,253,529)	21.93
Cancelled	(6,750)	23.73
Outstanding at December 31, 2012	1,558,436	22.21
Exercisable at December 31, 2012	1,558,436	22.21

No options were granted during the years ended December 31, 2012 , 2011 and 2010 . As of December 31, 2012 , the aggregate intrinsic value for the options outstanding and exercisable was $4.2 million . During 2012 and 2011 , cash received from the exercise of options was $27.5 million and $8.8 million , respectively. No options were exercised during 2010 .

Restricted Stock Units and Restricted Stock . In 2012 , NiSource granted restricted stock units and shares of restricted stock of 226,431 , subject to service conditions. The total grant date fair value of the shares of restricted stock units and shares of restricted stock was $5.1 million , based on the average market price of NiSource's common stock at the date of each grant less the present value of any dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period which is generally three years. As of December 31, 2012 , 211,431 nonvested (all of which are expected to vest) restricted stock units and shares of restricted stock were granted and outstanding for the 2012 award.

In 2011 , NiSource granted restricted stock units and shares of restricted stock of 142,593 , subject to service conditions. The total grant date fair value of the restricted stock units and shares of restricted stock was $2.4 million , based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period which is generally three years. As of December 31, 2012 , 125,833 nonvested (all of which are expected to vest) restricted stock units and shares of restricted stock were granted and outstanding for the 2011 award.

In 2010 , NiSource granted restricted stock units and shares of restricted stock of 265,134 , subject to service conditions. The total grant date fair value of the restricted stock units and shares of restricted stock was $3.5 million , based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period which is generally three years. As of December 31, 2012 , 216,981 nonvested (all of which are expected to vest) restricted stock units and shares of restricted stock were granted and outstanding for the 2010 award.

If the employee terminates employment before the service conditions lapse under the 2010, 2011 and 2012 awards due to (1) Retirement or Disability (as defined in the award agreement), or (2) death, the service conditions will lapse on the date of such termination with respect to a pro rata portion of the restricted stock units and shares of restricted stock. In the event of a Change-in-Control (as defined in the award agreement), all unvested shares of restricted stock and restricted stock units will immediately vest. Termination due to any other reason will result in all restricted stock units and shares of restricted stock awarded being forfeited effective on the employee's date of termination.

	Restricted Stock Units	Weighted Average Grant Date Fair Value ($)
Nonvested at December 31, 2011	654,554	11.61
Granted	226,431	22.69
Forfeited	(30,399)	17.40
Vested	(293,341)	8.21
Nonvested and expected to vest at December 31, 2012	**557,245**	**17.58**

Performance Shares . In 2012 , NiSource granted 772,128 performance shares subject to performance conditions. The grant date fair-value of the awards was $16.0 million , based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of certain non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; and cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and relative total shareholder return, a non-GAAP market measure that NiSource defines as the annualized growth in the dividends and share price of a share of NiSource's common stock (calculated using a 20 trading day average of NiSource's closing price beginning December 31, 2011 and ending on December 31, 2014) compared to the total shareholder return performance of a predetermined peer group of companies. The service conditions lapse on January 30, 2015 when the shares vest provided the performance criteria are satisfied. As of December 31, 2012 , 765,710 nonvested performance shares were granted and outstanding of the 2012 award.

In 2011 , NiSource granted 749,237 performance shares subject to performance conditions. The grant date fair-value of the awards was $12.0 million , based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and total debt that NiSource defines as total debt adjusted for significant movement in natural gas prices and other adjustments determined by the Board. The service conditions lapse on January 31, 2014 when the shares vest provided the performance criteria are satisfied. As of December 31, 2012 , 662,361 nonvested performance shares were granted and outstanding for the 2011 award.

In 2010 , NiSource granted 662,969 contingent stock units subject to performance conditions. The grant date fair-value of the awards was $8.6 million , based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and total debt that NiSource defines as total debt adjusted for significant movement in natural gas prices and other adjustments determined by the Board. The service conditions lapse on January 31, 2013 when 100% of the shares vest provided the performance criteria is satisfied. As of December 31, 2012 , 571,345 nonvested contingent stock units were granted and outstanding for the 2010 award.

If the employee terminates employment before the service conditions lapse under the 2010, 2011 and 2012 awards due to (1) Retirement or Disability (as defined in the award agreement), or (2) death, the service conditions will lapse on the date of such termination with respect to a pro rata portion of the shares of restricted stock and restricted stock units. In the event of a Change-in-Control (as defined in the award agreement), all unvested shares of restricted stock and restricted stock units will immediately vest. Termination due to any other reason will result in all shares of restricted stock and restricted stock units awarded being forfeited effective on the employee's date of termination.

	Contingent Awards	Weighted Average Grant Date Fair Value ($)
Nonvested at December 31, 2011	2,068,120	11.98
Granted	772,128	20.70
Forfeited	(322,199)	8.99
Vested	(518,633)	7.56
Nonvested and expected to vest at December 31, 2012	**1,999,416**	**16.99**

Non-employee Director Awards . As of May 11, 2010, awards to non-employee directors may be made only under the Omnibus Plan. Currently, restricted stock units are granted annually to non-employee directors, subject to a non-employee director's election to defer receipt of such restricted stock unit award. The non-employee director's restricted stock units vest on the last day of the non-employee director's annual term corresponding to the year the restricted stock units were awarded subject to special pro-rata vesting rules in the event of Retirement or Disability (as defined in the award agreement), or death. The vested restricted stock units are payable as soon as practicable following vesting except as otherwise provided pursuant to the non-employee director's election to defer. As of December 31, 2012 , 139,011 restricted stock units are outstanding to non-employee directors under the Omnibus Plan.

Only restricted stock units remain outstanding under the prior plan for non-employee directors, the Amended and Restated Non-employee Director Stock Incentive Plan (the "Director Plan"). All such awards are fully vested and shall be distributed to the directors upon their separation from the Board. As of December 31, 2012 , 193,366 restricted stock units remain outstanding under the Director Plan and as noted above no further shares may be awarded under the Director Plan.

401(k) Match, Profit Sharing and Company Contribution. NiSource has a voluntary 401(k) savings plan covering eligible employees that allows for periodic discretionary matches as a percentage of each participant's contributions in newly issued shares of common stock. NiSource also has a retirement savings plan that provides for discretionary profit sharing contributions of shares of common stock to eligible employees based on earnings results; and eligible exempt employees hired after January 1, 2010, receive a non-elective company contribution of three percent of eligible pay in shares of common stock. For the years ended December 31, 2012 , 2011 and 2010 , NiSource recognized 401(k) match, profit sharing and non-elective contribution expense of $27.3 million , $25.9 million and $19.7 million , respectively.

16. Long-Term Debt

NiSource Finance is a 100% 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 March 2000 under the laws of the state of Indiana. Prior to 2000, the function of NiSource Finance was performed by Capital Markets. NiSource Finance obligations are fully and unconditionally guaranteed by NiSource. Consequently no separate financial statements for NiSource Finance are required to be reported. No other NiSource subsidiaries guarantee debt.

On November 28, 2012, NiSource Finance redeemed $315.0 million of 5.21% private placement notes.

On June 14, 2012, NiSource Finance issued $250.0 million of 3.85% senior unsecured notes that mature on February 15, 2023 and $500.0 million of 5.25% senior unsecured notes that mature on February 15, 2043 .

On April 5, 2012, NiSource Finance negotiated a $250.0 million three -year bank term loan with a syndicate of banks which matures on April 3, 2015 . Borrowings under the term loan have an effective cost of LIBOR plus 137 basis points.

On November 23, 2011, NiSource Finance issued $250.0 million of 4.45% senior unsecured notes that mature December 1, 2021 and $250.0 million of 5.80% senior unsecured notes that mature February 1, 2042 .

On November 14, 2011, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013 . A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately $125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately $228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which $124.7 million were accepted for purchase. In accordance with the provisions of ASC 470, *Debt*, NiSource Finance determined the debt issued on November 23, 2011, was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a $53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

During July 2011, Northern Indiana redeemed $18.7 million of its medium-term notes, with an average interest rate of 7.30% .

On June 10, 2011, NiSource Finance issued $400.0 million of 5.95% senior unsecured notes that mature June 15, 2041 .

On December 1, 2010, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.80% notes due 2019 . A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2019 notes were accepted. On December 14, 2010, NiSource Finance announced that approximately $272.9 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered. Based upon the principal amount of the 2016 notes tendered, NiSource Finance increased the maximum aggregate principal amount of 2016 notes it would purchase from $250.0 million to $325.0 million and terminated the portion of the tender offer related to its 6.80% notes due 2019 . On December 30, 2010, NiSource Finance announced that $273.1 million of these notes were successfully tendered and accepted for purchase. In accordance with the provisions of ASC 470, *Debt,* NiSource Finance determined the debt issued on December 8, 2010 was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a $96.7 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

In the following table are the outstanding long-term debt sinking fund requirements and maturities at December 31, 2012 . The long-term debt maturities shown below include capital lease obligations and the debt of certain low-income housing real estate investments. NiSource does not guarantee the long-term debt obligations of the low-income housing real estate investments.

Year Ending December 31, *(in millions)*		
2013	$	507.2
2014		559.2
2015		495.0
2016		434.4
2017		603.0
After		4,768.8
Total [(1)]	$	7,367.6

[(1)] This amount excludes $41.3 million of unamortized discount and premium.

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

Of NiSource's long-term debt outstanding at December 31, 2012 , $109.0 million was issued by NiSource's subsidiary, 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 Markets' 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 from 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 Markets' creditors. The carrying value of the NiSource assets, excluding the assets of Northern Indiana, was $15.9 billion at December 31, 2012 .

NiSource Finance maintains $500.0 million notional value of interest rate swap agreements relating to 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 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for further information regarding interest rate swaps.

NiSource is subject to a financial covenant under its five-year revolving credit facility and its three-year term loan issued April 5, 2012, which requires NiSource to maintain a debt to capitalization ratio that does not exceed 70% . A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75% . As of December 31, 2012 , the ratio was 59.3% .

NiSource is also subject to certain other non-financial covenants under the revolving credit facility. 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 subset of assets equal to $150 million . 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 and dispositions for a price not materially less than the fair market value of the assets disposed of that do not impair the ability of NiSource and NiSource Finance to perform obligations under the revolving credit facility, and that, together with all other such dispositions, would not have a material adverse effect. The revolving credit facility also includes 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 indentures generally do not contain any financial maintenance covenants. However, NiSource's 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 subset of assets capped at 10% of NiSource's consolidated net tangible assets.

17. Short-Term Borrowings

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to $500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. The program capacity was expanded to $1.5 billion with the addition of RBS as a fifth dealer on February 15, 2013. Commercial paper issuances are supported by available capacity under NiSource's $1.5 billion unsecured revolving credit facility, which expires in May 2017. At December 31, 2012 , NiSource had $499.6 million of commercial paper outstanding.

During May 2012, NiSource Finance amended its existing $1.5 billion revolving credit facility with a syndicate of banks led by Barclays Capital extending the termination date to May 15, 2017 and also reducing the borrowing costs under the facility. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource's commercial paper program, provide for issuance of letters of credit, and also for general corporate purposes. At December 31, 2012 , NiSource had $44.0 million of borrowings outstanding under this facility.

As of December 31, 2012 and 2011 , NiSource had $36.4 million and $37.5 million , respectively, of stand-by letters of credit outstanding, of which $18.3 million and $19.2 million , respectively, were under the revolving credit facility.

Transfers of accounts receivable are accounted for as secured borrowings resulting in the recognition of short-term debt on the Consolidated Balance Sheets in the amount of $233.3 million and $231.7 million as of December 31, 2012 and 2011 , respectively. Refer to Note 19, "Transfers of Financial Assets," for additional information.

Short-term borrowings were as follows:

At December 31, *(in millions)*		2012		2011
Commercial Paper weighted average interest rate of 1.11 % and 1.01% at December 31, 2012 and 2011, respectively.	$	499.6	$	402.7
Credit facilities borrowings weighted average interest rate of 3.73% and 1.99% at December 31, 2012 and 2011, respectively.		44.0		725.0
Accounts receivable securitization facility borrowings		233.3		231.7
Total short-term borrowings	$	776.9	$	1,359.4

Total short-term borrowings as of March 31, 2012 , June 30, 2012 and September 30, 2012 were $1,264.2 million , $327.6 million and $225.3 million , respectively.

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18. Fair Value Disclosures

A. Fair Value Measurements

Recurring Fair Value Measurements . The following tables present financial assets and liabilities measured and recorded at fair value on NiSource's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2012 and December 31, 2011:

Recurring Fair Value Measurements December 31, 2012 (*in millions*)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2012
Assets				
Commodity price risk management assets:				
Physical price risk programs	$ —	$ 35.4	$ —	$ 35.4
Financial price risk programs	71.5	0.8	0.1	72.4
Interest rate risk activities	—	40.4	—	40.4
Available-for-sale securities	27.4	84.4	—	111.8
Total	$ 98.9	$ 161.0	$ 0.1	$ 260.0
Liabilities				
Commodity price risk management liabilities:				
Physical price risk programs	$ —	$ —	$ —	$ —
Financial price risk programs	115.0	0.5	—	115.5
Total	$ 115.0	$ 0.5	$ —	$ 115.5

Recurring Fair Value Measurements December 31, 2011 (*in millions*)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2011
Assets				
Commodity Price risk management assets:				
Physical price risk programs	$ —	$ 140.7	$ —	$ 140.7
Financial price risk programs [(1)]	148.3	2.5	0.3	151.1
Interest rate risk activities	—	56.7	—	56.7
Available-for-sale securities	32.9	63.1	—	96.0
Total	$ 181.2	$ 263.0	$ 0.3	$ 444.5
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	$ —	$ 3.9	$ —	$ 3.9
Financial price risk programs	301.1	1.7	—	302.8
Total	$ 301.1	$ 5.6	$ —	$ 306.7

[(1)] During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business. The financial price risk program amount above is shown gross and has not been adjusted for the reserve.

Price risk management assets and liabilities include commodity exchange-traded and non-exchange-based derivative contracts. Exchange-traded derivative contracts are based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures. As of December 31, 2012 and 2011 , there were no material transfers between fair value hierarchies. Additionally there were no changes in the method or significant assumptions used to estimate the fair value of NiSource's financial instruments.

To determine the fair value of derivatives associated with NiSource's unregulated natural gas marketing business, certain reserves were calculated. These reserves were primarily determined by evaluating the credit worthiness of certain customers, fair value of future cash flows, and the cost of maintaining restricted cash. Refer to Note 9, "Risk Management Activities" for additional information on price risk assets.

Price risk management assets also include fixed-to-floating interest-rate swaps, which are designated as fair value hedges, as a means to achieve NiSource's targeted level of variable-rate debt as a percent of total debt. NiSource uses a calculation of future cash inflows and estimated future outflows related to the swap agreements, which are discounted and netted to determine the current fair value. Additional inputs to the present value calculation include the contract terms, as well as market parameters such as current and projected interest rates and volatility. As they are based on observable data and valuations of similar instruments, the interest-rate swaps are categorized in Level 2 in the fair value hierarchy. Credit risk is considered in the fair value calculation of the interest rate swap.

Available-for-sale securities are investments pledged as collateral for trust accounts related to NiSource's wholly-owned insurance company. Available-for-sale securities are included within "Other investments" in the Consolidated Balance Sheets. Securities classified within Level 1 include U.S. Treasury debt securities which are highly liquid and are actively traded in over-the-counter markets. NiSource values corporate and mortgage-backed debt securities using a matrix pricing model that incorporates market-based information. These securities trade less frequently and are classified within Level 2. Total gains and losses from available-for-sale securities are included in other comprehensive income (loss). The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale debt securities at December 31, 2012 and December 31, 2011 were:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities, December 31, 2012				
U.S. Treasury securities	$ 31.1	$ 1.5	$ —	$ 32.6
Corporate/Other bonds	76.8	2.5	(0.1)	79.2
Total Available-for-sale debt securities	**$ 107.9**	**$ 4.0**	**$ (0.1)**	**$ 111.8**

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities, December 31, 2011				
U.S. Treasury securities	$ 36.7	$ 1.7	$ —	$ 38.4
Corporate/Other bonds	56.3	1.6	(0.3)	57.6
Total Available-for-sale debt securities	**$ 93.0**	**$ 3.3**	**$ (0.3)**	**$ 96.0**

For the year ended December 31, 2012, 2011, and 2010 the realized gain on sale of available for sale U.S. Treasury debt securities was $ 0.6 million , $ 0.5 million and $ 0.7 million , respectively. For the year ended December 31, 2012, 2011, and 2010 the realized gain on sale of available for sale Corporate/Other bond debt securities was $ 0.3 million , $ 0.9 million , and $ 1.0 million .

The cost of maturities sold is based upon specific identification. At December 31, 2012, all of the U.S. Treasury debt securities have maturities of greater than one year. At December 31, 2012 approximately $ 2.1 million of Corporate/Other bonds have maturities of less than a year while the remaining securities have maturities of greater than one year.

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the periods ended December 31, 2012 and December 31, 2011:

Period Ended December 31, 2012 *(in millions)*		Other Derivatives
Balance as of January 1, 2012	$	0.3
Total gains (losses) (unrealized/realized)		
Included in regulatory assets/liabilities		(0.2)
Balance as of December 31, 2012	$	0.1
Change in unrealized gains/(losses) relating to instruments still held as of December 31, 2012	$	0.1

Period Ended December 31, 2011 *(in millions)*		Other Derivatives
Balance as of January 1, 2011	$	0.2
Total gains (losses) (unrealized/realized)		
Included in regulatory assets/liabilities		—
Purchases		(1.1)
Settlements		1.2
Balance as of December 31, 2011	$	0.3
Change in unrealized gains/(losses) relating to instruments still held as of December 31, 2011	$	(0.4)

Non-recurring Fair Value Measurements . There were no significant non-recurring fair value measurements recorded during the twelve months ended December 31, 2012.

During the twelve months ended December, 31 2011, NiSource recorded $14.7 million of asset impairments as a result of third party appraisals. The fair value of these assets was determined based on unobservable inputs and is deemed to be a Level 3 fair value measurement under the fair value hierarchy. See Note 3 "Impairments and Other Charges" for further discussion.

B. Other Fair Value Disclosures for Financial Instruments . NiSource has certain financial instruments that are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature, including cash and cash equivalents, restricted cash, notes receivable, customer deposits and short-term borrowings. NiSource's long-term borrowings are recorded at historical amounts unless designated as a hedged item in a fair value hedge.

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.

Long-term debt . 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. These fair value measurements are classified as Level 2 within the fair value hierarchy. For the years ended December 31, 2012 and 2011 , there were no changes in the method or significant assumptions used to estimate the fair value of the financial instruments.

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

At December 31, *(in millions)*	**Carrying Amount 2012**	**Estimated Fair Value 2012**	Carrying Amount 2011	Estimated Fair Value 2011
Long-term debt (including current portion)	$ 7,326.3	$ 8,389.0	$ 6,594.4	$ 7,369.4

19. Transfers of Financial Assets

Transfers of accounts receivable are accounted for as secured borrowings resulting in the recognition of short-term borrowings on the Consolidated Balance Sheets. The maximum amount of debt that can be recognized related to NiSource's accounts receivable programs is $515 million .

All accounts receivables sold to the commercial paper conduits are valued at face value, which approximates fair value due to their short-term nature. The amount of the undivided percentage ownership interest in the accounts receivables sold is determined in part by required loss reserves under the agreements. Below is information about the accounts receivable securitization agreements entered into by NiSource's subsidiaries.

On October 23, 2009, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CGORC, a wholly-owned subsidiary of Columbia of Ohio. CGORC, in turn, is party to an agreement with BTMU and BNS, entered into on October 19, 2012, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to commercial paper conduits sponsored by BTMU and BNS. Prior to this agreement with BTMU and BNS, CGORC was party to a series of agreements with BTMU and RBS which dated from October 23, 2009 until its amendment on October 19, 2012. The maximum seasonal program limit under the terms of the new agreement remains at $240 million . The agreement expires on October 18, 2013, and can be renewed if mutually agreed to by all parties. As of December 31, 2012 , $98.3 million of accounts receivable had been transferred by CGORC. CGORC is a separate corporate entity from NiSource and Columbia of Ohio, with its own separate obligations, and upon a liquidation of CGORC, CGORC's obligations must be satisfied out of CGORC's assets prior to any value becoming available to CGORC's stockholder.

On October 23, 2009, Northern Indiana entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to NARC, a wholly-owned subsidiary of Northern Indiana. NARC, in turn, is party to an agreement with PNC and Mizuho entered into on August 29, 2012, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduits sponsored by PNC and Mizuho. Prior to this agreement with PNC and Mizuho, NARC was party to a series of agreements with RBS which dated from October 23, 2009 until its amendment on August 29, 2012, under the terms in which it sold an undivided percentage ownership interest in its accounts receivable to commercial paper conduit sponsored by RBS. The maximum seasonal program limit under the terms of the new agreement, which expires on August 28, 2013, is $200 million , and can be further renewed if mutually agreed to by both parties. As of December 31, 2012 , $100.0 million of accounts receivable had been transferred by NARC. NARC is a separate corporate entity from NiSource and Northern Indiana, with its own separate obligations, and upon a liquidation of NARC, NARC's obligations must be satisfied out of NARC's assets prior to any value becoming available to NARC's stockholder.

On March 15, 2010, Columbia of Pennsylvania entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CPRC, a wholly-owned subsidiary of Columbia of Pennsylvania. CPRC, in turn, is party to an agreement with BTMU, also dated March 15, 2010, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by BTMU. The maximum seasonal program limit under the terms of the agreement is $75 million . On March 13, 2012, the agreement was renewed, having a new scheduled termination date of March 12, 2013, and can be further renewed if mutually agreed to by both parties. As of December 31, 2012 , $35.0 million of accounts receivable had been transferred by CPRC. CPRC is a separate corporate entity from NiSource and Columbia of Pennsylvania, with its own separate obligations, and upon a liquidation of CPRC, CPRC's obligations must be satisfied out of CPRC's assets prior to any value becoming available to CPRC's stockholder. Under the agreement, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

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The following table reflects the gross and net receivables transferred as well as short-term borrowings related to the securitization transactions as of December 31, 2012 and December 31, 2011 for Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania:

(in millions)	**December 31, 2012**	December 31, 2011
Gross Receivables interest	$ 525.3	$ 510.5
Less: Receivables not transferred	292.0	278.8
Net receivables transferred	$ 233.3	$ 231.7
Short-term debt due to asset securitization	$ 233.3	$ 231.7

During 2012 and 2011 , $1.6 million and $43.3 million was recorded as cash from financing activities related to the change in short-term borrowings due to the securitization transactions, respectively. For the years ended December 31, 2012 and 2011 , fees of $3.5 million and $3.8 million associated with the securitization transactions were recorded as interest expense, respectively. Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania remain responsible for collecting on the receivables securitized and the receivables cannot be sold to another party.

20. 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 guarantees and indemnities in existence at December 31, 2012 and the years in which they expire are:

(in millions)	Total	2013	2014	2015	2016	2017	After
Guarantees of subsidiaries debt	$ 6,805.8	$ 420.3	$ 500.0	$ 480.0	$ 291.5	$ 507.0	$ 4,607.0
Guarantees supporting energy commodity contracts of subsidiaries	52.2	26.5	—	25.0	—	—	0.7
Accounts receivable securitization	233.3	233.3	—	—	—	—	—
Lines of credit	543.6	543.6	—	—	—	—	—
Letters of credit	36.4	19.2	1.0	16.2	—	—	—
Other guarantees	294.8	234.8	32.4	3.0	—	—	24.6
Total commercial commitments	$ 7,966.1	$ 1,477.7	$ 533.4	$ 524.2	$ 291.5	$ 507.0	$ 4,632.3

Guarantees of Subsidiaries Debt . NiSource has guaranteed the payment of $6.8 billion of debt for various wholly-owned subsidiaries including NiSource Finance and Columbia of Massachusetts, and through a support agreement for Capital Markets, which is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain 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. On October 3, 2011, NiSource executed a Second Supplemental Indenture to the original Columbia of Massachusetts Indenture dated April 1, 1991, for the specific purpose of guaranteeing Columbia of Massachusetts' outstanding medium-term notes.

Guarantees Supporting Commodity Transactions of Subsidiaries . NiSource has issued guarantees, which support up to $52.2 million of commodity-related payments for its current subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas services. 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 and Accounts Receivable Advances . During May 2012, NiSource Finance amended its existing $1.5 billion revolving credit facility with a syndicate of banks led by Barclays Capital, extending the termination date to May 15, 2017 and also reducing the borrowing costs under the facility. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource's commercial paper program, provide for the issuance of letters of credit, and also for general corporate purposes. At December 31, 2012, NiSource had $44.0 million borrowings under its five-year revolving credit facility, $499.6 million in commercia3l paper outstanding and $233.3 million outstanding under its accounts receivable securitization agreements. At December 31, 2012, NiSource issued stand-by letters of credit of approximately $36.4 million for the benefit of third parties. See Note 17, "Short-Term Borrowings," for additional information.

Other Guarantees or Obligations . On June 30, 2008, NiSource's subsidiary, PEI, sold Whiting Clean Energy to BPAE for $216.7 million which included $16.1 million in working capital. The agreement with BPAE contains representations, warranties, covenants and closing conditions. NiSource has executed purchase and sales agreement guarantees totaling $220.0 million which guarantee performance of PEI's covenants, agreements, obligations, liabilities, representations and warranties under the agreement with BPAE. No amounts related to the purchase and sale agreement guarantees are reflected in the Consolidated Balance Sheet as of December 31, 2012. These guarantees are due to expire in June 2013.

NiSource has additional purchase and sale agreement guarantees totaling $30.0 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 sale 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.

In connection with Millennium's refinancing of its long-term debt in August 2010, NiSource provided a letter of credit to Union Bank N.A., as Collateral Agent for deposit into a debt service reserve account as required under the Deposit and Disbursement Agreement governing the Millennium notes offering. This account is to be drawn upon by the note holders in the event that Millennium is delinquent on its principal and interest payments. The value of NiSource's letter of credit represents 47.5% (NiSource's ownership percentage in Millennium) of the Debt Service Reserve Account requirement, or $16.2 million . The total exposure for NiSource is $16.2 million . NiSource recorded an accrued liability of $1.5 million related to the inception date fair value of this guarantee as of December 31, 2012.

NiSource has issued other guarantees supporting derivative related payments associated with interest rate swap agreements issued by NiSource Finance, operating leases for many of its subsidiaries and for other agreements entered into by its current and former subsidiaries.

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 impact on NiSource's consolidated financial statements.

C. Tax Matters . NiSource records liabilities for potential income tax assessments. The accruals relate to tax positions in a variety of taxing jurisdictions and are based on management's estimate of 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 part of the IRS Large and Mid-Size Business program. As a result each year's federal income tax return is typically audited by the IRS. As of December 31, 2012, tax years through 2007 have been audited and are effectively closed to further assessment. The audit of tax years 2008, 2009, and 2010 are now in Joint Committee review. As of December 31, 2012, there were no state income tax audits in progress that would have a material impact on the consolidated financial statements.

NiSource is currently being audited for sales and use tax compliance in the states of Virginia, Kentucky, Pennsylvania, Ohio, Maine and Massachusetts.

D. Environmental Matters . NiSource operations are subject to environmental statutes and regulations related to air quality, water quality, hazardous waste and solid waste. NiSource believes that it is in substantial compliance with those environmental regulations currently applicable to its operations and believes that it has all necessary permits to conduct its operations.

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, 2012 and 2011, NiSource had recorded reserves of approximately $160.6 million and $173.5 million , respectively, to cover environmental remediation at various sites. The current portion of this reserve is included in Legal and Environmental Reserves in the Consolidated Balance Sheets. The noncurrent portion is included in Other noncurrent liabilities in the Consolidated Balance Sheets. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated. The original estimates for cleanup can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including currently enacted laws and regulations, the nature and extent of contamination, the method of cleanup, and the availability of cost recovery from customers. These expenditures are not currently estimable at some sites. NiSource periodically adjusts its reserves as information is collected and estimates become more refined.

Air

The actions listed below could require further reductions in emissions from various emission sources. NiSource will continue to closely monitor developments in these matters.

Climate Change . Future legislative and regulatory programs could significantly restrict emissions of GHGs or could impose a cost or tax on GHG emissions. Recently, proposals have been developed to implement federal, state and regional GHG programs and to create renewable energy standards.

In the first quarter of 2012, the EPA proposed an output-based carbon standard for new power plants. The standard would, for the first time, set national limits on the amount of carbon emissions allowed from new power plants. This numerical limit places compliance out of reach for coal-fired plants designed without capture and sequestration of carbon dioxide, limiting NiSource's options for future generation growth. In addition, based on authority provided by the Clean Air Act, once the EPA has promulgated a New Source Performance Standard for a new or modified source in a specific source category, regulation of existing sources in specific circumstances is required.

If the EPA develops a GHG new source performance standard for existing units or if a federal or state comprehensive climate change bill were to be enacted into law, the impact on NiSource's financial performance would depend on a number of factors, including the overall level of required GHG reductions, the renewable energy targets, the degree to which offsets may be used for compliance, the amount of recovery allowed from customers, and the extent to which NiSource would be entitled to receive CO_2 allowances at no cost. Comprehensive federal or state GHG regulation could result in additional expense or compliance costs that may not be fully recoverable from customers and could materially impact NiSource's financial results.

National Ambient Air Quality Standards . The CAA requires the EPA to set national air quality standards for particulate matter and five other pollutants (the NAAQS) considered harmful to public health and the environment. Periodically the EPA imposes new or modifies existing NAAQS. States that contain areas that do not meet the new or revised standards must take steps to maintain or achieve compliance with the standards. These steps could include additional pollution controls on boilers, engines, turbines, and other facilities owned by electric generation, gas distribution, and gas transmission operations.

The following NAAQS were recently added or modified:

Particulate Matter: In December 2009, the EPA issued area designations for the 2006 24-hour $PM_{2.5}$ standard, and several counties in which NiSource operates were designated as non-attainment. In addition, a final rule was promulgated in December 2012 that lowered the annual $PM_{2.5}$ standard from 15 to 12 $\mu g/m^3$. NiSource will continue to monitor these matters and cannot estimate their impact at this time.

Ozone (eight hour): On September 2, 2011, the EPA announced it would implement its 2008 eight-hour ozone NAAQS rather than tightening the standard in 2012. The EPA will review, and possibly revise, the standard in 2013 consistent with CAA requirements. In addition, the EPA has designated the Chicago metropolitan area, including the area in which Northern Indiana operates one of its electric generation facilities, as non-attainment for ozone. NiSource will continue to monitor this matter and cannot estimate the impact of any new rules at this time.

Nitrogen Dioxide (NO_2): The EPA revised the NO_2 NAAQS by adding a one-hour standard while retaining the annual standard. The new standard could impact some NiSource combustion sources. The EPA designated all areas of the country as unclassifiable/attainment in January 2012. After the establishment of a new monitoring network and possible modeling implementation, areas will potentially be re-designated sometime in 2016. States with areas that do not meet the standard will be required to develop rules to bring areas into compliance within five years of designation. Additionally, under certain permitting circumstances emissions from some existing NiSource combustion sources may need to be assessed and mitigated. NiSource will continue to monitor this matter and cannot estimate the impact of these rules at this time.

National Emission Standard for Hazardous Air Pollutants . On August 20, 2010, the EPA revised national emission standards for hazardous air pollutants for certain stationary reciprocating internal combustion engines. Compliance requirements vary by engine type and will generally be required within three years. In June 2012, the EPA proposed revisions to the rule. The final rule is expected in early 2013. NiSource has received a one year compliance extension for the affected engines and is continuing its evaluation of the cost impacts of the new standards, however, estimates the cost of compliance to be $ 20 to $ 25 million .

Waste
NiSource subsidiaries are potentially responsible parties at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws. Additionally, a program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors may have liability. The program has identified 67 such sites where liability is probable. Remedial actions at many of these sites are being overseen by state or federal environmental agencies through consent agreements or voluntary remediation agreements.

During the fourth quarter of 2011, NiSource completed a probabilistic model to estimate its future remediation costs related to its MGP sites. The model was prepared with the assistance of a third party and incorporates NiSource and general industry experience with remediating MGP sites. NiSource accordingly increased its liability for estimated remediation costs by $71.1 million . Since the fourth quarter of 2011, NiSource has monitored the liability on a quarterly basis and in the second quarter of 2012, completed an annual refresh of the model. No material changes to the liability were noted as a result of the refresh. The total liability at NiSource related to the facilities subject to remediation was $132.6 million and $139.5 million at December 31, 2012 and 2011, respectively. The liability represents NiSource's best estimate of the probable cost to remediate the facilities. NiSource believes that it is reasonably possible that remediation costs could vary by as much as $25 million in addition to the costs noted above. Remediation costs are estimated based on the best available information, applicable remediation standards at the balance sheet date, and experience with similar facilities.

Additional Issues Related to Individual Business Segments

The sections below describe various regulatory actions that affect Gas Transmission and Storage Operations, Electric Operations, and certain other discontinued operations for which NiSource has retained a liability.

Gas Transmission and Storage Operations.

Waste
Columbia Transmission continues to conduct characterization and remediation activities at specific sites under a 1995 AOC (subsequently modified in 1996 and 2007). The 1995 AOC originally covered 245 major facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. As a result of the 2007 amendment, approximately 50 facilities remain subject to the terms of the AOC. During the third quarter of 2011, Columbia Transmission completed a study to estimate its future remediation requirements related to the AOC. Columbia Transmission accordingly increased its liability for estimated remediation costs by $25.6 million . Since the third quarter of 2011, Columbia Transmission has been monitoring its liability on a quarterly basis and performed an annual refresh of the study during the second quarter of 2012. An additional $3.5 million was added to the liability due to estimate changes and cost increases as a result of the refresh. The total liability at Columbia Transmission related to the facilities subject to remediation was $21.7 million and $30.0 million at December 31, 2012 and December 31, 2011, respectively. The liability represents Columbia Transmission's best estimate of the cost to remediate the facilities or manage the sites. Remediation costs are estimated based on the information available, applicable remediation standards, and experience with similar facilities. Columbia Transmission expects that the remediation for these facilities will be completed in 2015.

One of the facilities subject to the 1995 AOC is the Majorsville Operations Center, which was remediated under an EPA approved Remedial Action Work Plan in summer 2008. Pursuant to the Remedial Action Work Plan, Columbia Transmission completed a project that stabilized residual oil contained in soils at the site and in sediments in an adjacent stream. Columbia Transmission continues to monitor the site subject to EPA oversight. On April 23, 2009, PADEP issued an NOV to Columbia Transmission, alleging that the remediation did not fully address the contamination. The NOV asserts violations of the Pennsylvania Clean Streams Law and the Pennsylvania Solid Waste Management Act and includes a proposed penalty of $1 million . Columbia Transmission is unable to estimate the likelihood or cost of potential penalties or additional remediation at this time.

Electric Operations.

Air
Northern Indiana expects to become subject to a number of new air-quality mandates in the next several years. These mandates may require Northern Indiana to make capital improvements to its electric generating stations. The cost of capital improvements is estimated to be $820 million to $855 million . This figure includes additional capital improvements associated with the New Source Review Consent Decree and the Utility Mercury and Air Toxics Standards Rule. Northern Indiana believes that the capital costs will likely be recoverable from ratepayers.

Sulfur dioxide: In June 2010, the EPA promulgated a revised primary one-hour SO_2 NAAQS. In a May 11, 2011, letter to the EPA, IDEM recommended that all counties containing Northern Indiana coal-fired generating stations are unclassifiable under this standard. Final EPA designations are expected in June 2013. Discussion is ongoing regarding the use of modeling for unclassifiable areas. Northern Indiana will continue to monitor developments in these matters but does not anticipate a material impact.

Cross-State Air Pollution Rule / Clean Air Interstate Rule (CAIR) / Transport Rule: On July 6, 2011, the EPA announced its replacement for the 2005 CAIR to reduce the interstate transport of fine particulate matter and ozone. The CSAPR reduces overall emissions of SO_2 and NO_x by setting state-wide caps on power plant emissions. The CSAPR limits emissions, including Northern Indiana's, with restricted emission allowance trading programs was scheduled to begin in 2012. In a decision issued on August 21, 2012 the D.C. Circuit Court vacated the CSAPR leaving the CAIR trading program provisions and requirements in place. This development does not significantly impact Northern Indiana's current emissions control plans. Northern Indiana utilizes the inventory model in accounting for emission allowances issued under the CAIR program whereby these allowances were recognized at zero cost upon receipt from the EPA. Northern Indiana believes its current multi-pollutant compliance plan and New Source Review Consent Decree capital investments will allow Northern Indiana to meet the emission requirements of CAIR, while a replacement for CSAPR is developed to address the court's decision.

Utility Mercury and Air Toxics Standards Rule: On February 8, 2008, the United States Court of Appeals for the District of Columbia Circuit vacated two EPA rules that are the basis for the Indiana Air Pollution Control Board's Clean Air Mercury Rule (CAMR) that established utility mercury emission limits in two phases (2010 and 2018) and a cap-and-trade program to meet those limits. In response to the vacatur, the EPA pursued a new Section 112 rulemaking to establish MACT standards for electric utilities. The EPA finalized the Mercury and Air Toxics Standards (MATS) Rule on December 16, 2011. Compliance for Northern Indiana's affected units will be required in April 2015, with the possibility of a one year extension. Northern Indiana is currently developing a plan for further environmental controls to comply with MATS.

New Source Review: On September 29, 2004, the EPA issued an NOV to Northern Indiana for alleged violations of the CAA and the Indiana SIP. The NOV alleged that modifications were made to certain boiler units at three of Northern Indiana's generating stations between the years 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana, EPA, the Department of Justice, and IDEM have settled the matter through a consent decree, entered on July 22, 2011.

Water
The Phase II Rule of the Clean Water Act Section 316(b), which requires all large existing steam electric generating stations to meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures, 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, such as a closed-cycle cooling tower. Various court challenges and EPA responses ensued. The EPA announced a proposed rule and is obligated to finalize a rule in 2013. Northern Indiana will continue to monitor this matter but cannot estimate the cost of compliance at this time.

Waste
On March 31, 2005, the EPA and Northern Indiana entered into an AOC 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. In July 2012, the EPA issued a Final Decision for Areas A and B of the Bailly facility. Remedial activities will likely occur in 2013. The process to investigate and select appropriate remedial activities at a third area is ongoing.

NISOURCE INC.
Notes to Consolidated Financial Statements

The Indiana Department of Environmental Management requested that Northern Indiana enter into AOCs to identify the nature and extent of releases of hazardous waste and hazardous constituents at the Michigan City and Mitchell Generating Stations. Northern Indiana cannot estimate the cost of compliance with any AOCs at this time.

On June 21, 2010, EPA published a proposed rule for regulation of CCRs. The proposal outlines multiple regulatory approaches that EPA is considering. These proposed regulations could negatively affect Northern Indiana's ongoing byproduct reuse programs and would impose additional requirements on its management of coal combustion residuals. Northern Indiana will continue to monitor developments in this matter and cannot estimate the cost of compliance at this time.

***Other Operations*.**

Waste

NiSource affiliates have retained environmental liabilities, including cleanup liabilities associated with some of its former operations. Four sites are associated with its former propane operations and ten sites associated with former petroleum operations. At one of those sites, an AOC has been signed with EPA to address petroleum residue in soil and groundwater.

E. Operating and Capital Lease Commitments. NiSource leases assets in several areas of its operations. Payments made in connection with operating leases were $ 50.9 million in 2012, $ 52.9 million in 2011 and $ 56.7 million in 2010, and are primarily charged to operation and maintenance expense as incurred. Capital leases and related accumulated depreciation included in the Consolidated Balance Sheets were $ 182.5 million and $ 46.8 million at December 31, 2012, and $ 92.7 million and $ 29.8 million at December 31, 2011, respectively.

NiSource Corporate Services has a license agreement with Rational Systems, LLC for pipeline business software requiring annual payments of $ 5.8 million over ten years, which began in January 2008. This agreement is recorded as a capital lease.

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 July 1, 1992 and expired on June 30, 2012. On June 29, 2012, this agreement was renewed for ten years and, in accordance with GAAP, was evaluated to determine whether the arrangement qualified as a lease. Based on the terms of the agreement, the arrangement qualified for capital lease accounting. The effective date of the new agreement is July 1, 2012. NiSource capitalized $72.9 million related to this lease in the third quarter of 2012.

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 [1]
2013	$ 43.4	$ 24.9
2014	39.1	25.2
2015	28.5	24.5
2016	22.5	20.9
2017	15.7	20.9
After	23.7	141.7
Total future minimum payments	$ 172.9	$ 258.1

[1] Capital lease payments shown above are inclusive of interest totaling $84.6 million .

F. Purchase and Service Obligations . NiSource has entered into various purchase and service agreements whereby NiSource is contractually obligated to make certain minimum payments in future periods. NiSource's purchase obligations are for the purchase of physical quantities of natural gas, electricity and coal. NiSource's service agreements encompass a broad range of business support and maintenance functions which are generally described below.

NiSource's subsidiaries have entered into various energy commodity contracts to purchase physical quantities of natural gas, electricity and coal. These amounts represent minimum quantities of these commodities NiSource is obligated to purchase at both fixed and variable prices.

In July 2008, the IURC issued an order approving Northern Indiana's proposed purchase power agreements with subsidiaries of Iberdrola Renewables, Buffalo Ridge I LLC and Barton Windpower LLC. These agreements provided Northern Indiana the opportunity and obligation to purchase up to 100 mw of wind power commencing in early 2009. The contracts extend 15 and 20 years, representing 50 mw of wind power each. No minimum quantities are specified within these agreements due to the variability of electricity production from wind, so no amounts related to these contracts are included in the table below. Upon any termination of the agreements by Northern Indiana for any reason (other than material breach by Buffalo Ridge I LLC or Barton Windpower LLC), Northern Indiana may be required to pay a termination charge that could be material depending on the events giving rise to termination and the timing of the termination.

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2013 to 2045 , require NiSource to pay fixed monthly charges.

NiSource Corporate Services continues to pay IBM to provide business process and support functions to NiSource for amended services under a combination of fixed or variable charges, with the variable charges fluctuating based on the actual need for such services. In December 2011, NiSource elected to extend certain information technology services. Under the amended agreement, at December 31, 2012, NiSource Corporate Services expects to pay approximately $186.8 million to IBM in service fees as shown in the following table.

NiSource Corporate Services signed a service agreement with Vertex Outsourcing LLC, a business process outsourcing company, to provide customer contact center services for NiSource subsidiaries through June 2015. Services under this contract commenced on July 1, 2008, and NiSource Corporate Services pays for the services under a combination of fixed and variable charges, with the variable charges fluctuating based on actual need for such services. Based on the currently projected usage of these services, NiSource Corporate Services expects to pay approximately $30.7 million to Vertex Outsourcing LLC in service fees over the remaining two and a half year term.

Northern Indiana has contracts with four major rail operators providing for coal transportation services for which there are certain minimum payments. These service contracts extend for various periods through 2015.

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 July 1, 1992 and expired on June 30, 2012. The agreement was renewed effective July 1, 2012 for ten years and Northern Indiana will continue to pay for the services under a combination of fixed and variable charges. In accordance with GAAP, the renewed agreement was evaluated to determine whether the arrangement qualified as a lease. Based on the terms of the agreement, the arrangement qualified for capital lease accounting. As the effective date of the new agreement was July 1, 2012, NiSource capitalized this lease beginning in the third quarter of 2012. Future payments for this capital lease are included within, "Capital leases," in the table above.

The estimated aggregate amounts of minimum fixed payments at December 31, 2012, were:

(in millions)	**Energy Commodity Agreements**	**Pipeline Service Agreements**	**IBM Service Agreement**	**Vertex Outsourcing LLC Service Agreement**	**Other Service Agreements**	**Total**
2013	$ 187.1	$ 242.5	$ 75.0	$ 12.3	$ 94.3	$ 611.2
2014	105.9	228.4	72.3	12.3	82.2	501.1
2015	73.8	202.4	34.3	6.1	84.9	401.5
2016	1.5	160.4	3.4	—	3.9	169.2
2017	1.5	141.0	1.8	—	2.0	146.3
After	4.4	554.8	—	—	—	559.2
Total purchase and service obligations	$ 374.2	$ 1,529.5	$ 186.8	$ 30.7	$ 267.3	$ 2,388.5

G. Other Matters. On November 23, 2012, while Columbia of Massachusetts was investigating the source of an odor of gas at a service location in Springfield, Massachusetts, a gas service line was pierced and an explosion occurred. While this explosion impacted multiple buildings and resulted in several injuries, no life threatening injuries or fatalities have been reported. Columbia of Massachusetts is fully cooperating with both the Massachusetts DPU and the Occupational Safety & Health Administration in their investigations of this incident. Columbia of Massachusetts believes any costs associated with damages, injuries, and other losses related to this incident are substantially covered by insurance. Any amounts not covered by insurance are not expected to have a material impact on NiSource's consolidated financial statements. In accordance with GAAP, NiSource recorded any reserves and the related insurance recoveries resulting from this incident on a gross basis within the Consolidated Balance Sheets.

21. Accumulated Other Comprehensive Loss

The following table displays the activity of Accumulated Other Comprehensive Loss, net of tax:

(in millions)	Unrealized Gains/ (Losses) on Securities	Unrealized (Losses)/Gains on Cash Flow Hedges	Unrecognized Pension and OPEB (Costs)/Benefit	Accumulated Other Comprehensive Loss
Balance as of January 1, 2010	**$ 2.6**	**$ (21.0)**	**$ (27.5)**	**$ (45.9)**
Other Comprehensive Income (Loss)	1.1	(13.8)	0.7	(12.0)
Balance as of December 31, 2010	**$ 3.7**	**$ (34.8)**	**$ (26.8)**	**$ (57.9)**
Other Comprehensive Income (Loss)	1.2	3.0	(6.0)	(1.8)
Balance as of December 31, 2011	**$ 4.9**	**$ (31.8)**	**$ (32.8)**	**$ (59.7)**
Other Comprehensive Income (Loss)	(2.3)	3.2	(6.7)	(5.8)
Balance as of December 31, 2012	**$ 2.6**	**$ (28.6)**	**$ (39.5)**	**$ (65.5)**

Equity Method Investment

During 2008, Millennium, in which Columbia Transmission has an equity investment, entered into three interest rate swap agreements with a notional amount totaling $420.0 million with seven counterparties. During August 2010, Millennium completed the refinancing of its long-term debt, securing permanent fixed-rate financing through the private placement issuance of two tranches of notes totaling $725.0 million , $375.0 million at 5.33% due June 30, 2027 and $350.0 million at 6.00% due June 30, 2032 . Upon the issuance of these notes, Millennium repaid all outstanding borrowings under its credit agreement, terminated the sponsor guarantee, and cash settled the interest rate hedges. These interest rate swap derivatives were primarily accounted for as cash flow hedges by Millennium. As an equity method investment, NiSource is required to recognize a proportional share of Millennium's OCI. The remaining unrealized loss of $18.7 million , net of tax, related to these terminated interest rate swaps is being amortized over a 15 year period ending June 2025 into earnings using the effective interest method through interest expense as interest payments are made by Millennium. The unrealized loss of $18.7 million and $19.7 million at December 31, 2012 and December 31, 2011 , respectively, is included in unrealized losses on cash flow hedges above.

22. Other, Net

Year Ended December 31, *(in millions)*	**2012**	2011	2010
Interest income	**$ 5.2**	$ 4.4	$ 6.3
Miscellaneous [(1)]	**(3.5)**	(11.8)	(2.5)
Total Other, net	**$ 1.7**	$ (7.4)	$ 3.8

[(1)] Miscellaneous primarily consists of unconditional pre-tax charitable donations partially offset by AFUDC. Refer to Note 1-G, "Utility Plant and Other Property and Related Depreciation and Maintenance," for additional information related to AFUDC.

NISOURCE INC.
Notes to Consolidated Financial Statements

23. Interest Expense, Net

Year Ended December 31, *(in millions)*	2012	2011	2010
Interest on long-term debt	$ 398.2	$ 362.9	$ 390.7
Interest on short-term borrowings [1]	6.7	13.5	1.9
Discount on prepayment transactions	7.8	7.1	8.5
Accounts receivable securitization	3.2	3.8	6.3
Allowance for borrowed funds used and interest capitalized during construction	(7.1)	(3.1)	(2.7)
Other [2]	9.5	(7.4)	(12.4)
Total Interest Expense, net	$ 418.3	$ 376.8	$ 392.3

[1] Refer to Note 17, "Short-Term Borrowings," for additional information.

[2] The increase in other is primarily attributable to the expiration of the deferral of carrying charges related to the Sugar Creek electric generating plant.

24. Segments of Business

Operating segments are components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The NiSource Chief Executive Officer is the chief operating decision maker.

At December 31, 2012 , NiSource's operations are divided into three 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 and Massachusetts. 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 20 counties in the northern part of Indiana.

NISOURCE INC.
Notes to Consolidated Financial Statements

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.

Year Ended December 31, *(in millions)*	**2012**	2011	2010
REVENUES			
Gas Distribution Operations			
Unaffiliated [(1)]	$ **2,663.1**	$ 3,459.0	$ 3,619.8
Intersegment	**0.4**	1.4	10.7
Total	**2,663.5**	3,460.4	3,630.5
Gas Transmission and Storage Operations			
Unaffiliated	**852.8**	856.7	780.3
Intersegment	**148.7**	148.9	168.9
Total	**1,001.5**	1,005.6	949.2
Electric Operations			
Unaffiliated	**1,508.9**	1,428.5	1,380.8
Intersegment	**0.8**	0.8	0.7
Total	**1,509.7**	1,429.3	1,381.5
Corporate and Other			
Unaffiliated [(2)]	**36.4**	230.5	590.3
Intersegment	**474.7**	464.6	435.9
Total	**511.1**	695.1	1,026.2
Eliminations	**(624.6)**	(615.7)	(616.2)
Consolidated Revenues	$ **5,061.2**	$ 5,974.7	$ 6,371.2

[(1)] With the implementation of the standard choice offer, Columbia of Ohio reported lower gross revenues and cost of sales beginning April 1, 2012. There was no impact on net revenues.

[(2)] The reduction to other revenues is attributed to the continued wind down of the unregulated natural gas marketing business as well as the early termination of certain contracts as discussed in Note 9, "Risk Management and Energy Marketing Activities." There was a corresponding decrease in cost of sales with no impact to operating income.

NISOURCE INC.
Notes to Consolidated Financial Statements

Year Ended December 31, *(in millions)*	2012	2011	2010
Operating Income (Loss)			
Gas Distribution Operations	$ **394.1**	$ 378.9	$ 319.5
Gas Transmission and Storage Operations	**398.4**	360.0	376.6
Electric Operations	**250.8**	208.4	219.8
Corporate and Other	**(0.6)**	(57.2)	(24.1)
Consolidated	$ **1,042.7**	$ 890.1	$ 891.8
Depreciation and Amortization			
Gas Distribution Operations	$ **189.9**	$ 171.5	$ 237.0
Gas Transmission and Storage Operations	**99.3**	130.0	130.7
Electric Operations	**249.7**	214.7	211.8
Corporate and Other	**23.0**	19.5	15.3
Consolidated	$ **561.9**	$ 535.7	$ 594.8
Assets			
Gas Distribution Operations	$ **8,200.7**	$ 7,467.4	$ 7,356.1
Gas Transmission and Storage Operations	**4,660.7**	4,215.3	3,996.5
Electric Operations	**4,970.0**	4,306.4	4,153.8
Corporate and Other	**4,013.3**	4,719.2	4,407.0
Consolidated	$ **21,844.7**	$ 20,708.3	$ 19,913.4
Capital Expenditures [1]			
Gas Distribution Operations	$ **649.4**	$ 498.9	$ 401.9
Gas Transmission and Storage Operations	**489.6**	312.6	235.4
Electric Operations	**422.8**	296.3	158.7
Corporate and Other	**23.3**	17.4	7.8
Consolidated	$ **1,585.1** [1]	$ 1,125.2	$ 803.8

[1] Amounts differ from those presented on the Statements of Consolidated Cash Flows due to the inclusion of capital expenditures included in current liabilities and contributions to equity method investments.

NISOURCE INC.
Notes to Consolidated Financial Statements

25. 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
2012				
Gross revenues	$ 1,648.9	$ 1,039.1	$ 962.9	$ 1,410.3
Operating Income	397.7	205.3	133.2	306.5
Income from Continuing Operations	192.5	68.5	17.6	132.0
Results from Discontinued Operations - net of taxes	0.9	0.9	1.7	2.0
Net Income	193.4	69.4	19.3	134.0
Basic Earnings Per Share				
Continuing Operations	0.68	0.25	0.06	0.42
Discontinued Operations	—	—	—	0.01
Basic Earnings Per Share	$ 0.68	$ 0.25	$ 0.06	$ 0.43
Diluted Earnings Per Share				
Continuing Operations	0.66	0.23	0.06	0.42
Discontinued Operations	—	—	—	0.01
Diluted Earnings Per Share	$ 0.66	$ 0.23	$ 0.06	$ 0.43
2011				
Gross revenues	$ 2,220.8	$ 1,217.5	$ 1,057.3	$ 1,479.1
Operating Income	403.6	161.6	142.7	182.2
Income from Continuing Operations	207.4	38.4	33.4	15.6
Results from Discontinued Operations - net of taxes	2.1	1.8	1.3	(0.9)
Net Income	209.5	40.2	34.7	14.7
Basic Earnings Per Share				
Continuing Operations	0.75	0.13	0.12	0.05
Discontinued Operations	—	0.01	—	—
Basic Earnings Per Share	$ 0.75	$ 0.14	$ 0.12	$ 0.05
Diluted Earnings Per Share				
Continuing Operations	0.73	0.13	0.12	0.04
Discontinued Operations	—	0.01	—	—
Diluted Earnings Per Share	$ 0.73	$ 0.14	$ 0.12	$ 0.04

- On February 14, 2012, Columbia of Ohio held its first standard choice offer auction which resulted in a retail price adjustment of $1.53 per Mcf. On February 14, 2012, the PUCO issued an entry that approved the results of the auction with the new retail price adjustment level effective April 1, 2012. As a result of the implementation of the standard choice offer, Columbia of Ohio reports lower gross revenues and lower cost of sales. There is no impact on net revenues.

- On September 4, 2012, Columbia Transmission filed a customer settlement that was approved by the FERC on January 24, 2013 in support of its comprehensive pipeline modernization program. As a result of this settlement Columbia Transmission's gross revenues decreased $81.7 million , partially offset by a decrease in depreciation costs of $33.4 million .

- On November 14, 2011, NiSource Finance commenced a cash tender offer for up to $250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013 . A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately $125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately $228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which $124.7 million were accepted for purchase. In accordance with the provisions of ASC 470, Debt, NiSource Finance determined the debt issued on November 23, 2011, was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a $53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

• During the fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded $35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers.

• During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business.

26. Supplemental Cash Flow Information

The following tables provide additional information regarding NiSource's Consolidated Statements of Cash Flows for the years ended December 31, 2012 , 2011 and 2010 :

Year Ended December 31, *(in millions)*	**2012**	2011	2010
Supplemental Disclosures of Cash Flow Information			
Non-cash transactions:			
Capital expenditures included in current liabilities	**$ 162.6**	$ 98.3	$ 106.0
Change in equity investments related to unrealized losses	**—**	—	(24.1)
Stock issuance to employee saving plans	**27.3**	25.8	19.7
Schedule of interest and income taxes paid:			
Cash paid for interest, net of interest capitalized amounts	**$ 386.8**	$ 369.2	$ 393.0
Cash paid for income taxes	**8.2**	9.3	68.9

NiSource Inc.

Schedule I
Condensed Financial Information of Registrant

Balance Sheet

As of December 31, *(in millions)*		2012		2011
ASSETS				
Investments and Other Assets:				
Investments in subsidiary companies	$	9,556.9	$	9,249.7
Total Investments and Other Assets		9,556.9		9,249.7
Current Assets:				
Other current assets		819.7		353.7
Total Current Assets		819.7		353.7
Other non-current assets		65.0		53.3
TOTAL ASSETS		10,441.6		9,656.7
CAPITALIZATION AND LIABILITIES				
Capitalization:				
Common stock equity		5,554.3		4,997.3
Total Capitalization		5,554.3		4,997.3
Current liabilities		863.8		613.3
Notes payable to subsidiaries		3,996.2		3,996.2
Other non-current liabilities		27.3		49.9
TOTAL CAPITALIZATION AND LIABILITIES	$	10,441.6	$	9,656.7

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)*	**2012**	2011	2010
Equity in net earnings of consolidated subsidiaries	$ **547.9**	$ 428.4	$ 422.8
Other income (deductions):			
Administrative and general expenses	**(2.9)**	(13.5)	(11.3)
Interest income	**4.6**	1.2	0.7
Interest expense	**(227.6)**	(206.1)	(230.3)
Other, net	**(10.0)**	(10.0)	(4.0)
Total Other income (deductions)	**(235.9)**	(228.4)	(244.9)
Income from continuing operations before income taxes	**312.0**	200.0	177.9
Income taxes	**(98.6)**	(94.8)	(98.9)
Income from continuing operations	**410.6**	294.8	276.8
Income from discontinued operations - net of taxes	**5.5**	4.3	5.7
Gain on Disposition of discontinued operations - net of taxes	**—**	—	0.1
NET INCOME	$ **416.1**	$ 299.1	$ 282.6
Average common shares outstanding (millions)	**291.9**	280.4	277.8
Diluted average common shares (millions)	**300.4**	288.5	280.1
Basic earnings per share			
Continuing operations	$ **1.41**	$ 1.05	$ 1.00
Discontinued operations	**0.02**	0.01	0.02
Basic earnings per share	$ **1.43**	$ 1.06	$ 1.02
Diluted earnings per share			
Continuing operations	$ **1.37**	$ 1.02	$ 0.99
Discontinued operations	**0.02**	0.01	0.02
Diluted earnings per share	$ **1.39**	$ 1.03	$ 1.01

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 COMPREHENSIVE INCOME

Year Ended December 31, (in millions, net of taxes)		**2012**		2011		2010
Net Income	**$**	**416.1**	$	299.1	$	282.6
Other comprehensive income (loss):						
Net unrealized (loss) gain on available-for-sale securities [1]		**(2.3)**		1.2		1.1
Net unrealized gain (loss) on cash flow hedges [2]		**3.2**		3.0		(13.8)
Unrecognized pension benefit and OPEB costs [3]		**(6.7)**		(6.0)		0.7
Total other comprehensive loss		**(5.8)**		(1.8)		(12.0)
Total Comprehensive Income	**$**	**410.3**	$	297.3	$	270.6

(1) Net unrealized (losses) gains on available-for-sale securities, net of $1.7 million tax benefit, $0.7 million and $0.8 million tax expense in 2012, 2011 and 2010, respectively.

(2) Net unrealized gains (losses) on derivatives qualifying as cash flow hedges, net of $2.1 million tax expense, $1.1 million tax benefit and $7.6 million tax expense in 2012, 2011 and 2010, respectively. Net unrealized gains on cash flow hedges includes gains of $1.0 million and $1.4 million , and losses of $15.4 million related to the unrealized gains and losses of interest rate swaps held by NiSource's unconsolidated equity method investments in 2012, 2011 and 2010, respectively.

(3) Unrecognized pension benefit and OPEB costs, net of $4.2 million tax benefit, $3.7 million and $0.4 million tax expense in 2012, 2011 and 2010, respectively.

The accompanying Notes to Condensed Consolidated 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)*	2012	2011	2010
Net cash provided by operating activities	**$ 393.9**	$ 313.6	$ 212.9
Cash flows (used in) provided by investing activities:			
(Increase) decrease in notes receivable from subsidiaries	**(487.4)**	(139.3)	31.4
Net cash (used in) provided by investing activities	**(487.4)**	(139.3)	31.4
Cash flows provided by (used in) financing activities:			
Issuance of common shares	**383.5**	24.4	14.4
Increase (decrease) in notes payable to subsidiaries	**—**	63.8	(1.6)
Cash dividends paid on common shares	**(273.2)**	(257.8)	(255.6)
Acquisition of treasury shares	**(10.0)**	(3.1)	(1.5)
Net cash provided by (used in) financing activities	**100.3**	(172.7)	(244.3)
Net increase in cash and cash equivalents	**6.8**	1.6	—
Cash and cash equivalents at beginning of year	**1.6**	—	—
Cash and cash equivalents at end of year	**$ 8.4**	$ 1.6	$ —

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: $378.0 million , $440.0 million and $232.0 million in 2012, 2011 and 2010, respectively.

2. Commitments and Contingencies

NiSource and its subsidiaries are parties to litigation, environmental and other matters. Refer to Note 20, "Other Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional information. 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 maximum potential amount of future payments NiSource could have been required to make under these guarantees as of December 31, 2012 was approximately $8.0 billion . Of this amount, approximately $6.9 billion relates to guarantees of wholly-owned consolidated entities.

3. Related Party Transactions

Balances due to or due from related parties included in the Balance Sheets as of December 31, 2012 and 2011 are as follows:

At December 31, *(in millions)*	2012	2011
Current assets due from subsidiaries (1)	**$ 785.4**	$ 288.6
Current liabilities due to subsidiaries (2)	**833.1**	602.6
Non-current liabilities due to subsidiaries (3)	**3,996.2**	3,996.2

(1) The balances at December 31, 2012 and 2011 are classified as Current assets on the Balance Sheets.

(2) The balances at December 31, 2012 and 2011 are classified as Current liabilities on the Balance Sheets. At December 31, 2012 and 2011, $793.0 million and $573.7 million related to interest on affiliated notes payable, respectively.

(3) The balances at December 31, 2012 and 2011 are classified as Notes payable to subsidiaries on the Balance Sheets.

4. Notes to Financial Statements

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

NiSource Inc.

Schedule II – Valuation and Qualifying Accounts

Twelve months ended December 31, 2012

($ in millions)	Balance Jan. 1, 2012	Additions: Charged to Costs and Expenses	Additions: Charged to Other Account (1)	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2012
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:					
Reserve for accounts receivable	$ 30.5	$ 13.2	$ 53.8	$ 73.5	$ 24.0
Reserve for other investments	3.0	—	—	—	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:					
Reserve for cost of operational gas	2.7	(1.5)	—	1.2	—

Twelve months ended December 31, 2011

($ in millions)	Balance Jan. 1, 2011	Additions: Charged to Costs and Expenses	Additions: Charged to Other Account (1)	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2011
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:					
Reserve for accounts receivable	$ 37.4	$ 13.8	$ 76.6	$ 97.3	$ 30.5
Reserve for other investments	3.0	—	—	—	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:					
Reserve for cost of operational gas	2.7	—	—	—	2.7

Twelve months ended December 31, 2010

($ in millions)	Balance Jan. 1, 2010	Additions: Charged to Costs and Expenses	Additions: Charged to Other Account (1)	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2010
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:					
Reserve for accounts receivable	$ 39.6	$ 17.6	$ 72.5	$ 92.3	$ 37.4
Reserve for other investments	3.0	—	—	—	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:					
Reserve for cost of operational gas	5.7	(2.9)	—	0.1	2.7

(1) Charged to Other Accounts reflects the deferral of bad debt expense to a regulatory asset.

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

None.

ITEM 9A. 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 to provide reasonable assurance that financial information was processed, recorded and reported accurately.

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 2012, 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.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by NiSource in the reports that it files or submits under the Exchange Act is accumulated and communicated to NiSource's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Deloitte & Touche LLP, NiSource's independent registered public accounting firm, issued an attestation report on NiSource's internal controls over financial reporting which is contained in Item 8, "Financial Statements and Supplementary Data."

Changes in Internal Controls

There have been no changes in NiSource's internal control over financial reporting during the most recently completed quarter covered by this report that has materially affected, or is reasonably likely to affect, NiSource's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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 14, 2013 , which information is incorporated by reference.

Information regarding NiSource's code of ethics, the audit committee and the audit committee financial expert and procedures for shareholder recommendations for director nominations will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2013 , 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 14, 2013 , 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 14, 2013 , which information is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required under this Item with respect to certain relationships and related transactions and director independence will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2013 , which information is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal 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 14, 2013 , which information is incorporated by reference.

PART IV

NISOURCE INC.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Financial Statements and Financial Statement Schedules

The following financial statements and financial statement schedules filed as a part of the Annual Report on Form 10-K are included in Item 8, "Financial Statements and Supplementary Data."

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 February 19, 2013

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)	February 19, 2013
/S/ STEPHEN P. SMITH Stephen P. Smith	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 19, 2013
/S/ JON D. VEURINK Jon D. Veurink	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 19, 2013
/S/ IAN M. ROLLAND Ian M. Rolland	Chairman and Director	February 19, 2013
/S/ RICHARD A. ABDOO Richard A. Abdoo	Director	February 19, 2013
/S/ ARISTIDES S. CANDRIS Aristides S. Candris	Director	February 19, 2013
/S/ SIGMUND L. CORNELIUS Sigmund L. Cornelius	Director	February 19, 2013
/S/ MICHAEL E. JESANIS Michael E. Jesanis	Director	February 19, 2013
/S/ MARTY R. KITTRELL Marty R. Kittrell	Director	February 19, 2013
/S/ W. LEE NUTTER W. Lee Nutter	Director	February 19, 2013
/S/ DEBORAH S. PARKER Deborah S. Parker	Director	February 19, 2013
/S/ TERESA A. TAYLOR Teresa A. Taylor	Director	February 19, 2013

/S/ RICHARD L. THOMPSON Richard L. Thompson	Director	February 19, 2013
/S/ CAROLYN Y. WOO Carolyn Y. Woo	Director	February 19, 2013

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF ITEM
(3.1)	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Form 10-Q filed on August 4, 2008).
(3.2)	Bylaws of NiSource Inc., as amended and restated through May 11, 2010 (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Form 8-K filed on May 14, 2010).
(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)	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)).
(4.4)	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. Form 10-K for the period ended December 31, 2000).
(4.5)	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)).
(10.1)	2010 Omnibus Incentive Plan (incorporated by reference to Exhibit B to NiSource Inc. Definitive Proxy Statement to Shareholders held on May 11, 2010, filed on April 2, 2010).*
(10.2)	NiSource Inc. Nonemployee Director Stock Incentive Plan as amended and restated effective May 13, 2008 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.3)	NiSource Inc. Nonemployee Director Retirement Plan, as amended and restated effective May 13, 2008. (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.4)	Supplemental Life Insurance Plan effective January 1, 1991, as amended, (incorporated by reference to Exhibit 2 to the NIPSCO Industries, Inc. Form 8-K filed on March 25, 1992).*
(10.5)	Form of Change in Control and Termination Agreement (applicable to each named executive officer hired prior to January 1,2010)(incorporated by reference to Exhibit 10.7 to the NiSource Inc. Form 10-Q filed on November 4, 2008).*
(10.6)	Form of Change in Control and Termination Agreement (applicable to each senior executive officer other than the Named Executive Officers hired prior to January 1, 2010).* **
(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. 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. Form 8-K filed on December 2, 2005).*

(10.9) 1st Amendment to NiSource Inc. 1994 Long Term Incentive Plan, effective January 22, 2009. (incorporated by reference to Exhibit 10.10 to the NiSource Inc. Form 10-K filed on February 27, 2009).*

(10.10) Form of Nonqualified Stock Option Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Form 8-K filed on January 3, 2005).*

(10.11) Form of Contingent Stock Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to NiSource Inc. Form 10-Q filed on May 4, 2010).*

(10.12) Form of Performance Share Agreement under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.15 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*

(10.13) Form of Restricted Stock Unit Award Agreement for Nonemployee Directors under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.16 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*

(10.14) Form of Restricted Stock Unit Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.17 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*

(10.15) Form of Restricted Stock Agreement under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.18 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*

(10.16) Form of Restricted Stock Unit Award Agreement for Non-employee directors under the Non-employee Director Stock Incentive Plan. (incorporated by reference to Exhibit 10.19 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*

(10.17) Form of Restricted Stock Unit Award Agreement for Nonemployee Directors under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to NiSource Inc. Form 10-Q filed on August 2, 2011).*

(10.18) Amended and Restated NiSource Inc. Supplemental Executive Retirement Plan effective May 13, 2011 (incorporated by reference to Exhibit 10.3 to NiSource Inc. Form 10-Q filed on October 28, 2011).*

(10.19) Amended and Restated Pension Restoration Plan for NiSource Inc. and Affiliates effective May 13, 2011 (incorporated by reference to Exhibit 10.4 to NiSource Inc. Form 10-Q filed on October 28, 2011).*

(10.20) Amended Restated Savings Restoration Plan for NiSource Inc. and Affiliates effective October 22, 2012.* **

(10.21) Amended and Restated NiSource Inc. Executive Deferred Compensation Plan effective November 1, 2012.* **

(10.22) NiSource Inc. Executive Severance Policy, as amended and restated, effective January 1, 2012.* **

(10.23) Letter Agreement between NiSource Corporate Services Company and Stephen P. Smith dated May 14, 2008. (incorporated by reference to Exhibit 10.24 to the NiSource Inc. Form 10-K filed on February 27, 2009).*

(10.24) Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the lender parties thereto as Lenders, Credit Suisse AG, Cayman Islands Branch as Syndication Agent, The Bank Of

Tokyo-Mitsubishi UFJ, Ltd., Citibank, N.A., and JPMorgan Chase Bank, N.A. as Co-Documentation Agents and Barclays Bank PLC, as Administrative Agent dated May 15, 2012 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 10-Q for the period ended June 30, 2012).

Table of Contents

(10.25) 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).

(10.26) Amendment No. 1, dated as of November 10, 2008, to the Note Purchase Agreement by and among NiSource Finance Corp., as issuer, NiSource Inc., as guarantor, and the purchasers whose names appear on the signature page thereto (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Form 10-K filed on February 27, 2009).

(10.27) Guaranty of NiSource Inc. in favor of JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 8-K filed on August 30, 2007).

(10.28) 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. Form 10-Q for the period ended June 30, 2005).

(10.29) Amendment #4 to Agreement for Business Process and Support Services between NiSource Corporate Services Company and IBM, effective December 1, 2007 (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Form 10-K for the period ended December 31, 2007).*

(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 Stephen P. Smith, 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 Stephen P. Smith, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).**

(101.INS) XBRL Instance Document.**

(101.SCH) XBRL Schema Document.**

(101.CAL) XBRL Calculation Linkbase Document.**

(101.LAB) XBRL Labels Linkbase Document.**

(101.PRE) XBRL Presentation Linkbase Document.**

(101.DEF) XBRL Definition Linkbase Document.**

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

** Exhibit filed herewith.

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.

Exhibit 10.6

NISOURCE INC.

FORM OF

CHANGE IN CONTROL AND TERMINATION AGREEMENT

NiSource Inc., a Delaware corporation ("Employer"), which as used herein shall mean NiSource Inc. and all of its Affiliates, and [Insert Name] ("Executive") hereby enter into a Change in Control and Termination Agreement as of [Insert Date] (the "Effective Date"), which Agreement is hereinafter set forth ("Agreement").

WITNESSETH

WHEREAS, Employer considers the ability to attract and retain talented management to be part of its corporate strategy and necessary in protecting and enhancing the interests of the Employer and its shareholders. As part of this strategy, Employer desires to retain Executive in its employment notwithstanding any actual or threatened Change in Control; and

WHEREAS, Executive and Employer desire to enter into this Agreement pertaining to the terms of Executive's employment in the event of any actual or threatened Change in Control;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. Term . This Agreement shall begin on the Effective Date and shall continue in effect until the date which is 24 months after the date on which either Employer or Executive has given written notice to the other party of its or his election to have this Agreement terminate ("Term").

2. Definitions . For purposes of this Agreement:

(a) "Affiliate" or "Associate" shall have the meaning set forth in Rule 12b-2 under the Securities Exchange Act of 1934.

(b) "Base Salary" shall mean Executive's monthly base salary at the rate in effect on the date of a reduction for purposes of paragraph (g) of this Section, or on the date of a termination of employment under circumstances described in subsections 3(a) or (b) below, whichever is higher; provided, however, that such rate shall in no event be less than the highest rate in effect for Executive at any time during the Term.

(c) "Beneficiary" shall mean the person or entity designated by Executive, by written instrument delivered to Employer, to receive the benefits payable under this Agreement in the event of his death. If Executive fails to designate a Beneficiary, or if no Beneficiary survives Executive, such death benefits shall be paid:

(i) to his surviving spouse; or

(ii) if there is no surviving spouse, to his living descendants per stirpes ; or

(iii) if there is neither a surviving spouse nor descendants, to his duly appointed and qualified executor or personal representative.

(d) "Bonus" shall mean Executive's target annual incentive bonus compensation for the calendar year in which the date of a termination of employment under circumstances described in subsection 3(a) below occurs, under the NiSource Inc. Corporate Incentive Plan or such other incentive bonus compensation plan then maintained by Employer ("Annual Incentive Plan"); provided, however, that such target annual incentive bonus compensation shall in no event be less than the highest target annual incentive bonus compensation of Executive under any such Annual Incentive Plan for any calendar year commencing during the Term.

(e) A "Change in Control" shall be deemed to take place on the occurrence of any of the following events:

(1) The acquisition by an entity, person or group (including all Affiliates or Associates of such entity, person or group) of beneficial ownership, as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934, of capital stock of NiSource Inc. entitled to exercise more than 30% of the outstanding voting power of all capital stock of NiSource Inc. entitled to vote in elections of directors ("Voting Power");

(2) The effective time of (i) a merger or consolidation of NiSource Inc. with one or more other corporations unless the holders of the outstanding Voting Power of NiSource Inc. immediately prior to such merger or consolidation (other than the surviving or resulting corporation or any Affiliate or Associate thereof) hold at least 50% of the Voting Power of the surviving or resulting corporation (in substantially the same proportion as the Voting Power of NiSource Inc. immediately prior to such merger or consolidation), or (ii) a transfer of a Substantial Portion of the Property, of NiSource Inc. other than to an entity of which NiSource Inc. owns at least 50% of the Voting Power; or

(3) The election to the Board of Directors of NiSource Inc. (the "Board") of candidates who were not recommended for election by the Board, if such candidates constitute a majority of those elected in that particular election (for this purpose, recommended directors will not include any candidate who becomes a member of the Board as a result of an actual or threatened election contest or proxy or consent solicitation on behalf of anyone other than the Board or as a result of any appointment, nomination, or other agreement intended to avoid or settle a contest or solicitation). Notwithstanding the foregoing, a Change in Control shall not be deemed to take place by virtue of any transaction in which Executive is a participant in a group effecting an acquisition of NiSource Inc. and, after such acquisition, Executive holds an equity interest in the entity that has acquired NiSource Inc.

(f) "Good Cause" shall be deemed to exist if, and only if Employer notifies Executive, in writing, within 60 days of its knowledge that one of the following events occurred:

(1) Executive engages in acts or omissions constituting dishonesty, intentional breach of fiduciary obligation or intentional wrongdoing or malfeasance, in each case that results in substantial harm to Employer; or

(2) Executive is convicted of a criminal violation involving fraud or dishonesty.

(g) "Good Reason" all be deemed to exist if, and only if;

(1) a significant diminution in the nature or the scope of Executive's authorities or duties;

(2) there is a significant reduction in Executive's monthly rate of Base Salary and his opportunity to earn a bonus under an incentive bonus compensation plan maintained by Employer or his benefits; or

(3) Employer changes by 50 miles or more the principal location at which Executive is required to perform services as of the date of a Change in Control.

(h) "Pension Plan" shall mean any Retirement Plan that is a defined benefit plan as defined in Section 3(35) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

(i) "Retirement Plan" shall mean any qualified or nonqualified supplemental employee pension benefit plan, as defined in Section 3(2) of ERISA, currently or hereinafter made available by Employer in which Executive is eligible to participate.

(j) "Severance Period" shall mean the period beginning on the date Executive's employment with Employer terminates under circumstances described in subsection 3(a) and ending on the date 24 months thereafter.

(k) "Substantial Portion of the Property of NiSource Inc." shall mean 50% of the aggregate book value of the assets of NiSource Inc. and its Affiliates and Associates as set forth on the most recent balance sheet of NiSource Inc., prepared on a consolidated basis, by its regularly employed, independent, certified public accountants.

(l) "Welfare Plan" shall mean any health and dental plan, disability plan, survivor income plan or life insurance plan, as defined in Section 3(1) of ERISA, currently or hereafter made available by Employer in which Executive is eligible to participate.

3. Benefits Upon Termination of Employment .

(a) The following provisions will apply if a Change in Control occurs during the Term, and at any time during the 24 months after the Change in Control occurs (whether during or after the expiration of the Term), the employment of Executive with Employer is terminated Employer for any reason other than Good Cause, or Executive terminates his employment with Employer for Good Reason. In addition, the following provisions also will apply if (i) a Change in Control occurs during the Term, (ii) Employer has terminated Executive's employment other than for Good Cause during the year prior to the Change in Control but after a third party and/or Employer had taken steps reasonably calculated to effect a Change in Control and (iii) it is reasonably demonstrated by Executive that such termination of employment was in connection with or in anticipation of a Change in Control.

(1) Employer shall pay Executive an amount equal to 24 times the sum of (a) Executive's Base Salary plus (b) one-twelfth of his Bonus. Such amount shall be paid to Executive in a lump sum within 60 days following the later of Executive's termination of employment or a Change in Control.

(2) Employer shall pay Executive an amount equal to the pro rata portion of Executive's target annual incentive bonus compensation for the calendar year under the Annual Incentive Plan then maintained by Employer, that is applicable to the period commencing on the first day of such calendar year and ending on the date of termination. Such bonus amount shall be paid to Executive in a lump sum within 30 days after his date of termination of employment.

(3) Executive shall receive any and all benefits accrued through the date of termination of employment under any Retirement Plan, Welfare Plan or other plan or program in which he participates at the date of termination of employment. The amount, form and time of payment of such benefits will be determined by the terms of such Retirement Plan, Welfare Plan and other plan or program. Further, Executive's employment shall be deemed to have terminated by reason of retirement without regarding to vesting limitations in all such plans and other plans or programs not subject to the qualification requirements of Section 401(a) of the Internal Revenue Code of 1986 as amended ("Code"), under circumstances that have the most favorable result for Executive thereunder for all purposes of such Plans and other plans or programs. Any such payments shall be paid to Executive in a lump sum within 30 days after his date of termination of employment, or if a payment is not permitted at termination of employment under the terms of the applicable plan or program, within 30 days after the earliest permitted payment date under the plan or program, in accordance with Section 409A of the Code.

(4) If upon the date of termination of Executive's employment Executive holds any options with respect to stock of Employer, all such options will immediately become exercisable upon such date and will be exercisable for 200 days thereafter (but not longer than, the regularly scheduled term of such options). Any restrictions on stock of Employer

owned by Executive on the date of termination of his employment will lapse on such date.

(5) In lieu of a contribution by Employer to, or a reimbursement to Executive for, any coverage premiums and any other expenses payable by Executive during the Severance Period under all Welfare Plans maintained by Employer in which he and his spouse and other dependents were participating immediately prior to the date of his termination, Employer will pay to Executive an amount equal to 130% of such coverage premiums and expenses otherwise payable during the Severance Period. Such amount shall be paid to Executive in a lump sum within 60 days following Executive's termination of employment.

(6) Executive shall receive outplacement services for a period commencing on the date of termination of employment and continuing until the earlier to occur of the Executive accepting other employment or 12 months after the date of termination, in an amount not to exceed $25,000.

(7) During the Severance Period, Executive shall not be entitled to reimbursement for fringe benefits, including without limitation, dues and expenses related to club memberships, automobile expenses, expenses for professional services and other similar perquisites.

(b) If the employment of Executive with Employer is terminated by Employer or Executive other than under circumstances set forth in subsection 3(a), Executive's Base Salary shall be paid through the date of his termination, and Employer shall have no further obligation to Executive or any other person under this Agreement. Such termination shall have no effect upon Executive's other rights, including but not limited to, rights under the Retirement Plans and the Welfare Plans.

(c) Notwithstanding anything herein to the contrary, (1) in the event Employer shall terminate the employment of Executive for Good Cause hereunder, Employer shall give Executive at least thirty (30) days prior written notice specifying in detail the reason or reasons for Executive's termination, and (2) in the event Executive terminates his employment for Good Reason hereunder, Executive shall give Employer at least 30 days prior written notice specifying in detail the Good Reason conditions. If Employer cures such conditions, any subsequent termination of employment by Executive will not be considered to be made for Good Reason.

(d) This Agreement shall have no effect, and Employer shall have no obligations hereunder, if Executive's employment terminates for any reason at any time other than (i) during the 24 months following a Change in Control; or (ii) as otherwise specifically set forth in Subsection 3(a).

(e) Notwithstanding anything to the contrary contained in this Agreement, in the event that a Change in Control shall occur, and a final determination is made by legislation, regulation, ruling directed to Executive or Employer, by court decision, or by independent tax counsel selected by the Executive and approved by the Employer, that the aggregate amount of any payment made to Executive (1) hereunder, and (2) pursuant to any plan, program or policy of Employer in connection with, on account of, or as a result of, such Change in Control ("Total Payments") will be subject to the excise tax provisions of Section 4999 of the Code ("Excise Tax"), or any successor section thereof, Executive shall be entitled to receive from Employer one dollar less than the Total Payments otherwise payable to the Executive that would constitute "parachute payments" under Section 4999 of the Code (the "Reduced Amount"); provided, however that if, after payment of the Excise Tax and any other federal, state, local, and other taxes imposed on the Total Payments, the amount to be paid to the Executive would exceed the Reduced Amount, the Executive shall receive the Total Payments. The Total Payments, however, shall be subject to any federal, state and local income and employment taxes thereon. For this purpose, Executive shall be deemed to be in the highest marginal rate of federal, state and local taxes. In the event that the Executive is paid the Reduced Amount, the reduction of the Total Payments shall be determined in a manner that has the least economic cost to the Executive. If the economic cost is equivalent, the Total Payments will be reduced in the inverse order of when the Total Payments would have been made to the Executive until the Reduced Amount is achieved.

4. Setoff. No payments or benefits payable to or with respect to Executive pursuant to this Agreement shall be reduced by any amount Executive or his spouse or Beneficiary, or any other beneficiary under the Pension Plans, may earn or receive from employment with another employer or from any other source, except as expressly provided in subsection 3(a)(6).

5. Death. If Executive's employment with Employer terminates under circumstances described in subsections 3(a) or (b), then upon Executive's subsequent death, all unpaid amounts payable to Executive under subsections 3(a)(1), (2) or (3) or 3(b), or Section 4, if any, shall be paid to his Beneficiary.

6. No Solicitation of Representatives and Employees. Executive agrees that he shall not, during the Term or the Severance Period, directly or indirectly, in his individual capacity or otherwise, induce, cause, persuade, or attempt to do any of the foregoing in order to cause, any representative, agent or employee of Employer to terminate such person's employment relationship with Employer, or to violate the terms of any agreement between said representative, agent or employee and Employer.

7. Confidentiality. Executive acknowledges that preservation of a continuing business relationship between Employer and their respective customers, representatives, and employees is of critical importance to the continued business success of Employer and that it is the active policy of Employer to guard as confidential certain information not available to the public and relating to the business affairs of Employer. In view of the foregoing, Executive agrees that he shall not during the Term and at any time thereafter, without the prior written consent of Employer, disclose to any person or entity any such confidential

information that was obtained by Executive in the course of his employment by Employer. This section shall not be applicable if and to the extent Executive is required to testify in a legislative, judicial or regulatory proceeding pursuant to an order of Congress, any state or local legislature, a judge, or an administrative law judge or is otherwise required by law to disclose such information.

8. Forfeiture. If Executive shall at any time violate any obligation of his under Sections 7 or 8 in a manner that results in significant damage to the Employer or its business, he shall immediately forfeit his right to any benefits under this Agreement, and Employer shall thereafter have no further obligation hereunder to Executive or his spouse, Beneficiary or any other person.

9. Executive Assignment. No interest of Executive, his spouse or any Beneficiary, or any other beneficiary under the Pension Plans, under this Agreement, or any right to receive any payment or distribution hereunder, shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind, nor may such interest or right to receive a payment or distribution be taken, voluntarily or involuntarily, for the satisfaction of the obligations or debts of, or other claims against, Executive or his spouse, Beneficiary or other beneficiary, including claims for alimony, support, separate maintenance, and claims in bankruptcy proceedings.

10. Benefits Unfunded. All rights under this Agreement of Executive and his spouse, Beneficiary or other beneficiary under the Pension Plans, shall at all times be entirely unfunded, and no provision shall at any time be made with respect to segregating any assets of Employer for payment of any amounts due hereunder. None of Executive, his spouse, Beneficiary or any other beneficiary under the Pension Plans shall have any interest in or rights against any specific assets of Employer, and Executive and his spouse, Beneficiary or other beneficiary shall have only the rights of a general unsecured creditor of Employer.

11. Waiver. No waiver by any party at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of any other provisions or conditions at the same time or at any prior or subsequent time.

12. Litigation Expenses. Following the occurrence of Change in Control, Employer shall pay Executive's reasonable attorneys' fees and legal expenses in connection with any judicial proceeding to enforce this Agreement, or to construe or determine the validity of this Agreement or otherwise in the event Executive is successful in one material claim in such litigation. Such reimbursement shall occur by March 15 of the calendar year after the calendar year in which such reimbursement obligation as finally determined.

13. Continuing Indemnification and Advancement of Expenses. Following the occurrence of a Change in Control, to the full extent permitted by law, Employer shall indemnify Executive against any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative, arising

by reason of Executive's status as a director, officer, employee and/or agent of Employer. In addition, to the extent permitted by law, Employer shall advance or reimburse any expenses, including reasonable attorney's fees, Executive incurs in investigating and defending any actual or threatened action, suit or proceeding for which Executive may be entitled to indemnification under this Section 13. Executive agrees to repay any expenses paid or reimbursed by Employer if it is ultimately determined that Executive is not legally entitled to be indemnified by Employer.

14. Applicable Law. This Agreement shall be construed and interpreted pursuant to the laws of Indiana.

15. Entire Agreement. This Agreement contains the entire Agreement between the Employer and Executive and supersedes any and all previous agreements; written or oral; between the parties relating to the subject matter hereof. For the avoidance of doubt, if Executive becomes entitled to the benefits under this Agreement, Executive shall not be eligible for any duplicative benefits under any other agreement, offer letter, plan, program or policy. No amendment or modification of the terms of this Agreement shall be binding upon the parties hereto unless reduced to writing and signed by Employer and Executive.

16. No Employment Contract. Nothing contained in this Agreement shall be construed to be an employment contract between Executive and Employer or provide Executive with the right to continued Employment with Employer.

17. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original.

18. Severability. In the event any provision of this Agreement is held illegal or invalid, the remaining provisions of this Agreement shall not be affected thereby.

19. Successors. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, representatives and successors.

20. Employment with an Affiliate. For purposes of this Agreement, (A) employment or termination of employment of Executive shall mean employment or termination of employment with Employer and all Affiliates, (B) Base Salary and Bonus shall include remuneration received by Executive from Employer and all Affiliates, and (C) the terms Pension Plan, Retirement Plan and Welfare Plan maintained or made available by Employer shall include any such plans of any Affiliate of Employer.

21. Notice. Notices required under this Agreement shall be in writing and sent by registered mail, return receipt requested, to the following addresses or to such other address as the party being notified may have previously furnished to the other party by written notice:

If to Employer: NiSource Inc.
801 E. 86th Avenue
Merrillville, Indiana 46410

Attention: Robert D. Campbell

If to Executive: [Insert Name and Address]

22. 409A Savings Clause . Employer and Executive intend that this Agreement be interpreted in a manner that is compliant with Code Section 409A so that Executive does not incur additional taxes or penalties under Code Section 409A. If and to the extent that any payment or benefit under this Agreement is determined by Employer to constitute "non-qualified deferred compensation" subject to Code Section 409A and is payable to Executive by reason of Executive's termination of employment, then (a) such payment or benefit shall be made or provided to Executive only upon a "separation from service" as defined for purposes of Code Section 409A under applicable regulations and (b) if Executive is a "specified employee" (within the meaning of Code Section 409A and as determined by Employer), such payment or benefit shall not be made or provided before the date that is six months after the date of Executive's separation from service (or Executive's earlier death). Any amount not paid in respect of the six month period specified in the preceding sentence will be paid to Executive in a lump sum after the expiration of such six month period. Any such payment or benefit shall be treated as a separate payment for purposes of Section Code 409A to the extent Code Section 409A applies to such payments. Further, to the extent any such payment is to be made because of a termination for Good Reason or Change in Control under this Agreement, such Good Reason or Change in Control event shall be interpreted in a manner consistent with the definition of "good reason" or "change in control" for purposes of Code Section 409A.

IN WITNESS WHEREOF , Executive has hereunto set his hand, and Employer has caused these presents to be executed in its name on its behalf, all on the ____ day of ________, 20___.

NISOURCE INC.

By: ______________________________

Title: President & CEO

EXECUTIVE

____

[Name]

SAVINGS RESTORATION PLAN

FOR NISOURCE INC. AND AFFILIATES

As Amended and Restated Effective October 22, 2012

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SAVINGS RESTORATION PLAN
FOR NISOURCE INC. AND AFFILIATES

ARTICLE I

BACKGROUND AND PURPOSE

1.1 Background. P rior to January 1, 2004, Columbia Energy Group sponsored the Savings Restoration Plan for Columbia Energy Group for eligible executives of Columbia Energy Group and certain Affiliates. Effective January 1, 2004, NiSource Inc., the parent company of Columbia Energy Group, assumed sponsorship of the Savings Restoration Plan for Columbia Energy Group, renamed the Plan the Savings Restoration Plan for NiSource Inc. and Affiliates, and broadened the Plan to include all employees of NiSource Inc. and Affiliates.

The Plan was amended and restated effective January 1, 2004, and amended effective January 1, 2005. The Plan was then amended and restated again effective January 1, 2005, to comply with Code Section 409A, and guidance and regulations thereunder, with respect to benefits earned under the Plan from and after January 1, 2005. Benefits under the Plan earned and vested prior to January 1, 2005 shall be administered without giving effect to Code Section 409A, and guidance and regulations thereunder. The provisions of the Plan as set forth herein apply only to Participants who actively participate in the Plan on or after January 1, 2005. Any Participant who retired or otherwise terminated employment with the Company and all Affiliates prior to January 1, 2005 shall have his or her rights determined under the provision of the Plan as it existed when his or her employment relationship terminated.

The Plan was further amended and restated, effective January 1, 2008, to provide for mandatory lump sum payments of small account balances in accordance with Code Section 409A. The Plan was amended and restated again, effective January 1, 2010, to contain provisions that eliminate mid-year enrollment into the Plan and to allow Participants who make Roth Contributions to a Basic Plan to participate in this Plan. The plan was further amended and restated, effective January 1, 2010, to restore certain Employer Contributions given to Participants who are classified as "exempt employees" by the Employer and who are hired or rehired on or after January 1, 2010.

The Plan was amended and restated again, effective May 13, 2011, to restore Profit Sharing Contributions that otherwise would have been contributed to Participants under the Basic Plan (if not subject to the Limits, defined below) and to transfer all administrative authority with respect to the Plan (including the authority to render decisions on claims and appeals and make administrative or ministerial amendments) from the ONC Committee to the Benefits Committee. The Plan was again amended and restated, effective January 1, 2012, to (1) remove the ability of participants to make elective deferrals to the Plan; (2) change eligibility to receive Employer credits under the Plan to those employees who are in job scope level C2 and above; (3) provide for investment options in addition to the fixed interest credits currently available for the crediting of earnings on Accounts under the Plan; and (4) clarify other administrative matters related to the Plan. The Plan is hereby amended and restated again, effective October 22, 2012, to allow certain grandfathered participants in the DCP to receive employer credits to be made under this Plan in 2013 and beyond related to any Profit Sharing Contributions and Next-Gen Contributions that otherwise would have been credited to their accounts under the Basic Plan but were not credited because their DCP deferrals are excluded from Basic Plan compensation for purposes of such contributions.

1.2 Purpose. The purpose of the Plan is to provide for the payment of savings restoration benefits to employees of NiSource Inc. and Affiliates, whose benefits under the Basic Plan are subject to the Limits or affected by deferrals into the DCP, so that the total savings plan benefits of such employees shall be determined on the same basis as is applicable to all other employees of the Company. The Plan is adopted solely (1) for the purpose of providing benefits to Participants in the Plan and their Beneficiaries in excess of the Limits imposed on qualified plans by Code Section 401 (a)(17) and any other Code Sections, by restoring benefits to such Plan Participants and Beneficiaries that are no longer available under the Basic Plan as a result of the Limits, and (2) for the purpose of restoring benefits to Plan Participants and Beneficiaries that are no longer available under the Basic Plan as a result of the Participant's deferrals into the DCP.

ARTICLE II.

DEFINITIONS

For the purposes of the Plan, the following terms shall have the meanings indicated, unless the context clearly indicates otherwise. Except when otherwise required by the context, any masculine terminology in this document shall include the feminine, and any singular terminology shall include the plural. Defined terms used in the Plan that are not defined in this Article or elsewhere in the Plan but are defined in the Basic Plan shall have the meanings assigned to them in the Basic Plan. The headings of Articles and Sections are included solely for convenience, and if there is any conflict between such headings and the text of the Plan, the text shall control.

2.1 Account. The device used by an Employer to measure and determine the amount to be paid under the Plan. Each Account shall be divided into a Pre-2005 Account containing contributions to the Plan earned and vested prior to January 1, 2005, and a Post-2004 Account containing contributions to the Plan earned and/or vested on or after January 1, 2005.

2.2 Affiliate. Any corporation that is a member of a controlled group of corporations (as defined in Code Section 414(b)) that includes the Company; any trade or business (whether or not incorporated) that is under common control (as defined in Code Section 414(c)) with the Company; any organization (whether or not incorporated) that is a member of an affiliated service group (as defined in Code Section 414(m)) that includes the Company; any leasing organization, to the extent that its employees are required to be treated as if they were employed by the Company pursuant to Code Section 414(n) and the regulations thereunder; and any other entity required to be aggregated with the Company pursuant to regulations under Code Section 414(o). An entity shall be an Affiliate only with respect to the existing period as described in the preceding sentence.

2.3 Basic Plan. The NiSource Inc. Retirement Savings Plan, as amended and restated effective January 1, 2010, and as further amended from time to time (or as amended and restated for any prior period to the extent the provisions of the Plan refer to such prior period for the Basic Plan).

2.4 Beneficiary. The person, persons or entity entitled to receive any Plan benefits payable after a Participant's death, as elected by a Participant under the Basic Plan.

2.5 Benefits Committee. The NiSource Benefits Committee.

2.6 Board. The Board of Directors of NiSource. Inc.

2.7 Code. T he Internal Revenue Code of 1986, as amended from time to time.

2.8 Company. NiSource Inc.

2.9 Compensation. Compensation as defined under the Basic Plan for purposes of determining Pre-Tax Contributions, Roth Contributions, and Matching Contributions under the Basic Plan. For purposes of calculating Employer credits to Participant Accounts under this Plan, Compensation may exceed the Compensation Limit under Code Section 401(a)(17)(B) and shall not be impacted by any other Limit.

2.10 DCP. The Columbia Energy Group Deferred Compensation Plan on or prior to December 31, 2003, and, thereafter, the NiSource Inc. Executive Deferred Compensation Plan, as further amended from time to time.

2.11 Disability. A condition that (a) causes a Participant to be unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, (b) causes a Participant, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, to receive income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company or an Affiliate or (c) causes a Participant to be eligible to receive Social Security disability payments.

2.12 Effective Date. January 1, 2012, the date on which the provisions of this amended and restated Plan become effective, except as otherwise provided herein.

2.13 Eligible Employee. A select group of management or highly compensated employees of the Employer who satisfy the criteria established by the ONC Committee in accordance with this Plan.

2.14 Employer . The Company or any Affiliate that maintains or adopts the Basic Plan for the benefit of its eligible Employees.

2.15 ERISA . The Employee Retirement Income Security Act of 1974, as amended.

2.16 In-Service Withdrawal . A distribution from a Participant's Pre-2005 Account before that Participant's Separation from Service made in accordance with the Participant's written election under Article V of this Plan.

2.17 Limits . The limits imposed on tax qualified retirement plans by Code Sections 415 and 401(a)(17) and any other Code Sections.

2.18 ONC Committee . The Officer Nomination and Compensation Committee of the Board of Directors of the Company.

2.19 Participant . Any Eligible Employee who is participating in the Plan in accordance with its provisions.

2.20 Plan . The Savings Restoration Plan for NiSource Inc. and Affiliates (formerly known as the Savings Restoration Plan for the Columbia Energy Group, and before that as the Thrift Restoration Plan for the Columbia Energy Group), as set forth herein and as amended from time to time.

10.21 Plan Administrator . The Benefits Committee or such delegate of the Benefits Committee delegated to carry out the administrative functions of the Plan.

2.22 Plan Year . The12-month period commencing each January 1 and ending the following December 31.

2.23 Post-2004 Account . The portion of a Participant's Account equal to the excess of (1) the balance of the Participant's Account determined as of a Participant's date of Separation from Service after December 31, 2004, over (2) the Pre-2005 Account, to which the Participant would be entitled under the Plan if he voluntarily separated from service without cause as of such date and received a full payment of benefits from the Plan on the earliest possible date allowed under the Plan following his Separation from Service.

2.24 Pre-2005 Account . The portion of a Participant's Savings Account determined as of December 31, 2004, adjusted to reflect earnings (or losses) credited to such balance from and after such date.

2.25 Separation from Service . A termination of services provided by a Participant to his or her Employer, whether voluntarily or involuntarily, consistent with Code Section 409A and the guidance promulgated thereunder.

2.26 Specified Employee . A Participant who is in job scope level C2 or above with respect to any Employer that employs him or her; provided that if at any time the total number of employees in job category C2 and above is less than 50, a Specified Employee shall include any employee who meets the definition of "key employee" set forth in Code Section 416(i) (without reference to paragraph 5 of Code Section 416 (i)). A Participant shall be deemed to be a Specified Employee with respect to a Separation from Service that occurs during a calendar year if he or she is a Specified Employee on September 30 of the preceding calendar year. The Benefits Committee shall determine which Participants are Specified Employees in accordance with the guidance promulgated under Code Section 409A.

2.27 Unforeseeable Emergency . A severe financial hardship to a Participant resulting from an illness or accident of the Participant, the Participant's spouse or a dependent (as defined in Code Section 152(a)), of the Participant, loss of the Participant's property due to casualty or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

2.28 Valuation Date . The close of business of each business day.

ARTICLE III.

ELIGIBILITY AND PARTICIPATION

3.1 Eligibility . On and after January 1, 2012, eligibility to participate in the Plan shall be limited to an employee in job scope level C2 or above. On and after October 22, 2012, eligibility to participate in this Plan additionally shall include any employee in job scope level D1 or D2 who completed an election form under the DCP in 2011 to make deferrals related to services performed in the Plan Year beginning January 1, 2012; provided however, that such an employee will be eligible to receive only the Profit Sharing Contribution Credits described in Section 4.2(b) and the Next-Gen Contribution Credits described in Section 4.2(c), to the extent described in such subsections, and will remain eligible to participate in this Plan and receive such contributions after the 2012 Plan Year only if he or she completes an election form under the DCP in each successive Plan Year after 2012 and otherwise remains eligible to continue to participate in the DCP in each successive Plan Year after 2012.

3.2 Participation . The Plan Administrator shall inform each Employee of his or her eligibility to participate in the Plan as soon as practicable but before the earliest date such Employee's participation could become effective. An Eligible Employee becomes a Participant when the Employer credits the Participant's Account with the Employer credits described in Article IV of this Plan.

3.3 Continuation of Participation . A Participant shall remain a Participant so long as his or her Account has not been fully distributed to him or her.

3.4 Amendment of Eligibility Criteria. The ONC Committee may, in its discretion, change the criteria for eligibility for any reason, provided, however, that no change in the criteria for eligibility shall be effective unless such changes are (a) within guidelines established by the ONC Committee or (b) approved by the ONC Committee. Eligibility for participation in one year does not guarantee eligibility to participate in any future year.

ARTICLE IV

ACCOUNTS

4.1 Account. The Employer credits, as described in Sections 4.2 and 4.3, and earnings thereon, shall be credited to the Participant's Account. The Account shall be a bookkeeping device utilized for the sole purpose of determining the benefits payable under the Plan and shall not constitute a separate fund of assets.

4.2 Employer Credits

.

(a) Matching Contribution Credits . The amount of Employer credits related to Matching Contributions for Participant eligible to receive such contributions under Section 3.1 shall equal (1) minus (2) below:

(1) The total amount of Matching Contributions that would otherwise have been contributed to the Basic Plan for the Participant during all years in which the Participant participated in the Basic Plan without regard to the Limits;

(2) The actual amount of Matching Contributions that have been contributed to the Basic Plan for the Participant.

In addition to making the credits related to Matching Contributions described above, the Employer also will make the following true-up credit. If (i) the allocation period under the Basic Plan is shorter than the Plan Year, and (ii) on the last day of the Plan Year, the amount of Matching Contributions under the Basic Plan is less than the amount of Matching Contributions that would have been made had the allocation period for Matching Contributions been the Plan Year, then the Employer will make an additional credit to a Participant's Account. This credit will be in the amount necessary to make the Employer credit related to Matching Contributions equal to the amount of Employer credits related to Matching Contributions that would have been made had the allocation period been the Plan Year. Notwithstanding the foregoing, an Employer shall make this true-up credit only for Participants who are employed with the Employer on the last day of the Plan Year and Participants who experienced a Separation from Service before the last day of the Plan Year due to death, Disability, or retirement.

(b) Profit Sharing Contribution Credits . Employer credits pursuant to this Section 4.2(b) shall be reflected in the Plan for all Participants in the Plan on or after such date, including the following: (1) those who received Profit Sharing Contributions to the Basic Plan for 2010 or later that were subject to the Limits, or (2) those who otherwise had Profit Sharing Contributions limited or adjusted under the Basic Plan on or after January

1, 2011. The amount of Employer credits related to Profit Sharing Contributions for a participant shall equal (1) minus (2) below:

(1) The total amount of Profit Sharing Contributions that otherwise would have been contributed to the Basic Plan for the Participant during all years in which the Participant participated in the Basic Plan, as determined by Compensation as defined under this Plan without regards to the Limits;

(2) The actual amount of Profit Sharing Contributions that have been contributed to the Basic Plan for the Participant.

Notwithstanding the foregoing, a Participant who is in job scope level D1 or D2 shall receive an amount of Employer credits related to Profit Sharing Contributions equal to the difference between (1) minus (2) below:

(1) The total amount of Profit Sharing Contributions that otherwise would have been contributed to the Basic Plan for the Participant during all years in which the Participant participated in the Basic Plan, had Profit Sharing Contributions been calculated using this Plan's definition of Compensation;

(2) The actual amount of Profit Sharing Contributions that have been contributed to the Basic Plan for the Participant.

This amount shall be payable to any applicable Participant regardless of whether such Participant has signed a written agreement to participate in this Plan.

(c) Next-Gen Contribution Credits. With respect to a Participant who is classified by the Employer as an "exempt employee" and who is hired or rehired on or after January 1, 2010, the amount of Employer credits for a Participant shall equal (1) minus (2) below:

(1) The total amount of the Employer Contribution that otherwise would have been contributed to the Basic Plan in an amount equal to 3% of the Participant's Compensation (as defined under this Plan) without regard to the Limits;

(2) The actual amount of the Employer Contribution under the Basic Plan that was contributed to the Participant in an amount equal to 3% of the Participant's Compensation (as defined under the Basic Plan).

This amount shall be payable to any applicable Participant in addition to any amounts he or she may be entitled to under Sections 4.2(a) and 4.2(b) of this Plan and regardless of whether such Participant has signed a written agreement to participate in this Plan.

Notwithstanding the foregoing, a Participant who is in job scope level D1 or D2 shall receive an amount of Employer credits equal to the difference between (1) minus (2) below:

(1) The total amount of the Employer Contribution that otherwise would have been contributed to the Basic Plan in an amount equal to 3% of the Participant's Compensation (as defined under this Plan);

(2) The actual amount of the Employer Contribution under the Basic Plan that was contributed to the Participant in an amount equal to 3% of the Participant's Compensation (as defined under the Basic Plan).

This amount shall be payable to any applicable Participant regardless of whether such Participant has signed a written agreement to participate in this Plan.

4.3 Timing of Credits; Withholding. The Employer credits shall be made to the Participant's Account annually, at such time determined by the Plan Administrator. Any withholding of taxes or other amounts that is required by federal, state, or local law shall be withheld from the Participant's nondeferred Compensation to the maximum extent possible and any remaining amount shall reduce the amount credited to the Participant's Account.

4.4 Determination of Account. Each Participant's Account as of each Valuation Date shall consist of the balance of the Account as of the immediately preceding Valuation Date, adjusted as follows:

(a) New Employer Credits. The Account shall be increased by any Employer credits made in accordance with Sections 4.2 or 4.3, as applicable, since such preceding Valuation Date.

(b) Distributions. The Account shall be reduced by any benefits distributed from the Account to the Participant since such preceding Valuation Date.

(c) Valuation of Account. The Account shall be increased or decreased by the aggregate earnings, gains and losses on such Account since such preceding Valuation Date, based on the manner in which the Participant's Account has been hypothetically allocated among the investment options selected by the Participant.

4.5 Statement of Account. The Plan Administrator shall give to each Participant a statement showing the balance in the Participant's Account periodically at such times as may be determined by the Plan Administrator, in written or electronic form.

ARTICLE V

INVESTMENTS

5.1 Investment Options. Amounts credited hereunder to the Account of a Participant shall be invested as such Participant elects among the investment choices provided to the Participant. The investment options shall be determined by the Plan Administrator from time to time in its sole and absolute discretion. As necessary, the Plan Administrator may, in its sole discretion, discontinue, substitute or add an investment option. Each such action will take effect on such date established by the Plan Administrator.

5.2 Election of Investment Options. A Participant, in connection with his or her payment election under Article VI of this Plan, shall elect one or more of the previously described investment options, as applicable, to be used to determine the amounts to be credited or debited to his or her Account. If a Participant does not elect any investment options, the Participant's Account shall automatically be allocated into the lowest-risk investment option, as determined by the Plan Administrator, in its sole discretion. The Participant may (but is not required to) elect to add or delete one or more investment options to be used to determine the amounts to be credited or debited to his or her Account, or to change the portion of his or her Account allocated to each previously or newly elected investment option. If an election is made in accordance with the previous sentence, it shall apply as of the first business day deemed reasonably practicable by the Plan Administrator, in its sole discretion, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence. Notwithstanding the foregoing, the Plan Administrator, in its sole discretion, may impose limitations on the frequency with which one or more of the investment options elected in accordance with this Section may be added or deleted by such Participant; furthermore, the Plan Administrator, in its sole discretion, may impose limitations on the frequency with which the Participant may change the portion of his or her Account allocated to each previously or newly elected investment option.

5.3 Allocation of Investment Options. In making any election related to investment options, the Participant shall specify, in increments specified by the Plan Administrator, the percentage of his or her Account or investment option, as applicable, to be allocated or reallocated.

5.4 No Actual Investment. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the investment options are to be used for measurement purposes only, and a Participant's election of any such investment option, the allocation of his or her Account thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account shall not be considered or construed in any manner as an actual investment of his or her Account in any such investment option. In the event that the Company, in its own discretion, decides to invest funds in any or all of the investments on which the investment options are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company; the Participant shall at all times remain an unsecured creditor of the Company.

ARTICLE VI.

PAYMENTS AND DISTRIBUTIONS

6.1 Distributions/Events Generally . Participants generally will not be entitled to receive a distribution of their Account balance until they experience a Separation from Service with the Employer for any reason. A Participant may receive a distribution before Separation from Service, however, in accordance with this Article VI, upon (1) an Unforeseeable Emergency that occurs before Separation from Service, or (2) a year that has been designated by the Participant only with respect to his Pre-2005 Account balance that occurs before Separation from Service.

6.2 In-Service Withdrawals . This section applies only to a Participant's Pre-2005 Account balance

(a) General Payments . Subject to the limitations of paragraph (b) below, a Participant, by filing a written request with the Plan Administrator, may, while employed by an Employer or an Affiliate, elect to withdraw 33%, 67% or 100% of his or her Pre-2005 Account.

(b) Limitation on In-Service Withdrawals . Any In-Service Withdrawal under paragraph (a) of this Section 6.2 shall be subject to a 10% early distribution penalty. In addition, the following conditions shall apply to In-Service Withdrawals:

(1) Only one In-Service Withdrawal shall be permitted in any 12-month period.

(2) In-Service Withdrawals shall require suspension of Employer credits (but not credits of earnings or losses) under the Plan for a period of time varying with the percentage of the value of the Participant's Pre-2005 Account that is withdrawn, according to the following schedule:

Percentage	Suspension
Up to 33%	2 months
34 - 67%	4 months
68 - 100%	6 months

This suspension shall not affect a Participant's participation in the Basic Plan nor the basis for determining the Employer contributions or Participant Pre-tax Contributions under the Basic Plan.

6.3 Distributions After Separation from Service .

(a) Generally . If a Participant experiences a Separation from Service, the provisions of this Section 6.3 shall apply to the distribution of the Participant's Account. The Participant may elect to receive such benefits as either a lump sum or in equal annual installments over a period not to exceed 15 years. If no such election is made, payment shall be made as a lump sum.

(b) Pre-2005 Account .

1. Form of Payment of Pre-2005 Account . The Pre-2005 Account payable under the Plan to a Participant or his or her spouse, Beneficiary, or legal representative shall be paid in the same form under which the Basic Plan benefit is payable to the Participant or his or her spouse, Beneficiary, or legal representative. The Participant's election under the Basic Plan of any optional form of payment of his or her Basic Plan benefit (with the valid consent of his or her surviving spouse where required under the Basic Plan) shall also be applicable to the payment of his or her Pre-2005 Account under the Plan.

2. Timing of Payment of Pre-2005 Account . Payment of the Pre-2005 Account under the Plan to a Participant or his or her spouse, Beneficiary, or legal representative under the Plan shall commence on the same date as payment of the benefit to the Participant or his or her spouse, Beneficiary, or legal representative under the Basic Plan commences. Any election under the Basic Plan made by the Participant with respect to the commencement of payment of his or her benefit under the Basic Plan shall also be applicable with respect to the commencement of payment of his or her Pre-2005 Account under the Plan.

3. Approval by Plan Administrator . Notwithstanding the provisions of paragraphs (i) and (ii) above, an election made by the Participant under the Basic Plan with respect to the form of payment of his or her Pre-2005 Account thereunder (with the valid consent of his or her surviving spouse where required under the Basic Plan), or the date for commencement of payment thereof, shall not be effective with respect to the form of payment or date for commencement of payment of his or her Pre-2005 Account under the Plan unless such election is expressly approved in writing by the Plan Administrator. If the Plan Administrator shall not approve such election in writing, then the form of payment or date for commencement of payment of the Participant's Pre-2005 Account under the Plan shall be selected by the Plan Administrator at its sole discretion.

(c) Post-2004 Account.

1. Form of Payment of Post-2004 Account. The Post-2004 Account shall be payable in a form elected by a Participant no later than December 31, 2005. Notwithstanding the preceding sentence, in the case of an Eligible Employee who becomes a Participant on or after January 1, 2005, the aforementioned election with respect to the form of payment of a Post-2004 Account shall be made at such time prescribed by the Plan Administrator, which shall end no later than December 31 st of the year preceding the Plan Year in which the Participant is first eligible to participate in the Plan. The form of payment that a Participant may elect to receive shall be from the choices of either a lump sum or in equal annual installments over a period not to exceed 15 years. If a timely payment election is not made by a Participant, payment shall be made in a lump sum.

2. Timing of Payment of Post-2004 Account. Payment of a Post-2004 Account in accordance with this Section 6.3 shall commence within 45 days after the Participant's date of Separation from Service, or, if later, within such timeframe permitted under Code Section 409A, and guidance and regulations thereunder.

3. Modifications to Time and Form of Payment. A Participant cannot change the time or form of payment of a Post-2004 Account under this Subsection 6.3(b) unless (A) such election does not take effect until at least 12 months after the date the election is made, (B) in the case of an election related to a payment not related to the Participant's Disability or death, the first payment with respect to which such new election is effective is deferred for a period of not less than five years from the date such payment would otherwise have been made, and (C) any election related to a payment based upon a specific time or pursuant to a fixed schedule may not be made less than 12 months prior to the date of the first scheduled payment.

4. Time of Payment for Specified Employees. Notwithstanding any other provision of the Plan, in no event can a payment of a Post-2004 Account to a Participant who is a Specified Employee, at a time during which the Company's capital stock or capital stock of an Affiliate is publicly traded on an established securities market, in the calendar year of his or her Separation from Service be made before the date that is six months after the date of the Participant's Separation from Service, unless such Separation from Service is due to death or Disability.

6.4 Unforeseeable Emergency Distributions.

a. Pre-2005 Account. Upon a finding that a Participant has suffered an Unforeseeable Emergency, the Plan Administrator may, in its sole discretion, make distributions from the Participant's Pre–2005 Account. The amount of such a distribution shall be limited to the amount reasonably necessary to meet the Participant's needs resulting from the Unforeseeable Emergency. Any distribution pursuant to this Subsection shall be payable in a lump sum. The distribution shall be paid within 30 days after the determination of an Unforeseeable Emergency.

b. Post-2004 Account. Upon a finding that a Participant has suffered an Unforeseeable Emergency, the Plan Administrator may, in its sole discretion, make distributions from the Participant's Post-2004 Account and/or suspend Employer credits entirely in accordance with the guidance under Code Section 409A. The amount of such distribution shall be limited to the amount necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship). Any distribution pursuant to this Subsection shall be payable in a lump sum. The distribution shall be paid within 30 days after the determination of an Unforeseeable Emergency.

6.5 Automatic Cash-Out. Notwithstanding any other provision in the Plan, if (1) the sum of the Participant's Pre-2005 Account and Post-2004 Account does not exceed the applicable dollar limit under code Section 402(g)(1)(B) and (2) this sum is the entirety of the Participant's interest in the Plan and all other arrangements that are considered a single nonqualified deferred compensation plan under Code Section 409A and applicable guidance thereunder, the Employer, in its sole discretion may distribute the Participant's entire Pre-2005 Account and Post-2004 Account (and the Participant's entire interest under any other arrangement that is required to be aggregated with this Plan under Code Section 409A), regardless whether the Participant has otherwise had a distributable event under this Plan. The form of payment of both the Pre-2005 Account and Post-2004 Account shall be a single lump sum.

6.6 Special Payment Election by December 31, 2006, for Code Section 409A Transition Relief. Notwithstanding any preceding provision of this Section 6.3(b), a Participant may change an election with respect to the time and form of payment of a Post-2004 Account, without regard to the restrictions imposed under paragraph (iii) next above, on or before December 31, 2006; provided that such election (A) applies only to amounts that would not otherwise be payable in calendar year 2006, and (B) shall not cause an amount to be paid in calendar year 2006 that would not otherwise be payable in such year.

6.7 Withholding for Taxes. To the extent required by the law in effect at the time payments are made, an Employer shall withhold from the payments made hereunder any taxes required to be withheld by the federal or any state or local government, including any amounts which the Employer determines is reasonably necessary to pay any generation-skipping transfer tax which is or may become due. A Beneficiary, however, may elect not to have withholding of federal income tax pursuant to Code Section 3405(a)(2).

6.8 Payment to Guardian . The Plan Administrator may direct payment to the duly appointed guardian, conservator or other similar legal representative of a Participant or Beneficiary to whom payment is due. In the absence of such a legal representative, the Plan Administrator may, in its sole and absolute discretion, make payment to a person having the care and custody of a minor, incompetent or person incapable of handling the disposition of property upon proof satisfactory to the Plan Administrator of incompetency, status as a minor, or incapacity. Such distribution shall completely discharge the Company from all liability with respect to such benefit.

ARTICLE VII

BENEFICIARY DESIGNATION

7.1 Beneficiary Designation . Each Participant's Beneficiary (both primary as well as secondary) to whom benefits under the Plan shall be paid in the event of the Participant's death prior to complete distribution of the Participant's Account, shall be the Beneficiary that the Participant has selected under the Basic Plan. A Participant may designate a Beneficiary or change a prior Beneficiary designation only by designating or changing a Beneficiary under the Basic Plan.

7.2 No Beneficiary Designation . If any Participant fails to designate a Beneficiary in the manner provided above, if the designation is void or if the Beneficiary designated by a deceased Participant dies before the Participant or before complete distribution of the Participant's benefits, the Participant's Beneficiary shall be the person identified in accordance with the procedures under the Basic Plan.

ARTICLE VII

PLAN ADMINISTRATION

8.1 Allocation of Duties to Committees . The Plan shall be administered by the Benefits Committee, as delegated by the ONC Committee. The Benefits Committee shall have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of the Plan and decide or resolve any and all questions, including interpretations of the Plan, as may arise in such administration, except as otherwise reserved to the ONC Committee herein, or by resolution or charter of the respective committees.

In its discretion, the Plan Administrator may delegate to any division or department of the Company the discretionary authority to make decisions regarding Plan administration, within limits and guidelines from time to time established by the Plan Administrator. The delegated discretionary authority shall be exercised by such division or department's senior officer, or his/her delegate. Within the scope of the delegated discretionary authority, such officer or person shall act in the place of the Plan Administrator and his/her decisions shall be treated as decisions of the Plan Administrator.

8.2 Agents. The Plan Administrator may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to the Company.

8.3 Information Required by Plan Administrator. The Company shall furnish the Plan Administrator with such data and information as the Plan Administrator may deem necessary or desirable in order to administer the Plan. The records of the Company as to an employee's or Participant's period or periods of employment, separation from Service and the reason therefore, reemployment and Compensation will be conclusive on all persons unless determined to the Plan Administrator's satisfaction to be incorrect. Participants and other persons entitled to benefits under the Plan also shall furnish the Plan Administrator with such evidence, data or information as the Plan Administrator considers necessary or desirable to administer the Plan.

8.4 Binding Effect of Decisions. Subject to applicable law, and the provisions of Article VIII, any interpretation of the provisions of the Plan and any decision on any matter within the discretion of the Benefits Committee and/or the ONC Committee (or any duly authorized delegate of either such committee) and made in good faith shall be binding on all persons.

ARTICLE IX.

CLAIMS PROCEDURE

9.1 Claim. Claims for benefits under the Plan shall be made in writing to the Plan Administrator. The Plan Administrator shall establish rules and procedures to be followed by Participants and Beneficiaries in filing claims for benefits, and for furnishing and verifying proof necessary to establish the right to benefits in accordance with the Plan, consistent with the remainder of this Article.

9.2 Review of Claim. The Plan Administrator shall review all claims for benefits. Upon receipt by the Plan Administrator of such a claim, it shall determine all facts that are necessary to establish the right of the claimant to benefits under the provisions of the Plan and the amount thereof as herein provided within 90 days of receipt of such claim. If prior to the expiration of the initial 90 day period, the Plan Administrator determines additional time is needed to come to a determination on the claim, the Plan Administrator shall provide written notice to the Participant, Beneficiary or other claimant of the need for the extension, not to exceed a total of 180 days from the date the application was received. If the Plan Administrator fails to notify the claimant in writing of the denial of the claim within 90 days after the Plan Administrator receives it, the claim shall be deemed denied.

9.3 Notice of Denial of Claim. If the Plan Administrator wholly or partially denies a claim for benefits, the Plan Administrator shall, within a reasonable period of time, but no later than 90 days after receiving the claim (unless extended as noted above), notify the claimant in writing of the denial of the claim. Such notification shall be written in a manner reasonably expected to be understood by such claimant and shall in all respects comply with the requirements of ERISA, including but not limited to inclusion of the following:

a. the specific reason or reasons for denial of the claim;
b. a specific reference to the pertinent Plan provisions upon which the denial is based;
c. a description of any additional material or information necessary for the claimant to perfect the claim, together with an explanation of why such material or information is necessary; and
d. an explanation of the Plan's review procedure.

9.4 Reconsideration of Denied Claim. Within 60 days of the receipt by the claimant of the written notice of denial of the claim, or within 60 days after the claim is deemed denied as set forth above, if applicable, the claimant or duly authorized representative may file a written request with the Benefits Committee that it conduct a full and fair review of the denial of the claimant's claim for benefits. If the claimant or duly authorized representative fails to request such a reconsideration within such 60 day period, it shall be conclusively determined for all purposes of the Plan that the denial of such claim by the Benefits Committee is correct. In connection with the claimant's appeal of the denial of his or her benefit, the claimant may review pertinent documents and may submit issues and comments in writing.

The Benefits Committee shall render a decision on the claim appeal promptly, but not later than 60 days after receiving the claimant's request for review, unless, in the discretion of the Benefits Committee, special circumstances require an extension of time for processing, in which case the 60-day period may be extended to 120 days. The Benefits Committee shall notify the claimant in writing of any such extension. The notice of decision upon review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent Plan provisions upon which the decision is based. If the decision on review is not furnished within the time period set forth above, the claim shall be deemed denied on review.

If such determination is favorable to the claimant, it shall be binding and conclusive. If such determination is adverse to such claimant, it shall be binding and conclusive unless the claimant or his duly authorized representative notifies the Benefits Committee within 90 days after the mailing or delivery to the claimant by the Benefits Committee of its determination that claimant intends to institute legal proceedings challenging the determination of the Benefits Committee and actually institutes such legal proceedings within 180 days after such mailing or delivery.

9.5 Employer to Supply Information. To enable the Benefits Committee to perform its functions, each Employer shall supply fully and timely information to the Benefits Committee of all matters relating to the retirement, death, or other cause for Separation from Service of all Participants, and such other pertinent facts as the Benefits Committee may require.

ARTICLE X

PLAN AMENDMENT AND TERMINATION

10.1 Plan Amendment. While the Company intends to maintain the Plan in conjunction with the Basic Plan, the Company or the ONC Committee reserves the right to amend the Plan at any time and from time to time with respect to eligibility for the Plan, the level of benefits awarded under the Plan and the time and form of payment for benefits from the Plan. The Benefits Committee, the ONC Committee, or the Board shall have the authority to amend the Plan as described herein. The ONC Committee or the Board shall have the exclusive authority to amend the Plan regarding eligibility for the Plan, the amount or level of benefits awarded under the Plan, and the time and form of payments for benefits from the Plan. In addition, the ONC Committee or the Board shall also have the exclusive authority to make amendments that constitute a material increase in Compensation, any change requiring action or consent by a committee of the Board pursuant to the rules of the Securities and Exchange Commission, the New York Stock Exchange or other applicable law, or such other material changes to the Plan such that approval of the Board is required. Unless otherwise determined by the ONC Committee, the Benefits Committee shall have the authority to amend the Plan in all respects that are not exclusively reserved to the ONC Committee or the Board.

The respective committee may at any time amend the Plan by written instrument, notice of which is given to all Participants and to Beneficiaries. Notwithstanding the preceding sentence, no amendment shall reduce the amount accrued in any Account prior to the date such notice of the amendment is given.

10.2 Partial Plan Termination. The ONC Committee or the Company at any time may partially terminate the Plan provided that such partial termination of the Plan shall not impair or alter any Participant's or Beneficiary's right to the applicable Participant's Account balance as of the effective date of such partial termination. If such a partial termination occurs, no additional Employer credits shall be made after the date of such partial termination other than the crediting of earnings (or losses) until the date of distribution of Participant Account balances. Further, the Plan shall otherwise continue to be administered with respect to Account balances credited before the effective date of such partial termination, and distribution shall be made at such times as specified under this Plan.

ARTICLE XI

MISCELLANEOUS PROVISIONS

11.1 Unfunded Plan. The Plan is an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of "management or highly-compensated employees" within the meaning of Sections 201, 301 and 401 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and therefore is exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA. Nothing contained in the Plan shall constitute a guaranty by the Company or any other Employer or any other entity or person that the assets of the Company or any other Employer shall be sufficient to pay any benefit hereunder.

11.2 Company and Employer Obligations . The obligation to make benefit payments to any Participant under the Plan shall be a joint and several liability of the Company and the Employer that employed the Participant.

11.3 Unsecured General Creditor . Participants and Beneficiaries shall be unsecured general creditors, with no secured or preferential right to any assets of the Company, any other Employer, or any other party for payment of benefits under the Plan. Any life insurance policies, annuity contracts or other property purchased by the Employer in connection with the Plan shall remain its general, unpledged and unrestricted assets. Obligations of the Company and each other Employer under the Plan shall be an unfunded and unsecured promise to pay money in the future.

11.4 Trust Fund . Subject to Section 12.3, the Company may establish separate subtrusts for deferrals by employees of each Employer, pursuant to a trust agreement entered into with such trustees as the Benefits Committee may approve, for the purpose of providing for the payment of benefits owed under the Plan. At its discretion, each Employer may contribute deferrals under the Plan for its employees to the subtrust established with respect to such Employer under such trust agreement. To the extent any benefits provided under the Plan are paid from any such subtrust, the Employer shall have no further obligation to pay them. If not paid from a subtrust, such benefits shall remain the obligation of the Employer. Although such subtrusts may be irrevocable, their assets shall be held for payment of all the Company's general creditors in the event of insolvency or bankruptcy.

11.5 Nonalienation of Benefits . Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof or rights to, which are expressly declared to be unassignable and nontransferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

Notwithstanding the preceding paragraph, the Account of any Participant shall be subject to and payable in the amount determined in accordance with any qualified domestic relations order, as that term is defined in Section 206(d)(3) of ERISA. The Retirement Committee shall provide for payment in a lump sum from a Participant's Account to an alternate payee (as defined in Code Section 414(p)(8)) as soon as administratively practicable following receipt of such order. Any federal, state or local income tax associated with such payment shall be the responsibility of the alternate payee. The balance of an Account that is subject to any qualified domestic relations order shall be reduced by the amount of any payment made pursuant to such order.

Notwithstanding the preceding paragraph, the Account of any Participant shall be subject to and payable in the amount determined in accordance with any qualified domestic relations order, as that term is defined in Section 206(d)(3) of ERISA. The Plan Administrator shall provide for payment of such portion of an Account to an alternate payee (as defined in Section 206(d)(3) of ERISA) as soon as administratively possible following receipt of such order. Any federal, state or local income tax associated with such payment shall be the responsibility of the alternate payee. The balance of any Account that is subject to any qualified domestic relations order shall be reduced by the amount of any payment made pursuant to such order.

11.6 Indemnification

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a. Limitation of Liability. Notwithstanding any other provision of the Plan or any trust established under the Plan, none of the Company, any other Employer, any member of the Benefits Committee or the ONC Committee, nor any individual acting as an employee, or agent or delegate of any of them, shall be liable to any Participant, former Participant, Beneficiary, or any other person for any claim, loss, liability or expense incurred in connection with the Plan or any trust established under the Plan, except when the same shall have been judicially determined to be due to the willful misconduct of such person.

b. Indemnity. The Company shall indemnify and hold harmless each member of the Benefits Committee and the ONC Committee, or any employee of the Company or any individual acting as an employee or agent of either of them (to the extent not indemnified or saved harmless under any liability insurance or any other indemnification arrangement with respect to the Plan or any trust established under the Plan) from any and all claims, losses, liabilities, costs and expenses (including attorneys' fees) arising out of any actual or alleged act or failure to act made in good faith pursuant to the provisions of the Plan, including expenses reasonably incurred in the defense of any claim relating thereto with respect to the administration of the Plan or any trust established under the Plan, except that no indemnification or defense shall be provided to any person with respect to any conduct that has been judicially determined, or agreed by the parties, to have constituted willful misconduct on the part of such person, or to have resulted in his or her receipt of personal profit or advantage to which he or she is not entitled. In connection with the indemnification provided by the preceding sentence, expenses incurred in defending a civil or criminal action, suit or proceeding, or incurred in connection with a civil or criminal investigation, may be paid by the Company in advance of the final disposition of such action, suit, proceeding, or investigation, as authorized by the Benefits Committee or the ONC Committee in the specific case, upon receipt of an undertaking by or on behalf of the party to be indemnified to repay such amount unless it shall ultimately be determined that the person is entitled to be indemnified by the Company pursuant to this paragraph.

11.7 No Enlargement of Employee Rights. No Participant or Beneficiary shall have any right to a benefit under the Plan except in accordance with the terms of the Plan. The Plan shall not constitute a contract of employment between an Employer and the Participant. Nothing in the Plan shall give any Participant or Beneficiary the right to be retained in the service of an Employer or to interfere with the right of an Employer to discipline or discharge a Participant at any time.

11.8 Protective Provisions. A Participant shall cooperate with his Employer by furnishing any and all information requested by the Employer in order to facilitate the payment of benefits hereunder, and by taking such physical examinations as the Employer may deem necessary and taking such other action as may be requested by the Employer.

11.9 Governing Law. The Plan shall be construed and administered under the laws of the State of Indiana, except to the extent preempted by applicable federal law.

11.10 Validity. In case any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

11.11 Notice. Any notice required or permitted under the Plan shall be sufficient if in writing and hand delivered or sent by registered or certified mail. Such notice shall be deemed as given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Mailed notice to the Benefits Committee shall be directed to the Company's address. Mailed notice to a Participant or Beneficiary shall be directed to the individual's last known address in the applicable Employer's records.

11.12 Successors. The provisions of the Plan shall bind and inure to the benefit of the Employers and their successors and assigns. The term successors as used herein shall include any corporate or other business entity that shall, whether by merger, consolidation, purchase, or otherwise, acquire all or substantially all of the business and assets of an Employer, and successors of any such corporation or other business entity.

11.13 Incapacity of Recipient. If any person entitled to a benefit payment under the Plan is deemed by the Plan Administrator to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until a claim shall have been made by a duly appointed guardian or other legal representative of such person, the Plan Administrator may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company, any other Employer, the Plan Administrator and the Plan.

11.14 Unclaimed Benefit. Each Participant shall keep the Plan Administrator informed of his or her current address and the current address of his or her Beneficiaries. The Plan Administrator shall not be obligated to search for the whereabouts of any person. If the location of a Participant is not made known to the Plan Administrator within three years after the date on which payment of the Participant's benefit may first be made, payment may be made as though the Participant had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed or within three years after the actual death of a Participant, the Plan Administrator is unable to locate any Beneficiary of the Participant, then the Plan Administrator shall have no further obligation to pay any benefit hereunder to such Participant, Beneficiary, or any other person and such benefit shall be irrevocably forfeited.

11.15 Tax Compliance and Payouts .

a. It is intended that the Plan comply with the provisions of Code Section 409A of the Code, so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be paid or made available to Participants or Beneficiaries. This Plan shall be construed, administered, and governed in a manner that affects such intent, and neither any Participant, Beneficiary, nor Plan Administrator shall not take any action that would be inconsistent with such intent.

b. Although the Plan Administrator shall use its best efforts to avoid the imposition of taxation, interest and penalties under Code Section 409A, the tax treatment of deferrals under this Plan is not warranted or guaranteed. Neither the Company, the other Affiliates, the Plan Administrator, the Retirement Committee, nor any designee shall be held liable for any taxes, interest, penalties or other monetary amounts owed by any Participant, Beneficiary or other taxpayer as a result of the Plan.

c. Notwithstanding anything to the contrary contained herein, (1) in the event that the Internal Revenue Service prevails in its claim that any amount of a Pre-2005 Account, payable pursuant to the Plan and held in the general assets of the Company or any other Employer, constitutes taxable income to a Participant or his or her Beneficiary for a taxable year prior to the taxable year in which such amount is distributed to him or her, or (2) in the event that legal counsel satisfactory to the Company, and the applicable Participant or his or her Beneficiary, renders an opinion that the Internal Revenue Service would likely prevail in such a claim, the amount of such Pre-2005 Account held in the general assets of the Company or any other Employer, to the extent constituting taxable income, shall be immediately distributed to the Participant or his or her Beneficiary. For purposes of this Section, the Internal Revenue Service shall be deemed to have prevailed in a claim if such claim is upheld by a court of final jurisdiction, or if the Participant or Beneficiary, based upon an opinion of legal counsel satisfactory to the Company and the Participant or his or her Beneficiary, fails to appeal a decision of the Internal Revenue Service, or a court of applicable jurisdiction, with respect to such claim, to an appropriate Internal Revenue Service appeals authority or to a court of higher jurisdiction within the appropriate time period.

d. Notwithstanding anything to the contrary contained herein, (1) in the event that the Internal Revenue Service prevails in its claim that any amount of a Post-2004 Account, payable pursuant to the Plan and held in the general assets of the Company or any other Employer, constitutes taxable income under Code Section 409A, and guidance and regulations thereunder, to a Participant or his or her Beneficiary for a taxable year prior to the taxable year in which such amount is distributed to him or her, or (2) in the event that legal counsel satisfactory to the Company, and the applicable Participant or his or her Beneficiary, renders an opinion that the Internal Revenue Service would likely prevail in such a claim, the amount of such Post-2004 Account held in the general assets of the Company or any other Employer, to the extent constituting such taxable income, shall be immediately distributed to the Participant or his or her Beneficiary. For purposes of this Section, the Internal Revenue Service shall be deemed to have prevailed in a claim if such claim is upheld by a court of final jurisdiction, or if the Participant or Beneficiary, based upon an opinion of legal counsel satisfactory to the Company and the Participant or his or her Beneficiary, fails to appeal a decision of the Internal Revenue Service, or a court of applicable jurisdiction, with respect to such claim, to an appropriate Internal Revenue Service appeals authority or to a court of higher jurisdiction within the appropriate time period.

11.16 General Conditions . Except as otherwise expressly provided herein, all terms and conditions of the Basic Plan applicable to a Basic Plan benefit shall also be applicable to a benefit payable hereunder. Any Basic Plan benefit shall be paid solely in accordance with the terms and conditions of the Basic Plan and nothing in the Plan shall operate or be construed in any way to modify, amend or affect the terms and provisions of the Basic Plan.

[signature block follows on next page]

IN WITNESS WHEREOF , NiSource Inc. has caused this amended and restated Savings and Restoration Plan for NiSource Inc. and Affiliates to be executed in its name, by its duly authorized officer, effective as of October 22, 2012.

NISOURCE INC.

By: /s/ Teresa M. Smith

Its: V.P. Human Resources

Date: 11/20/2012

NISOURCE INC.
EXECUTIVE DEFERRED COMPENSATION PLAN

Amended and Restated Effective November 1, 2012

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NISOURCE INC.

EXECUTIVE DEFERRED COMPENSATION PLAN

ARTICLE I

BACKGROUND AND PURPOSE

1.1 **Background.** Effective November 1, 2000, the Bay State Gas Company Key Employee Deferred Compensation Plan (the "Bay State Plan") was merged into the NIPSCO Plan and the NIPSCO Plan was renamed the NiSource Inc. Executive Deferred Compensation Plan (the "Plan"). Effective January 1, 2004, the Columbia Energy Group Deferred Compensation Plan (the "Columbia Plan") was merged into the Plan. Effective January 1, 2005, the Plan was amended and restated to comply with Code Section 409A, and guidance and regulations thereunder. Deferred Compensation, Discretionary Contributions, and earnings thereon, earned and vested prior to January 1, 2005 shall be administered without giving effect to Code Section 409A, and guidance and regulations thereunder. Effective January 1, 2008, the Plan was amended and restated to incorporate the provisions of amendments to the Plan since the January 1, 2005, amendment and restatement and to allow participants to elect to participate in the Plan only during the applicable enrollment period or at such later date allowed under Code Section 409A for certain performance based bonuses. The Plan was amended and restated again effective as of May 13, 2011 to transfer all administrative authority with respect to the Plan (including the authority to render decisions on claims and appeals and make administrative or ministerial amendments) from the ONC Committee to the Benefits Committee. The Plan was amended and restated again, effective as of January 1, 2012, to (1) change eligibility to defer Compensation under the Plan; (2) limit the amount of annual incentive compensation that may be deferred under the Plan to 80% of such annual incentive compensation; and (3) clarify other administrative matters related to the Plan.

The Plan is hereby amended and restated again, effective November 1, 2012, to eliminate the prime rate of interest, as stated by the Wall Street Journal, as an investment option available only to certain Columbia Plan Participants and instead be available, if so chosen by the Benefits Committee, to all Participants.

1.2 **Purpose**. The purpose of this Plan is to provide current tax planning opportunities as well as supplemental funds for retirement or death for selected employees of an Employer. It is intended that the Plan will aid in attracting and retaining employees of exceptional ability by providing them with these benefits.

ARTICLE II

DEFINITIONS

For the purposes of the Plan, the following terms shall have the meanings indicated, unless the context clearly indicates otherwise. Except when otherwise required by the context, any masculine terminology in this document shall include the feminine, and any singular terminology shall include the plural. The headings of Articles and Sections are included solely for convenience, and if there is any conflict between such headings and the text of the Plan, the text shall control.

2.1 **Account** . The device used by an Employer to measure and determine the amount to be paid to a Participant under the Plan. Each Account shall be divided into a Pre-2005 Account containing contributions to the Plan earned and vested prior to January 1, 2005, a Post-2004 Account containing contributions to the Plan earned and/or vested on or after January 1, 2005, and, if applicable, a Transferred Bay State Account containing any amount transferred from the Bay State Plan or a Transferred Columbia Account containing any amount transferred from the Columbia Plan.

2.2 **Affiliate** . Any corporation that is a member of a controlled group of corporations (as defined in Code Section 414(b)) that includes the Company; any trade or business (whether or not incorporated) that is under common control (as defined in Code Section 414(c)) with the Company; any organization (whether or not incorporated) that is a member of an affiliated service group (as defined in Code Section 414(m)) that includes the Company; any leasing organization, to the extent that its employees are required to be treated as if they were employed by the Company pursuant to Code Section 414(n) and the regulations thereunder; and any other entity required to be aggregated with the Company pursuant to regulations under Code Section 414(o). An entity shall be an Affiliate only with respect to the existing period as described in the preceding sentence.

2.3 **Annual Deferral Amount** . The portion of a Participant's Compensation that a Participant elects to defer under this Plan for any one Plan Year.

2.4 **Beneficiary** . The person, persons or entity entitled to receive any Plan benefits payable after a Participant's death.

2.5 **Benefits Committee** . The NiSource Benefits Committee, or any delegate thereof.

2.6 **Board** . The Board of Directors of NiSource Inc.

2.7 **Code** . The Internal Revenue Code of 1986, as amended from time to time.

2.8 **Company** . NiSource Inc.

2.9 **Compensation** . Aggregate basic annual salary or wage and annual incentive awards paid to a Participant by his Employer. Compensation shall include the following: (1) amounts deferred and excluded from the Participant's taxable income pursuant to Code Sections 125, 132 (f)(4), 402(e)(3), or 402(h)(1)(B), and (2) amounts deferred to a nonqualified plan maintained by an Employer. Compensation earned on or after January 1, 2005 shall not include incentive payments other than annual incentive awards. Compensation does not include expense reimbursements, any form of noncash compensation, or benefits. Compensation does not include lump sum severance payments or lump sum vacation payouts.

2.10 **Discretionary Contribution** . The Employer contribution credited to a Participant's Account under Section 5.3.

2.11 **Effective Date** January 1, 2012, the date on which the provisions of this amended and restated Plan become effective, except as otherwise provided herein.

2.12 **Election Form** . The agreement properly submitted by a Participant to the Retirement Committee or Benefits Committee prior to the beginning of a Plan Year, with respect to a Deferral Commitment made for such Plan Year.

2.13 **Eligible Employee** . A select group of management or highly compensated employees of the Employer selected by the ONC Committee in accordance with this Plan.

2.14 **Employer** . The Company and any subsidiary or Affiliate of the Company designated by the ONC Committee to participate in the Plan.

2.15 **ONC Committee** . The Officer Nomination and Compensation Committee of the Board of Directors of the Company.

2.16 **Participant** . Any Eligible Employee who is participating in the Plan in accordance with its provisions.

2.17 **Plan** . The NiSource Inc. Executive Deferred Compensation Plan, as set forth herein and as amended from time to time.

2.18 **Plan Administrator** . The Benefits Committee, or such delegate of the Benefits Committee delegated to carry out the administrative functions of the Plan as provided under Article IX.

2.19 **Plan Year** . The 12-month period commencing each January 1 and ending the following December 31.

2.20 **Post-2004 Account** . The excess of (1) the total balance of the Participant's Account determined as of a Participant's date of Separation from Service after December 31, 2004 over (2) his Pre-2005 Account, to which the Participant would be entitled under the Plan if he voluntarily separated from service without cause as of such date and received a full payment of benefits from the Plan on the earliest possible date allowed under the Plan following his Separation from Service.

2.21 **Pre-2005 Account** . The balance of a Participant's Account determined as of December 31, 2004, adjusted to reflect earnings credited to such balance from and after such date.

2.22 **Retirement Committee** . A committee consisting of the Company's Senior Vice President of Human Resources and the Vice President of Human Resources (in charge of Total Rewards), or such other offices as shall be deemed equivalent to such positions, or the delegates thereof.

2.23 **Separation from Service** . A termination of services provided by a Participant to his or her Employer, whether voluntarily or involuntarily, as determined by the Benefits Committee in accordance with Code Section 409A and the guidance promulgated thereunder.

2.25 **Specified Employee** . A Participant who is in job scope level C2 or above with respect to any Employer that employs him or her; provided that if at any time the total number of employees in job category C2 and above is less than 50, a Specified Employee shall include any employee who meets the definition of "key employee" set forth in Code Section 416(i) (without reference to paragraph 5 of Code Section 416(i)). A Participant shall be deemed to be a Specified Employee with respect to a Separation from Service that occurs during a calendar year if he or she is a Specified Employee on September 30 of the preceding calendar year. The Benefits Committee shall determine which Participants are Specified Employees in accordance with the guidance promulgated under Code Section 409A.

2.26 **Transferred Bay State Account** . The balance of a Participant's Account containing any amount transferred from the Bay State Plan. The Bay State Plan was merged into the Plan as of November 1, 2000. The balance of the account of each Bay State Plan participant, determined as of November 1, 2000, was transferred to the Plan and became the initial balance in such Participant's Transferred Bay State Account in the Plan. A Participant's Transferred Bay State Account shall be held, administered, invested, and distributed pursuant to the terms of the Plan.

2.27 **Transferred Columbia Account** . The balance of a Participant's Account containing any amount transferred from the Columbia Plan. The Columbia Plan was merged into the Plan as of January 1, 2004. The balance of the account of each Columbia Plan participant, determined as of December 31, 2003, was transferred to the Plan and became the initial balance in such Participant's Transferred Columbia Account in the Plan. A Participant's Transferred Columbia Account shall be held, administered, invested, and distributed pursuant to the terms of the Plan.

2.28 **Unforeseeable Emergency** . A severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Code Section 152(a)) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

2.29 **Valuation Date** . The close of business of each business day.

ARTICLE III

ELIGIBILITY AND PARTICIPATION

3.1 **Eligibility** . On and after January 1, 2012, eligibility to participate in the Plan for a Plan Year shall be limited to (1) an employee in job scope level C2 or above, (2) an employee in job scope level D2 or above who completed an Election Form in 2011 with respect to an Annual Deferral Amount related to services performed in the Plan Year beginning January 1, 2012; provided however, that such an employee will remain eligible to defer Compensation after the 2012 Plan Year only if he or she completes an Election Form in each successive Plan Year after 2012, and (3) any other key employee of an Employer who is designated from time to time by the ONC Committee.

3.2 **Participation** . An Eligible Employee shall become a Participant in the Plan by electing to defer Compensation in accordance with Article IV. An Eligible Employee also becomes a participant if the Employer credits the Participant's Account with a Discretionary Contribution.

3.3 **Continuation of Participation** . A Participant shall remain a Participant so long as his or her Account has not been fully distributed.

3.4 **Amendment of Eligibility Criteria** . The ONC Committee may, in its discretion, change the criteria for eligibility for any reason, provided, however, that no change in the criteria for eligibility shall be effective unless such changes are (a) within guidelines established by the ONC Committee or (b) approved by the ONC Committee. Eligibility for participation in one year does not guarantee eligibility to participate in any future year.

ARTICLE IV

DEFERRAL COMMITMENTS

4.1 **Timing of Deferral Elections** . An Eligible Employee may elect to defer Compensation for services performed in any Plan Year by submitting an Election Form to the Retirement Committee only during the annual enrollment period established by the Retirement Committee, which shall end no later than December 31st, of the year preceding such Plan Year. Thus, for any salary to be paid for services performed in a Plan Year, an election to defer such salary must be made no later than December 31, of the prior Plan Year. Further, an election to defer such annual incentive award must be made no later than December 31, of the prior Plan Year. To illustrate these provisions, an election to defer salary payable for services performed in 2013 must be made by December 31, 2012. Further, an election to defer annual incentive awards that are (1) not "performance-based compensation" as described under Code Section 409A, (2) earned for the 2013 calendar year, and (3) to be paid in March 2014, must be made by December 31, 2012.

4.2 **Amount of Deferral** . A Participant may elect an Annual Deferral Amount in the Election Form as follows:

(a) Base Salary Deferral Amount. The amount of Compensation related to base salary that a Participant may elect to defer in an Election Form shall be stated as a whole percentage of base Compensation from 5% to 80%; provided, however, that the Company may reduce the amount deferred to the extent necessary to satisfy federal, state, local, or other tax withholding obligations and employee benefit plan withholding requirements.

(b) Annual Incentive Deferral Amount. The amount of Compensation related to any annual incentive award that a Participant may elect to defer in an Election Form shall be stated as a whole percentage of the annual incentive award from 5% to 80%; provided, however, that the Company may reduce the amount deferred to the extent necessary to satisfy federal, state, local, or other tax withholding obligations and employee benefit plan withholding requirements.

No amount of Compensation may be deferred after the date of a Participant's Separation from Service.

4.3 **Distribution Options**. Each Election Form with respect to a Plan Year shall specify the date on which the applicable deferred amount and earnings thereon shall be distributed. Such date shall be the first to occur of (1) the date of the Participant's Separation from Service; or (2) a date selected by the Participant, provided that a selected date must be at least one year after the date the deferred amount would have been paid to the Participant in cash in the absence of the election to make the deferral, except as otherwise provided under Article VII.

4.4 **Duration of Election Form**. A Participant shall make an election in his Election Form as to the time and form of payment of the Annual Deferral Amount for each Plan Year. A Participant's Election Form for any Plan Year is effective only for such Plan Year. In order to defer Compensation for a subsequent Plan Year, an Eligible Employee must file a new Election Form with respect to such Compensation. A Participant shall not be required to designate the same time and form of payment for each Plan Year.

4.5 **Modification of Election Form**. Except as provided otherwise in this Plan, Election Forms shall be irrevocable.

4.6 **Change in Employment Status**. If the Plan Administrator determines that a Participant has experienced a change in job scope level or employment status that no longer is eligible for participation in the Plan, but the Participant's employment with an Employer is not terminated, the Participant's existing Election Form shall terminate at the end of the current Plan Year, and no new Election Form may be submitted by such Participant for any Plan Year.

ARTICLE V

ACCOUNTS

5.1 **Account**. The Compensation deferred by a Participant under the Plan, including any Discretionary Contributions and earnings thereon, shall be credited to the Participant's Account. Separate subaccounts may be maintained to reflect different forms of distribution, investment options, levels of vesting, and forms of payment. The Account shall be a bookkeeping device utilized for the sole purpose of determining the benefits payable under the Plan and shall not constitute a separate fund of assets.

5.2 **Timing of Credits; Withholding**. A Participant's deferred Compensation shall be credited to the Participant's Account at the time it would have been payable to the Participant. Any withholding of taxes or other amounts with respect to deferred Compensation that is required by federal, state or local law shall be withheld from the Participant's nondeferred Compensation to the maximum extent possible and any remaining amount shall reduce the amount credited to the Participant's Account.

5.3 **Discretionary Contributions**. An Employer may make Discretionary Contributions to a Participant's Account. Discretionary Contributions shall be credited at such times and in such amounts as the ONC Committee in its sole discretion shall determine. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive a Discretionary Contribution for that Plan Year.

5.4 **Determination of Account**. Each Participant's Account as of each Valuation Date shall consist of the balance of the Account as of the immediately preceding Valuation Date, adjusted as follows:

(a) New Deferrals. The Account shall be increased by any deferred Compensation credited since such preceding Valuation Date.

(b) Discretionary Contributions. The Account shall be increased by any Discretionary Contributions credited since such preceding Valuation Date.

(c) Distributions. The Account shall be reduced by any benefits distributed from the Account to the Participant since such preceding Valuation Date.

(d) Valuation of Account. The Account shall be increased or decreased by the aggregate earnings, gains and losses on such Account since such preceding Valuation Date, based on the manner in which the Participant's Account has been hypothetically allocated among the investment options selected by the Participant.

5.5 **Vesting of Account**. Each Participant shall be vested in the amounts credited to such Participant's Account and earnings thereon as follows:

(a) Amounts Deferred . A Participant shall be 100% vested at all times in the amount of Compensation elected to be deferred under the Plan, and earnings thereon.

(b) Discretionary Contributions . A Participant's Discretionary Contributions, and earnings thereon, shall become vested as determined by the ONC Committee.

(c) Transferred Account . A Participant shall be 100% vested at all times in the balance of his Transferred Bay State Account or Transferred Columbia Account, if any.

5.6 **Statement of Account .** The Retirement Committee shall give to each Participant a statement showing the balance in the Participant's Account periodically, at such times as may be determined by the Retirement Committee, in written or electronic form.

ARTICLE VI

INVESTMENTS

6.1 **Investment Options .** Amounts credited hereunder to the Account of a Participant shall be invested as such Participant elects among the investment choices provided to the Participant. The investment options shall be determined by the Plan Administrator from time to time in its sole and absolute discretion. As necessary, the Plan Administrator may, in its sole discretion, discontinue, substitute or add an investment option. Each such action will take effect on such date established by the Plan Administrator.

6.2 **Special Investment Option for Former Participants in the Bay State Plan and Participants in the Plan .** Former participants in the Bay State Plan who became Participants in the Plan, or Participants in the Plan on November 1, 2000, shall have an additional special investment option applicable solely to their Transferred Bay State Account balances, or their Account balances in the Plan, valued as of November 1, 2000, and any subsequent amounts contributed to such Participant's Account. Such Participants may invest their Transferred Bay State Account balances, or their Account balances in the Plan as of November 1, 2000, and any subsequent amounts contributed to such Participant's Account, in a subaccount which shall be credited with earnings equal to one percentage point higher than the effective annual yield of the average of the Moody's Average Corporate Bond Yield Index for the previous calendar month as published by Moody's Investor Services, Inc. (or any successor publisher thereto), or, if such index is no longer published, a substantially similar index selected by the Plan Administrator. A Participant's Transferred Bay State Account balance, or his Account balance in the Plan on November 1, 2000, shall be invested pursuant to this special investment option from and after November 1, 2000, and until such time as another investment choice is designated by him under this Plan with respect to all or a portion of his Transferred Bay State Account, or his Account balance in the Plan on November 1, 2000. Subsequent amounts contributed to any such Participant's Account may be invested pursuant to this option as designated by the Participant pursuant to this Plan. However, any portion of a Transferred Bay State Account, or an Account balance in the Plan, subsequently transferred from the investment option described in this Section to another investment option may not be reinvested under this Section.

6.3 **Election of Investment Options** . A Participant, in connection with completing his or her Election Form, shall elect one or more of the previously described investment options, as applicable, to be used to determine the amounts to be credited or debited to his or her Account. No Election Form of a Participant shall be effective until such time as the Participant submits his initial investment election to the Company. The Participant may (but is not required to) elect to add or delete one or more investment options to be used to determine the amounts to be credited or debited to his or her Account, or to change the portion of his or her Account allocated to each previously or newly elected investment option. If an election is made in accordance with the previous sentence, it shall apply as of the first business day deemed reasonably practicable by the Plan Administrator, in its sole discretion, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence. Notwithstanding the foregoing, the Plan Administrator, in its sole discretion, may impose limitations on the frequency with which one or more of the investment options elected in accordance with this Section may be added or deleted by such Participant; furthermore, the Plan Administrator, in its sole discretion, may impose limitations on the frequency with which the Participant may change the portion of his or her Account allocated to each previously or newly elected investment option.

6.4 **Allocation of Investment Options** . In making any election related to investment options, the Participant shall specify, in increments specified by the Plan Administrator, the percentage of his or her Account or investment option, as applicable, to be allocated or reallocated.

6.5 **No Actual Investment** . Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the investment options are to be used for measurement purposes only, and a Participant's election of any such investment option, the allocation of his or her Account thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account shall not be considered or construed in any manner as an actual investment of his or her Account in any such investment option. In the event that the Company, in its own discretion, decides to invest funds in any or all of the investments on which the investment options are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company; the Participant shall at all times remain an unsecured creditor of the Company.

ARTICLE VII

PAYMENTS AND DISTRIBUTIONS

7.1 **Distributions/Events Generally** . Participants generally will not be entitled to receive a distribution of their Account balance until they experience a Separation from Service for any reason. A Participant may receive a distribution before Separation from Service, however, in accordance with this Article VII, upon (1) an Unforeseeable Emergency that occurs before

Separation from Service, or (2) a year that has been designated by the Participant in an Election Form and that occurs before Separation from Service.

7.2 **In-Service Distributions** .

(a) General Payments . A Participant may elect in his or her Election Form to receive his or her Compensation deferred for a Plan Year, and all amounts credited or debited thereto, in a specified year while employed with an Employer. The Participant, in an Election Form, may elect to receive such an in-service distribution as either a lump sum or equal annual installments over a period of not more than 15 years. If a Participant does not make such an election, the payment shall be made in a lump sum.

If a Participant elects to receive an in-service distribution as a lump sum, the amount of the lump sum payment will be based on the value of the Participant's account as of March 15 of the designated year. The distribution date generally shall be on or as soon as administratively practicable after the March 31 st of such year, or, if later, within such time frame permitted under Code Section 409A and the guidance and regulations thereunder.

If a Participant elects to receive installments, the amount of each installment payment will be based on the value of the participant's account as of the March 15 preceding the distribution of each installment payment. The distribution date generally shall be each subsequent March 31, or if later, within such time frame permitted under Code Section 409A, and the guidance and regulations thereunder.

(b) Modifying In-Service Distributions .

(1) Pre-2005 Account . Notwithstanding any other provision of the Plan, a Participant may modify his election as to the form or time of distribution of his entire Pre-2005 Account, and earnings thereon, by a writing filed with the Retirement Committee at any time prior to the commencement of payment. A Participant's modification of his election as to the form or time of commencement of payment shall be ineffective, unless (1) the modification election is filed with the Retirement Committee more than 12 months prior to the time of commencement of payment, or (2) a Participant elects by written instrument delivered to the Company prior to the time of commencement of payment to have his Pre-2005 Account reduced by 10%. This reduction shall be forfeited and used by the Plan to reduce expenses of administration. This reduction is intended to discourage a Participant from modifying his election as to the form or time of commencement of payment within the period set forth in clause (1) above and prevent him from being deemed in constructive receipt of his Pre-2005 Account prior to its actual payment to him.

(2) Post-2004 Account . The Company, in its discretion, may allow a Participant to modify his election as to the form or time of distribution of his entire Post-2004 Account, and earnings thereon, or of any portion of his or her Post-2004 Account and earnings thereon, if (1) such election does not take effect until at least 12 months after the date on which the election is made, (2) the first payment with respect to which such election is made is deferred for a period of not less than five (5) years from the date on which such payment would otherwise have been made, and (3) any election related to a payment to be made at a specified date is made at least 12 months prior to the date of the first scheduled payment. For purposes of the Plan, the term "payment" means each separate installment and not the collective group of installment payments.

(3) Precedence of Distributions . With respect to both Pre-2005 Accounts and Post-2004 Accounts in the event a Participant has a Separation from Service, Unforeseeable Emergency, or other event that triggers distribution of benefits under Article VII of this Plan, all amounts subject to an in-service distribution shall be paid in accordance with other applicable provisions of the Plan and not under this Section 7.2. If, however, a Participant made an election to postpone an in-service distribution under Section 7.2(b), and the Participant experiences a Separation from Service, the distribution will be made in accordance with Section 7.2(b) and not Section 7.3.

7.3 **Distributions After Separation from Service** .

(a) Generally . If a Participant experiences a Separation from Service, the provisions of this Section 7.3 shall apply to the distribution of the Participant's Account. The Participant may elect, in his or her Election Form to receive such benefits as either a lump sum or in equal annual installments over a period not to exceed 15 years. If no such election is made, payment shall be made as a lump sum.

(b) Pre-2005 Account .

(1) Lump Sum . If payment of a Participant's Pre-2005 Account is to be made in a lump sum, the lump sum payment generally shall be made on or as soon as administratively practicable after the March 31 st immediately after the date in which the Participant experiences a Separation from Service.

(2) Installments . If payment of a Participant's Pre-2005 Account is to be made in annual installments, the distribution of the first annual installment payment generally shall be made on or as soon as administratively practicable after the March 31 st immediately after the date in which the Participant experiences a Separation from Service. The amount of this first installment payment shall be based on the value of the Participant's Account as of the March 15 preceding the distribution date of this installment payment. Each subsequent installment payment generally shall be paid on or as soon as administratively

practicable after each subsequent March 31. The amount of each such installment shall be based on the value of the Participant's Account as of the March 15 preceding the distribution date of such installment.

(3) Modifications to Time and Form of Payment. Notwithstanding any other provision of the Plan, a Participant may modify his election as to the form or time of distribution of his entire Pre-2005 Account, and earnings thereon, by a writing filed with the Retirement Committee at any time prior to the commencement of payment. A Participant's modification of his election as to the form or time of commencement of payment shall be ineffective, unless (1) the modification election is filed with the Retirement Committee more than 12 months prior to the time of commencement of payment, or (2) a Participant elects by written instrument delivered to the Company prior to the time of commencement of payment to have his Pre-2005 Account reduced by 10%. To clarify how these provisions operate with respect to a Participant who originally elected to commence distribution upon Separation from Service, such a Participant may elect to be paid on or as soon as administratively practicable after one of the following permitted times: (a) the March 31st immediately after the one-year anniversary date of the request to modify the election (regardless of whether the Participant experiences a Separation from Service before such date), or (b) the March 31st immediately after the date of the modified election, provided however, that under this option the Participant's Pre-2005 Account shall be reduced by 10%. This reduction shall be forfeited and used by the Plan to reduce expenses of administration. This reduction is intended to discourage a Participant from modifying his election as to the form or time of commencement of payment within the period set forth in clause (1) above and prevent him from being deemed in constructive receipt of his Pre-2005 Account prior to its actual payment to him.

(c) Post-2004 Account.

(1) Lump Sum.

(i) Non-Specified Employees. If payment of a Participant's Post-2004 Account is to be made to the Participant in a lump sum, and the Participant is not a Specified Employee of any Employer, the lump sum payment generally shall be made on or as soon as administratively practicable after the March 31st immediately after the date in which the Participant experiences a Separation from Service.

(ii) Specified Employees. If payment of a Participant's Post-2004 Account is to be made to the Participant in a lump sum, and the Participant is a Specified Employee of any Employer, the lump sum payment generally shall be made on or as soon as administratively practicable after the later of (1) the March 31 st immediately after the date in which the Participant experiences a Separation from Service, or (2) the date that is six (6) months after the date in which the Participant experiences a Separation from Service, unless due to such Participant's death, in which case payment generally shall be made to the Beneficiary as soon as practicable after the date of the Participant's death.

(2) Installments .

(i) Non-Specified Employees . If payment of a Participant's Post-2004 Account is to be made to the Participant in annual installments, the distribution of the first annual installment payment generally shall be made on or as soon as administratively practicable after the March 31 st immediately after the date in which the Participant experiences a Separation from Service. The amount of this first installment payment shall be based on the value of the Participant's Account as of the March 15 preceding the distribution date of this installment payment. Each subsequent installment payment generally shall be paid on or as soon as administratively practicable after each subsequent March 31. The amount of each such installment shall be based on the value of the Participant's account as of the March 15 preceding the distribution date of such installment.

(ii) Specified Employees . If payment of a Participant's Post-2004 Account is to be made to the Participant in annual installments, and the Participant is a Specified Employee of any Employer, the distribution of the first annual installment payment generally shall be made on or as soon as administratively practicable after the later of (1) the March 31 st immediately after the date in which the Participant experiences a Separation from Service, or (2) the date that is six (6) months after the date in which the Participant experiences a Separation from Service, unless due to such Participant's death, in which case such installment payment generally shall be made to the Beneficiary as soon as practicable after the date of the Participant's death. The amount of this first installment payment shall be based on the value of the Participant's Account as of the March 15 preceding the distribution date of this installment payment. Each subsequent installment payment generally shall be paid on or as soon as administratively practicable after each subsequent March 31. The amount of each such installment shall be based on the value of the Participant's account as of the March 15 preceding the distribution date of such installment.

(3) Modifications to Time and Form of Payment. The Company, in its discretion, may allow a Participant to modify his election as to the form or time of distribution of his entire Post-2004 Account, and earnings thereon, or of any portion of his or her Post-2004 Account and earnings thereon, if (1) such election does not take effect until at least 12 months after the date on which the election is made, (2) the first payment with respect to which such election is made is deferred for a period of not less than five (5) years from the date on which such payment would otherwise have been made, and (3) any election related to a payment to be made at a specified date is made at least 12 months prior to the date of the first scheduled payment. For purposes of the Plan, the term "payment" means each separate installment and not the collective group of installment payments.

7.4 **Unforeseeable Emergency/Hardship Distributions**.

(a) Pre-2005 Account. Upon a finding that a Participant has suffered an Unforeseeable Emergency, the Retirement Committee may, in its sole discretion, make distributions from the Participant's Pre-2005 Account (including his Transferred Bay State Account or Transferred Columbia Account, if applicable). The amount of such a distribution shall be limited to the amount reasonably necessary to meet the Participant's needs resulting from the Unforeseeable Emergency. Any distribution pursuant to this Subsection shall be payable in a lump sum. The distribution shall be paid within 30 days after the determination of an Unforeseeable Emergency.

(b) Post-2004 Account. Upon a finding that a Participant has suffered an Unforeseeable Emergency, the Retirement Committee may, in its sole discretion, make distributions from the Participant's Post-2004 Account and/or allow a Participant to suspend his Annual Deferral Amount entirely in accordance with the guidance under Code Section 409A. The amount of such distribution shall be limited to the amount necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship). Any distribution pursuant to this Section 7.4(b) shall be payable in a lump sum. The distribution shall be paid within 30 days after the determination of an Unforeseeable Emergency.

7.5 **Distribution Provisions Applicable to a Transferred Bay State Account**. Notwithstanding any other provision in the Plan, the following provisions shall apply to the form and time of payment of the balance of a Transferred Bay State Account:

(a) General Payment Rules. The portion of a Transferred Bay State Account not paid pursuant to Section 7.2 shall be paid to a Participant following his separation from service, or to his Beneficiary in the case of death, in the form selected by the Participant, by written instrument delivered to the Retirement Committee before November 1, 2000. If no form is selected by the Participant, payment shall be made in a lump sum. The provisions of Section 7.2(b) shall apply with respect to the election of the form of payment of a Transferred Bay State Account and the modification of such election.

(b) Modifications to General Payment Rules. Any former employee of Bay State Gas Company who (1) was a participant in the Bay State Plan immediately prior to November 1, 2000, (2) terminated employment with Bay State Gas Company prior to November 1, 2000, for any reason other than Retirement, death or Disability (as such terms were defined in the Bay State Plan immediately prior to November 1, 2000), and (3) as of November 1, 2000, had not commenced payment of his Account shall not commence payment of his Transferred Bay State Account until the earlier of the Participant's attainment of age 65, Disability or death. Notwithstanding the preceding sentence, the Retirement Committee may, in its sole discretion, vary the manner and time of making the payment of a Participant's Transferred Bay State Account to such former Bay State employee, and may make such distributions over a longer or shorter period of time or in a lump sum.

7.6 **Automatic Cash-Out**. In the event a Participant's Account balance at the time distribution begins, or following a distribution of an installment payment is $15,000 or less, that balance shall be paid to the Participant or his Beneficiary in a lump sum on the next annual installment distribution date notwithstanding any form of benefit payment elected by the Participant.

7.7 **Withholding for Taxes**. To the extent required by the law in effect at the time payments are made, an Employer shall withhold from the payments made hereunder any taxes required to be withheld by the federal or any state or local government, including any amounts which the Employer determines is reasonably necessary to pay any generation-skipping transfer tax which is or may become due. A Beneficiary, however, may elect not to have withholding of federal income tax pursuant to Code Section 3405(a)(2).

7.8 **Payment to Guardian**. The Retirement Committee may direct payment to the duly appointed guardian, conservator or other similar legal representative of a Participant or Beneficiary to whom payment is due. In the absence of such a legal representative, the Retirement Committee may, in its sole and absolute discretion, make payment to a person having the care and custody of a minor, incompetent or person incapable of handling the disposition of property upon proof satisfactory to the Retirement Committee of incompetency, status as a minor, or incapacity. Such distribution shall completely discharge the Company from all liability with respect to such benefit.

ARTICLE VIII

BENEFICIARY DESIGNATION

8.1 **Beneficiary Designation** . Subject to Section 8.3, each Participant shall have the right, at any time, to designate one or more persons or an entity as Beneficiary (both primary as well as secondary) to whom benefits under the Plan shall be paid in the event of the Participant's death prior to complete distribution of the Participant's Account. Each Beneficiary designation shall be in a written form prescribed by the Retirement Committee and shall be effective only when filed with the Retirement Committee during the Participant's lifetime.

8.2 **Changing Beneficiary** . Subject to Section 8.3, any Beneficiary designation may be changed by a Participant without the consent of the previously named Beneficiary by the filing of a new designation with the Retirement Committee. The filing of a new designation shall cancel all designations previously filed.

8.3 **Community Property** . If the Participant resides in a community property state, the following rules shall apply:

(a) Designation by a married Participant of a Beneficiary other than the Participant's spouse shall not be effective unless the spouse executes a written consent that acknowledges the effect of the designation, or it is established that the consent cannot be obtained because the spouse cannot be located.

(b) A married Participant's Beneficiary designation may be changed by a Participant with the consent of the Participant's spouse as provided for in Section 8.3(a) by the filing of a new designation with the Retirement Committee.

(c) If the Participant's marital status changes after the Participant has designated a Beneficiary, the following shall apply:

(1) If the Participant is married at the time of death but was unmarried when the designation was made, the designation shall be void unless the spouse has consented to it in the manner prescribed in Section 8.3(a).

(2) If the Participant is unmarried at the time of death but was married when the designation was made:

(i) The designation shall be void if the spouse was named as Beneficiary, unless the designation is reaffirmed when the Participant is unmarried.

(ii) The designation shall remain valid if a nonspouse Beneficiary was named.

(3) If the Participant was married when the designation was made and is married to a different spouse at death, the designation shall be void unless the new spouse has consented to it in the manner prescribed above.

8.4 **No Beneficiary Designation**. If any Participant fails to designate a Beneficiary in the manner provided above, if the designation is void or if the Beneficiary designated by a deceased Participant dies before the Participant or before complete distribution of the Participant's benefits, the Participant's Beneficiary shall be the person in the first of the following classes in which there is a survivor:

(a) The Participant's spouse;

(b) The Participant's children in equal shares, except that if any of the children predeceases the Participant but leaves issue surviving, then such issue shall take, by right of representation, the share the parent would have taken if living;

(c) The Participant's estate.

ARTICLE IX

PLAN ADMINISTRATION

9.1 **Allocation of Duties to Committees**. The Plan shall be administered by the Benefits Committee, as delegated by the ONC Committee. The Benefits Committee shall have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of the Plan and decide or resolve any and all questions, including interpretations of the Plan, as may arise in such administration, except as otherwise reserved to the ONC Committee herein, or by resolution or charter of the respective committees. Members of the Retirement Committee or Benefits Committee may be Participants under the Plan.

In its discretion, the Plan Administrator may delegate to any division or department of the Company the discretionary authority to make decisions regarding Plan administration, within limits and guidelines from time to time established by the Plan Administrator. The delegated discretionary authority shall be exercised by such division or department's senior officer, or his/her delegate. Within the scope of the delegated discretionary authority, such officer or person shall act in the place of the Plan Administrator and his/her decisions shall be treated as decisions of the Plan Administrator.

Specifically, the Plan Administrator hereby delegates certain of its discretionary authority with respect to the Plan to the Retirement Committee. Pursuant to the foregoing sentence, the delegation by the Plan Administrator to the Retirement Committee includes, but shall not be limited to, the ability to solicit and receive deferral elections, establish enrollment periods, distribute account statements, receive distribution elections and any permitted modifications thereto, make distributions, and determine claims under the Plan.

9.2 **Agents**. The Retirement Committee, Benefits Committee or ONC Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to the Company.

9.3 **Information Required by Plan Administrator**. The Company shall furnish the Plan Administrator with such data and information as the Plan Administrator may deem necessary or desirable in order to administer the Plan. The records of the Company as to an employee's or Participant's period or periods of employment, Separation from Service and the reason therefore, reemployment and Compensation will be conclusive on all persons unless determined to the Plan Administrator's satisfaction to be incorrect. Participants and other persons entitled to benefits under the Plan also shall furnish the Plan Administrator with such evidence, data or information as the Plan Administrator considers necessary or desirable to administer the Plan.

9.4 **Binding Effect of Decisions**. The decision or action of the Retirement Committee, Benefits Committee and/or the ONC Committee (or any duly authorized delegate of any such committee) with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan.

9.5 **Section 16 Compliance**.

(a) In General. This Plan is intended to be a formula plan for purposes of Section 16 of the Securities Exchange Act (the "Act"). Accordingly, in the case of a deferral or other action under the Plan that constitutes a transaction that could be covered by Rule 16b-3(d) or (e), if it were approved by the ONC Committee ("Board Approval"), it is intended that the Plan shall be administered by delegates of the Board, in the case of a Participant who is subject to Section 16 of the Act, in a manner that will permit the Board Approval of the Plan to avoid any additional Board Approval of specific transactions to the maximum possible extent.

(b) Approval of Distributions: This Subsection shall govern the distribution of a deferral that (i) is being distributed to a Participant in cash, (ii) is made to a Participant who is subject to Section 16 of the Act at the time the interest in phantom Company Common Stock, if any, would be liquidated in connection with the distribution, and (iii) if paid at the time the distribution would be made without regard to this subsection, could result in a violation of Section 16 of the Act because there is an opposite way transaction that would be matched with the liquidation of the Participant's interest in phantom Company Common Stock (either as a "discretionary transaction," within the meaning of Rule 16b-3(b)(1), or as a regular transaction, as applicable) ("Covered Distribution"). In the case of a Covered Distribution, if the liquidation of the Participant's interest in the phantom Company Common Stock in connection with the distribution has not received Board Approval by the time the distribution would be made if it were not a Covered Distribution, or if it is a discretionary transaction, then the actual distribution to the Participant shall be delayed only until the earlier of:

(1) In the case of a transaction that is not a discretionary transaction, Board Approval of the liquidation of the Participant's interest in the phantom Company Common Stock in connection with the distribution, or

(2) The date the distribution would no longer violate Section 16 of the Act, e.g., when the Participant is no longer subject to Section 16 of the Act, or when the time between the liquidation and an opposite way transaction is sufficient.

ARTICLE X

CLAIMS PROCEDURE

10.1 **Claim .** Claims for benefits under the Plan shall be made in writing to the Retirement Committee. The Retirement Committee shall establish rules and procedures to be followed by Participants and Beneficiaries in filing claims for benefits, and for furnishing and verifying proof necessary to establish the right to benefits in accordance with the Plan, consistent with the remainder of this Article.

10.2 **Review of Claim .** The Retirement Committee shall review all claims for benefits. Upon receipt by the Retirement Committee of such a claim, it shall determine all facts that are necessary to establish the right of the claimant to benefits under the provisions of the Plan and the amount thereof as herein provided within 90 days of receipt of such claim. If prior to the expiration of the initial 90 day period, the Retirement Committee determines additional time is needed to come to a determination on the claim, the Retirement Committee shall provide written notice to the Participant, Beneficiary or other claimant of the need for the extension, not to exceed a total of 180 days from the date the application was received. If the Retirement Committee fails to notify the claimant in writing of the denial of the claim within 90 days after the Retirement Committee receives it, the claim shall be deemed denied.

10.3 **Notice of Denial of Claim .** If the Retirement Committee wholly or partially denies a claim for benefits, the Retirement Committee shall, within a reasonable period of time, but no later than 90 days after receiving the claim (unless extended as provided above), notify the claimant in writing of the denial of the claim. Such notification shall be written in a manner reasonably expected to be understood by such claimant and shall in all respects comply with the requirements of ERISA, including but not limited to inclusion of the following:

(a) the specific reason or reasons for denial of the claim;

(b) a specific reference to the pertinent sections of the Plan on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and, where appropriate,

(d) an explanation of the Plan's review procedures.

10.4 **Reconsideration of Denied Claim**. Within 60 days after receipt of the notice of the denial of a claim or within 60 days after the claim is deemed denied as set forth above, if applicable, such claimant or duly authorized representative may request, by mailing or delivery of such written notice to the Benefits Committee, a reconsideration by the Benefits Committee of the decision denying the claim. If the claimant or duly authorized representative fails to request such a reconsideration within such 60 day period, it shall be conclusively determined for all purposes of the Plan that the denial of such claim by the Benefits Committee is correct. In connection with the claimant's appeal of the denial of his or her benefit, the claimant may review pertinent documents and may submit issues and comments in writing.

After such reconsideration request, the Benefits Committee shall determine within 60 days of receipt of the claimant's request for reconsideration whether such denial of the claim was correct and shall notify such claimant in writing of its determination. In the event of special circumstances determined by the Benefits Committee, the time for the Benefits Committee to make a decision may be extended by an additional 60 days upon written notice to the claimant prior to the commencement of the extension. The notice of decision shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent Plan provisions on which the decision is based. If the decision on review is not furnished within the time period set forth above, the claim shall be deemed denied on review.

If such determination is favorable to the claimant, it shall be binding and conclusive. If such determination is adverse to such claimant, it shall be binding and conclusive unless the claimant or his duly authorized representative notifies the Benefits Committee within 90 days after the mailing or delivery to the claimant by the Benefits Committee of its determination that claimant intends to institute legal proceedings challenging the determination of the Benefits Committee and actually institutes such legal proceedings within 180 days after such mailing or delivery.

10.5 **Employer to Supply Information**. To enable the Retirement Committee or the Benefits Committee to perform its functions, each Employer shall supply full and timely information to the respective committee of all matters relating to the retirement, death or other cause for Separation from Service of all Participants, and such other pertinent facts as the respective committee may require.

ARTICLE XI

AMENDMENT AND TERMINATION OF PLAN

11.1 **Plan Amendment**. The Benefits Committee, the ONC Committee or the Board shall have the authority to amend the Plan. The ONC Committee or the Board shall have the exclusive authority to amend the Plan regarding eligibility for the Plan, the amount or level of benefits awarded under the Plan, and the time and form of payments for benefits from the Plan. In addition, the ONC Committee or the Board shall also have the exclusive authority to make amendments that constitute a material increase in compensation, any change requiring action or consent by a committee of the Board pursuant to the rules of the Securities and Exchange Commission, the New York Stock Exchange or other applicable law, or such other material changes to the Plan such that approval of the Board is required. Unless otherwise determined by the ONC Committee, the Benefits Committee shall have the authority to amend the Plan in all respects that are not exclusively reserved to the ONC Committee or the Board.

The respective committee may at any time amend the Plan by written instrument, notice of which is given to all Participants, and to Beneficiaries. Notwithstanding the preceding sentence, no amendment shall reduce the amount accrued in any Account prior to the date such notice of the amendment is given.

11.2 **Plan Termination**. The ONC Committee or the Company at any time may partially or completely terminate the Plan if, in its judgment, the tax, accounting or other effects of the continuance of the Plan, or potential payments thereunder, would not be in the best interests of the Employers.

(a) Partial Termination. The ONC Committee may partially terminate the Plan by instructing the Retirement Committee not to accept any additional Annual Deferral Amounts. If such a partial termination occurs, the Plan shall otherwise continue to be administered with respect to Account balances credited before the effective date of such partial termination, and distribution shall be made at such times as specified under this Plan.

(b) Complete Termination. The ONC Committee may completely terminate the Plan by instructing the Retirement Committee not to accept any additional Annual Deferral Amounts, and by terminating all ongoing Annual Deferral Amounts. If such a complete termination occurs, the Plan shall cease to operate and the Employers shall pay out each Pre-2005 Account in equal monthly installments over the following period, based on the Pre-2005 Account balance:

Account Balance	**Payout Period**
Less than $50,000	Lump Sum
$50,000 but less than $100,000	3 Years
More than $100,000	5 Years

Payments shall commence within 65 days after the ONC Committee terminates the Plan, and earnings shall continue to be credited on the unpaid Account balance. Employers shall pay out each Post-2004 Account in a manner consistent with Treasury Regulation Section 1.409A-3(j)(4)(ix) or any successor guidance under Code Section 409A.

ARTICLE XII

MISCELLANEOUS

12.1 **Unfunded Plan**. The Plan is an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of "management or highly-compensated employees" within the meaning of Sections 201, 301 and 401 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and therefore is exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA. Nothing contained in the Plan shall constitute a guaranty by the Company or any other Employer or any other entity or person that the assets of the Company or any other Employer shall be sufficient to pay any benefit hereunder.

12.2 **Company and Employer Obligations**. The obligation to make benefit payments to any Participant under the Plan shall be a joint and several liability of the Company and the Employer that employed the Participant.

12.3 **Unsecured General Creditor**. Participants and Beneficiaries shall be unsecured general creditors, with no secured or preferential right to any assets of the Company, any other Employer, or any other party for payment of benefits under the Plan. Any life insurance policies, annuity contracts or other property purchased by the Employer in connection with the Plan shall remain its general, unpledged and unrestricted assets. Obligations of the Company and each other Employer under the Plan shall be an unfunded and unsecured promise to pay money in the future.

12.4 **Trust Fund**. Subject to Section 12.3, the Company may establish separate subtrusts for deferrals by employees of each Employer, pursuant to a trust agreement entered into with such trustees as the Benefits Committee may approve, for the purpose of providing for the payment of benefits owed under the Plan. At its discretion, each Employer may contribute deferrals under the Plan for its employees to the subtrust established with respect to such Employer under such trust agreement. To the extent any benefits provided under the Plan are paid from any such subtrust, the Employer shall have no further obligation to pay them. If not paid from a subtrust, such benefits shall remain the obligation of the Employer. Although such subtrusts may be irrevocable, their assets shall be held for payment of all the Company's general creditors in the event of insolvency or bankruptcy.

12.5 **Nonalienation/Nonassignability**. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof or rights to, which are expressly declared to be unassignable and nontransferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

Notwithstanding the preceding paragraph, the Account of any Participant shall be subject to and payable in the amount determined in accordance with any qualified domestic relations order, as that term is defined in Section 206(d)(3) of ERISA. The Retirement Committee shall provide for payment in a lump sum from a Participant's Account to an alternate payee (as defined in Code Section 414(p)(8)) as soon as administratively practicable following receipt of such order. Any federal, state or local income tax associated with such payment shall be the responsibility of the alternate payee. The balance of an Account that is subject to any qualified domestic relations order shall be reduced by the amount of any payment made pursuant to such order.

12.6 **Indemnification .**

(a) Limitation of Liability . Notwithstanding any other provision of the Plan or any trust established under the Plan, none of the Company, any other Employer, any member of the Retirement Committee, the Benefits Committee or the ONC Committee, nor an individual acting as an employee or agent or delegate of any of them, shall be liable to any Participant, former Participant, Beneficiary, or any other person for any claim, loss, liability or expense incurred in connection with the Plan or any trust established under the Plan, except when the same shall have been judicially determined to be due to the willful misconduct of such person.

(b) Indemnity . The Company shall indemnify and hold harmless each member of the Retirement Committee, the Benefits Committee and the ONC Committee, or any employee of the Company or any individual acting as an employee or agent of either of them (to the extent not indemnified or saved harmless under any liability insurance or any other indemnification arrangement with respect to the Plan or any trust established under the Plan) from any and all claims, losses, liabilities, costs and expenses (including attorneys' fees) arising out of any actual or alleged act or failure to act made in good faith pursuant to the provisions of the Plan, including expenses reasonably incurred in the defense of any claim relating thereto with respect to the administration of the Plan or any trust established under the Plan, except that no indemnification or defense shall be provided to any person with respect to any conduct that has been judicially determined, or agreed by the parties, to have constituted willful misconduct on the part of such person, or to have resulted in his or her receipt of personal profit or advantage to which he or she is not entitled. In connection with the indemnification provided by the preceding sentence, expenses incurred in defending a civil or criminal action, suit or proceeding, or incurred in connection with a civil or criminal investigation, may be paid by the Company in advance of the final disposition of such action, suit, proceeding, or investigation, as authorized by the Retirement Committee, the Benefits Committee or the ONC Committee in the specific case, upon receipt of an undertaking by or on behalf of the party to be indemnified to repay such amount unless it shall ultimately be determined that the person is entitled to be indemnified by the Company pursuant to this paragraph.

12.7 **No Enlargement of Employment Rights .** The Plan shall not constitute a contract of employment between an Employer and the Participant. Nothing in the Plan shall give any

Participant or Beneficiary the right to be retained in the service of an Employer or to interfere with the right of an Employer to discipline or discharge a Participant at any time.

12.8 **Protective Provisions**. A Participant shall cooperate with his Employer by furnishing any and all information requested by the Employer in order to facilitate the payment of benefits hereunder, and by taking such physical examinations as the Employer may deem necessary and taking such other action as may be requested by the Employer.

12.9 **Governing Law**. The Plan shall be construed and administered under the laws of the State of Indiana, except as preempted by federal law.

12.10 **Validity**. In case any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

12.11 **Notice**. Any notice required or permitted under the Plan shall be sufficient if in writing and hand delivered or sent by registered or certified mail. Such notice shall be deemed as given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Mailed notice to the Retirement Committee or the Benefits Committee shall be directed to the Company's address. Mailed notice to a Participant or Beneficiary shall be directed to the individual's last known address in the applicable Employer's records.

12.12 **Successors**. The provisions of the Plan shall bind and inure to the benefit of the Employers and their successors and assigns. The term successors as used herein shall include any corporate or other business entity that shall, whether by merger, consolidation, purchase, or otherwise, acquire all or substantially all of the business and assets of an Employer, and successors of any such corporation or other business entity.

12.13 **Incapacity of Recipient**. If any person entitled to a benefit payment under the Plan is deemed by the Plan Administrator to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until a claim shall have been made by a duly appointed guardian or other legal representative of such person, the Plan Administrator may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company, any other Employer, the Plan Administrator and the Plan.

12.14 **Unclaimed Benefit**. Each Participant shall keep the Plan Administrator informed of his or her current address and the current address of his or her Beneficiaries. The Plan Administrator shall not be obligated to search for the whereabouts of any person. If the location of a Participant is not made known to the Plan Administrator within three years after the date on which payment of the Participant's benefit may first be made, payment may be made as though the Participant had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed or within three years after the actual death of a Participant, the Plan

Administrator is unable to locate any Beneficiary of the Participant, then the Plan Administrator shall have no further obligation to pay any benefit hereunder to such Participant, Beneficiary, or any other person and such benefit shall be irrevocably forfeited.

12.15 **<u>Tax Compliance and Payouts</u>.**

(a) It is intended that the Plan comply with the provisions of Code Section 409A of the Code, so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be paid or made available to Participants or Beneficiaries. This Plan shall be construed, administered, and governed in a manner that affects such intent, and neither any Participant, Beneficiary, nor Plan Administrator shall not take any action that would be inconsistent with such intent.

(b) Although the Plan Administrator shall use its best efforts to avoid the imposition of taxation, interest and penalties under Code Section 409A, the tax treatment of deferrals under this Plan is not warranted or guaranteed. Neither the Company, the other Affiliates, the Plan Administrator, the Retirement Committee, nor any designee shall be held liable for any taxes, interest, penalties or other monetary amounts owed by any Participant, Beneficiary or other taxpayer as a result of the Plan.

(c) Notwithstanding anything to the contrary contained in the Plan, (1) in the event that the Internal Revenue Service prevails in its claim that amounts contributed to the Plan for the benefit of a Participant, and/or earnings thereon, constitute taxable income under Code Section 409A, and guidance and regulations thereunder, to the Participant or his Beneficiary for a taxable year prior to the taxable year in which such contributions and/or earnings are distributed to him, or (2) in the event that legal counsel satisfactory to the Company, and the applicable Participant or his Beneficiary, renders an opinion that the Internal Revenue Service would likely prevail in such a claim, the Post-2004 Account, to the extent constituting such taxable income, shall be immediately distributed to the Participant or his Beneficiary. For purposes of this Section, the Internal Revenue Service shall be deemed to have prevailed in a claim if such claim is upheld by a court of final jurisdiction, or, if based upon an opinion of legal counsel satisfactory to the Company and the Participant or his Beneficiary, the Plan fails to appeal a decision of the Internal Revenue Service, or a court of applicable jurisdiction, with respect to such claim to an appropriate Internal Revenue Service appeals authority or to a court of higher jurisdiction within the appropriate time period.

{Signature on following page}

IN WITNESS WHEREOF , the Company has caused the NiSource Inc. Executive Deferred Compensation Plan to be executed in its name by its duly authorized officer, effective as of November 1, 2012.

NISOURCE INC.

By: /s/ Joel Hoelzer

Its: V.P. Human Resources

Date: 11/20/2012

POLICY SUBJECT: Executive Severance Policy

EFFECTIVE DATE: June 1, 2002

REVISED: January 1, 2012

1. Purpose . The NiSource Executive Severance Policy ("Policy") was established to provide Severance Pay and other benefits to terminated executive-level employees of NiSource Inc. and certain subsidiaries and affiliate corporations ("Company") who satisfy the terms of the Policy. Benefits under the Policy shall be in lieu of any benefits available under the NiSource Severance Policy or any other severance plan or policy maintained by the Company or any Affiliate; provided however that benefits will not be payable under the Policy if the relevant termination of employment results in the employee being eligible for a payment under a Change in Control and Termination Agreement. The Policy is amended and restated effective January 1, 2012.

2. Administration . The Policy is administered by the Officer Nomination and Compensation Committee of the Board of Directors of the Company ("Committee"). The Committee has the complete discretion and authority with respect to the Policy and its application. The Committee reserves the right to interpret the Policy, prescribe, amend and rescind rules and regulations relating to it, determine the terms and provisions of severance benefits and make all other determinations it deems necessary or advisable for the administration of the Policy. The determination of the Committee in all matters regarding the Policy shall be conclusive and binding on all persons. The Committee may delegate any of its duties under the Policy to the Senior Vice President of Human Resources and hereby delegates to the Senior Vice President of Human Resources the authority to develop and implement administrative guidelines regarding the operation of the Policy.

3. Scope . The Policy will apply to all full-time or part-time regular, non-union employees of the Company and each of its affiliated entities (collectively, "Affiliates" and each an "Affiliate") whose job scope level, as established by the Company, is D2 (or its equivalent) or above ("Participants").

4. Eligibility for Severance Pay . A Participant becomes entitled to receive severance pay ("Severance Pay") only if he or she is terminated by an Affiliate for any of the following reasons, provided that such a termination event constitutes a "separation from service" as defined under Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance thereunder, and further provided the conditions described in Section 5 below are met:

   (a) The Participant's position is eliminated due to a reduction in force or other restructuring.

   (b) The Participant's position is moved by the Company more than 50 miles from its current location and results in the Participant having a longer commute of at least 20 miles and the Participant chooses not to relocate, and such events are considered a "good reason" termination under Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance thereunder.

   (c) The Participant's employment is constructively terminated. Constructive termination shall be defined in a manner consistent with the guidance for a "good reason" termination under Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance thereunder, and means (1) the scope of the Participant's position is changed materially or (2) the Participant's base pay is reduced by a material amount or (3) the Participant's opportunity to earn a bonus under a short-term cash incentive compensation plan of the Affiliates is materially reduced or is eliminated, and, in any such event, the Participant chooses not to remain employed in such position, If a Participant does not assert constructive termination within 14 days of being informed of a change described in (1), (2) or (3) above, in a written instrument delivered to the Senior Vice President of Human Resources, such change will not be deemed a constructive termination. The decision as to whether such a change constitutes constructive termination shall be made by the Committee, not the Participant. If the Participant disagrees, the Participant must follow the claims procedure set forth in Section 14.

5. Conditions to Receipt of Benefits .

(a) Severance Pay is not available to a Participant otherwise eligible for Severance Pay who transfers to another position with any Affiliate.

(b) Severance Pay is not available to a Participant whose position is eliminated due to (1) the sale of the Affiliate or assets of the Affiliate which employs the Participant on the date of termination or (2) the outsourcing of work, where in either such event the purchaser of the Affiliate or assets of the Affiliate or the outsourcing service provider makes an offer of employment to the Participant that, if it were an Affiliate, would not constitute "constructive termination" as described in Section 4(c).

(c) A Participant must execute and not revoke the release described in Section 6 below.

(d) During the period in which a Participant is entitled to consider the execution of the release described in Section 6, or during such other period as is otherwise agreed to by the Company and the Participant, he or she may be required to complete unfinished business projects and be available for discussions regarding matters relative to the Participant's duties.

(e) A Participant must return all Affiliate property and information to the Affiliate.

(f) A Participant must agree to pay all outstanding amounts owed to any Affiliate and authorize the Affiliate to withhold any outstanding amounts from his or her final paycheck and/or Severance Pay.

6. Amount of Severance Pay . The amount of Severance Pay to which a Participant is entitled under the Policy is 52 weeks of base salary at the rate in effect on the date of termination.

A Participant who is receiving benefits under a short term disability plan maintained by any Affiliate will be entitled to Severance Pay at the end of the period of payment of short term disability if, and only if, (1) he or she is not then eligible for benefits under a long term disability plan maintained by an Affiliate, and (2) he or she is not offered employment with an Affiliate that, in the discretion of the Committee, is comparable to that held by the Participant at the time the applicable period of short term disability commenced. A Participant will not be entitled to Severance Pay at the end of the period of long term disability.

Severance Pay will be paid to a Participant in one lump sum cash payment as soon as practicable after the date of the Participant's termination of employment, but in no event later than the 15 th day of the 3 rd month after such date, provided that the Participant has executed a valid release of all Affiliates, and their respective officers, directors and employees, from any and all actions, suits, proceedings, claims and demands relating to the Participant's employment with all Affiliates and the termination thereof, and the applicable revocation period has expired within this period. Severance Pay shall be reduced by applicable amounts necessary to comply with federal, state and local income tax withholding requirements.

7. Benefits .

(a) Welfare Benefits . A Participant entitled to Severance Pay shall receive, at the time of payment of Severance Pay, a lump sum payment equivalent to 130% of 52-weeks of COBRA (as defined in Section 4980B of the Internal Revenue Code of 1986, as amended, and Sections 601-609 of the Employee Retirement Income Security Act of 1974, as amended, or any successor sections) continuation coverage premiums in lieu of any continued medical, dental, vision, and other welfare benefits offered by the Company or any Affiliate. Such 52-week period of COBRA continuation coverage shall be included as part of the period during which the Participant may elect continued group health coverage under COBRA.

(b) Outplacement Services. A Participant entitled to Severance Pay shall receive outplacement services, selected by the Company at its expense, for a period commencing on the date of termination of employment and continuing until the earlier to occur of the Participant accepting other employment or 12 months thereafter.

8. No Re-employment . A Participant who receives benefits pursuant to the Policy shall not be eligible for re-employment with any Affiliate, unless the Committee or its delegate provides the Participant with a written waiver of the Section.

9. Independent Contractor Status . A Participant who receives benefits pursuant to the Policy shall not be eligible at any time after termination of employment to enter into a consulting or independent contractor relationship with any Affiliate pursuant to which relationship he or she shall perform the same or similar services, upon the same or similar terms and conditions, as were applicable to such Participant on the date of termination of employment.

10. Death of Participant . It a Participant dies prior to receiving Severance Pay to which he or she is entitled under the Policy, payment will be made to the representative of his or her estate.

11. Term of Policy . The term of the Policy, as amended and restated herein, will commence on January 1, 2012 and will expire on December 31, 2014.

12. Amendment or Termination .

    (a) The Policy may be amended or terminated by the Committee at any time during its term when, in its judgment, such amendment or termination is necessary or desirable. No such termination or amendment will affect the rights of any Participant who is then entitled to receive Severance Pay or other benefits under the Policy at the time of such amendment or termination. The Policy can only be changed by written endorsement by an officer of the Company and only when the Company attaches the written amendment to the Policy. No agent or other employee, other than an officer of the Company, has the authority to change or waive any provision of the Policy.

    (b) Severance benefits under the Policy are not intended to be a vested right.

13. Governing Law . The terms of the Policy shall, to the extent not preempted by federal law, be governed by, and construed and enforced in accordance with, the laws of the State of Indiana, including all matters of construction, validity and performance.

14. Miscellaneous Provisions .

    (a) Severance Pay and other benefits pursuant to the Policy shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge prior to actual receipt by a Participant, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge prior to such receipt shall be void and no Affiliate shall be liable in any manner for, or subject to, the debts, contracts, liabilities, engagements or torts of any person entitled to any Severance Pay or other benefits under the Policy.

    (b) Nothing contained in the Policy shall confer upon any individual the right to be retained in the service of any Affiliate, nor limit the right of any Affiliate to discharge or otherwise deal with any individual without regard to the existence of the Policy.

    (c) The Policy shall at all times be entirely unfunded. No provision shall at any time be made with respect to segregating assets of any Affiliate for payment of any Severance Pay or other benefits hereunder. No employee or any other person shall have any interest in any particular assets of any Affiliate by reason of the right to receive Severance Pay or other benefits under the Policy, and any such employee or any other person shall have only the rights of a general unsecured creditor of an Affiliate with respect to any rights under the Policy.

15. Claims Procedure . A claim for benefits under the Policy shall be submitted in writing to the Committee. If a claim for benefits under the Policy by a Participant or his or her beneficiary is denied, either in whole or in part, the

Committee will let the claimant know in writing within 90 days. If the claimant does not hear within 90 days, the claimant may treat the claim as if it had been denied. A notice of a denial of a claim will refer to a specific reason or reasons for the denial of the claim; will have specific references to the Policy provisions upon which the denial is based; will describe any additional material or information necessary for the claimant to perfect the claim and explain why such material information is necessary; and will have an explanation of the Policy's review procedure.

The claimant will have 60 days after the date of the denial to ask for a review and a hearing. The claimant must file a written request with the Committee for a review, During this time the claimant may review pertinent documents and may submit issues and comments in writing. The Committee will have another 60 days in which to consider the claimant's request for review. If special circumstances require an extension of time for processing, the Committee may have an additional 60 days to answer the claimant. The claimant will receive a written notice if the extra days are needed. The claimant may submit in writing any document, issues and comments he or she may wish. The decision of the Committee will tell the claimant the specific reasons for its actions, and refer the claimant to the specific Policy provisions upon which its decision is based. If the decision on review is not furnished within the time period set forth above, the claim shall be deemed denied on review.

If such determination is favorable to the claimant, it shall be binding and conclusive. If such determination is adverse to such claimant, it shall be binding and conclusive unless the claimant or his duly authorized representative notifies the Committee within 90 days after the mailing or delivery to the claimant by the Committee of its determination that claimant intends to institute legal proceedings challenging the determination of the Committee and actually institutes such legal proceedings within 180 days after such mailing or delivery

16. Rights Under ERISA . Each Participant in the Policy is entitled to certain rights and protection under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). ERISA provides that all Policy Participants shall be entitled to:

(a) Examine, without charge, at the Company's office all Policy documents.

(b) Obtain copies of all Policy documents and other Policy information upon written request to the Committee. The Committee may make a reasonable charge for the copies.

In addition to creating rights for Policy Participants, ERISA imposes duties upon the people who are responsible for the operation of an employee benefit plan. The people who operate the Policy, called "fiduciaries" of the Policy, have a duty to do so prudently and in the interest of the Policy Participants and beneficiaries. No one, including the Company, any affiliate or any other person, may fire a Participant or otherwise discriminate against a Participant in any way to prevent him or her from obtaining a benefit or exercising his or her rights under ERISA, If a Participant's claim for a benefit is denied in whole or in part, he or she must receive a written explanation of the reason for the denial. A Participant has the right to have the Committee review and reconsider his or her claim. Under ERISA, there are steps a Participant can take to enforce the above rights. For instance, if a Participant requests materials from the Committee and does not receive them within thirty (30) days, he or she may file suit in a federal court. In such a case the court may require the Committee to provide the materials and pay the Participant up to $110 a day until the Participant receives the materials, unless the materials were not sent because of reasons beyond the control of the Committee. If a Participant has a claim for benefits, which is denied or ignored, in whole or in part, he or she may file suit in a state or federal court. If it should happen that the Policy fiduciaries misuse the Policy's money, or if a Participant is discriminated against for asserting his or her rights, he or she may ask assistance from the United States Department of Labor, or he or she may file suit in a federal court, The court will decide who should pay the court costs and legal fees. If the Participant is successful, the court may order the person he or she has sued to pay these costs and fees. If the Participant loses, the court may order him or her to pay these costs and fees, for example, if it finds his or her claim to be frivolous. If a Participant has questions about the Policy, he or she should contact the Committee. If a Participant has any questions about this statement or about his or her rights under ERISA, he or she should contact the nearest Area Office of the United States Labor-Management Services Administration, Department of Labor.

17. Policy Facts .

Company:	NiSource Inc.
Address:	801 E, 86th Avenue Merrillville, Indiana 46410
Plan Name:	NiSource Executive Severance Policy
Type of Plan:	Severance Policy-Welfare Benefits Plan
Policy Year:	Calendar Year
Employer Identification Number (EIN):	35-1719974
Policy Administrator:	Officer Nomination and Compensation Committee of NiSource Inc.
Business Address:	801 E, 86th Avenue Merrillville, Indiana 46410
Agent for Service of Legal Process:	Officer Nomination and Compensation Committee of NiSource Inc.
(Address)	801 E, 86th Avenue Merrillville, Indiana 46410

Exhibit 12

NiSource Inc.
Ratio of Earnings to Fixed Charges

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008
Earnings as defined in item 503(d) of Regulation S-K:					
Add:					
Pretax income from continuing operations [a][b]	$ 594,440,498	$ 437,240,555	$ 391,803,457	$ 366,934,051	$ 523,209,917
Fixed Charges	453,457,181	424,873,958	442,730,583	423,724,907	422,708,986
Amortization of capitalized interest [c]	—	—	—	—	—
Distributed income of equity investees	34,850,000	18,800,143	36,741,190	2,924,805	7,941,413
Share of pre-tax losses of equity investees for which charges arising guarantees are included in fixed charges	—	—	—	—	—
Deduct:					
Interest capitalized [c]	—	—	—	—	—
Preference security dividend requirements of consolidated subsidiaries [d]	—	—	—	—	—
Non-Controlling interest in pre-tax income of subsidiaries that have not incurred fixed charges	—	—	(11,762)	(46,769)	(5,307)
	$ 1,082,747,679	$ 880,914,656	$ 871,286,992	$ 793,630,532	$ 953,865,623
Fixed charges as defined in item 503(d) of Regulation S-K:					
Interest on long-term debt	$ 398,233,583	$ 362,913,295	$ 390,690,947	$ 386,737,382	$ 358,736,132
Other interest	28,541,916	35,399,618	22,851,904	5,268,937	37,561,475
Capitalized interest during period [c]					
Amortization of premium, reacquisition premium, discount and expense on debt, net	9,699,158	8,941,809	10,287,487	13,020,255	7,682,146
Interest portion of rent expense	16,982,524	17,619,236	18,912,006	18,745,102	18,734,540
Non-controlling interest		—	(11,762)	(46,769)	(5,307)
	$ 453,457,181	$ 424,873,958	$ 442,730,583	$ 423,724,907	$ 422,708,986
Plus preferred stock dividends: Preferred dividend requirements of subsidiary	$ —	$ —	$ —	$ —	$ —
Preferred dividend requirements factor	0.66	0.65	0.68	0.58	0.67
Preference security dividend requirements of consolidated subsidiaries [d]	—	—	—	—	—
Fixed charges	453,457,181	424,873,958	442,730,583	423,724,907	422,708,986
	$ 453,457,181	$ 424,873,958	$ 442,730,583	$ 423,724,907	$ 422,708,986
Ratio of earnings to fixed charges	2.39	2.07	1.97	1.87	2.26

[a] Income Statement amounts have been adjusted for discontinued operations.

[b] Excludes adjustment for minority interest in consolidated subsidiaries or income or loss from equity investees.

[c] NiSource is a public utility following ASC 980 and therefore does not add amortization of capitalized interest or subtract interest capitalized in determining earnings, nor reduces fixed charges for Allowance for Funds Used During Construction.

[d] Preferred dividends, as defined by SEC regulation S-K, are computed by dividing the preferred dividend requirement by one minus the effective income tax rate applicable to continuing operations.

Exhibit 21

SUBSIDIARIES OF NISOURCE

as of December 31, 2012

Segment/Subsidiary	State of Incorporation
GAS DISTRIBUTION OPERATIONS	
Bay State Gas Company d/b/a Columbia Gas of Massachusetts	Massachusetts
Columbia Gas of Kentucky, Inc.	Kentucky
Columbia Gas of Maryland, Inc.	Delaware
Columbia Gas of Ohio, Inc.	Ohio
Columbia Gas of Pennsylvania, Inc.	Pennsylvania
Columbia Gas of Virginia, Inc.	Virginia
NiSource Retail Services, Inc.	Delaware
ELECTRIC OPERATIONS	
Northern Indiana Public Service Company*	Indiana
GAS TRANSMISSION AND STORAGE OPERATIONS	
Columbia Gas Transmission, L.L.C.	Delaware
Columbia Gulf Transmission Company	Delaware
Central Kentucky Transmission Company	Delaware
Crossroads Pipeline Company	Indiana
NiSource Gas Transmission & Storage Company	Delaware
NiSource Midstream & Minerals Group, L.L.C.	Delaware
CORPORATE AND OTHER OPERATIONS	
Columbia Energy Group	Delaware
EnergyUSA, Inc.	Indiana
EnergyUSA-TPC Corp.	Indiana
NiSource Capital Markets, Inc.	Indiana
NiSource Corporate Services Company	Delaware
NiSource Development Company, Inc.	Indiana
NiSource Energy Technologies, Inc.	Indiana
NiSource Finance Corp	Indiana
NiSource Insurance Corporation, Inc.	Utah
NIPSCO Accounts Receivable Corporation	Indiana
Columbia Gas of Ohio Receivables Corporation	Delaware
Columbia Gas of Pennsylvania Receivables Corporation	Delaware

* Reported under Gas Distribution Operations and Electric Operations.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-170385, 333-170385-01 and 333-179821 on Forms S-3, and Registration Statement Nos., 333-127812, 333-107743, 333-166888, 333-170706 and 333-181461 on Forms S-8 of our reports dated February 19, 2013, relating to the consolidated financial statements and financial statement schedules of NiSource Inc. and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2012.

/s/ Deloitte & Touche LLP

Chicago, Illinois

February 19, 2013

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert C. Skaggs, Jr., certify that:

1. I have reviewed this Annual Report of NiSource Inc. on Form 10-K for the year ended December 31, 2012 ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	February 19, 2013	By:	/s/ Robert C. Skaggs, Jr
			Robert C. Skaggs, Jr.
			Chief Executive Officer

Exhibit 31.2

Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Stephen P. Smith, certify that:

1. I have reviewed this Annual Report of NiSource Inc. on Form 10-K for the year ended December 31, 2012 ;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2013

By: /s/ Stephen P. Smith
Stephen P. Smith
Executive Vice President and Chief Financial Officer

Exhibit 32.1

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of NiSource Inc. (the "Company") on Form 10-K for the year ending December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. Skaggs, Jr., Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert C. Skaggs, Jr

Robert C. Skaggs, Jr.
Chief Executive Officer

Date: February 19, 2013

Exhibit 32.2

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of NiSource Inc. (the "Company") on Form 10-K for the year ending December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen P. Smith, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stephen P. Smith

Stephen P. Smith
Executive Vice President and Chief Financial Officer

Date: February 19, 2013