Columbia Gas of Kentucky
A NiSource Company
P.O. Box 14241
2001 Mercer Road
Lexington, KY 40512-4241

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March 30, 2007

Ms. Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

Re: Case No. 2000-129

Dear Ms. O'Donnell:

As part of the Order issued by the Commission in the above referenced case, Columbia Gas of Kentucky was required to file certain information on March 31, 2007. Please find the information enclosed.

Sincerely,

Judy Cooper

Judy M. Cooper
Director, Regulatory Policy

cc: Anita Mitchell

BEFORE THE PUBLIC-SERVICE COMMISSION OF KENTUCKY
CASE NO. 2000-129
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JUNE 30, 2000

Pursuant to the Commission's authorization in Case No. 2002-00145, Columbia is no longer required to separately file the following reporting items that are duplicated by the SEC filings attached hereto.

From the Order at page A-6

CKY to file annual NiSource report to stockholders.

Response:

This information is duplicated by NiSource's Annual Report to Shareholders on Form 10-K.

From the Order at page B-5

A report containing the same information as contained in the SEC's Form U-3A-2 for Columbia Energy.

Response:

This is duplicated by the Annual Report of Columbia Energy Group on Form U5S. The SEC has agreed that NiSource/Columbia Energy can file a single document after the 10K's are filed that is both a U5S and U5B – a combined annual report. That report is expected to be filed in April and will be provided when available.

From the Order at page B-5

Annual financial statements of CEG and NiSource, including consolidating adjustments of CEG, NiSource and its subsidiaries, with a brief explanation of each adjustment and all periodic reports filed with the SEC.

Response:

This information is duplicated by NiSource's and Columbia's Annual Reports on Form 10-K, Quarterly Reports on Form 10Q and Current Reports on Form 8-K (if any). As of 1/9/06 separate CEG reports are no longer required by the SEC.

From the Order at page B-5

A detailed organization chart as of the end of the calendar year showing all subsidiaries referenced in the SEC U-3A-2 filing.

Response:

This information is duplicated by Exhibit H to the NiSource and Columbia Energy Group Annual Reports on Form U5S. Form U5S has not yet been completed or filed with the SEC. Columbia will file a copy with the Commission when it is available.

From the Order at page B-5, Item 3:

A general description of the nature of intercompany transactions, with specific identification of major transactions, and a detailed description of the basis upon which cost allocations and transfer pricing have been established. Included will be the cost allocation factors in use including a discussion of the methods used to update or revise any cost allocation factors that have been updated or revised.

Response:

This information is duplicated by the NiSource Corporate Services' Annual Report on Form U-13-60 which shows charges and methods of allocation. Other intercompany transactions are duplicated in NiSource's Annual Report Form U5S. For intercompany transactions relating to the Rule 58 subsidiaries, information is available in NiSource's report on Form U9C3.

Form U-13-60 has not yet been completed or filed with the SEC. Columbia will file a copy with the Commission when it is available.

OMB APPROVAL

OMB Number:	3235-0167
Expires:	October 31, 2007
Estimated average burden hours per response	1.50

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

FORM 15

CERTIFICATION AND NOTICE OF TERMINATION OF REGISTRATION UNDER SECTION 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934 OR SUSPENSION OF DUTY TO FILE REPORTS UNDER SECTIONS 13 AND 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File Number: 001-01098

Columbia Energy Group

(Exact name of registrant as specified in its charter)

801 East 86 th Avenue
Merrillville, Indiana 46410

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

7.05% Series D due November 28, 2007
7.32% Series E due November 28, 2010
7.42% Series F due November 28, 2015
7.62% Series G due November 28, 2025

(Title of each class of securities covered by this Form)

None

(Titles of all other classes of securities for which a duty to file reports under section 13(a) or 15(d) remains)

Please place an X in the box(es) to designate the appropriate rule provision(s) relied upon to terminate or suspend the duty to file reports:

Rule 12g-4(a)(1)(i)	☒	Rule 12h-3(b)(1)(i)	☒
Rule 12g-4(a)(1)(ii)	☐	Rule 12h-3(b)(1)(ii)	☐
Rule 12g-4(a)(2)(i)	☐	Rule 12h-3(b)(2)(i)	☐
Rule 12g-4(a)(2)(ii)	☐	Rule 12h-3(b)(2)(ii)	☐
		Rule 15d-6	☐

Approximate number of holders of record as of the certification or notice date: None

Pursuant to the requirements of the Securities Exchange Act of 1934, Columbia Energy Group, a Delaware corporation, has caused this certification/notice to be signed on its behalf by the undersigned duly authorized person.

COLUMBIA ENERGY GROUP

Date: January 9, 2006

By: /s/ Jeffrey W. Grossman

Name: Jeffrey W. Grossman
Title Vice President and Controller
(Principal Accounting Officer)

Instruction: This form is required by Rules 12g-4, 12h-3 and 15d-6 of the General Rules and Regulations under the Securities Exchange Act of 1934. The registrant shall file with the Commission three copies of Form 15, one of which shall be manually signed. It may be signed by an officer of the registrant, by counsel or by any other duly authorized person. The name and title of the person signing the form shall be typed or printed under the signature.

SEC 2069 (12-04)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

End of Filing

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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, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of Common Stock (based upon the June 30, 2006, closing price of $21.84 on the New York Stock Exchange) held by non-affiliates was approximately $5,868,189,471.

There were 273,852,407 shares of Common Stock, $0.01 Par Value outstanding as of January 31, 2007.

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 8, 2007.

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Ratio of Earnings to Fixed Charges
List of Subsidiaries
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Certification of Robert C. Skaggs, Jr., CEO Pursuant to Section 302
Certification of Michael W. O'Donnell, CFO Pursuant to Section 302
Certification of Robert C. Skaggs, Jr., CEO Pursuant to Section 906
Certification of Michael W. O'Donnell, CFO Pursuant to Section 906

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DEFINED TERMS

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

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

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

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DEFINED TERMS (continued)

DOT	United States Department of Transportation
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EER	Environmental Expense Recovery
EERM	Environmental Expense Recovery Mechanism
EITF No. 02-03	Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ESA	Energy Sales Agreement
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 46R	FASB Interpretation No. 46, "Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FIN 48	FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"
FTRs	Financial Transmission Rights
GCIM	Gas Cost Incentive Mechanism
General Electric	General Electric International, Inc.
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
INGAA	Interstate Natural Gas Association of America
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
Mahonia	Mahonia II Limited
Mcf	Thousand cubic feet
MGP	Manufactured gas plant
MISO	Midwest Independent Transmission System Operator
Mitchell Station	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NEPA	National Environmental Policy Act
NOV	Notice of Violation
NOx	Nitrogen oxide
NPDES	National Pollutant Discharge Elimination System
NYMEX	New York Mercantile Exchange
OPEB	Other Post-Employment Benefits
OUCC	Indiana Office of Utility Consumer Counselor
PBR	Performance based rate-making methodology
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PPS	Price Protection Service
Private Power	Private Power, LLC
PUCO	Public Utilities Commission of Ohio

QPAI	Qualified production activities income

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DEFINED TERMS (continued)

RCRA	Resource Conservation and Recovery Act
SAB No. 92	Staff Accounting Bulletin No. 92, "Accounting and Disclosures Relating to Loss Contingencies"
SAB No. 108	Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements"
SEC	Securities and Exchange Commission
SFAS No. 5	Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies"
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 88	Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"
SFAS No. 101	Statement of Financial Accounting Standards 101, "Regulated Enterprises — Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71"
SFAS No. 106	Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 140	Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Asset and Extinguishments of Liabilities"
SFAS No. 142	Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets"
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 144	Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"
SFAS No. 154	Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections"
SFAS No. 157	Statement of Financial Accounting Standards No. 157, "Fair Value Measurement"
SFAS No. 158	Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"
SIP	State Implementation Plan
SO2	Sulfur dioxide
SOP 96-1	Statement of Position 96-1, "Environmental Remediation Liabilities"
SOP 98-1	Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"
Tcf	Trillion cubic feet
Triana	Triana Energy Holdings, Inc.
VaR	Value-at-risk and instrument sensitivity to market factors
VSCC	Commonwealth of Virginia State Corporation Commission

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PART I

ITEM 1. BUSINESS

NISOURCE INC.

NiSource is an energy holding company whose subsidiaries provide natural gas, electricity and other products and services to approximately 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. NiSource is the successor to an Indiana corporation organized in 1987 under the name of NIPSCO Industries, Inc., which changed its name to NiSource Inc. on April 14, 1999. In connection with the acquisition of Columbia on November 1, 2000, NiSource became a Delaware corporation registered under the Public Utility Holding Company Act of 1935. Effective February 8, 2006, the Public Utility Holding Company Act of 1935 was repealed. NiSource is now a holding company under the Public Utility Holding Company Act of 2005.

NiSource is the largest natural gas distribution company operating east of the Rocky Mountains, as measured by number of customers. NiSource's principal subsidiaries include Columbia, a vertically-integrated natural gas distribution, transmission and storage holding company whose subsidiaries provide service to customers in the Midwest, the Mid-Atlantic and the Northeast; Northern Indiana, a vertically-integrated gas and electric company providing service to customers in northern Indiana; and Bay State, a natural gas distribution company serving customers in New England. NiSource derives substantially all of its revenues and earnings from the operating results of its 15 direct subsidiaries.

NiSource's business segments are: Gas Distribution Operations; Gas Transmission and Storage Operations; Electric Operations; and Other Operations.

Gas Distribution Operations

NiSource's natural gas distribution operations serve more than 3.3 million customers in nine 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 792 thousand customers in northern Indiana through three subsidiaries: Northern Indiana, Kokomo Gas and Northern Indiana Fuel and Light. Additionally, NiSource's subsidiaries Bay State and Northern Utilities distribute natural gas to approximately 340 thousand customers in Massachusetts, Maine and New Hampshire.

Gas Transmission and Storage Operations

NiSource's Gas Transmission and Storage Operations subsidiaries own and operate approximately 16 thousand miles of interstate pipelines and operate one of the nation's largest underground natural gas storage systems capable of storing approximately 637 Bcf of natural gas. Through its subsidiaries, Columbia Transmission, Columbia Gulf, Crossroads Pipeline and Granite State Gas, NiSource owns and operates an interstate pipeline network extending from offshore in the Gulf of Mexico to Lake Erie, New York and the eastern seaboard. Together, these companies serve customers in 19 northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Gas Transmission and Storage Operations subsidiaries are engaged in several projects that will expand their facilities and throughput. The largest such project is the Millennium Pipeline, which received FERC approval in December 2006. The reconfigured project will begin at an interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse, New York. Empire will construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium will extend eastward to an interconnect with Algonquin Gas Transmission Co. at Ramapo, New York. Another project is Hardy Storage, a Columbia Transmission partnership to develop a storage field in West Virginia to provide additional natural gas storage for the eastern United States. Columbia Transmission held an open season for an additional project, the Eastern Market Expansion Project, and has signed precedent agreements with four East Coast customers. Columbia Transmission currently anticipates filing appropriate regulatory applications during 2007.

Electric Operations

NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 454 thousand customers in 21 counties in the northern part of Indiana and engages in wholesale and transmission transactions. Northern Indiana owns and has the ability to operate four coal-fired electric generating stations with a net capability of 3,059 mw, six gas-fired generating units with a net capability of 323 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system net capability of 3,392 mw. Northern Indiana's transmission system, with voltages from 34,500 to 345,000 volts, consists of 3,192 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities.

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ITEM 1. BUSINESS (continued)

NISOURCE INC.

Northern Indiana currently operates three coal-fired generation stations with a net capacity of 2,574 mw, six gas-fired generating units with a net capacity of 323 mw and two hydroelectric plants with a net capability of 10 mw, totaling a net capability of 2,907 mw. During the year ended December 31, 2006, Northern Indiana generated 81.1% and purchased 18.9% 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's generating requirements are currently under review. Northern Indiana's Integrated Resource Plan, filed with the IURC in November 2005, indicated a gap between customer demand projections and company owned generating capability, primarily in peak hours during the summer.

Other Operations

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

Divestiture of Non-Core Assets

In recent years, NiSource sold certain businesses judged to be non-core to NiSource's strategy. Lake Erie Land, a wholly owned subsidiary of NiSource, has sold and is in the process of selling certain real estate, which included its Sand Creek Golf Club assets, which were sold in June 2006, to a private real estate developer. In addition, 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 virtually 100% of its operating income generated from the rate-regulated businesses. With the nation's fourth largest natural gas pipeline, the largest natural gas distribution network east of the Rocky Mountains and one of the nation's largest natural gas storage networks, NiSource operates throughout the energy-intensive corridor that extends from the supply areas in the Gulf Coast through the consumption centers in the Midwest, Mid-Atlantic, New England and Northeast. This corridor includes 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.

Financial and Strategic Review

NiSource's senior management and Board are continuing the strategic and financial review process initiated during 2006 to unlock the underlying value of the company's asset base and position it for the future. NiSource expects to be in a position to communicate the results of this process early in 2007.

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

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ITEM 1. BUSINESS (continued)

NISOURCE INC.

Electric Competition. In December 1999, the FERC issued Order 2000, a final rule addressing the formation and operation of Regional Transmission Organizations. The rule was intended to eliminate pricing inequities in the provisioning of wholesale transmission service. In compliance with the rule, Northern Indiana transferred functional control of its electric transmission assets to MISO on October 1, 2003. Transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff. On April 1, 2005, MISO implemented an electric energy market following approved FERC tariffs. Northern Indiana currently sells all power from its plants into this market.

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

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

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

As of December 31, 2006, NiSource had 7,439 employees of whom 3,383 were subject to collective bargaining agreements.

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

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

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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 has a significant amount of indebtedness outstanding as a result of the acquisition of Columbia. NiSource had total consolidated indebtedness of $6,432.5 million outstanding as of December 31, 2006. The substantial indebtedness could have important consequences to investors. For example, it could:

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

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

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

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

If NiSource's subsidiaries fail to comply with environmental laws and regulations or 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. In September 2004, the EPA issued an NOV to Northern Indiana alleging violations of the new source review provisions of the Clean Air Act. An adverse outcome in this matter could require capital expenditures beyond the EPA requirements that cannot be determined at this time and could require payment of substantial penalties.

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

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ITEM 1A. RISK FACTORS (continued)

NISOURCE INC.

A significant portion of the gas and electricity NiSource sells is used by residential and commercial customers for heating and air conditioning. Accordingly, the operating results fluctuate depending on the weather and, to a certain extent, 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 energy costs, thus affecting NiSource's financial results.

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

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

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

Virtually all of NiSource's net revenues are subject to economic regulation at either the federal or state level. As such, the net revenues generated by those regulated companies are subject to regulatory review by the applicable federal or state authority. These rate reviews determine the energy rates charged to customers and directly impact revenues. As part of a settlement reached in other regulatory proceedings, Northern Indiana has agreed to file an electric base rate case with the IURC on or before July 1, 2008. The outcome for the rate case could have a material effect on NiSource's financial results.

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

NiSource's original expectation of the 10-year agreement with IBM was to deliver upwards of $530 million in gross savings in operating and capital costs. This cost savings is dependent upon many factors, and unanticipated changes in operations may cause actual cost savings to be substantially less than expected. Many functions have recently been transitioned to IBM and many new personnel have assumed responsibilities across these functions, increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition.

As a part of this transformation, many new information technology systems and process changes have an accelerated time-line for completion, increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition. In August, 2006, NiSource and IBM decided to delay further implementation of certain information technology systems due to difficulties encountered with the first wave of new system implementations. This delay may decrease the level of projected operating cost savings while continuing to ensure stable operations. NiSource is currently engaged in an overall assessment of the outsourcing initiative primarily to focus on operational and transformational improvements and develop an integrated plan that enables NiSource to achieve its business objectives going forward.

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

NiSource owns and operates a merchant energy facility, Whiting Clean Energy, at BP's Whiting, Indiana refinery. This facility uses natural gas to generate electricity for sale in the wholesale markets and to generate steam for industrial use by BP's refinery. In the fourth quarter of 2006, NiSource reached a new definitive agreement with BP redefining the terms under which Whiting Clean Energy will provide steam to BP. The profitability of this facility will remain dependant upon the market prices for electricity and natural gas and regional load dispatch patterns. The after-tax loss for Whiting Clean Energy was approximately $40.9 million for 2006 and $21.5 million for 2005. In addition, an amendment to the agreement with BP provides BP with an option, valid for 180 days from the Amendment's effective date in December 2006, for BP to purchase the facility free of liens, for $100 million.

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ITEM 1A. RISK FACTORS (continued)

NISOURCE INC.

Management believes it is unlikely that BP will exercise this option. The carrying amount of the Whiting Clean Energy facility is approximately $275 million.

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, 2006.

Gas Distribution Operations. NiSource's Gas Distribution Operations subsidiaries own and operate a total of 57,544 miles of pipelines and certain related facilities. This includes: (i) for the five distribution subsidiaries of its Columbia system, 34,946 miles of pipelines, 1,350 reservoir acres of underground storage, eight storage wells and one compressor station with 800 hp of installed capacity, (ii) for its Northern Indiana system, 15,025 miles of pipelines, 27,129 reservoir acres of underground storage, 82 storage wells and two compressor stations with a total of 6,000 hp of installed capacity, (iii) for its Bay State system, 5,823 miles of pipelines, (iv) for its Northern Indiana Fuel and Light system, 950 miles of pipelines, and (v) for its Kokomo Gas system, 800 miles of pipelines. The physical properties of the NiSource gas utilities are located throughout Ohio, Indiana, Pennsylvania, Virginia, Kentucky, Maryland, Massachusetts, Maine and New Hampshire.

Gas Transmission and Storage Operations. Columbia Transmission has approximately 870,000 reservoir acres of underground storage, 3,533 storage wells, 11,407 miles of interstate pipelines and 85 compressor stations with 575,058 hp of installed capacity. These operations are located in Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia and West Virginia. Columbia Gulf has 3,836 miles of transmission pipelines and 13 compressor stations with 501,644 hp of installed capacity. Columbia Gulf's operations are located in Kentucky, Louisiana, Mississippi, Tennessee, Texas, Wyoming, and the offshore Gulf of Mexico. Granite State Gas has 87 miles of transmission pipeline with operations located in Maine, Massachusetts and New Hampshire. Crossroads Pipeline has 202 miles of transmission pipeline and one compressor station with 3,000 hp of installed capacity. Crossroads Pipeline's operations are located in Indiana and Ohio.

Electric Operations. Northern Indiana owns and has the ability to operate four coal-fired electric generating stations with a net capability of 3,059 mw, six gas-fired generating units with a net capability of 323 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system net capability of 3,392 mw. It has 293 substations with an aggregate transformer capacity of 23,474,500 kilovolt-amps. Its transmission system, with voltages from 34,500 to 345,000 volts, consists of 3,192 circuit miles of line. The electric distribution system extends into 21 counties and consists of 7,821 circuit miles of overhead and 2,035 cable miles of underground primary distribution lines operating at various voltages from 2,400 to 12,500 volts. Northern Indiana has distribution transformers having an aggregate capacity of 12,160,384 kilovolt-amps and 475,245 electric watt-hour meters.

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

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

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ITEM 2. PROPERTIES (continued)

NISOURCE INC.

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

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ITEM 3. LEGAL PROCEEDINGS

NISOURCE INC.

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

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

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

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

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

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

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

On October 20, 2006, the Federal District Court issued an Order granting the Columbia defendants' motion to dismiss for lack of subject matter jurisdiction. The Plaintiff has appealed the dismissal of the Columbia defendants.

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ITEM 3. LEGAL PROCEEDINGS (continued)

NISOURCE INC.

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

The Plaintiffs, who are West Virginia landowners, filed a lawsuit in early 2003 against CNR alleging that CNR underpaid royalties on gas produced on their land by improperly deducting post-production costs and not paying a fair value for the gas. In December 2004, the court granted plaintiffs' motion to add NiSource and Columbia as defendants. Plaintiffs also claimed that the defendants fraudulently concealed the deduction of post-production charges. The court certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from CNR (and its predecessors or successors) on lands lying within the boundary of the state of West Virginia. All claims by the government of the United States are excluded from the class. Although NiSource sold CNR in 2003, NiSource remains obligated to manage this litigation and for the majority of any damages ultimately awarded to the plaintiffs. On January 27, 2007 the jury hearing the case returned a verdict against all defendants in the amount of $404.3 million; this is comprised of $134.3 million in compensatory damages and $270 million in punitive damages. The defendants have filed motions with the trial court challenging the award and a hearing on these motions is anticipated in March of 2007. Unless the trial court substantially revises the jury's verdict, the defendants intend to appeal the judgment to the West Virginia Supreme Court of Appeals, which may or may not accept the appeal. As of the end of 2006, NiSource increased its reserve for this matter based on the jury's verdict, but did not reserve any amount with regard to the punitive damages portion of the verdict.

5. John Thacker, et al. v. Chesapeake Appalachia, L.L.C., U.S. District Court, E.D. Kentucky

On February 8, 2007, Plaintiff filed this purported class action, alleging that Chesapeake Appalachia, L.L.C. ("Chesapeake") has failed to pay royalty owners the correct amounts pursuant to the provisions of their oil and gas leases covering real property located within the state of Kentucky. By letter dated February 14, 2007, Chesapeake has demanded indemnification for these claims from NiSource/CEG pursuant to the provisions of the Stock Purchase Agreement dated July 3, 2003, among CEG, NiSource, and Triana, Chesapeake's predecessor in interest. The Company is still reviewing the underlying lawsuit and the Stock Purchase Agreement to determine its response to the indemnification demand.

6. Environmental Protection Agency Notice of Violation

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

7. Pennsylvania Department of Environmental Protection Proposed Consent Order and Agreement

On February 21, 2007, Pennsylvania Department of Environmental Protection provided representatives of Columbia Transmission with a proposed Consent Order and Agreement covering an unmanned equipment storage site located in rural southwest Pennsylvania. The site in question is also subject to the EPA's Administrative Order by Consent (Refer to Note 18.F "Environmental Matters" in the Notes to Consolidated Financial Statements for additional information regarding the Administrative Order by Consent). Pursuant to that order, Columbia Transmission has characterized the site and proposed remedial measures for EPA's approval. Pennsylvania Department of Environmental Protection's proposed order alleges that Columbia Transmission has violated the state's Clean Streams Act and Solid Waste Management Act by discharging petroleum products onto the property and into the waters of the state. In addition to requiring remediation and monitoring activities at the site, the state has proposed penalties for these violations. Columbia Transmission plans to engage in further discussions with the agency regarding the proposed order, including the rationale for the proposed penalty.

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

None.

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SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

NISOURCE INC.

The following is a list of the Executive Officers of the Registrant, including their names, ages, years with NiSource and offices held, as of February 1, 2007.

Name	Age	Years with NiSource	Office(s) Held in Past 5 Years
Robert C. Skaggs, Jr.	52	6	Chief Executive Officer of NiSource since July 2005.
			President of NiSource since October 2004.
			Executive Vice President, Regulated Revenue of NiSource from October 2003 to October 2004.
			President of Columbia of Ohio from February 1997 to October 2003 and Columbia of Kentucky from January 1997 to October 2003.
			President of Bay State and Northern Utilities from November 2000 to October 2003.
			President of Columbia of Virginia, Columbia of Maryland, and Columbia of Pennsylvania from December 2001 to October 2003.
Christopher A. Helms	52	1	Pipeline Group President of NiSource since April 2005.
			Principal of Helms & Company LP from December 2003 to March 2005.
			President of CMS Panhandle Companies from March 1999 to June 2003.
			Executive Vice President of CMS Gas Transmission Corp. from March 1999 to June 2003.
Michael W. O'Donnell	62	6	Executive Vice President and Chief Financial Officer of NiSource since November 2000.
Robert D. Campbell	47	1	Senior Vice President, Human Resources, of NiSource since May 2006.
			Senior Vice President, Human Resources, NiSource Corporate Services since September 2005
			Of Counsel with the law firm of Schiff Hardin, LLP from January 2004 to September 2005
			Vice President, Human Resource Operations and Regulated Revenue, NiSource Corporate Services from October 2003 to January 2004.
			Vice President, Employee and Labor Relations, NiSource Corporate Services from June 2001 to October 2003

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SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT (continued)

NISOURCE INC.

Jeffrey W. Grossman	55	6	Vice President and Controller of NiSource since November 2000.

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PART II

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

NISOURCE INC.

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

	2006		2005	
	High	**Low**	High	Low
First Quarter	**21.54**	**19.51**	23.18	21.81
Second Quarter	**22.08**	**19.99**	25.00	22.28
Third Quarter	**23.30**	**20.88**	25.50	22.78
Fourth Quarter	**24.80**	**21.48**	24.66	20.44

As of December 31, 2006, NiSource had 40,401 common stockholders of record and 273,654,180 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, 2006, 2005 and 2004. At its January 5, 2007 meeting, the Board declared a quarterly common dividend of $0.23 per share, payable on February 20, 2007 to holders of record on January 31, 2007.

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.

Year Ended December 31, *($ in millions except per share data)*	2006	2005	2004	2003	2002
Statement of Income Data:					
Gross Revenues					
Gas Distribution	**$ 4,189.3**	$ 4,600.4	$ 3,801.8	$ 3,554.5	$ 2,890.4
Gas Transportation and Storage	**1,033.2**	1,000.0	1,013.4	1,033.5	1,014.1
Electric	**1,299.2**	1,248.6	1,121.0	1,115.9	1,103.6
Other	**968.3**	1,046.8	721.0	538.1	304.4
Total Gross Revenues	**7,490.0**	7,895.8	6,657.2	6,242.0	5,312.5
Net Revenues (Gross Revenues less Cost of Sales, excluding depreciation and amortization)	**3,124.6**	3,146.6	3,047.5	3,056.4	3,063.6
Operating Income	**880.0**	952.6	1,078.0	1,122.3	1,154.0
Income from Continuing Operations	**313.5**	284.1	433.0	426.9	399.2
Results from Discontinued Operations — net of taxes	**(31.7)**	22.7	3.3	(332.9)	(26.7)
Cumulative Effect of Change in Accounting Principle — net of taxes	**0.4**	(0.3)	—	(8.8)	—
Net Income	**282.2**	306.5	436.3	85.2	372.5
Balance Sheet Data:					
Total Assets	**18,156.5**	17,958.5	16,987.8	16,624.0	17,941.8
Capitalization					
Common stockholders' equity	**5,013.6**	4,933.0	4,787.1	4,415.9	4,174.2
Preferred stock	—	81.1	81.1	81.1	84.9
Mandatorily redeemable preferred securities of subsidiary trust	—	—	—	—	345.0
Long-term debt, excluding amounts due within one year	**5,146.2**	5,271.2	4,835.9	5,993.4	4,849.5
Total Capitalization	**$10,159.8**	$10,285.3	$ 9,704.1	$10,490.4	$ 9,453.6
Per Share Data:					
Basic Earnings (Loss) Per Share ($)					
Continuing operations	**1.15**	1.05	1.64	1.64	1.89
Discontinued operations	**(0.11)**	0.08	0.01	(1.28)	(0.12)
Change in accounting principles	—	—	—	(0.03)	—
Basic Earnings Per Share	**1.04**	1.13	1.65	0.33	1.77
Diluted Earnings (Loss) Per Share ($)					
Continuing operations	**1.14**	1.04	1.63	1.63	1.88
Discontinued operations	**(0.11)**	0.08	0.01	(1.27)	(0.13)
Change in accounting principles	—	—	—	(0.03)	—
Diluted Earnings Per Share	**1.03**	1.12	1.64	0.33	1.75
Other Data:					
Return on average common equity	**5.7%**	6.3%	9.5%	2.0%	9.7%
Times interest earned (pre-tax)	**2.18**	2.16	2.53	2.31	2.04
Dividends paid per share ($)	**0.92**	0.92	0.92	1.10	1.16
Market values during the year ($):					
High	**24.80**	25.50	22.82	21.97	24.99
Low	**19.51**	20.44	19.65	16.39	14.51
Close	**24.10**	20.86	22.78	21.94	20.00
Book value of common stock ($)	**18.32**	18.09	17.69	16.81	16.77
Shares outstanding at the end of the year (in thousands)	**273,654**	272,623	270,625	262,630	248,860
Number of common shareholders	**40,401**	46,451	50,020	42,034	47,472
Capital expenditures ($ in millions)	**637.4**	590.4	517.0	574.2	531.9
Number of employees	**7,439**	7,822	8,628	8,614	9,307

(a) In 2006, NiSource adopted SFAS No. 158 which increased Total Assets by approximately $491.2 million, increased Total Liabilities by approximately $347.6 million and increased total common stock equity by approximately $143.6 million, net of taxes.

(b) In 2005, NiSource entered into a ten-year agreement with IBM to provide business process and support services to NiSource which

reduced Operating Income by $82.8 million and $12.3 million due to restructuring and transition costs during 2005 and 2006, respectively.

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

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

NISOURCE INC.

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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, the effectiveness of NiSource's outsourcing initiative, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counter-party credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

CONSOLIDATED REVIEW

Executive Summary

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

NiSource is a holding company under the Public Utility Holding Company Act of 2005.

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

NISOURCE INC.

For the twelve months ended December 31, 2006, NiSource reported income from continuing operations before cumulative effect of change in accounting principle of $313.5 million, or $1.15 per basic share, compared to $284.1 million, or $1.05 per basic share in 2005.

The increase in income from continuing operations before cumulative effect of changes in accounting principle was primarily due to the following factors:

- Gas Transmission and Storage Operations net revenues increased due to increased demand services and sales of shorter-term transportation and storage services.
- Strong operating results within Electric Operations due primarily to a reduction in unrecoverable MISO costs, strong industrial sales, and customer growth.
- Decreased interest expense due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005.
- 2005 results included a loss on early extinguishment of long-term debt of $108.6 million and restructuring charges and other costs associated with the IBM outsourcing initiative totaling $82.8 million.

These increases were partially offset by the following items:

- Unfavorable weather during 2006 significantly decreased Gas Distribution and Electric Operations net revenues. NiSource's gas markets experienced 12% warmer weather compared to normal weather and Northern Indiana's electric market experienced an 11% cooler summer cooling season compared to normal weather.
- Gas Distribution Operations net revenues were significantly affected by decreased residential gas customer usage. Higher natural gas prices contributed to lower natural gas usage by customers, which in turn affected NiSource's results. As gas prices decreased during the latter part of 2006, usage erosion did moderate.
- Increased operating losses in Other Operations driven primarily by Whiting Clean Energy. Going forward, lower losses from this segment are expected. See the discussion below under the heading "Whiting Clean Energy".
- Operation and maintenance expenses increases (excluding trackers and IBM restructuring charges) due to higher legal reserves, employee and administrative expenses, property insurance premiums, generation and maintenance costs, and pipeline integrity costs.
- 2006 results include a $17.0 million accrual in connection with the BP contract revision, transition and other restructuring charges associated with the IBM agreement of $12.3 million and a $12.3 million loss on equity earnings primarily related to Millennium.

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."

Financial and Strategic Review

NiSource's senior management and Board are continuing the strategic and financial review process initiated during 2006 to unlock the underlying value of the company's asset base and position it for the future. NiSource expects to be in a position to communicate the results of this process early in 2007.

Four-Point Platform for Growth

NiSource has established four key initiatives to build a platform for long-term, sustainable growth: 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

Whiting Clean Energy . On December 18, 2006, Whiting Clean Energy and BP executed Amendment IV which materially amended the terms of the ESA under which Whiting Clean Energy provides steam to BP. The agreement specifies a planned termination of the ESA at the end of 2009, with options for BP to extend the term one additional year under renegotiated steam pricing. Whiting Clean Energy accrued $17.0 million in costs associated with contract termination terms under the agreement. In addition, Amendment IV provides BP an option, valid for 180 days from the Amendment's effective date, for BP to purchase the facility free of liens for $100 million.

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

NISOURCE INC.

Management believes it is unlikely that BP will exercise this option. The carrying amount of the Whiting Clean Energy facility is approximately $275 million.

Under the new terms of the agreement, Whiting Clean Energy's financial performance should improve beginning in 2007. The profitability of the Whiting Clean Energy project will continue to be dependent on, among other things, prevailing prices in the energy markets and regional load dispatch patterns and the steam requirements for BP's oil refinery.

Customer Conservation. NiSource remains focused on the effects of customer conservation and is taking steps to address this issue. NiSource is developing and pursuing a number of regulatory initiatives throughout its distribution markets to mitigate the impact of conservation and customer attrition either through broader rate proceedings or specific mechanisms such as rate design, decoupling or other initiatives developed to moderate the impact of conservation.

Rate Developments. NiSource's subsidiary, Columbia of Virginia, reached a comprehensive settlement agreement with its commercial and regulatory stakeholders on an innovative PBR plan. The agreement, which has been approved by the VSCC and became effective January 1, 2007, establishes a PBR for a four-year period, freezing Columbia of Virginia's non-gas rates at their current levels and setting up an earnings sharing mechanism and temporary rate credits during the PBR plan period, and contains a commitment by Columbia of Virginia to expand its system to continue to meet growth needs.

On February 1, 2007, Columbia of Kentucky filed a base rate case requesting an increase in rates of $12.6 million, or approximately 8%. Included in the filing is a request for approval of an accelerated main replacement cost recovery mechanism, in order to facilitate replacement of certain parts of Columbia of Kentucky's natural gas distribution system. Also, included are proposals to help offset the effects of recent usage declines and increased customer attrition. Hearings are expected to be held in the second quarter of 2007, with new rates expected to be in effect by the third quarter of 2007.

In mid 2006, Northern Indiana filed a petition which simplifies gas distribution rates, stabilizes revenues and provides for energy efficiency funding. Northern Indiana filed its detailed case in this proceeding in January 2007, based upon lengthy and detailed discussion with stakeholders. All parties requested, and the IURC has granted, an expedited schedule in this proceeding. Northern Indiana expects a final order in the cause in the second quarter of 2007. Northern Indiana's proposal, called Rate Simplification, would provide funding for weatherization and other customer programs while also providing relief to the company for reduced customer usage.

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

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Sales of Shorter-Term Transportation and Storage Services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A commercial team is in place focused on this effort to capitalize on market opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $45 million of shorter-term business for 2006. Columbia Transmission and Columbia Gulf plan to continue offering these shorter-term transportation and storage services. Customer requirements for these services will vary according to market conditions which include such factors as commodity price volatility, geographic price differentials and the physical capacity and capabilities of the pipeline network.

Hardy Storage . Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States. Construction began in the first quarter of 2006 and Hardy Storage is expected to be placed in service in the second quarter of 2007.

Millennium Pipeline. Millennium has received FERC approval for a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and

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NISOURCE INC.

storage basins and the Dawn, Ontario trading hub. The reconfigured project, which was approved by the FERC in a certificate order issued December 21, 2006, will begin at an interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse, New York. Empire will construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium will extend eastward to an interconnect with Algonquin Gas Transmission Co. at Ramapo, New York.

Eastern Market Expansion. Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has binding customer agreements, continues with NEPA pre-filing activities. Columbia Transmission anticipates filing a certificate application with the FERC in April 2007.

Financial Management of the Balance Sheet

Interest Expense Savings. NiSource refinanced $2.4 billion of long-term debt at lower rates during 2005. As a result, interest expense, net was $387.4 million for the year ended December 31, 2006, a decrease of $32.7 million compared to last year. This improvement was partially offset by lower interest income and higher costs related to the sale of accounts receivable which both contributed to the $20.5 million change in Other, net.

Credit Ratings . During 2006, Standard & Poor's, Moody's Investors Service and Fitch Ratings all reaffirmed NiSource's investment grade credit ratings with a stable outlook.

Process and Expense Management

IBM Agreement. During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. NiSource's original expectation of the 10-year agreement with IBM was to deliver upwards of $530 million in gross savings in operating and capital costs. This cost savings is dependent upon many factors, and unanticipated changes in operations may cause actual cost savings to be substantially less than expected. Many functions have recently been transitioned to IBM and many new personnel have assumed responsibilities across these functions, increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition.

As a part of this transformation, many new information technology systems and process changes have an accelerated time-line for completion, increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition. In August, 2006, NiSource and IBM decided to delay further implementation of certain information technology systems due to difficulties encountered with the first wave of new system implementations. This delay may decrease the level of projected operating cost savings while continuing to ensure stable operations. NiSource is currently engaged in an overall assessment of the outsourcing initiative primarily to focus on operational and transformational improvements and develop an integrated plan that enables NiSource to achieve its business objectives going forward.

Insurance Costs. NiSource renewed both its onshore and offshore property and casualty insurance programs in 2006. NiSource sustained an increase in property insurance costs directly attributable to the increase in insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico. Casualty premiums remained relatively flat compared to the previous year. Such increases and restrictions in coverage for Gulf of Mexico windstorm exposures were driven by losses experienced by the insurance industry over the past few years, resulting from hurricanes such as Ivan, Katrina and Rita.

Ethics and Controls

NiSource has always been committed to providing accurate and complete financial reporting as well as requiring a strong commitment to ethical behavior by its employees. During 2006, NiSource tested all significant controls across its financial processes and NiSource's management has concluded that the company's internal control over financial reporting was effective as of the end of the period covered by this Form 10-K. Refer to "Management's Report on Internal Control Over Financial Reporting" included in Item 9A. NiSource's senior management takes an active role in the development of this Form 10-K and the monitoring of the company's internal control structure and

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performance. In addition, NiSource will continue the mandatory ethics-training program in which employees at every level and in every function of the organization participate.

Results of Operations

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

Income from Continuing Operations and Net Income

For the twelve months ended December 31, 2006, NiSource reported income from continuing operations before cumulative effect of change in accounting principle of $313.5 million, or $1.15 per basic share, compared to $284.1 million, or $1.05 per basic share in 2005. Income from continuing operations before the cumulative change in accounting principle for the twelve months ended December 31, 2004 was $433.0 million, or $1.64 per basic share.

Including results from discontinued operations and the change in accounting principle, NiSource reported 2006 net income of $282.2 million, or $1.04 per basic share, 2005 net income of $306.5 million, or $1.13 per basic share, and 2004 net income of $436.3 million, or $1.65 per basic share.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and had essentially no impact on income from continuing operations. An increase in operating expenses of $55.3 million for the 2006 year was offset by a corresponding increase to net revenues reflecting recovery of these tracked costs. In the 2005 period, an increase in operating expenses of $33.6 million for trackers was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the twelve months ended December 31, 2006 were $3,124.6 million, a $22.0 million decrease compared with 2005. Excluding the impact of $55.3 million of trackers discussed above, net revenues decreased by $77.3 million. The change was principally driven by unfavorable weather compared to the prior year, which impacted Gas Distribution Operations net revenues by approximately $89 million as NiSource's gas markets experienced 14% warmer weather compared to last year, and decreased Electric Operations net revenues by approximately $21 million due to the northern Indiana electric market experiencing a 24% cooler summer compared to the 2005 summer cooling season. Gas Distribution Operations net revenues were also significantly affected by decreased residential gas customer usage amounting to approximately $22 million. In addition, last year's results benefited from a third party buyout of a bankruptcy claim relating to the rejection of a shipper's long term contract, which amounted to $8.9 million. These decreases in net revenues were partially offset by increased sales of shorter-term transportation and storage services in Gas Transmission and Storage Operations amounting to $43.9 million. Electric Operations net revenues increased by $27.3 million as a result of a reduction in unrecoverable MISO costs included in costs of sales, which included the impact of a favorable regulatory ruling on the recoverability of certain MISO charges, timing of customer credits, proceeds from emission allowances, strong industrial sales and customer growth.

Total consolidated net revenues for the twelve months ended December 31, 2005 were $3,146.6 million, a $99.1 million increase compared with 2004. Excluding the impact of $33.6 million of trackers discussed above, net revenues increased by $65.5 million. Favorable weather during 2005 as compared to 2004 increased net revenues approximately $24 million and $27 million for Gas Distribution Operations and Electric Operations, respectively. Net revenues also improved due to increased residential and commercial customers and increased overall customer usage within Electric Operations contributing approximately $24.4 million, improved results from Whiting Clean Energy of $17.6 million, increased residential customers for Gas Distribution Operations contributing approximately $8 million, and $12.1 million recognized on the buyout of a large customer gas contract. These increases in revenues were partially offset by a decline in customer usage within Gas Distribution Operations of approximately $33.1 million, lower Gas Transmission and Storage Operations revenues of $20.3 million attributable to the 2004 renegotiation of firm service contracts with major pipeline customers, net of remarketing activities, and increases in the cost of service for Electric Operations associated with MISO amounting to $15.7 million.

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Expenses
Operating expenses were $2,232.3 million in 2006, a $38.1 million increase from 2005. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above) operating expenses decreased $17.2 million. The decrease was primarily due to impacts in 2005 which included restructuring charges, transition costs, pension and other postretirement benefit charges, and other costs associated with the IBM outsourcing initiative totaling $82.8 million, a $10.9 million charge for obsolete software systems and a $10.9 million impairment charge related to goodwill at Kokomo Gas. Operating expense increases in 2006 included $18.1 million for certain legal matters, a $17 million accrual in conjunction with the BP contract revision, higher employee and administrative expenses of approximately $17 million, transition and other restructuring charges associated with the IBM agreement of $12.3 million, generation and maintenance costs of $9.3 million in Electric Operations, and higher property insurance premiums of $8.7 million mainly for offshore and onshore facilities located in or near the Gulf of Mexico.

Operating expenses of $2,194.2 million for 2005 increased $224.7 million over 2004. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses increased $189.0 million. Operation and maintenance expense increased largely due to restructuring charges, including a pension and other postretirement benefit charge, transition costs and consulting fees related to the outsourcing initiative and service agreement with IBM which totaled $82.8 million and higher electric generation expenses of $7.2 million. Depreciation expense increased approximately $30 million as a result of the expiration in November 2004 of the prior Columbia of Ohio regulatory stipulation that allowed for deferral of certain depreciation amounts. The 2004 period benefited from a reduction in estimated property tax accruals amounting to $33.0 million, while gross receipts tax increased $16.0 million in 2005, which is offset in revenue. In addition, goodwill associated with Kokomo Gas was impaired by $10.9 million and certain software systems were impaired totaling $10.9 million due to the outsourcing initiative and service agreement with IBM.

Equity Earnings (Loss) in Unconsolidated Affiliates
Equity Earnings (Loss) in Unconsolidated Affiliates reduced 2006 income $12.3 million compared to earnings of $0.2 million in 2005. Equity Earnings (Loss) in Unconsolidated Affiliates include investments in Millennium and Hardy Storage which are integral to the Gas Transmission and Storage Operations business. In December 2006, Millennium received FERC approval for a pipeline project. The certificate order approved certain project costs related to the construction and development of the Millennium project. The order also approved the vacating of portions of the original September 2002 Millennium certificate that related to other facilities. The Millennium owners no longer believe the recovery of the capitalized costs related to the vacated portions of the project is probable. Therefore, Millennium has fully reserved the capitalized costs related to the development of the vacated portions. NiSource recorded a $13 million charge reflecting its share of Millennium's reserve during the fourth quarter of 2006.

Other Income (Deductions)
Other Income (Deductions) in 2006 reduced income $395.7 million compared to a reduction of $518.9 million in 2005. A loss on early extinguishment of long-term debt of $108.6 million during 2005 and decreased interest expense of $32.7 million in 2006 compared to 2005 due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, drove the decrease in other deductions. Other, net was a loss of $6.5 million for 2006 compared to income of $14.0 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Other Income (Deductions) in 2005 reduced income $518.9 million compared to a reduction of $402.3 million in 2004. A loss on early extinguishment of long-term debt of $108.6 million recognized in 2005 drove the increased expense. Interest expense, net increased $19 million from 2004 primarily due to the impact of higher short-term interest rates on variable rate debt and higher average long-term debt balances due to the prefunding of November 2005 debt maturities.

Income Taxes
Income taxes increased $21.2 million in 2006 as compared with 2005 primarily due to higher pre-tax income from the prior year. Income taxes decreased $93.1 million in 2005 from 2004 primarily due to lower pre-tax income from

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the prior year. The effective income tax rates were 35.3%, 34.5%, and 35.9% in 2006, 2005 and 2004, respectively. The overall effective tax rate increase in 2006 versus 2005 was due to favorable state and federal income tax adjustments recorded in 2005 (discussed below) and a reduction in the electric production deduction and low income housing credits from those recorded in 2005. The increase was partially offset by a lower effective state income tax rate in 2006 due to a reduction in deferred state income tax liabilities. It is expected that state income tax expense will return to more historic levels in 2007.

The 1.4% decrease in the effective tax rate from 2004 to 2005 is due to the impact of the tax benefit associated with the electric production deduction (discussed below), an adjustment to deferred taxes at Northern Indiana related to a reduction in deferred income tax requirements and a reduction in deferred state income tax liabilities resulting from a revised estimate of consolidated state income tax apportionment factors. Offsetting these reductions is an increase in the effective tax rate associated with the non-deductible goodwill impairment charge recorded at Kokomo Gas and increased taxes related to Ohio income tax law changes enacted on June 30, 2005.

The American Jobs Creation Act of 2004, signed into law on October 22, 2004, created new Internal Revenue Code Section 199 which, beginning in 2005, permits taxpayers to claim a deduction from taxable income attributable to certain domestic production activities. Northern Indiana and Whiting Clean Energy's electric production activities qualify for this deduction. The deduction is equal to 3% of QPAI for the taxable year, with certain limitations. This deduction increases to 6% of QPAI beginning in 2007 and 9% of QPAI beginning in 2010 and thereafter. The tax benefit for the Section 199 domestic production activities deduction claimed in NiSource's 2005 consolidated federal income tax return was $0.9 million and is estimated to be $0.9 million for 2006.

Discontinued Operations

Discontinued operations reflected an after-tax loss of $31.7 million, or $0.11 loss per basic share, in 2006, income of $22.7 million, or $0.08 per basic share, in 2005 and income of $3.3 million, or $0.01 per basic share, in 2004. The loss from discontinued operations in 2006 was primarily the result of an increase to legal reserves and the sale of certain low-income housing investments. Results from discontinued operations in 2005, net of taxes, include a gain on disposition of discontinued operations of $43.5 million partially offset by a loss from discontinued operations of $20.8 million. The gain on disposition of discontinued operations, net of taxes, resulted from changes to reserves for contingencies related primarily to the previous sales of IWC, former Primary Energy subsidiaries and other dispositions. The loss from discontinued operations in 2005 included changes to reserves for contingencies primarily related to CER and an impairment of assets related to Transcom. In 2004, income from discontinued operations, net of taxes, is primarily from a reduction in estimated income taxes associated with NiSource's former exploration and production subsidiary, CER.

Cumulative Effect of Change in Accounting Principle

The cumulative effect of change in accounting principle in 2006 of $0.4 million, net of taxes, resulted from the cumulative effect of adopting SFAS No. 123R. Refer to Note 14, "Stock-Based Compensation," in the Notes to Consolidated Financial Statements for additional information regarding the cumulative effect of adopting SFAS No. 123R. The cumulative effect of change in accounting principle in 2005 of a $0.3 million loss, net of taxes, resulted from the cumulative effect of adopting FIN 47. Refer to Note 6, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information regarding the cumulative effect of adopting FIN 47.

Liquidity and Capital Resources

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

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Beginning in 2007, capital expenditures and other investing activities are expected to increase due to age and condition replacement programs and an increase in growth projects (see discussion below). Capital expenditures are expected to be funded via a combination of cash flow from operations and new long-term debt issuances.

Operating Activities

Net cash from operating activities for the twelve months ended December 31, 2006 was $1,156.2 million, an increase of $443.9 million from a year ago. This increase was primarily due to a significant reduction in outstanding accounts receivable and the collection of under-recovered gas cost partially offset by the impact in 2006 of reduced accounts payable balances. High gas cost in December 2005 resulted in unusually large balances in accounts receivable, accounts payable and under-recovered gas cost.

Pension and Other Postretirement Plan Funding. In 2007, NiSource expects to make contributions of approximately $50.4 million to its pension plans and approximately $52.3 million to its postretirement medical and life plans.

Investing Activities

Capital Expenditures and Other Investing Activities. The table below reflects actual capital expenditures and other investing activities by segment for 2006, 2005 and 2004 and an estimate for year 2007. The other investing activities include investing in equity investments such as Millennium and Hardy Storage.

(in millions)	2007E	2006	2005	2004
Gas Distribution Operations	$ 333.4	$ 283.4	$ 278.5	$ 225.2
Gas Transmission and Storage Operations	227.0	208.1	167.9	133.3
Electric Operations	236.8	151.2	135.6	154.0
Other Operations	3.9	5.7	17.0	10.9
Total	$ 801.1	$ 648.4	$ 599.0	$ 523.4

For 2006, capital expenditures and certain other investing activities were $648.4 million, an increase of $49.4 million over 2005. This increase was primarily due to incremental pipeline expenditures at the Gas Transmission and Storage Operations segment including pipeline integrity costs to comply with the DOT's Integrity Management Rule as well as increased expenditures to update electric generation assets.

The Gas Distribution Operations segment's capital program in 2006 included new business initiatives to extend service to new areas and develop future markets through new services that may be added to the existing business and to create a potential new pool of customers, as well as expenditures to ensure safe, reliable and improved service to customers and modernize and upgrade facilities. The Gas Transmission and Storage Operations segment invested primarily in modernizing and upgrading facilities including investments to comply with DOT's Integrity Management Rule. The Gas Transmission and Storage Operations segment also invested in new business initiatives to maintain and expand market share in storage and interstate transportation by meeting the demands of consumers who will use gas for electric power generation and meeting the needs of existing, new or growing customers through the construction of significant new facilities, either wholly-owned by NiSource or in partnership with other qualified project participants. The Electric Operations segment capital program included improvements related to the operational integrity of generation, transmission and distribution assets, expenditures related to environmental compliance regarding NOx reduction, and additions to electric distribution systems related to new business. Capital expenditures in the Other Operations segment mainly comprise partnership investments and enterprise-wide information technology infrastructure improvement.

For 2007 the projected capital program and certain other investing activities are expected to be $801.1 million, which is approximately $152.7 million higher than the 2006 level. This higher spending is mainly due to expenditures to overhaul certain electric generation units within the Electric Operations segment, modernizing and upgrading facilities at certain distribution companies and an increase in expenditures for key market area growth projects primarily within Gas Transmission and Storage Operations. The program is expected to be funded via a combination of cash flow from operations and new long-term debt issuances during 2007.

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NISOURCE INC.

Financing Activities

On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of December 31, 2006, NiSource's remaining shelf capacity was $850 million.

Long-term Debt. During 2006, NiSource funded the redemption of $434.4 million of long-term debt with cash from operations and an increase of short term borrowings. NiSource decided not to issue new long-term debt until the strategic and financial review is completed. The review is expected to be completed in early 2007.

During November 2006, NiSource redeemed $144.4 million of its senior debentures with an interest rate of 3.628%. Also during November 2006, NiSource Finance redeemed $250.0 million of its unsecured notes with an interest rate of 3.20%.

During May 2006, NiSource redeemed $25.0 million of Capital Markets medium-term notes, with an average interest rate of 7.50%.

During April 2006, NiSource redeemed $15.0 million of Capital Markets medium-term notes, with an average interest rate of 7.75%.

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

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

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

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

During July 2005, Northern Indiana redeemed $34.0 million of its medium-term notes with an average interest rate of 6.62%.

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10.0 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, NiSource redeemed $30.0 million of Capital Markets medium-term notes, with an average interest rate of 7.67%.

Cumulative Preferred Stock. On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

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Credit Facilities. During July 2006, NiSource Finance amended its $1.25 billion five-year revolving credit facility increasing the aggregate commitment level to $1.5 billion, extending the termination date by one year to July 2011, and reduced the cost of borrowing. The amended facility will help maintain a reasonable cushion of short-term liquidity in anticipation of continuing volatile natural gas prices. During November 2006, NiSource Finance entered into a new $300 million three-month revolving credit agreement with Dresdner Kleinwort that expired February 15, 2007.

NiSource Finance had outstanding credit facility borrowings of $1,193.0 million at December 31, 2006, at a weighted average interest rate of 5.68%, and borrowings of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%. The increase in short term borrowings was primarily due to the redemption of long-term debt during 2006. NiSource decided not to issue new long-term debt until the strategic and financial review is completed. The review is expected to be completed in early 2007.

As of December 31, 2006 and December 31, 2005, NiSource Finance had $81.9 million and $101.6 million of stand-by letters of credit outstanding, respectively. At December 31, 2006, $53.9 million of the $81.9 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource Finance obtained during February 2004. Of the remaining $28.0 million of stand-by letters of credit outstanding at December 31, 2006, $24.6 million resided under NiSource Finance's five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution.

As of December 31, 2006, $582.4 million of credit was available under both credit facilities.

Debt Covenants. NiSource is subject to one financial covenant under both its five-year revolving credit facility and its three-month revolving credit agreement. NiSource must maintain a debt to capitalization ratio that does not exceed 70%. As of December 31, 2006, NiSource was in compliance with this financial covenant in both of its credit agreements.

NiSource is also subject to certain other covenants under the revolving credit facilities. Such covenants include a limitation on the creation or existence of new liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket equal to $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. The revolving credit facilities also include a cross-default provision, which triggers an event of default under the credit facility in the event of an uncured payment default relating to any indebtedness of NiSource or any of its subsidiaries in a principal amount of $50 million or more.

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

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, under the terms of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The agreement, which had a scheduled expiration date of May 12, 2006, was extended for another year to May 11, 2007. The agreement was further amended on July 1, 2006 increasing the program limit from $300 million to $350 million and extending the expiration date to June 29, 2007. As of December 31, 2006, $184.3 million of accounts receivable had been sold by CORC.

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

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On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement under the term of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC's agreement with the commercial paper conduit has a scheduled expiration date of December 21, 2007, and can be renewed if mutually agreed to by both parties. As of December 31, 2006, NRC had sold $189.7 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

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

Credit Ratings. NiSource's credit ratings continue to be affirmed by the major rating agencies. Moody's Investors Services, Standard and Poor's and Fitch Ratings all affirmed their ratings in December 2006. Moody's Investors Services affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's ratings outlook for NiSource and its subsidiaries is stable. Standard and Poor's affirmed its senior unsecured ratings for NiSource at BBB, and the existing ratings for all other subsidiaries. Standard and Poor's outlook for NiSource and all of its subsidiaries is stable. Fitch Ratings affirmed their BBB senior unsecured rating for NiSource and the BBB+ ratings for Columbia and Northern Indiana. Fitch's outlook for NiSource and all of its subsidiaries is stable.

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

Columbia Energy Services is the principal for two surety bonds issued to guarantee performance in two separate long-term gas supply agreements. The surety, in accordance with the terms of its indemnity agreements, required NiSource to post a letter of credit in the face amount of approximately $131 million, declining over time, to support the bonds. At December 31, 2006, the total amount of letters of credit required with respect to this transaction was $53.9 million. The agreement will expire on December 31, 2008.

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

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

NISOURCE INC.

Contractual Obligations. NiSource has certain contractual obligations requiring payments at specified periods. The obligations include long-term debt, lease obligations, energy commodity contracts and purchase obligations for various services including pipeline capacity and IBM outsourcing. The table below excludes all amounts classified as current liabilities on the Consolidated Balance Sheets, other than current maturities of long-term debt and current interest payments on long-term debt. The total contractual obligations in existence at December 31, 2006 and their maturities were:

(in millions)	Total	2007	2008	2009	2010	2011	After
Long-term debt	$ 5,240.8	$ 90.8	$ 33.5	$ 465.8	$1,015.1	$ 307.4	$3,328.2
Capital leases	8.7	2.1	2.7	2.9	0.1	0.1	0.8
Interest payments on long-term debt	2,576.2	335.4	319.0	314.0	279.5	199.7	1,128.6
Operating leases	223.7	47.2	42.5	33.6	26.5	21.8	52.1
Energy commodity contracts	1221.3	511.6	252.7	194.3	68.4	38.9	155.4
Service obligations:							
Pipeline service obligations	1,067.6	226.1	193.3	137.5	111.0	95.3	304.4
IBM service obligations	1,343.2	163.3	164.8	165.0	167.1	161.0	522.0
Other service obligations	403.0	84.9	80.4	36.2	28.4	28.8	144.3
Total contractual obligations	$12,084.5	$1,461.4	$1,088.9	$1,349.3	$1,696.1	$ 853.0	$5,635.8

NiSource calculated estimated interest payments for long-term debt as follows: for the fixed-rate debt, interest is calculated based on the applicable rates and payment dates; for variable-rate debt, interest rates are used that are in place as of December 31, 2006. For 2007, NiSource projects that it will be required to make interest payments of approximately $392 million, which includes $335.4 million of interest payments related to its long-term debt. At December 31, 2006, NiSource also had $1,193.0 million in short-term borrowings outstanding.

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.

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2007 to 2019, require NiSource to pay fixed monthly charges.

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

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

NiSource's other service obligations include agreements with certain rail companies, Pure Air and General Electric.

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 2009.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, and

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

NISOURCE INC.

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.

Whiting Clean Energy has a service agreement with General Electric for certain operation and maintenance activities for its cogeneration facility located at BP's Whiting, Indiana refinery for which certain minimum fees are required. The agreement extends through 2023. The agreement provides for a $10 million termination penalty to be paid by Whiting Clean Energy to General Electric to buy out or otherwise terminate the agreement.

Due to strong equity markets, the fair value of NiSource's pension fund assets as of September 30, 2006, have increased for the fourth year in a row. Additionally, $16.0 million in employer contributions were made during the 2006 plan year to certain of NiSource's qualified and non-qualified pension plans. NiSource expects market returns to revert to normal levels as demonstrated in historical periods and expects to contribute approximately $50.4 million in 2007 to certain pension plans. NiSource expects to recognize net pension income in 2007 of approximately $4 million, mainly due to favorable asset returns. In addition, NiSource expects to make contributions of $52.3 million to its postretirement medical and life plans in 2007. See Note 11, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for more information.

NiSource also has obligations associated with various taxes and expects to make tax payments of approximately $546 million in 2007.

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 $634.4 million of commodity-related payments for its current subsidiaries involved in energy commodity contracts and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were pr

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

FORM 8-K

CURRENT REPORT
Pursuant To Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 21, 2006

NiSource Inc.

(Exact name of registrant as specified in its charter)

Commission file number 001-16189

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)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))

ITEM 7.01. REGULATION FD DISCLOSURE

On December 21, 2006 NiSource Inc. (the "Company") announced it has reached a definitive agreement redefining the terms under which NiSource's Whiting Clean Energy business unit will provide steam to BP. Attached as Exhibit 99.1 to this Report on Form 8-K is the Company's press release, dated December 21, 2006.

The attached press release includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

NiSource does not have, and expressly disclaims, any obligation to release publicly any updates or any changes in NiSource's expectations or any changes in events, conditions or circumstances on which any forward-looking statement is based.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

Exhibit Number	Description
99.1	Press Release, dated December 21, 2006, issued by NiSource Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: December 21, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

Exhibit Number	Description
99.1	Press Release, dated December 21, 2006, issued by NiSource Inc.

Exhibit 99.1

NEWS

801 E. 86th Avenue
Merrillville, IN 46410

FOR IMMEDIATE RELEASE
December 21, 2006

FOR ADDITIONAL INFORMATION

Media
Kris Falzone
Vice President, Corporate Communications
(219) 647-5581
klfalzone@nisource.com

Investors
Randy Hulen
Director, Investor Relations
(219) 647-5688
rghulen@nisource.com

NiSource subsidiary Whiting Clean Energy reaches definitive agreement with BP

MERRILLVILLE, Ind. — NiSource Inc. (NYSE: NI) today announced it has reached a definitive agreement redefining terms under which NiSource's Whiting Clean Energy business unit (WCE) will provide steam to BP for its oil refining process.

WCE is a 525-megawatt combined-cycle gas cogeneration facility located on the BP Whiting Refinery property in Whiting, Ind., that produces electricity to sell into the Midwest wholesale market and provides steam to BP.

"This agreement meets the needs of a very important customer, while strengthening NiSource's platform for achieving long-term, sustainable growth," said NiSource President and Chief Executive Officer Robert C. Skaggs, Jr. "The terms should significantly improve the financial performance of WCE beginning in 2007 and over the longer term, and will enable the plant to operate more competitively as a merchant power plant.

"BP has demonstrated its strong commitment to our business relationship throughout this process as we have worked together to develop a solution that benefits all parties," Skaggs added.

-more-

NiSource subsidiary Whiting Clean Energy reaches definitive agreement with BP
Page 2

About NiSource

NiSource Inc. (NYSE: NI), based in Merrillville, Ind., is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.8 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Information about NiSource and its subsidiaries is available via the Internet at www.nisource.com. NI-F

Forward-Looking Statements

This news release includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

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

FORM 8-K

CURRENT REPORT
Pursuant To Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 28, 2006

NiSource Inc.

(Exact name of registrant as specified in its charter)

Commission file number 001-16189

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
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First Amendment to Rights Agreement
Amendment to Letter Agreement
Executive Severance Policy
Press Release

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ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

On November 28, 2006, NiSource Inc. (the "Company") entered into the First Amendment (the "First Amendment") to the Rights Agreement dated as of November 1, 2000 ("Rights Agreement"). Under the Rights Agreement, each share of common stock of the Company had associated with it a right, upon the occurrence of certain events, to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock until the close of business on the earliest of certain dates, including the date of March 10, 2010 (the "Final Expiration Date"). Under the First Amendment, the Company has amended the definition of the Final Expiration Date to be November 29, 2006. In connection with the First Amendment, the Board also amended its Corporate Governance Guidelines in the manner discussed under Item 8.01 below to establish a policy with respect to shareholders rights plans. A copy of the First Amendment is attached as Exhibit 10.1 to this filing.

ITEM 1.02. TERMINATION OF A MATERIAL DEFINITIVE AGREEMENT.

Item 1.01 is incorporated herein by reference.

ITEM 3.03. MATERIAL MODIFICATIONS TO RIGHTS OF SECURITY HOLDERS.

Item 1.01 is incorporated herein by reference. As a result of the First Amendment, the rights associated with the Company's common stock will expire at the close of business on November 29, 2006.

ITEM 5.02. DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.

On November 28, 2006, Gary L. Neale, Chairman and former president and chief executive officer, informed the Board of Directors of his decision not to stand for reelection to the Board of Directors at the Company's annual meeting of shareholders in May 2007. Mr. Neale also requested that a successor be appointed as chairman, as more fully described in Item 8.01 below.

ITEM 5.03. AMENDMENTS TO ARTICLES OF INCORPORATION OR BYLAWS; CHANGE IN FISCAL YEAR.

On November 28, 2006, the Company's Corporate Governance Committee and Board of Directors determined that it would be appropriate to implement a majority vote process for future non-contested elections for members of the Board of Directors. To implement this decision, it was necessary for the Board of Directors to adopt certain revisions to the Company's Bylaws, which changes were approved on November 28, 2006. The Board amended section (a) of Article V of the Bylaws, by adding the following sentence to the end of that section:

> Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at a meeting of the stockholders and entitled to vote on the election of directors. However, in any election of directors in which only the holders of common stock are entitled to vote and in which the only nominees are those recommended by the Board of Directors, a nominee may only be elected if the votes cast in favor of such nominee exceed the votes cast against such nominee.

The Board also amended its Corporate Governance Guidelines in the manner discussed under Item 8.01 below to require incumbent directors who have been nominated for re-election to tender a conditional resignation that may be acted on by the Board of Directors if the votes against the director's election exceed the votes in favor of the director's election.

A copy of the Company's Bylaws as amended and restated through the date of this most recent amendment is attached as Exhibit 3.1 to this filing. The Company's revised Corporate Governance Guidelines are available on its website: www.nisource.com.

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ITEM 5.05. AMENDMENTS TO THE REGISTRANT'S CODE OF ETHICS, OR WAIVER OF A PROVISION OF THE CODE OF ETHICS.

On November 28, 2006, the Company's Board of Directors amended its Code of Ethics that applies to directors and executive officers of the Company. The amendments made minor changes that are designed to make the Code of Ethics consistent with recent changes to disclosure rules with respect to related party transactions adopted by the United States Securities and Exchange Commission. A copy of the Code of Ethics may be found on the Company's website: www.nisource.com.

ITEM 8.01. OTHER EVENTS.

On November 28, 2006, Mr. Neale requested that a successor be appointed as chairman. In accordance with this request, the Board of Directors named Ian M. Rolland non-executive Chairman of the Board of Directors. In connection with these changes, Mr. Neale and the Company entered into an amendment dated November 28, 2006 to his letter agreement dated May 23, 2005, changing the end of the term of the letter agreement to May 8, 2007 and providing that certain fees otherwise payable on or before July 10, 2007 be paid on January 3, 2007. A copy of the amendment is attached as Exhibit 10.2 to this filing. On November 28, 2006, Mr. Rolland resigned as chair of the Audit Committee, and Dennis E. Foster, a director and a member of the Audit Committee, was named chair of the Audit Committee by the Board of Directors. On November 28, 2006 the Company issued a press release announcing these changes in leadership. A copy of that press release is attached as Exhibit 99.1 to this filing.

On November 28, 2006, the Board of Directors amended the Company's Corporate Governance Guidelines by adding the following Section H:

H. Policy Statement on Stockholder Rights Plans

The Company does not currently have a stockholder rights plan. In the future, the Board will adopt a stockholder rights plan only if either:

(1) Stockholders have approved the adoption of the plan; or

(2) The Board, in the exercise of its fiduciary responsibilities, determines that, under the circumstances then existing, it is in the best interest of stockholders for the Company to adopt a plan without the delay that would result from seeking stockholder approval; provided that such a plan would be subject to a ratification vote of the stockholders within twelve months of adoption or expire.

If the Board adopts a plan under (2) above and the plan is not approved by a majority of stockholders who vote on the ratification of the plan, then the plan will immediately terminate.

On November 28, 2006, the Board of Directors amended the Company's Corporate Governance Guidelines by adding the following subsection 10 to section A:

10. Resignation of Incumbent Directors. Each director who is recommended for reelection by the Board in an election in which the only nominees are those who have been recommended by the Board must execute a conditional resignation, effective only if both (a) the votes against his or her election exceed the votes in favor of his or her election (a "failed reelection") and (b) such resignation is subsequently accepted by the Board. Any failed reelection will be referred to the Corporate Governance Committee, which will make a recommendation to the Board as to whether to accept or reject the resignation. The Board will make a determination and publicly disclose its decision, the rationale for the decision and the directors who participated in the process within 90 days after the election.

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The Board expects the director who has had a failed reelection to abstain from participating in the Corporate Governance Committee or Board discussion or vote regarding whether to accept his or her resignation offer. A director who has had a failed reelection may participate in discussions or votes with respect to other directors who have had a failed reelection.

On November 28, 2006, the Company amended its Executive Severance Policy to extend the term of the policy through December 31, 2007. A copy of the Executive Severance Policy, as amended, is attached as Exhibit 10.3 to this filing.

On November 28, 2006, the Board of Directors authorized the Company to modify the NiSource Corporate Incentive Plan to allow for a reduced incentive payment under that plan provided that a newly established trigger is met for the fiscal year 2006.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(d) Exhibits

Exhibit Number	Description
3.1	Bylaws of NiSource Inc., as amended and restated through November 28, 2006.
10.1	First Amendment, dated as of November 28, 2006, to the Rights Agreement, dated November 1, 2000, between NiSource Inc. and Mellon Investor Services LLC, f/k/a ChaseMellon Shareholder Services, L.L.C., as rights agent.
10.2	Amendment, dated November 28, 2006, to Letter Agreement between NiSource Inc. and Gary L. Neale dated May 23, 2005.
10.3	NiSource Inc. Executive Severance Policy, effective as of June 1, 2002, as amended effective November 28, 2006.
99.1	Press release issued on November 28, 2006.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: November 29, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

Table of Contents

Exhibit Number	Description
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99.1	Press release issued on November 28, 2006.

Exhibit 3.1

NISOURCE INC.

AMENDED AND RESTATED
BY-LAWS

As Amended through November 28, 2006

AMENDED AND RESTATED

BY-LAWS

OF

NISOURCE INC.

ARTICLE I

SEAL

The corporate seal of the Corporation shall consist of a metallic stamp circular in form, bearing in its center the figures "2000" and the words "Incorporated" and "Delaware" and on the outer edge the name of the Corporation.

ARTICLE II

OFFICES

The location of the Corporation's principal office shall be at 801 East 86th Avenue, in the Town of Merrillville, County of Lake, in the State of Indiana.

The Corporation may, in addition to its principal office in the State of Indiana, establish and maintain an office or offices in such other states and places as the Board of Directors may from time to time find necessary or desirable.

The books, documents, and papers of the Corporation, except as may be otherwise required by the laws of the State of Delaware, may be kept outside of the said State at such places as the Board of Directors may from time to time designate.

ARTICLE III

CAPITAL STOCK

Every stockholder shall be entitled to have a certificate, signed by, or in the name of the Corporation by, the Chairman, the President or a Vice President and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation; provided, however, that any such signature on the certificate may be a facsimile. In case any officer or officers, Transfer Agent or Registrar who shall have signed, or whose facsimile signature or signatures shall have been used on any such certificate or certificates shall cease to be such officer or officers of the Corporation, Transfer Agent or Registrar, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the Corporation, Transfer Agent or

Registrar. Such certificates shall be transferable on the stock books of the Corporation in person or by attorney, but, except as hereinafter provided in the case of loss, destruction or mutilation of certificates, no transfer of stock shall be entered until the previous certificate, if any, given for the same shall have been surrendered and canceled.

The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

The Board of Directors may make such rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for shares of the capital stock of the Corporation. It may appoint one or more Transfer Agents or one or more Registrars or both, and may require all certificates of stock to bear the signature of either or both.

In order that the Corporation may determine the stockholders entitled to notice of, or to vote at, a meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix in advance a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If in any case involving the determination of stockholders for any purpose other than notice of or voting at a meeting of stockholders the Board shall not fix such a record date, the record date for determining stockholders for such purpose shall be the close of business on the day on which the Board shall adopt the resolution relating thereto. A determination of stockholders entitled to notice of, or to vote at, a meeting of stockholders, shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

In case of loss, destruction or mutilation of any certificate of stock, another may be issued in its place upon proof of such loss, destruction or mutilation and upon the giving to the Corporation of a bond sufficient to indemnify the Corporation, its Transfer Agents and Registrars, against any claim that may be made against it or them on account of the alleged loss or destruction of any such certificate or the issuance of such new certificate; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of the Board of Directors, it is proper so to do.

ARTICLE IV

STOCKHOLDERS' MEETINGS

(a) All meetings of the stockholders shall be held at such place, either within or without the State of Delaware, as the Board of Directors shall determine. The place at which any given meeting shall be held shall be distinctly specified in the notice of such meeting.

(b) The annual meeting of the stockholders of the Corporation, for the election of Directors and for the transaction of such other business as may come before the meeting, shall be held on the second Tuesday in May of each year, at ten o'clock in the morning, unless such day shall fall on a legal holiday, in which event the annual meeting shall be held on the day following. Such date and time of meeting may be changed by action of the Board of Directors.

(c) Special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption).

(d) If the annual meeting of the stockholders is not held as herein prescribed, the election of Directors may be held at any meeting thereafter called pursuant to these By-Laws.

(e) Notice of the annual and of all special meetings of the stockholders shall be given each holder of stock of the Corporation having power to vote at such meeting by depositing in the United States mail a written or printed notice of the same not less than ten nor more than sixty days prior to the meeting, with postage prepaid, to each such stockholder of record of the Corporation and addressed to him at his address as registered upon the books of the Corporation. Except in special cases where other provision is made by statute, no publication of any notice of a meeting of stockholders shall be required. Every notice of a meeting of stockholders shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy except a stockholder who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened. Except where otherwise required by statute for an adjournment exceeding thirty days or if a new record date is fixed for the adjourned meeting, notice of any adjourned meeting of the stockholders of the Corporation shall not be required to be given if the time and place thereof are announced at the meeting which is adjourned.

It shall be the duty of the officer who shall have charge of the stock ledger of the Corporation to prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing their addresses of record and the number of shares held by each. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. In the event that the meeting is to be held at a place other than the Corporation's principal place of business, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

(f) The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of any business except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws. If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat present in person or by proxy shall have power to adjourn the meeting from time to time. At any such adjourned meeting at which the requisite amount of voting stock shall be represented any business may be transacted which might have been transacted at the meeting as originally called.

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy, but no proxy shall be valid after three years from the date of its execution, unless a longer time is expressly provided therein. Without limiting the manner in which a shareholder may authorize another person or persons to act for such shareholder as proxy pursuant to the foregoing sentence, a shareholder may validly grant such authority (i) by executing a writing authorizing another person or persons to act for such stockholder as proxy or (ii) by authorizing another person or

persons to act for such stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic submission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or similar agency duly authorized by the person who will be the holder of the proxy to receive the submission, provided that any such telegram, cablegram or other means of electronic submission must either contain or be accompanied by information from which it can be determined that the telegram, cablegram or other electronic submission was transmitted by or authorized by the stockholder, or by any other method allowed under the Delaware General Corporation Law.

(g) Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

(h) At any annual or special meeting of stockholders, persons nominated for election as directors by stockholders and the proposal of business to be considered by the stockholders shall be entertained only if advance notice thereof has been timely given as provided herein and such proposals or nominations are otherwise proper for consideration under applicable law and the Certificate of Incorporation and By-Laws of the Corporation. Notice of any proposal to be presented by any stockholder or of the name of any person to be nominated by any stockholder for election as a director of the Corporation at any meeting of stockholders shall be delivered to the Secretary of the Corporation at its principal executive office not less than 90 nor more than 120 days prior to the date of the meeting; provided, however, that if the date of the meeting is first publicly announced or disclosed (in a public filing or otherwise) less than 100 days prior to the date of the meeting, such advance notice shall be given not more than ten days after such date is first so announced or disclosed. Public notice shall be deemed to have been given more than 100 days in advance of the annual meeting if the Corporation shall have previously disclosed, in these By-Laws or otherwise, that the annual meeting in each year is to be held on a determinable date, unless and until the Board determines to hold the meeting on a different date. Any stockholder who gives notice of any such proposal shall deliver therewith the text of the proposal to be presented and a brief written statement of the reasons why such stockholder favors the proposal and setting forth such stockholder's name and address, the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder and any material interest of such stockholder in the proposal (other than as a stockholder). Any stockholder desiring to nominate any person for election as a director of the Corporation shall deliver with such notice a statement in writing setting forth the name of the person to be nominated, the number and class of all shares of each class of stock of the Corporation beneficially owned by such person, the information regarding such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S—K adopted by the U.S. Securities and Exchange Commission (or the corresponding provisions of any regulation subsequently adopted by the U.S. Securities and Exchange Commission applicable to the Corporation), such person's signed consent to serve as a director of the Corporation if elected, such stockholder's name and address and the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder. As used herein, shares "beneficially owned" shall mean all shares as to which such person, together with such person's affiliates and associates (as defined in Rule 12b—2 under the Securities Exchange Act of 1934), may be deemed to beneficially own pursuant to Rules 13d—3 and 13d—5 under the Securities Exchange Act of 1934, as well as all shares as to which such person, together with such person's affiliates and associates, has the right to become the beneficial owner pursuant to any agreement or understanding, or upon the exercise of warrants, options or rights to convert or exchange (whether such rights are exercisable immediately or only after the passage of time or the occurrence of conditions). The person presiding at the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall determine whether such notice has been duly given and shall direct that proposals and nominees not be considered if such notice has not been given.

ARTICLE V

BOARD OF DIRECTORS

(a) The management of business and affairs of the Corporation shall be under the direction of a Board of Directors consisting of not less than nine (9) or more than twelve (12) persons, the exact number to be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time of any such resolution is presented to the Board for adoption). Each director who is serving as a director immediately following the annual meeting of stockholders on May 10, 2006 shall hold office until the next annual meeting of stockholders following such date and until his or her successor has been duly elected and qualified, notwithstanding that such director may have been elected for a term that extended beyond the date of such next annual meeting of stockholders. At each annual meeting of the stockholders of the Corporation after the annual meeting of stockholders on May 10, 2006, directors elected at such annual meeting shall hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at a meeting of the stockholders and entitled to vote on the election of directors. However, in any election of directors in which only the holders of common stock are entitled to vote and in which the only nominees are those recommended by the Board of Directors, a nominee may only be elected if the votes cast in favor of such nominee exceed the votes cast against such nominee.

(b) Any director of the Corporation may resign at any time by giving written notice thereof to the Corporation. Such resignation shall take effect at the time specified therefor, and unless otherwise specified with respect thereto the acceptance of such resignation shall not be necessary to make it effective. Subject to the rights of the holders of the Preferred Stock to elect directors under specified circumstances, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 80 percent of the combined voting power of all of the then outstanding shares of stock of all classes and series of the Corporation entitled to vote generally (the "Voting Stock"), voting together as a single class (it being understood that, for all purposes of these By-Laws, each share of the Preferred Stock shall have the number of votes granted to it pursuant to the Corporation's Certificate of Incorporation or any designation of terms of any class or series of Preferred Stock made pursuant to the Certificate of Incorporation). The Corporation must notify the director of the grounds of his impending removal and the director shall have an opportunity, at the expense of the Corporation, to present his defense to the stockholders by a statement which accompanies or precedes the Corporation's solicitation of proxies to remove him. The term "entire Board" as used in these By-Laws means the total number of directors which the Corporation would have if there were no vacancies.

(c) Newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, even though less than a quorum of the Board of Directors, acting at a regular or special meeting. If any applicable provision of the Delaware General Corporation Law expressly confers power on stockholders to fill such a directorship at a special meeting of stockholders, such a directorship may be

filled at such a meeting only by the affirmative vote of at least 80 percent of the Voting Stock of the Corporation; provided, however, that when (a) pursuant to the provisions of Article IV of the Certificate of Incorporation the holders of Preferred Stock have the right, and have exercised such right, to elect directors and (b) The Delaware General Corporation Law expressly confers on stockholders voting rights as aforesaid, if the directorship to be filled had been occupied by a director elected by holders of Common Stock, then such directorship shall be filled by an 80 percent vote as aforesaid, but if such directorship to be filled had been elected by holders of Preferred Stock, then such directorship shall be filled by the majority vote of the holders of Preferred Stock. Any director elected in accordance with the two preceding sentences shall hold office until such director's successor shall have been elected and qualified. No decrease in the authorized number of directors constituting the entire Board of Directors shall shorten the term of any incumbent director.

(d) Without prejudice to the general powers conferred by subdivision (a) of this Article, the Board of Directors shall have and exercise each and every power granted to them in Article VI of the Certificate of Incorporation of the Corporation.

(e) Regular meetings of the Board of Directors shall be held at such office or offices, whether within or without the State of Delaware, and at such times as the Board shall from time to time determine.

Special meetings of the Board of Directors may be called at any time by the Chief Executive Officer or the Chairman or, if both are incapacitated or unable to call such meetings, by any member of the Board of Directors. Such meetings may take place in the office of the Corporation in the State of Delaware or in such office or offices as the Directors may establish.

(f) Except as aforesaid, notice of all special meetings of the Board of Directors shall be given to each Director by five days' service of the same by telegram, or telephone or letter or personally. Notice of any special meeting of the Board of Directors shall state the place and hour of the meeting, but need not state the purposes thereof. Notice of any meeting of the Board or of any Committee need not be given to any Director if waived by him in writing, or by telegraph or cable, whether before or after such meeting be held, or if he shall be present at the meeting; and any meeting of the Board of Directors or of any Committee shall be a legal meeting without any notice thereof having been given, if all the members shall be present thereat. Notice of regular meetings of the Board need not be given. In the absence of written instructions from a Director designating some other address, notice shall be sufficiently given if addressed to him at his usual business address.

(g) Except as provided in clause (c) of this Article, a majority of the total number of Directors shall constitute a quorum for the transaction of business at all meetings of the Board of Directors; but less than a quorum may adjourn the meeting.

(h) Each Director of the Corporation shall be entitled to receive such fixed sum per meeting of the Board of Directors attended, or such annual sum, or both, as the Board shall from time to time determine, together with his expenses of attendance at such meeting.

(i) The Board of Directors may from time to time, but in no event less frequently than annually, elect from among its members a Chairman of the Board. The Chairman shall, if present, preside at all meetings of the stockholders and at all meetings of the Board of Directors. If the Chairman is not present, the Lead Director shall preside at all meetings of the stockholders and the Board of Directors. The Chairman shall have such other responsibilities, and shall perform such duties, as may from time to time be assigned to him or her by the Board of Directors.

(j) The Chairman shall be responsible, in consultation with the Chief Executive Officer, for setting an agenda for each meeting of the Board of Directors.

ARTICLE VI

COMMITTEES

(a) The Board of Directors may from time to time, in its discretion, by resolution passed by a majority of the Board, designate, and appoint, from the directors committees of one or more persons which shall have and may exercise such lawfully delegable powers and duties conferred or authorized by the resolutions of designation and appointment. The Board of Directors shall have power at any time to change the members of any such committee, to fill vacancies, and to discharge any such committee.

(b) Unless the Board of Directors shall provide otherwise, the presence of one-half of the total membership of any committee of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of such committee and the act of a majority of those present shall be necessary and sufficient for the taking of any action thereat.

ARTICLE VII

OFFICERS

(a) The officers of the Corporation shall be the Chief Executive Officer, the President, the Presidents of the Corporation's Business Segments, one or more Vice Presidents, the Secretary, and the Treasurer, who shall be elected by the Board of Directors, and may include the Controller, such additional Assistant Secretaries, Assistant Treasurers, and special subordinate officers as may from time to time be elected or appointed by the Board of Directors or appointed by the Chief Executive Officer.

Any two of the above offices may be held by the same person except those of President and Secretary.

The Chief Executive Officer or an officer designated by the Chief Executive Officer shall make a report on the state of the business of the Corporation at each annual meeting of stockholders.

All of the officers of the Corporation shall hold office for one year and until others are elected or appointed and qualified in their stead, unless in the election or appointment of the officer it shall be specified that he holds his office for a shorter period or subject to the pleasure of the Board of Directors or the Chief Executive Officer.

All vacancies in such offices by resignation, death or otherwise may be filled by the Board of Directors. In the case of absence or inability to act of any officer of the Corporation, and of any person herein authorized to act in his place, the Board of Directors may from time to time delegate the powers or duties of such officer to any other officer or any Director or other person whom they may select.

(b) The Chief Executive Officer shall have general and active supervision and direction over the business and affairs of the Corporation and over its several officers; subject, however, to the control of the Board of Directors. The Chief Executive Officer shall see that all orders and resolutions of the Board of Directors are carried into effect. The Chief Executive Officer shall perform such other duties as from time to time may be assigned by the Board of Directors.

(c) The President, the Presidents of the Corporation's Business Segments and the Vice Presidents shall perform such duties as the Chief Executive Officer or the Board of Directors shall, from time to time, require.

(f) The Treasurer shall have charge and be responsible for keeping full and accurate accounts of receipts and disbursements in books belonging to the Corporation, depositing all moneys and other valuables in the name and to the credit of the Corporation, in such depositaries as may be directed by the Board of Directors, disbursing the funds of the Corporation as may be ordered by the Board of Directors or the Chief Executive Officer taking proper vouchers therefor and rendering to the Chief Executive Officer and the Directors whenever they may require it an account of all his transactions as Treasurer and of the financial condition of the Corporation.

The Treasurer shall also perform such other duties as the Board of Directors may from time to time require. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in a form and in a sum with surety satisfactory to the Board of Directors for the faithful performance of the duties of the office of Treasurer and the restoration to the Corporation in the case of the officer's death, resignation or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the officer's possession belonging to the Corporation.

At the request of the Treasurer, or in the Treasurer's absence or inability to act, the Assistant Treasurer or, if there be more than one, the Assistant Treasurer designated by the Treasurer, shall perform the duties of the Treasurer and when so acting shall have the powers of and be subject to all the restrictions of the Treasurer. The Assistant Treasurers shall perform such other duties as may from time to time be assigned to them by the Chief Executive Officer, the Treasurer or the Board of Directors.

(g) The Secretary shall attend all meetings of the Board of Directors and of the stockholders and act as Clerk thereof and record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for the standing committees when required.

The Secretary shall keep in safe custody the seal of the Corporation and, whenever authorized by the Board, affix the seal to any instrument requiring the same.

The Secretary shall see that proper notice is given of all meetings of the stockholders of the Corporation and of the Board of Directors and shall perform such other duties as may be prescribed from time to time by the Board of Directors or the Chief Executive Officer.

At the request of the Secretary, or in the Secretary's absence or inability to act, the Assistant Secretary or, if there be more than one, the Assistant Secretary designated by the Secretary, shall perform the duties of the Secretary and when so acting shall have all the powers of and be subject to all the restrictions of the Secretary. The Assistant Secretaries shall perform such other duties as may from time to time be assigned to them by the Chief Executive Officer, the Secretary or the Board of Directors.

(h) Any officer of the Corporation may be removed, either with or without cause, at any time, by resolution adopted by the Board of Directors at a regular meeting or at a special meeting of the Board called for that purpose, by any Committee upon whom such power of removal may be conferred by the Board of Directors or by a superior officer upon whom such power of removal may be conferred by the Board of Directors.

ARTICLE VIII

CONTRACTS, CHECKS, NOTES, ETC.

(a) All contracts and agreements authorized by the Board of Directors shall, unless otherwise directed by the Board of Directors, or unless otherwise required by law, be signed by any one of the following officers: the Chief Executive Officer, the President, any President of a Business Segment, any Vice President, the Treasurer, the Secretary, any Assistant Treasurer or any Assistant Secretary, any other person authorized by a resolution of the Board of Directors, and any other person authorized by the Chief Executive Officer, as evidenced by a written instrument of delegation. Any such authorization by the Board of Directors or the Chief Executive Officer shall remain in effect until rescinded by action of the Board of Directors or (in the case of a delegation by the Chief Executive Officer) by the Chief Executive Officer and, where it identifies the authorized signatory by office rather than by name, shall not be rescinded solely by virtue of a change in the person holding that office or a temporary vacancy in that office. All checks, drafts, notes, bonds, bills of exchange and orders for the payment of money (including orders for repetitive or non—repetitive electronic funds transfers) may be signed by any one of the Chief Executive Officer, the President, any President of a Business Segment, any Vice President, the Treasurer, any Assistant Treasurer or the Controller or in such manner as shall from time to time be determined by resolution of the Board of Directors. Further, the Treasurer is authorized to designate to the Corporation's banks, in writing, individuals employed in the NiSource Corporate Services Company, who need not be officers or employees of the Corporation, to give in the name of the Corporation telephonic, telegraphic, or electronic transfer instructions for the payment of money, which may, with respect to routine items, include instructions as to the amount to be transferred, to any bank, pursuant to previously issued written orders, signed by officers of the Corporation in any manner provided above, which designate the recipients of such amounts and which identify what shall be treated as routine items.

(b) Anything in subdivision (a) of this Article VIII to the contrary notwithstanding, the officers of this Corporation may open in the name of the Corporation special accounts appropriately designated in which shall be deposited funds of the Corporation transferred from the Corporation's other accounts by its checks signed in accordance with the requirements of subdivision (a) of this Article VIII, but from which special accounts funds may be disbursed by check, draft, or other instrument of the Corporation designated as drawn against such special account and signed by the single signature of any one of the executive officers of the Corporation authorized by subdivision (a) of this Article VIII to sign checks, drafts and other instruments of the Corporation or signed by the single signature of any other person expressly authorized by the Board to sign checks, drafts and other instruments disbursing funds from such special accounts.

(c) Anything in subdivision (a) of this Article VIII to the contrary notwithstanding, (i) bonds, notes, debentures and other evidence of indebtedness of the Corporation issued under an indenture may be executed in the name of the Corporation by the facsimile signature, printed, engraved or otherwise used thereon, of the Chief Executive Officer, the President, any President of a Business Segment, any Vice President, the Treasurer or any Assistant Treasurer of the Corporation, and the corporate seal affixed thereto or impressed, printed, engraved or otherwise reproduced thereon may be attested by the facsimile signature of the Secretary or an Assistant Secretary of the Corporation, provided that the indenture require the same to be authenticated by the trustee under such indenture, and (ii) interest coupons attached to any such bond, note, debenture or other evidence of indebtedness may be executed on behalf of the Corporation by the facsimile signature of the Treasurer or any Assistant Treasurer of the Corporation.

ARTICLE IX

FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of January in each year.

ARTICLE X

AMENDMENT OF BY LAWS

These By-Laws may be amended, added to, rescinded or repealed at any meeting of the Board of Directors or of the stockholders, provided notice of the proposed change was given in the notice of the meeting or, in the case of a meeting of the Board of Directors, in a notice given not less than two days prior to the meeting; provided, however, that, notwithstanding any other provisions of these By-Laws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the Voting Stock required by law, the Certificate of Incorporation, any class or series of Preferred Stock or these By-Laws, the affirmative vote of at least 80 percent of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such alteration, amendment or repeal is presented to the Board for adoption), shall be required to alter, amend or repeal Article IV (c) , IV (g) , V (a) , V (b), V (c) , and V (g) of these By-Laws or this proviso to this Article X of these By-Laws.

Exhibit 10.1

First Amendment to Rights Agreement, dated November 1, 2000, between NiSource Inc. and Mellon Investor Services LLC, f/k/a ChaseMellon Shareholder Services, L.L.C., as rights agent

THIS FIRST AMENDMENT ("First Amendment"), is dated November 28, 2006, and amends that certain Rights Agreement, dated November 1, 2000, between NiSource Inc. ("NiSource") and Mellon Investor Services LLC, f/k/a ChaseMellon Shareholder Services, L.L.C., as rights agent (the "Rights Agent").

Background

A. NiSource and the Rights Agent entered into that certain Rights Agreement, dated November 1, 2000 (the "Rights Agreement").

B. Under Section 27 of the Rights Agreement, prior to the Distribution Date (as defined in the Rights Agreement), NiSource may supplement or amend the Rights Agreement without the approval of any holders of certificates representing Common Stock and Rights (as defined in the Rights Agreement).

C. The Distribution Date has not occurred.

D. NiSource and the Rights Agent desire to amend the Rights Agreement as provided in this First Amendment.

Agreement

NOW, THEREFORE, in consideration of the promises and the mutual agreements set forth in this First Amendment, NiSource and the Rights Agent agree as follows:

1. Amendment of Section 7(a). Section 7(a) is deleted in its entirety and replaced with the following:

   (a) The registered holder of any Right Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein) in whole or in part at any time after the Distribution Date, upon surrender of the Right Certificate, with the form of election to purchase on the reverse side thereof duly and properly executed, to the Rights Agent at the office of the Rights Agent, together with payment of the Purchase Price for each one one-hundredth of a share of Preferred Stock as to which the Rights are exercised, at or prior to the Close of Business on the earliest of (i) November 29, 2006 (the "Final Expiration Date"), (ii) the date on which the Rights are redeemed pursuant to Section 23, (iii) consummation of a transaction pursuant to Section 13(g) (such earliest date being herein referred to as the "Expiration Date") or (iv) the time at which such Rights are exchanged pursuant to Section 24.

2. Effectiveness. This First Amendment shall be effective on November 28, 2006.

3. Counterparts. This First Amendment may be executed in any number of counterparts and each such counterpart shall for all purposes be deemed to be an original, and all such counterparts together constitute but one and the same instrument.

Intending to be bound, NiSource and the Rights Agent have executed this First Amendment as of November 28, 2006.

NiSource Inc.

By: /s/ Gary W. Pottorff
Vice President, Administration and Corporate Secretary

Mellon Investor Services LLC, f/k/a ChaseMellon Shareholder Services, L.L.C.

By: /s/ Thomas Blatchford
Client Relationship Executive

Exhibit 10.2

November 28, 2006

Mr. Gary L. Neale
Chairman
NiSource Inc.
801 E. 86 th Avenue
Merrillville, IN 46410

Dear Gary:

This letter agreement will modify the terms of the letter agreement between us dated May 20, 2005 governing your compensation as a non-employee director and Chairman of the Board of Directors of NiSource Inc. This amendment reflects your desire and the Board's agreement that you resign as Chairman at the conclusion of the November 2006 Board of Directors meeting and not stand for reelection to the Board of Directors at the Annual Meeting of Shareholders in 2007.

This amendment amends and restates the paragraphs of the May 20, 2005 letter agreement captioned "Term", "Compensation", and "Early Termination". In all other respects the provisions of the May 20, 2005 letter agreement will remain in full force and effect.

The amended and restated provisions are set forth below:

Term . The initial term of this letter agreement will be from July 1, 2005 through May 8, 2007.

Compensation . You will be compensated at a rate of $50,000 per calendar quarter, or part thereof, through November 28, 2006 payable in arrears within ten days after the close of each such quarter and by a final payment of $100,000 on January 3, 2007.

Early Termination . Notwithstanding the other provisions of this letter agreement, in the event of your death, or disability, or the termination of this letter agreement by mutual understanding, compensation, service credit and any other benefits will be provided on a pro rata basis, through the date of your death or disability or such termination, as applicable.

Upon your acceptance and execution of this amendment it will become a binding agreement between you and NiSource Inc.

Sincerely,

NiSOURCE INC.

By: /s/Robert C. Skaggs
Robert C. Skaggs, President

Accepted by and agreed to this 28th
day of November, 2006

/s/ Gary L. Neale
Gary L. Neale

cc: Ian M. Rolland, Chairman
Corporate Governance Committee

Dr. Stephen C. Beering, Chairman
Officer Nomination and Compensation Committee

Exhibit 10.3

NiSource

POLICY SUBJECT: **Executive Severance Policy**

EFFECTIVE DATE: **June 1, 2002**

REVISED: **November 28, 2006**

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 November 28, 2006.

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.

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, and 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 required by the Company to relocate more than 50 miles from its current location and the Participant chooses not to relocate.

(c) The Participant's employment is constructively terminated. Constructive termination 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 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 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) 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.

(d) A Participant must return all Affiliate property and information to the Affiliate.

(e) 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. Payment will be made as soon as practicable after the last to occur of (1) the date of the Participant's termination of employment, (2) the effective date of the Participant's release of (i) the 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 the Affiliates and the termination thereof, and (ii) all rights and benefits required under the NiSource Severance Policy or any other severance policy or plan maintained by any Affiliate, and (3) the satisfaction of the conditions described in clauses (c), (d) and (e) of Section 5. 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. 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.

9. Death of Participant . If 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.

10. Term of Policy . The term of the Policy, as amended and restated herein, will commence on February 1, 2006 and will expire on December 31, 2007.

11. 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.

12. 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.

13. 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.

14. Claims Procedure . 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.

15. 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.

16. 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 99.1

NEWS

801 E. 86th Avenue
Merrillville, IN 46410

FOR IMMEDIATE RELEASE
November 28, 2006

FOR ADDITIONAL INFORMATION

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NiSource announces board transition

Chairman Gary L. Neale leaving NiSource Inc. board of directors at 2007 annual meeting; Ian M. Rolland assumes board chairman role

MERRILLVILLE, Ind. — NiSource Inc. (NYSE: NI) today announced that Gary L. Neale, chairman and former president and chief executive officer, has decided not to stand for reelection to the company's board of directors at its annual meeting in May 2007.

To facilitate the transition to new board leadership, effective November 29, 2006, the role of board chairman will be assumed by Ian M. Rolland, who currently serves as NiSource's lead director and chairman of its Audit Committee. Succeeding Rolland as Audit Committee chair is current board member Dennis E. Foster.

Neale joined NiSource in August 1989 as president and chief operating officer. He became chairman, president and CEO in March 1993. On July 1, 2005, he was succeeded as CEO and president by Robert C. Skaggs, Jr. Neale also is a director of Modine Manufacturing Company and Chicago Bridge and Iron Company. He has been a NiSource director since 1989.

"My decision to leave the board in the spring is the next step in a planned, orderly transition at NiSource," Neale said. "NiSource is a company with great assets, and is now poised to implement a plan that will position the company for ongoing growth and increasing shareholder value in the years ahead. Under the able leadership of Ian Rolland, Bob Skaggs and a very talented and seasoned board of directors, I am confident NiSource will flourish. It has been a privilege to be part of this company, especially my association with the board, the management team and our thousands of dedicated and committed NiSource employees."

-more-

NiSource announces board transition
Page 2

Prior to his retirement in 1998, Rolland served as chairman and CEO of Lincoln National Corporation, Fort Wayne, Ind., a provider of financial products and services. He is a director of Bright Horizons Family Solutions and on the board of advisors of CID Partners. He has been a NiSource director since 1973, and became lead director in July 2005.

"I am honored to have been asked by the board of directors to assume the chairman's role," Rolland said. "I look forward to working with the other directors and the company's strong, energetic management team to move NiSource forward as it continues to build a solid platform for long-term, sustainable growth.

"On behalf of the board, I also would like to express my deep appreciation to Gary Neale for his many years of service to NiSource and its various stakeholders," Rolland added. "We wish Gary all the best in the coming years."

"I certainly echo Ian's sentiments," Skaggs added. "I personally thank Gary for his vision, his strong leadership and his support for me and all of the NiSource family."

Foster becomes Audit Committee chairman after having served on the NiSource board since 1999. Prior to his retirement in 2000, Foster was vice chairman of ALLTEL Corporation in Little Rock, Ark., a full-service telecom and information services provider. Foster is a director of ALLTEL Corporation and Yellow Corporation.

About NiSource
NiSource Inc. (NYSE: NI), based in Merrillville, Ind., is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Information about NiSource and its subsidiaries is available via the Internet at www.nisource.com . NI-F

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

FORM 8-K

CURRENT REPORT
Pursuant To Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 15, 2006

NiSource Inc.

(Exact name of registrant as specified in its charter)

Commission file number 001-16189

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)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))

ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

On November 15, 2006, NiSource Finance Corp. entered into a new $300 million Revolving Credit Agreement (the "Revolving Credit Agreement") with Dresdner Bank, AG, New York and Grand Cayman Branches. Dresdner Bank, AG, New York and Grand Cayman Branches served as Sole Lead Arranger, Sole Book Runner and Administrative Agent. NiSource Inc. is the Guarantor under the Agreement. The purpose of the new

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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 273,004,359 shares outstanding at October 31, 2006.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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302 Certification of Chief Executive Officer
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DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

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

Abbreviations

AFUDC	Allowance for funds used during construction
APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
Day 1	Began October 1, 2003 and refers to Northern Indiana turning over operational control of the interchange facilities and its own transmission assets like many other Midwestern electric utilities to MISO

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DEFINED TERMS (continued)

Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and transmission service, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DOT	United States Department of Transportation
DTE	Department of Telecommunications and Energy
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EER	Environmental Expense Recovery
EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FIN 48	FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NPDES	National Pollutant Discharge Elimination System
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIP	Percentage of Income Payment Plan
PPS	Price Protection Service
Private Power	Private Power, LLC
PUCO	Public Utilities Commission of Ohio
SAB No. 108	Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements"
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based

Payment"

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DEFINED TERMS (continued)

SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 144	Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"
SFAS No. 154	Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections"
SFAS No. 157	Statement of Financial Accounting Standards No. 157, "Fair Value Measurements"
SFAS No. 158	Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VNG	Virginia Natural Gas, Inc.
VSCC	Commonwealth of Virginia State Corporate Commission

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PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (Loss) (unaudited)

(in millions, except per share amounts *)*	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Gas Distribution	**$ 392.9**	$ 380.8	**$2,996.4**	$2,868.4
Gas Transportation and Storage	**202.7**	179.1	**743.8**	721.0
Electric	**377.4**	381.9	**985.0**	946.6
Other	**183.5**	222.3	**715.6**	666.2
Gross Revenues	**1,156.5**	1,164.1	**5,440.8**	5,202.2
Cost of Sales (excluding depreciation and amortization)	**525.0**	557.0	**3,187.1**	2,928.9
Total Net Revenues	**631.5**	607.1	**2,253.7**	2,273.3
Operating Expenses				
Operation and maintenance	**309.8**	326.8	**989.2**	980.9
Depreciation and amortization	**136.5**	135.9	**411.4**	406.9
Impairment and (gain) loss on sale of assets	**(0.3)**	—	**4.8**	20.4
Other taxes	**49.1**	51.9	**212.7**	215.1
Total Operating Expenses	**495.1**	514.6	**1,618.1**	1,623.3
Operating Income	**136.4**	92.5	**635.6**	650.0
Other Income (Deductions)				
Interest expense, net	**(96.2)**	(106.5)	**(284.9)**	(312.0)
Dividend requirements on preferred stock of subsidiaries	—	(1.0)	**(1.1)**	(3.2)
Other, net	**(0.8)**	3.3	**(6.9)**	6.4
Loss on early redemption of preferred stock	—	—	**(0.7)**	—
Total Other Income (Deductions)	**(97.0)**	(104.2)	**(293.6)**	(308.8)
Income (Loss) From Continuing Operations Before Income Taxes	**39.4**	(11.7)	**342.0**	341.2
Income Taxes	**13.5**	(5.8)	**121.7**	130.1
Income (Loss) From Continuing Operations	**25.9**	(5.9)	**220.3**	211.1
Loss from Discontinued Operations — net of taxes	**(0.3)**	(6.2)	**(1.4)**	(20.4)
Gain on Disposition of Discontinued Operations — net of taxes	**0.2**	5.3	**0.4**	47.8
Change in Accounting — net of taxes	—	—	**0.4**	—
Net Income (Loss)	**$ 25.8**	$ (6.8)	**$ 219.7**	$ 238.5
Basic Earnings (Loss) Per Share ($)				
Continuing operations	**0.10**	(0.02)	**0.81**	0.78
Discontinued operations	—	(0.01)	—	0.10
Basic Earnings (Loss) Per Share	**0.10**	(0.03)	**0.81**	0.88
Diluted Earnings (Loss) Per Share ($)				
Continuing operations	**0.10**	(0.02)	**0.81**	0.77
Discontinued operations	—	(0.01)	—	0.10
Diluted Earnings (Loss) Per Share	**0.10**	(0.03)	**0.81**	0.87
Dividends Declared Per Common Share ($)	**0.23**	0.23	**0.69**	0.69
Basic Average Common Shares Outstanding (millions)	**272.5**	271.7	**272.4**	271.1
Diluted Average Common Shares (millions)	**273.3**	273.7	**273.2**	272.9

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Condensed Consolidated Balance Sheets (unaudited)

(in millions)	**September 30, 2006**	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$ 16,987.2**	$ 16,684.4
Accumulated depreciation and amortization	**(7,788.4)**	(7,556.8)
Net utility plant	**9,198.8**	9,127.6
Other property, at cost, less accumulated depreciation	**352.8**	426.7
Net Property, Plant and Equipment	**9,551.6**	9,554.3
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**46.8**	34.6
Unconsolidated affiliates	**70.9**	75.0
Other investments	**118.2**	114.2
Total Investments	**235.9**	223.8
Current Assets		
Cash and cash equivalents	**22.8**	69.4
Restricted cash	**203.0**	33.9
Accounts receivable (less reserve of $48.1 and $67.9, respectively)	**478.3**	1,254.6
Gas inventory	**682.8**	526.9
Underrecovered gas and fuel costs	**70.0**	421.8
Materials and supplies, at average cost	**85.3**	72.0
Electric production fuel, at average cost	**53.2**	24.9
Price risk management assets	**200.3**	183.1
Exchange gas receivable	**366.3**	169.8
Regulatory assets	**290.5**	195.0
Prepayments and other	**70.3**	109.3
Total Current Assets	**2,522.8**	3,060.7
Other Assets		
Price risk management assets	**73.1**	192.9
Regulatory assets	**590.1**	586.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**477.9**	495.8
Deferred charges and other	**188.0**	167.4
Total Other Assets	**5,006.4**	5,119.7
Total Assets	**$ 17,316.7**	$ 17,958.5

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Condensed Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	September 30, 2006	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock — $0.01 par value, 400,000,000 shares authorized; 272,899,816 and 272,622,905 shares issued and outstanding, respectively	$ 2.7	$ 2.7
Additional paid-in-capital	3,979.7	3,969.4
Retained earnings	950.4	981.6
Accumulated other comprehensive loss	(106.3)	(5.6)
Treasury stock	(21.1)	(15.1)
Total common stock equity	4,805.4	4,933.0
Preferred stock—Series without mandatory redemption provisions	—	81.1
Long-term debt, excluding amounts due within one year	5,173.4	5,271.2
Total Capitalization	9,978.8	10,285.3
Current Liabilities		
Current portion of long-term debt	461.8	440.7
Short-term borrowings	861.0	898.0
Accounts payable	461.0	866.7
Dividends declared on common and preferred stocks	62.8	1.1
Customer deposits	104.9	101.9
Taxes accrued	137.2	217.5
Interest accrued	111.5	86.2
Overrecovered gas and fuel costs	144.4	25.8
Price risk management liabilities	242.1	72.3
Exchange gas payable	465.1	425.2
Deferred revenue	43.6	51.3
Regulatory liabilities	42.3	46.3
Accrued liability for postretirement and postemployment benefits	59.4	61.1
Other accruals	391.3	549.1
Total Current Liabilities	3,588.4	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	40.0	22.2
Deferred income taxes	1,485.1	1,591.9
Deferred investment tax credits	63.7	69.9
Deferred credits	89.8	81.1
Deferred revenue	32.2	60.4
Accrued liability for postretirement and postemployment benefits	475.4	511.0
Liabilities of discontinued operations and liabilities held for sale	9.9	—
Regulatory liabilities and other removal costs	1,250.5	1,196.2
Asset retirement obligations	125.3	119.8
Other noncurrent liabilities	177.6	177.5
Total Other Liabilities and Deferred Credits	3,749.5	3,830.0
Commitments and Contingencies	—	—
Total Capitalization and Liabilities	$ 17,316.7	$ 17,958.5

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Nine Months Ended September 30, *(in millions)*	**2006**	2005
Operating Activities		
Net income	**$ 219.7**	$ 238.5
Adjustments to reconcile net income to net cash from continuing operations:		
Loss on early redemption of preferred stock	**0.7**	—
Depreciation and amortization	**411.4**	406.9
Net changes in price risk management assets and liabilities	**50.4**	(85.7)
Deferred income taxes and investment tax credits	**(129.4)**	(56.8)
Deferred revenue	**(36.0)**	(11.6)
Stock compensation expense	**4.4**	6.6
Gain on sale of assets	**(1.1)**	(1.4)
Loss on impairment of assets	**5.9**	21.8
Cumulative effect of change in accounting principle, net of taxes	**(0.4)**	—
Income from unconsolidated affiliates	**(3.3)**	(3.5)
Gain on sale of discontinued operations	**(0.4)**	(47.8)
Loss from discontinued operations	**1.4**	20.4
Amortization of discount/premium on debt	**5.8**	14.6
AFUDC	**(7.4)**	(1.3)
Changes in assets and liabilities:		
Accounts receivable	**785.1**	423.8
Inventories	**(189.7)**	(212.6)
Accounts payable	**(397.9)**	(97.2)
Customer deposits	**3.0**	2.7
Taxes accrued	**(94.8)**	(7.7)
Interest accrued	**25.3**	62.9
(Under) Overrecovered gas and fuel costs	**470.4**	64.7
Exchange gas receivable/payable	**(159.7)**	(22.0)
Other accruals	**(67.9)**	(0.8)
Prepayments and other current assets	**38.8**	16.3
Regulatory assets/liabilities	**(62.0)**	(17.5)
Postretirement and postemployment benefits	**(1.5)**	41.6
Deferred credits	**(12.7)**	(5.7)
Deferred charges and other noncurrent assets	**2.7**	13.2
Other noncurrent liabilities	**(0.2)**	11.9
Net Operating Activities from Continuing Operations	**860.6**	774.3
Net Operating Activities from or (used for) Discontinued Operations	**4.7**	(17.4)
Net Cash Flows from Operating Activities	**865.3**	756.9
Investing Activities		
Capital expenditures	**(398.3)**	(406.9)
Proceeds from disposition of assets	**17.2**	7.4
Restricted cash	**(174.7)**	133.7
Other investing activities	**(4.6)**	(14.6)
Net Cash Flows used for Investing Activities	**(560.4)**	(280.4)
Financing Activities		
Issuance of long-term debt	—	1,000.0
Retirement of long-term debt	**(43.8)**	(115.9)
Change in short-term debt	**(37.0)**	(307.6)
Retirement of preferred stock	**(81.1)**	—
Issuance of common stock	**5.6**	39.3
Acquisition of treasury stock	**(6.0)**	(1.7)
Dividends paid — common stock	**(189.2)**	(187.6)
Net Cash Flows (used for) or from Financing Activities	**(351.5)**	426.5
Increase (Decrease) in cash and cash equivalents	**(46.6)**	903.0

Cash and cash equivalents at beginning of year	**69.4**	29.5
Cash and cash equivalents at end of period	**$ 22.8**	$ 932.5
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 261.2**	$ 240.0
Interest capitalized	**7.4**	1.3
Cash paid for income taxes	**245.1**	97.4

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Comprehensive Income (Loss) (unaudited)

(in millions, net of taxes)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Income (loss)	**$ 25.8**	$ (6.8)	**$ 219.7**	$ 238.5
Other comprehensive income (loss)				
Net unrealized gains (losses) on cash flow hedges	**(41.2)**	94.4	**(106.7)**	110.6
Net gain (loss) on available for sale securities	**0.8**	(0.2)	**1.7**	0.3
Minimum pension liability adjustment	**4.4**	(22.7)	**4.4**	(22.7)
Total other comprehensive income (loss)	**(36.0)**	71.5	**(100.6)**	88.2
Total Comprehensive Income (Loss)	**$ (10.2)**	$ 64.7	**$ 119.1**	$ 326.7

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.

2. Recent Accounting Pronouncements

SFAS No. 158 — Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans by requiring employers to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, among other changes. SFAS No. 158 requires companies to recognize the funded status of a benefit plan and to provide disclosure requirements for fiscal years ending after December 15, 2006. Additionally, SFAS No. 158 requires employers to measure plan assets and benefit obligations as of the fiscal year-end statement of financial position for fiscal years ending after December 15, 2008. NiSource will adopt the provisions to record the funded status of its pension and other postretirement plans' and to provide the disclosure requirements in the fourth quarter of 2006. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at September 30, 2006, the impact of SFAS No. 158, should it have been in effect at September 30, 2006, would have reduced total assets by approximately $63 million, increased total liabilities by approximately $174 million and decreased total common stock equity by approximately $237 million. NiSource is currently evaluating what affects, if any, the adoption of SFAS No. 158 will have on regulatory assets or liabilities. SFAS No. 158 will not have an impact on the Statements of Consolidated Income at adoption and all impacts are non-cash.

SFAS No. 157 — Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157 to define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. NiSource is currently reviewing the provisions of SFAS No. 157 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and should be applied prospectively, with limited exceptions.

SAB No. 108 — *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements.* In September 2006, the SEC issued SAB No. 108 to provide guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 is effective for periods ending after November 15, 2006. NiSource will adopt SAB No. 108 as required.

SFAS No. 123 (revised 2004) — Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. Upon adoption of SFAS No. 123R in the first quarter of 2006, NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the outstanding share-based awards will continue to be accounted for substantially as they were prior to the adoption of SFAS No. 123R. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of September 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $6.1 million, which will be amortized over the weighted-average remaining requisite service period of 2.6 years. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for 2005.

(in millions, except per share data)		Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net Income (Loss)			
As reported		$ (6.8)	$ 238.5
Add:	Stock-based employee compensation expense included in reported net income, net of related tax effects	1.2	4.2
Less:	Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	1.2	10.4
Pro forma		$ (6.8)	$ 232.3
Earnings (loss) per share ($)			
Basic	— as reported	(0.03)	0.88
	— pro forma	(0.03)	0.86
Diluted	— as reported	(0.03)	0.87
	— pro forma	(0.03)	0.85

SFAS No. 154 — Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 48 — Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This interpretation is effective for fiscal years beginning after December 15, 2006.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

3. Stock Options and Awards

Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123.

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

At the annual meeting of stockholders held on May 10, 2005, NiSource's stockholders approved proposed amendments to the 1994 Plan. The amendments (i) increased the maximum number of shares of NiSource common stock that may be subject to awards from 21 million to 43 million and (ii) extended the period during which awards could be granted to May 10, 2015 and extended the term of the plan until all the awards have been satisfied by either issuance of stock or the payment of cash. At September 30, 2006, there were 26,170,107 shares reserved for future awards under the amended and restated 1994 Plan.

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, awards may vest upon death, disability, or upon a change of control or retirement. There were 10,000 restricted shares outstanding at September 30, 2006, which were not a part of the time accelerated restricted stock award plan described below.

NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. These awards of restricted stock or restricted stock units generally vest over a period of six years or, in the case of restricted stock units at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. At September 30, 2006, NiSource had 814,140 awards outstanding which contain the time-accelerated provisions. The total shareholder return measures established for the 2003 awards were not met as of December 31, 2005, therefore these grants will not have an accelerated vesting period. The measures for the 2004 awards were not met as of September 30, 2006.

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

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the Board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age 70, death or disability, any shares of common stock not vested as of the date of termination are forfeited.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

As of September 30, 2006, 89,860 restricted shares and 107,101 restricted stock units had been issued under the Plan.

Option grants are granted with an exercise price equal to the average of the high and low market price on the day of the grant. Stock option transactions for the first nine months of 2006 were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2006	**9,948,383**	**22.59**
Granted	—	
Exercised	(235,508)	
Cancelled	(618,730)	
Outstanding at September 30, 2006	**9,094,145**	**22.60**
Exercisable at September 30, 2006	**9,094,145**	**22.60**

The following table summarizes information on stock options outstanding and exercisable at September 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
17.53 - 20.45	1,308,893	19.63	5.8	1,308,893	19.63
20.46 - 23.37	5,681,566	22.10	6.6	5,681,566	22.10
23.38 - 26.29	1,770,686	25.19	3.8	1,770,686	25.19
26.30 - 29.22	333,000	29.22	1.7	333,000	29.22
	9,094,145	22.60	5.8	9,094,145	22.60

There were no stock appreciation rights outstanding at September 30, 2006.

No options were granted during the nine months ended September 30, 2006. The fair value of each option granted during the nine months ended September 30, 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.1%. The weighted average fair value of the options granted during the nine months ended September 30, 2005 was $3.34. The following assumptions were used:

	September 30, 2005
Expected Life (yrs.)	**4.2**
Interest Rate	**3.5 - 3.6%**
Volatility	**22.6%**

NiSource recognized stock-based employee compensation expense of $4.4 million and $6.6 million in the first nine months of 2006 and 2005, respectively, as well as related tax benefits of $1.6 million and $2.4 million, respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of September 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $6.1 million, which will be amortized over the weighted-average remaining requisite service period of 2.6 years.

4. Income Taxes

NiSource's interim effective tax rates reflect the estimated annual effective tax rate for 2006 and 2005, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter and nine months ended September 30, 2006 were 34.3% and 35.6%, respectively. The effective tax rates differ from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

permanent book-to-tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

The effective tax rate for the quarter ended September 30, 2006 was 34.3%, which includes a $1.1 million income tax benefit recorded upon filing NiSource's 2005 consolidated federal income tax return. The income tax benefit in the third quarter of last year represented a 49.6% effective tax rate as a result of a loss from continuing operations together with a $1.1 million tax benefit recorded upon filing NiSource's 2004 consolidated federal income tax return. The effective tax rate for the nine months ended September 30, 2006 was 35.6% compared to 38.1% for the comparable period last year. This 2.5% decrease reflects reductions in deferred state income tax liabilities recorded in the first quarter of 2006 and the tax impact of the non-deductible goodwill impairment charge recorded at Kokomo Gas in the second quarter of 2005. Offsetting these decreases is additional tax expense associated with the reduction in low income housing credits.

5. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2006**	2005	**2006**	2005
Denominator				
Basic average common shares outstanding	**272,548**	271,724	**272,431**	271,080
Dilutive potential common shares				
Nonqualified stock options	**108**	512	**79**	439
Shares contingently issuable under employee stock plans	**548**	884	**548**	884
Shares restricted under employee stock plans	**136**	541	**123**	511
Diluted Average Common Shares	**273,340**	273,661	**273,181**	272,914

6. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. As of September 30, 2006, 870 employees were terminated as a result of the agreement with IBM, of which 554 became employees of IBM. During the third quarter of 2006, 9 employees were terminated, none of which became employees of IBM. Adjustments to the restructuring liability were recorded mainly for changes in estimated expenses related to the outsourcing initiative. Adjustments in the estimated liability are reflected in "Operation and maintenance" expense on the Statements of Consolidated Income.

In the fourth quarter of 2005, NiSource announced a plan to reduce its executive ranks by approximately 15% to 20% of the top-level executive group. As of September 30, 2006, the employment of 12 employees terminated as a result of the executive initiative, of whom 3 and 12 were terminated during the quarter and nine months ended September 30, 2006, respectively. In part, this reduction has come through anticipated attrition and consolidation of basic positions.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of September 30, 2006, 1,566 employees were terminated, of whom no employees were terminated during the quarter and nine months ended September 30, 2006. In the third quarter, an adjustment was made to the restructuring reserve for leased office space, reducing the reserve by $5.2 million as a result of the change in utilization of office space. This adjustment is reflected in "Operation and maintenance" expense on the Statements of Consolidated Income. Of the $3.6 million remaining restructuring liability from the Columbia merger and related initiatives, $3.3 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2005	Benefits Paid	Adjustments	Balance at September 30, 2006
Outsourcing initiative	$ 11.5	$ (6.9)	$ (2.2)	$ 2.4
Executive initiative	2.9	(2.4)	—	0.5
Columbia merger and related initiatives	10.1	(2.9)	(3.6)	3.6
Total	$ 24.5	$ (12.2)	$ (5.8)	$ 6.5

7. Discontinued Operations and Assets Held for Sale

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $46.8 million and $34.6 million at September 30, 2006 and December 31, 2005, respectively. Assets classified as held for sale are no longer depreciated.

NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the first half of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.1 million as of September 30, 2006 after impairment, as assets of discontinued operations. Mortgage notes and other accrued liabilities related to these investments of $9.9 million are accounted for as liabilities of discontinued operations.

NiSource Corporate Services is in the process of selling its Marble Cliff facility. An impairment loss of $2.5 million was recognized in the first quarter of 2006 due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility, valued at $12.7 million as of September 30, 2006 after impairment, as assets held for sale. Additionally, in the third quarter of 2006 NiSource Corporate Services sold a corporate aircraft for its book value of $9.6 million. An impairment loss of $0.9 million was recognized for the corporate aircraft that was accounted for as assets held for sale in the second quarter of 2006.

NiSource Development Company is in the process of selling its Northern Indiana headquarters facility. NiSource has accounted for this facility, with a net book value of $1.8 million as of September 30, 2006, as assets held for sale.

After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel Gary Works exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

$7.4 million for the settlement of this obligation. In the second quarter of 2006, NiSource paid Private Power approximately $8.0 million to settle this obligation.

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at September 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.7 million as of September 30, 2006, as assets held for sale. On October 16, 2006, Columbia Transmission sold assets for net book value of $4.2 million, which were previously reported as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from NDC Douglas Properties low income housing investments, the golf course assets of Lake Erie Land and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2006**	2005	**2006**	2005
Revenues from Discontinued Operations	**$ 1.4**	$ 2.4	**$ 4.7**	$ 6.4
Loss from discontinued operations	**(0.5)**	(9.7)	**(2.3)**	(31.5)
Income tax benefit	**(0.2)**	(3.5)	**(0.9)**	(11.1)
Net Loss from Discontinued Operations	**$ (0.3)**	$ (6.2)	**$ (1.4)**	$ (20.4)

8. Regulatory Matters

Gas Distribution Operations Related Matters
Gas Distribution Operations continues to offer CHOICE ® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of September 2006, approximately 731 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio's application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of September 30, 2006, Columbia of Ohio has $44.1 million of uncollected accounts receivable pending future recovery.

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
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extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. A hearing in these matters is scheduled to commence on November 29, 2006.

On October 31, 2006, the Massachusetts DTE approved a request by Bay State for a $3.6 million inflation adjustment to be collected annually over a twelve month period beginning November 1, 2006. Bay State is permitted, as part of its DTE-approved Performance Based Rate Plan, to adjust its rates each year to compensate for the impact of inflation.

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

Northern Indiana continues to work with its regulatory stakeholders on a filing made earlier this year to simplify its residential rate structure.

Gas Transmission and Storage Operations Related Matters
On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. In November, 2005, INGAA sought review of the matter before the U. S. Court of Appeals for the D.C. Circuit (INGAA V. FERC, No. 05-1426). The matter remains pending before the Court.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that

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ITEM 1. FINANCIAL STATEMENTS (continued)

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governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf's system and the reliability of service to its customers. The FERC ruled that Tennessee Gas Pipeline's interconnection request should be governed by the existing Blue Water Pipeline Operating Agreement between Columbia Gulf and Tennessee Gas Pipeline. Columbia Gulf constructed the necessary taps and Tennessee Gas Pipeline then completed its portion of the interconnection facilities. The interconnection was ready to flow gas on October 1, 2006.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with the FERC's referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf's rehearing of the declaratory order issued by the FERC is pending.

Electric Operations Related Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana's electric rates subsequent to the minimum period. The order included a rate moratorium that expired on July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $37.9 million and $46.7 million were recognized for electric customers for the first nine months of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, which are recovered through the FAC process. In addition, Northern Indiana incurs administrative fees, which relate to the MISO's management and operations of the transmission system. These fees, according to a 2004 IURC order, were not eligible for recovery or deferral until the end of Northern Indiana's rate moratorium, which expired on July 31, 2006. Day 2 charges included both fuel and non-fuel costs. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million was required for charges related to the period April 1, 2005 through December 8, 2005. Pending this order, Northern Indiana had provided a reserve of $8.7 million through December 2005. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $3.1 million for the first nine months of 2006. Day 2 non-fuel costs amounted to $12.7 million for the first nine months of 2006. Of this amount, $11.9 million was recorded as non-recoverable in net revenues through July 31, 2006 and, beginning August 1, 2006 per Cause No. 42685, $0.8 million has been deferred for consideration in a future rate case. Day 1 and Day 2 administrative fees totaled $4.0 million for the first nine months of 2006 and were $5.1 million for the year 2005. Of the $4.0 million in 2006, $1.0 million was deferred for consideration in a future rate proceeding. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with

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ITEM 1. FINANCIAL STATEMENTS (continued)

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interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana was seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005, which were made pursuant to the July 1, 2005 interim order, were reasonable.

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

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. On August 23, 2006, the final order in cause 42824 requesting recovery of intermediate dispatchable power costs incurred August to December 2005 was issued. The final order from the IURC approved the Settlement Agreement between Northern Indiana, the OUCC and the Industrial Group. The IURC order also approved the Settlement Agreement between Northern Indiana and LaPorte County, whereby Northern Indiana is to issue a refund of $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases that were "subject to refund" as a condition in Northern Indiana's final orders in Cause Nos. 38706 FAC-69 and FAC-70. LaPorte County and its attorneys were awarded $0.5 million in fees and expenses. The attorney fees were paid in September 2006 and the amounts due to customers will be returned in the next FAC.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. On September 27, 2006, Northern Indiana filed for the voluntary dismissal of a Purchased Power and Transmission Tracker Mechanism, without prejudice, in accordance with the terms of the settlement agreement approved by the IURC order in cause 42824 (as described above). The final order approving the voluntary dismissal was issued on October 4, 2006.

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery was subject to refund impacted by the final order in cause No. 42824 that was issued on August 23, 2006 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC's May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

On September 28, 2006, the IURC issued an order approving FAC-72 rates on an interim basis subject to refund in the event that an excess rate of return is earned and subject to the resolution of the issues in Cause No. 38706-FAC71 subdocket (described above). FAC-72 included a refund for the remaining $0.8 million of MISO-related costs.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. On October 18, 2006, Northern Indian filed for approval of the revised cost estimates to meet the environmental standards. The ECRM revenues amounted to $19.7 million for the nine months ended September 30, 2006, and $71.5 million from inception to date, while EERM revenues were $10.9 million for the nine months ended September 30, 2006, and $19.7 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing. ECR-8 was filed in August 2006 for capital expenditures (net of accumulated depreciation) of $226.8 million and was approved by the IURC on September 28, 2006. ECR-9 and EER-4 are scheduled to be filed in February 2007.

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

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. While the IURC could not conclude that Northern Indiana failed to provide reasonably adequate service, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Northern Indiana and Jupiter both appealed the IURC's order to the Indiana Court of Appeals, which are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

9. Risk Management and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments primarily to manage commodity price risk and interest rate risk exposure in its business as well as for commercial and industrial sales and some trading. NiSource accounts for its derivatives in accordance with SFAS No. 133. Under SFAS No. 133, if certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
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NiSource's derivatives on the Consolidated Balance Sheets at September 30, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 198.7	$ 1.6	$ 200.3
Other assets	72.9	0.2	73.1
Total price risk management assets	$ 271.6	$ 1.8	$ 273.4
Price risk management liabilities			
Current liabilities	$(166.4)	$ (75.7)	$(242.1)
Other liabilities	(34.7)	(5.3)	(40.0)
Total price risk management liabilities	$(201.1)	$ (81.0)	$(282.1)

NiSource's derivatives on the Consolidated Balance Sheets at December 31, 2005 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 152.6	$ 30.5	$ 183.1
Other assets	185.5	7.4	192.9
Total price risk management assets	$ 338.1	$ 37.9	$ 376.0
Price risk management liabilities			
Current liabilities	$ (63.4)	$ (8.9)	$ (72.3)
Other liabilities	(22.2)	—	(22.2)
Total price risk management liabilities	$ (85.6)	$ (8.9)	$ (94.5)

The hedging activity for the quarter and nine months ended September 30, 2006 and 2005 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, net of taxes)	**2006**	2005	**2006**	2005
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 85.2**	$ 109.9	**$ 150.7**	$ 93.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(41.2)**	106.4	**(106.0)**	132.3
Reclassification adjustment for net gain included in net income	—	(12.0)	**(0.7)**	(21.7)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 44.0**	$ 204.3	**$ 44.0**	$ 204.3

During the third quarter of 2006 and 2005, zero and a gain of $1.5 million, net of taxes respectively, were recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. All derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the third quarter of 2006 and 2005, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in other comprehensive income of approximately $26.3 million, net of taxes.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. These derivative programs are accounted for as cash flow hedges.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that match the anticipated delivery needs of the program. This derivative program is accounted for as a cash flow hedge.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect Northern Indiana against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. Additionally, Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These derivative programs must be marked to fair value, but because these derivatives are used within the framework of their cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of there derivatives.

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

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, Columbia of Virginia and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These commodity swap derivatives are accounted for as cash flow hedges.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Commodity price risk programs included in price risk assets and liabilities:

	September 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 0.2	$ (78.0)	$ 35.7	$ —
PPS program derivatives	0.3	(6.9)	1.8	(2.5)
DependaBill program derivatives	0.2	(2.6)	1.6	—
MISO FTR program derivatives	1.1	—	2.2	(0.4)
Power price volatility program derivatives	—	(0.1)	—	—
Regulatory incentive program derivatives	0.5	(2.9)	—	(8.5)
Forward purchase agreements derivatives	130.5	—	266.7	—

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

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

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

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

Interest rate risk activities programs included in price risk management assets and liabilities:

	September 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$ —	$ (27.1)	$ —	$ (12.2)

Marketing, Trading and Other Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. TPC, on behalf of Whiting Clean Energy, has also entered into power and gas derivative contracts to manage price risk associated with operating Whiting Clean Energy during 2006.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Marketing, trading and other programs included in price risk management assets and liabilities:

	September 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing program derivatives	$ 140.6	$ (164.5)	$ 68.0	$ (70.9)

10. Whiting Clean Energy

PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. The Whiting Clean Energy facility and BP have reached a Memorandum of Understanding which, subject to the execution of a definitive agreement, would redefine terms under which Whiting Clean Energy will provide steam to BP. BP intends to develop alternative solutions to meet the refinery's steam needs by the end of 2009. Whiting Clean Energy and BP have also outlined a restructured steam pricing approach for operating the Whiting Clean Energy facility in the interim.

Because of continued losses from Whiting Clean Energy, projected impacts from the Memorandum of Understanding reached between Whiting Clean Energy and BP, and expected utilization of the Whiting Clean Energy facility, an impairment study was performed during the third quarter of 2006 in accordance with SFAS No. 144. Under the provisions of SFAS No. 144, an impairment loss shall be recognized only if the carrying amount of a long lived asset is not recoverable and exceeds its fair value. The test compares the carrying amount of the long lived asset to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The study indicated that no impairment was necessary.

The study includes many estimates and assumptions for the 35-year estimated useful life of the facility. Changes in these estimates and assumptions, such as electricity and natural gas forward price volatility, impacts from the negotiations with BP in reaching a definitive agreement as discussed above, and utilization of the facility, could result in a situation where total undiscounted cash flows are less than the carrying value of the facility, which would result in a write-down that could be significant.

11. Goodwill Assets

NiSource's goodwill assets at September 30, 2006 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at September 30, 2006 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

In the quarter ended June 30, 2006, NiSource performed its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas. The results of the June 30, 2006 impairment test indicated that no impairment charge was required. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

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Notes to Consolidated Financial Statements (continued) (unaudited)

12. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. In accordance with SFAS No. 87, NiSource adjusted its minimum pension liability at September 30, 2006, decreasing the pension liability by approximately $15 million. The decrease in the liability is partly due to an increase in the discount rate used to determine the pension benefit obligation. NiSource expects to make contributions of $18.1 million to its pension plans and $45.8 million to its other postretirement benefit plans during 2006. Through September 30, 2006, NiSource has contributed $17.3 million to its pension plans and $34.3 million to its other postretirement benefit plans.

The following tables provide the components of the plans' net periodic benefits cost for the third quarter and nine months ended September 30, 2006 and 2005:

	Pension Benefits		Other Benefits	
Three Months Ended September 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 10.6**	$ 10.5	**$ 2.3**	$ 2.3
Interest cost	**31.2**	32.0	**10.2**	10.4
Expected return on assets	**(43.9)**	(41.1)	**(4.6)**	(3.9)
Amortization of transitional obligation	**—**	—	**2.0**	2.4
Amortization of prior service cost	**1.5**	2.7	**0.1**	0.2
Recognized actuarial loss	**4.7**	4.2	**1.5**	0.9
Special termination benefits	**—**	2.2	**—**	—
Settlement/Curtailment loss	**—**	5.4	**—**	10.8
Net Periodic Benefits Cost	**$ 4.1**	$ 15.9	**$ 11.5**	$ 23.1

	Pension Benefits		Other Benefits	
Nine Months Ended September 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 31.9**	$ 31.3	**$ 7.0**	$ 6.9
Interest cost	**93.7**	96.0	**30.4**	31.3
Expected return on assets	**(131.7)**	(123.3)	**(13.8)**	(11.9)
Amortization of transitional obligation	**—**	—	**6.0**	7.3
Amortization of prior service cost	**4.5**	7.9	**0.3**	0.6
Recognized actuarial loss	**13.9**	12.8	**4.6**	2.8
Special termination benefits	**—**	2.2	**—**	—
Settlement/Curtailment loss	**0.9**	5.7	**—**	10.8
Net Periodic Benefits Cost	**$ 13.2**	$ 32.6	**$ 34.5**	$ 47.8

In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans. Please refer to Note 2, "Recent Accounting Pronouncements," in the Notes to Consolidated Financial Statements for additional information.

13. Asset Retirement Obligations

NiSource has accounted for retirement obligations on its assets since January 1, 2003 with the adoption of SFAS No. 143. In the fourth quarter 2005, NiSource adopted the provisions of FIN 47, which broadened the scope of SFAS No. 143 to include contingent asset retirement obligations and it also provided additional guidance for the measurement of the asset retirement liabilities. This accounting standard and the related interpretation require entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

life of the related asset. The rate-regulated subsidiaries defer the difference between the amount recognized for depreciation and accretion and the amount collected in rates as required pursuant to SFAS No. 71 for those amounts it has collected in rates or expects to collect in future rates.

Changes in NiSource's liability for asset retirement obligations for the first nine months of 2006 are presented in the table below:

Nine Months Ended September 30, *(in millions)*	**2006**
Beginning Balance	**$ 119.8**
Accretion	**5.5**
Ending Balance	**$ 125.3**

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

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143 and FIN 47. The amount of the other costs of removal reflected as a component of NiSource's accumulated depreciation and amortization was approximately $1.2 billion and $1.1 billion at September 30, 2006 and December 31, 2005, respectively, based on rates for estimated removal costs embedded in composite depreciation rates. Upon the adoption of SFAS No. 143 on January 1, 2003, NiSource reclassified its cost of removal from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the three months ended September 30, 2006, NiSource accrued $1.8 million of accretion, of which $0.3 million was expensed and $1.5 million was recorded as a regulatory asset. For the nine months ended September 30, 2006, NiSource accrued $5.5 million of accretion, of which $0.8 million was expensed and $4.7 million was recorded as a regulatory asset. For the three and nine months ended September 30, 2005, NiSource accrued less than $0.1 million and $0.3 million of accretion, respectively, of which the majority of it was expensed. NiSource anticipates that the depreciation and accretion amounts to be recognized in 2006 associated with its asset retirement obligation assets and liabilities will be $2.8 million and $7.5 million, respectively, and will primarily be recorded as a regulatory asset or liability pursuant to SFAS No. 71.

14. Redemption of Preferred Stock

On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

15. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at September 30, 2006 and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Guarantees of subsidiaries debt	$4,967.1	$ 253.3	$ 32.5	$ 8.8	$ 464.1	$1,282.4	$2,926.0
Guarantees supporting commodity transactions of subsidiaries	737.6	177.3	336.3	35.8	38.8	—	149.4
Lines of credit	861.0	861.0	—	—	—	—	—
Letters of credit	87.6	—	27.9	59.7	—	—	—
Other guarantees	191.5	—	28.5	12.0	3.8	5.0	142.2
Total commercial commitments	$6,844.8	$1,291.6	$ 425.2	$ 116.3	$ 506.7	$1,287.4	$3,217.6

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

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $737.6 million of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. During November 2005, NiSource Finance also entered into a $300 million nine-month revolving credit agreement with Dresdner Kleinwort that expired September 5, 2006. At September 30, 2006, NiSource had $861 million in short-term borrowings outstanding under the five-year revolving credit facility. Through the five-year revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $87.6 million for the benefit of third parties.

Other Guarantees or Obligations. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreement, Columbia Transmission issued guarantees securing payment for 50% of any amounts issued in connection with Hardy Storage up until such time as the project is placed in service and operated within certain specified parameters. As of September 30, 2006, Hardy Storage borrowed $57.0 million under the financing agreement, for which Columbia Transmission recorded an accrued liability of approximately $1.4 million related to the fair value of its guarantee securing payment for 50% of the $57.0 million borrowed.

After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel Gary Works exercised a

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation. In the second quarter of 2006, NiSource paid Private Power approximately $8.0 million to settle this obligation.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

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

C. Environmental Matters.

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

A reserve of $70.9 million and $68.8 million has been recorded as of September 30, 2006 and December 31, 2005, respectively, to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations.
At a property in the City of Staunton, Virginia, the current property owner has been issued notice by the EPA that they need to evaluate potential impacts associated with a gasoline station and a former manufactured gas plant that were on the property. The property owner is seeking contribution from Columbia of Virginia. Columbia of Virginia is currently assessing its liability in relation to the property.

Gas Transmission and Storage Operations.
On September 21, 2006, the EPA issued revisions to the NAAQS for particulate matter. The final rule increased the stringency of the current fine particulate (PM2.5) standard, added a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter), and revoked the annual PM10 standards while retaining the 24-hour PM10 standards. The 24-hour primary and secondary standards for fine particulate were tightened from the previous level of 65 micrograms per cubic meter (μg/m3) to 35μg/m3 while the primary and secondary annual standards were kept at 15μg/m3. The annual PM10 standards of 50μg/m3 were revoked and the daily standards of 150μg/m3 were retained. State recommendations for designation of areas not meeting the new fine particle standards are due November 2007 with EPA designations by November 2009, effective in April 2010. SIPs detailing how states will reduce emissions to meet the NAAQS will be due three years later with attainment due by April 2015 with a possible five year extension to April 2020. These actions could require further reductions in NOx emissions from various emission sources in and near nonattainment areas, including reductions from Gas Transmission and Storage Operations. NiSource will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time

On August 6, 2006, Columbia Gulf received final approval of the NOx SIP Call Compliance Plan from the state of Kentucky. This Plan will reduce NOx emissions by 950 tons per ozone season starting May 1, 2007. Currently Columbia Gulf anticipates installation of approximately $6 million to $8 million in NOx controls to achieve these reductions.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Columbia Transmission discovered and notified the state of West Virginia of compliance issues associated with turbine operations at two of its facilities. Columbia Transmission is currently finalizing resolution of this issue.

On June 29, 2006, Columbia Transmission entered into a Consent Agreement with Region III EPA related to the management of coal tar based pipe wrap. The Consent Agreement requires that Columbia Transmission, and its contractor, pay a civil penalty totaling $180,000.

Electric Operations.
Air. On September 21, 2006, the EPA issued revisions to the NAAQS for particulate matter as described above under, "Gas Transmission and Storage Operations." The new rules set forth in this standard could impact the emission control requirements for coal-fired boilers including Northern Indiana's electric generating stations. Northern Indiana will continue to closely monitor developments in this area.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern states, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. The main rulemaking established federal implementation plans, or FIPs, for power plants to ensure that the emissions reductions required by the CAIR are achieved on schedule and provide criteria, whereby SIPs that meet a majority of the federal requirements or abbreviated SIPs could be approved if submitted by the states within six months of the September 2006 deadline. As an affected state, Indiana initiated state rule making in June 2005, for creating rules detailing how it will implement the federal rule and meet the emission caps. Indiana structured, and preliminarily adopted in June 2006, a draft rule to meet the EPA abbreviated CAIR SIP requirements and should therefore be eligible for a six-month extension of the submittal deadline. Final adoption of the rule is expected in November 2006. Accordingly, Indiana anticipates that the state CAIR rule will be finalized by March of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On May 31, 2006, the EPA took final action on petitions to reconsider two actions regarding the air pollutant Mercury: 1) Its determination that regulation of electric utility steam generating units under section 112 of the Clean Air Act was neither necessary nor appropriate (the section 112 rule); and 2) The Clean Air Mercury Rule. Following the promulgation of the final section 112 rule, the EPA received two petitions for reconsideration. In response to the two petitions, the EPA agreed to reconsider certain aspects of the final section 112 rule. After considering the petitions and the information that was submitted during the public comment period, the EPA determined that its original rule was correct. Indiana is developing a rule to implement the EPA Clean Air Mercury Rule. An initial draft of IDEM's proposed rule language is not expected until either late in the fourth quarter of 2006 or the first quarter of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On June 29, 2006, the IDEM held a public hearing to satisfy the public notice requirements for its proposed petition to the EPA to redesignate the Indiana counties of Lake and Porter to attainment of the eight-hour ozone NAAQS. The petition included EPA required technical and procedural information, as well as optional technical information, supporting the IDEM's redesignation request, as well as state plans to maintain the NAAQS upon the EPA redesignation, if granted. On October 2, 2006, the IDEM announced 2006 ozone season readings in these counties continued to meet air quality standards, reinforcing the supporting data included in the redesignation petition. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignation to attainment, new source review rules would change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the outcome or timing of the approval of the petition.

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

stations located on Lake Michigan. The state of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. All issues in subsequent litigation related to the EPA's actions have been resolved with the exception of the EPA's disapproval of the IDEM method for testing whole effluent toxicity. The NPDES water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. Engineering studies have begun to determine specific compliance costs for this facility. The permit for the Bailly Generating Station was issued on June 26, 2006, and became effective on August 1, 2006. Northern Indiana has since appealed the Bailly Generating Station NPDES permit, due to an unacceptable internal outfall monitoring permit condition. Pending review and analysis of this permit, the cost of complying with the permit requirements cannot be estimated at this time.

16. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss, which is included in "Common stock equity," on the Consolidated Balance Sheets.

(in millions)	**September 30, 2006**	December 31, 2005
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	**$ 3.0**	$ 0.3
Tax (expense) on unrealized gains on securities	**(1.4)**	(0.3)
Unrealized gains on cash flow hedges	**61.8**	228.5
Tax (expense) on unrealized gains on cash flow hedges	**(17.8)**	(77.8)
Minimum pension liability adjustment	**(252.7)**	(260.1)
Tax benefit on minimum pension liability adjustment	**100.8**	103.8
Total Accumulated Other Comprehensive Loss, net of taxes	**$ (106.3)**	$ (5.6)

17. Business Segment Information

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

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2006**	2005	**2006**	2005
REVENUES				
Gas Distribution Operations				
Unaffiliated	**463.8**	443.6	**3,338.2**	3,210.5
Intersegment	**4.2**	4.5	**11.6**	4.2
Total	**468.0**	448.1	**3,349.8**	3,214.7
Gas Transmission and Storage Operations				
Unaffiliated	**145.7**	130.7	**451.1**	426.8
Intersegment	**52.3**	57.0	**177.7**	186.4
Total	**198.0**	187.7	**628.8**	613.2
Electric Operations				
Unaffiliated	**378.2**	372.8	**987.2**	936.4
Intersegment	**0.5**	0.4	**1.3**	1.7
Total	**378.7**	373.2	**988.5**	938.1
Other Operations				
Unaffiliated	**168.6**	207.9	**664.1**	618.5
Intersegment	**7.7**	19.0	**30.2**	35.3
Total	**176.3**	226.9	**694.3**	653.8
Adjustments and eliminations	**(64.5)**	(71.8)	**(220.6)**	(217.6)
Consolidated Revenues	**$1,156.5**	$1,164.1	**$5,440.8**	$5,202.2
Operating Income (Loss)				
Gas Distribution Operations	**(31.6)**	(69.6)	**168.4**	211.0
Gas Transmission and Storage Operations	**68.9**	62.2	**258.2**	248.5
Electric Operations	**108.3**	110.4	**239.7**	236.8
Other Operations	**(0.3)**	(0.7)	**(15.1)**	(14.4)
Corporate	**(8.9)**	(9.8)	**(15.6)**	(31.9)
Consolidated Operating Income	**$ 136.4**	$ 92.5	**$ 635.6**	$ 650.0

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

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

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

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the nine months ended September 30, 2006, income from continuing operations was $220.3 million, or $0.81 per share. This compares to income from continuing operations of $211.1 million, or $0.78 per share, for the year-ago period. The increase was primarily due to lower restructuring and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. The first nine months of 2005 included $70.9 million of restructuring, transition, and pension costs associated with the IBM agreement and $21.8 million of asset impairment charges. The first nine months of 2006 included $11.8 million of restructuring and transition costs associated with the IBM agreement and $5.9 million of asset impairment charges. Also contributing to the increase in income from continuing operations is lower interest expense of $27.1 million and increased net revenues of $27.6 million from sales of shorter-term transportation and storage services within Gas Transmission and Storage Operations. NiSource is recognizing interest expense savings due to the refinancing of $2.4 billion in long-term debt during 2005.

Partially offsetting the above increases in income from continuing operations were lower net revenues due to the mild winter weather and declines in residential usage by natural gas utility customers. Weather was 13% warmer than normal and a year ago. Weather reduced net revenues in NiSource's Gas Distribution Operations business segment by approximately $60 million during the first nine months of 2006 versus last year. Gas Distribution Operations net revenues were also reduced by approximately $18 million due to residential usage declines. Residential usage declines are likely to continue to adversely impact the operating results of Gas Distribution Operations.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

NiSource continues to focus on its four-point platform for long-term, sustainable growth. This plan is centered on its portfolio of low-risk, regulated assets: commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and expense management. Following are updates related to these initiatives.

Commercial and Regulatory Initiatives

Sales of Shorter-Term Transportation and Storage Services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $40 million of shorter-term business for 2006, $31.7 million of which was recorded during the first nine months ended September 30, 2006.

Regulatory Trackers. Comparability of line item operating results are impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. An increase in operating expenses of $35.7 million was offset by a corresponding increase to net revenues reflecting recovery of certain costs.

Customer Conservation. NiSource remains focused on the effects of customer conservation and is taking steps to address this issue. NiSource is developing and pursuing a number of regulatory initiatives throughout its distribution markets to mitigate the impact of conservation and customer attrition either through broader rate proceedings or specific mechanisms such as rate design, decoupling or other initiatives developed to moderate the impact of conservation. For example, on May, 16, 2006, Northern Indiana filed a petition with the IURC to simplify its residential rate structure and has made substantial progress in settlement discussions with its regulatory stakeholders.

Coal Gasification Project. On October 26, 2007, Northern Indiana and the other two large gas distribution companies in Indiana signed a nonbinding letter of intent supporting potential development of a coal gasification project in the southern part of Indiana. Should this project go forward, Northern Indiana would use some of the gas from this facility as part of its overall gas supply portfolio and would also use some of the gas for the production of power. This project is still in the preliminary phase and a number of significant conditions must be satisfied before Northern Indiana would be expected to sign a binding contract for the output from this facility. Two of the more significant conditions are IURC approval of Northern Indiana's recovery of its costs under the contract and passage of legislation that would assure the continued recovery of those costs for the term of the contract.

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

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Hardy Storage. In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States. Hardy Storage was then formed by Columbia Transmission and Piedmont to develop a natural gas storage field from a depleted natural gas production field in West Virginia. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is expected to be able to deliver 176 MMDth per day of firm storage service on behalf of the subscribing customers. Construction began in the first quarter of 2006 and Hardy Storage is expected to be placed in service in the second quarter of 2007. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of Hardy Storage.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

Millennium Pipeline. Millennium has proposed a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. Millennium Pipeline, as well as companion upstream and downstream projects, are proceeding with the regulatory approval process. On May 3, 2006, Millennium made a second amended certificate filing to the FERC. This filing reflected the new partnership agreements and reconfigured ownership levels. It also reflected the change in contributed assets from Columbia to Millennium and other project updates. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin Gas Transmission Co., Iroquois Gas Transmission System, L. P., and Islander East Pipeline Company, L.L.C. collectively referred to as the "Companion Pipelines." Millennium has also advised several counties in New York that without certain requested tax relief the project, as currently proposed, will not be built. Millennium did receive a Final Environmental Impact Statement from the FERC on October 13, 2006. A final FERC certificate for Millennium is expected by year end. Provided the necessary regulatory approvals for Millennium and the "Companion Pipelines" and requested tax relief is received in a timely manner, Millennium plans to begin construction in Spring 2007 with a projected in-service date of November 2008. Millennium is anchored by long-term agreements with Consolidated Edison Inc. and KeySpan Corporation. Columbia and Central Hudson Gas & Electric Corporation also hold long-term agreements on Millennium. The redistribution of equity among partners in the Millennium Pipeline is now complete, with NiSource subsidiary Columbia Transmission holding a 47.5% equity stake.

Other Growth Projects

Eastern Market Expansion. Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements continues with pre-filing activities.

Financial Management of the Balance Sheet

Interest Expense Savings. NiSource refinanced $2.4 billion of long-term debt at lower rates during 2005. As a result, interest expense, net was $284.9 million for the nine months ended September 30, 2006, a decrease of $27.1 million compared to the first nine months of 2005. This improvement was partially offset by lower interest income and higher costs related to the sale of accounts receivable which both contributed to the $13.3 million change in Other, net.

Expense and Process Management

IBM Agreement. During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. NiSource expects the 10-year agreement with IBM to deliver upwards of $530 million in gross savings in operating and capital costs. This cost savings is dependent upon many factors, and unanticipated changes in operations may cause actual cost savings to be substantially less than expected. As a part of this transformation, many new information technology systems and process changes have an accelerated time-line for completion. In August, 2006, NiSource and IBM decided to delay further implementation of certain information technology systems beyond January 1, 2007 due to difficulties encountered with the first wave of new system implementations. This delay may decrease the level of projected operating cost savings while continuing to ensure stable operations. A high-level team of NiSource and IBM resources have been assigned to reassess some of the systems and processes involved to ensure a successful implementation.

Operating Expenses. Operating expenses for the first nine months of 2006 were $1,618.1 million, a decrease of $5.2 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers and corresponding increases in net revenues, operating expenses decreased by $40.9 million. This decrease was due primarily to lower restructuring, pension and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. Partially offsetting these decreases were operating expense increases in the Gas Transmission and Storage Operations segment primarily due to higher employee and administrative costs, property insurance premiums, costs to settle litigation and pipeline integrity expenses.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

Insurance Costs. NiSource renewed both of the onshore property and casualty insurance programs on July 1, 2006. As a result of the demand for limited insurance capacity for offshore exposures, particularly the Gulf of Mexico, the offshore property program was renewed on June 1, 2006. NiSource sustained an increase of approximately $8 million in property insurance costs directly attributable to the increase in insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico. Casualty premiums remained relatively flat compared to the previous year. Such increases and restrictions in coverage for Gulf of Mexico windstorm exposures were driven by the overall poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained from hurricanes such as Ivan, Katrina and Rita.

Strategic Initiatives

NiSource's Whiting Clean Energy facility and BP have reached a Memorandum of Understanding which, subject to the execution of a definitive agreement, would redefine terms under which Whiting Clean Energy will provide steam to BP. BP intends to develop alternative solutions to meet the refinery's steam needs by the end of 2009. Whiting Clean Energy and BP have also outlined a restructured steam pricing approach for operating the Whiting Clean Energy facility in the interim.

NiSource is moving forward on its financial and strategic study initiative. The Board is in the advanced stages of reviewing a variety of options developed during the analytical phase of the strategic review process.

2006 Outlook

NiSource disclosed in its quarterly report ending March 31, 2006 that it expected income from continuing operations for 2006 to be between $1.33 to $1.43 basic EPS. This expectation considered the unfavorable weather impact of 9 cents per share that occurred during the first quarter 2006. In its quarterly report ending June 30, 2006, NiSource stated that attaining this guidance would be unlikely, primarily as a result of increased customer attrition and reduced customer usage of natural gas. NiSource's initial earnings guidance included an assumption that usage declines would return to historic levels of 0.5% to 1%, as compared to the revised view that the decline could approximate 5%. Customer attrition has also increased significantly from historic levels of about 0.5% to approximately 1.2%. The projected impact of these issues was a reduction in net revenues of nearly $40 million, or 10 cents per share, compared with the levels underlying NiSource's initial earnings guidance for the year. In addition, lower net interest savings were projected to increase interest expense and decrease other income by $12 million, or 3 cents per share, compared with the initial 2006 earnings guidance. NiSource has elected to not provide a reforecast of earnings for 2006 at this time.

Results of Operations
Quarter Ended September 30, 2006

Net Income

NiSource reported net income of $25.8 million, or $0.10 per share, for the three months ended September 30, 2006, compared to a net loss of $6.8 million, or $0.03 loss per share, for the three months ended September 30, 2005. Operating income was $136.4 million, an increase of $43.9 million from the same period in 2005. All per share amounts are basic EPS. Basic average shares of common stock outstanding at September 30, 2006 were 272.5 million compared to 271.7 million at September 30, 2005.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. An increase in operating expenses of $7.0 million was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the three months ended September 30, 2006, were $631.5 million, a $24.4 million increase from the same period last year. Excluding the impact of $7.0 million of trackers discussed above, net revenues increased by $17.4 million. Cooler weather in the third quarter of 2006 adversely affected Electric Operations by approximately $10 million and improved revenues within Gas Distribution Operations by approximately $3 million. The increase in net revenues was also attributable to increased net revenues from Electric Operations, excluding the impact of weather, of $14.4 million, mainly from lower unrecoverable MISO costs included in costs of sales of $4.0 million, increased electric usage by industrial customers

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

of approximately $4 million and other factors, and Gas Transmission and Storage Operations realizing a $10.2 million increase in sales from shorter-term transportation and storage services.

Expenses
Operating expenses for the third quarter 2006 were $495.1 million, a decrease of $19.5 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased approximately $26.5 million. This decrease was primarily due to impacts in the third quarter of 2005, which included transition costs and a pension and other postretirement benefit charge totaling $49.0 million associated with the IBM outsourcing initiative, partially reduced by the reversal of accrued incentive compensation of $10.2 million. During the third quarter of 2006, operation and maintenance expense increases included generation and maintenance costs of $5.2 million in Electric Operations, higher property insurance premiums of $3.4 million mainly for offshore and onshore facilities located in or near the Gulf of Mexico, and certain costs incurred to settle litigation during the quarter.

Other Income (Deductions)
Interest expense, net was $96.2 million for the quarter, a decrease of $10.3 million compared to the third quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $0.8 million for the current quarter compared to income of $3.3 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes
Income tax expense for the third quarter of 2006 was $13.5 million, compared to an income tax benefit of $5.8 million due to losses incurred in the third quarter of 2005. The effective tax rate for the quarter ended September 30, 2006 was 34.3%, which includes a $1.1 million income tax benefit recorded upon filing NiSource's 2005 consolidated federal income tax return. The income tax benefit in the third quarter of last year represented a 49.6% effective tax rate as a result of a loss from continuing operations together with a $1.1 million tax benefit recorded upon filing NiSource's 2004 consolidated federal income tax return.

Results of Operations
Nine Months Ended September 30, 2006

Net Income
NiSource reported net income of $219.7 million, or $0.81 per share, for the nine months ended September 30, 2006, compared to $238.5 million, or $0.88 per share, for the first nine months of 2005. Operating income was $635.6 million, a decrease of $14.4 million from the same period in 2005. NiSource's net income in the first nine months of 2005 reflects the $27.4 million gain on discontinued operations, which is the result of changes to reserves for contingencies related to the previous sale of discontinued assets partially offset by an impairment charge for certain discontinued assets. Basic average shares of common stock outstanding at September 30, 2006 were 272.4 million compared to 271.1 million at September 30, 2005.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. An increase in operating expenses of $35.7 million was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues
Total consolidated net revenues (gross revenues less cost of sales) for the nine months ended September 30, 2006, were $2,253.7 million, a $19.6 million decrease from the same period last year. Excluding the impact of $35.7 million of trackers discussed above, net revenues decreased by $55.2 million, primarily due to the adverse impact of weather on Gas Distribution Operations by approximately $60 million and decreased usage of residential gas customers amounting to approximately $18 million. These decreases in net revenues were partially offset by increased sales of shorter-term transportation and storage services in Gas Transmission and Storage Operations

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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amounting to $27.6 million. Electric Operations positive impacts to net revenues included a reduction in customer credits of $8.7 million and a reduction in unrecoverable MISO costs included in costs of sales of $7.7 million, which included the impact of a favorable regulatory ruling on the recoverability of certain MISO charges. The comparable period last year benefited by $8.9 million related to a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract within Gas Transmission and Storage Operations.

Expenses

Operating expenses for the first nine months of 2006 were $1,618.1 million, a decrease of $5.2 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased $40.9 million. The decrease was primarily due to impacts in the first nine months of 2005 which included restructuring charges, transition costs, pension and other postretirement benefit charges, and other costs associated with the IBM outsourcing initiative totaling $70.9 million, a $10.9 million charge for obsolete software systems and a $10.9 million impairment charge related to goodwill at Kokomo Gas. Operating expense increases in the first nine months of 2006 included transition and other restructuring charges associated with the IBM agreement of $11.8 million, outside services and consulting of $12.3 million, generation and maintenance costs of $8.4 million in Electric Operations, higher property insurance premiums of $6.0 million mainly for offshore and onshore facilities located in or near the Gulf of Mexico, asset impairment charges of $5.9 million and certain costs incurred to settle litigation during the quarter.

Other Income (Deductions)

Interest expense, net was $284.9 million for the first nine months of 2006 compared to $312.0 million for the first nine months of last year. This decrease of $27.1 million was mainly due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $6.9 million for the first nine months of 2006 compared to income of $6.4 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes

Income tax expense for the first nine months of 2006 was $121.7 million, a decrease of $8.4 million compared to the 2005 period, due primarily to a lower effective tax rate. The effective tax rate for the nine months ended September 30, 2006 was 35.6% compared to 38.1% for the comparable period last year. This 2.5% decrease reflects reductions in deferred state income tax liabilities recorded in the first quarter of 2006 and the tax impact of the non-deductible goodwill impairment charge recorded at Kokomo in the second quarter of 2005. Offsetting these decreases is additional tax expense associated with the reduction in low income housing credits.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas. While the previous credit agreements were projected to adequately meet these needs, on July 7, 2006, NiSource Finance amended its $1.25 billion credit facility increasing its aggregate commitment level to $1.5 billion to help maintain a reasonable cushion of short-term liquidity. NiSource Finance anticipates entering into a new $300 million short-term credit agreement with Dresdner Kleinwort during the fourth quarter of 2006 to provide additional liquidity through early 2007.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

Operating Activities
Net cash from operating activities for the nine months ended September 30, 2006 was $865.3 million, an increase of $108.4 million from the nine months ended September 30, 2005. This increase was primarily due to a significant reduction in outstanding accounts receivable and the collection of under-recovered gas cost partially offset by the impact in 2006 of reduced accounts payable balances. High gas cost in December 2005 resulted in unusually large balances in accounts receivable, accounts payable and under-recovered gas cost. A federal tax refund in the first quarter of 2005 compared to a tax payment in the first quarter of 2006 decreased net cash from operating activities period over period.

Investing Activities
Capital expenditures of $398.3 million in the first nine months of 2006 were $8.6 million lower than the comparable 2005 period. The spending for the first nine months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in 2006 compared to last year, mainly for increased integrity-management improvements in the Gas Transmission and Storage Operations segment and expenditures to replace key components within the Electric Operations segment in addition to new business projects. The program is expected to be funded primarily via cash from operations. Restricted cash balances increased $169.1 million in the first nine months of 2006 due primarily to a change in margin requirements for NiSource's various derivative positions. Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management programs which utilize derivative instruments.

Financing Activities
On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of September 30, 2006, NiSource's remaining shelf capacity was $850 million.

Cumulative Preferred Stock. On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

Long-term Debt. During May 2006, NiSource redeemed $25.0 million of Capital Markets medium-term notes, with an average interest rate of 7.50%.

During April 2006, NiSource redeemed $15.0 million of Capital Markets medium-term notes, with an average interest rate of 7.75%.

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

During July 2005, Northern Indiana redeemed $34.0 million of its medium-term notes with an average interest rate of 6.62%.

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10.0 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, NiSource redeemed $30.0 million of Capital Markets medium-term notes, with an average interest rate of 7.67%.

Credit Facilities. During July 2006, NiSource Finance amended its $1.25 billion five-year revolving credit facility increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. The

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

amended facility will help maintain a reasonable cushion of short-term liquidity in anticipation of continuing volatile natural gas prices. During November 2005, NiSource Finance entered into a $300 million nine-month revolving credit agreement with Dresdner Kleinwort that expired September 5, 2006. NiSource Finance anticipates entering into a new $300 million short-term credit agreement with Dresdner Kleinwort during the fourth quarter of 2006 to provide additional liquidity through early 2007.

NiSource Finance had outstanding credit facility borrowings of $861.0 million at September 30, 2006, at a weighted average interest rate of 5.70%, and borrowings of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%. As of September 30, 2006 and December 31, 2005, NiSource Finance had $87.6 million and $101.6 million of stand-by letters of credit outstanding, respectively. At September 30, 2006, $59.6 million of the $87.6 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource Finance obtained during February 2004. Of the remaining $28.0 million of stand-by letters of credit outstanding at September 30, 2006, 24.6 million resided under NiSource Finance's five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution. As of September 30, 2006, $614.4 million of credit was available under the credit facility.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, under the terms of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The agreement, which had a scheduled expiration date of May 12, 2006, was extended for another year to May 11, 2007. The agreement was further amended on July 1, 2006 increasing the program limit from $300 million to $350 million and extending the expiration date to June 29, 2007. As of September 30, 2006, $72.5 million of accounts receivable had been sold by CORC.

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

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement under the term of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC's agreement with the commercial paper conduit has a scheduled expiration date of December 22, 2006, and can be renewed if mutually agreed to by both parties. As of September 30, 2006, NRC had sold $191.1 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

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

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

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

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $6.1 million and $17.7 million for the quarter and nine months ended September 30, 2006, respectively.

Credit Risk
Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. NiSource's extension of credit is governed by a Corporate Credit Risk Policy. Written guidelines approved by NiSource's Risk Management Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of all commercial and trading operations. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks
The transactions associated with NiSource's power and natural gas trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity and natural gas. TPC, on behalf of Whiting Clean Energy, has entered into power and gas derivative contracts in 2006 to manage price risk associated with operating Whiting Clean Energy. These derivatives relating to the expected operation of Whiting Clean Energy are accounted for as trading derivatives.

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

Market Risk Measurement
Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was zero, during the third quarter of 2006. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.2 million, $0.3 million and $0.1 million during the third quarter of 2006, respectively. Prospectively, management has set the VaR limit at $0.8 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was $2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Power and gas derivative contracts entered

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

into to manage price risk associated with Whiting Clean Energy are limited to quantities surrounding the physical generation capacity of Whiting Clean Energy and the gas requirements to operate the facility.

Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $737.6 million of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 9, "Risk Management and Energy Trading Activities," and Note 15-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Other Information

Recently Adopted Accounting Pronouncements

SFAS No. 123 (revised 2004) — Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of September 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $6.1 million, which will be amortized over the weighted-average remaining requisite service period of 2.6 years.

SFAS No. 154 — Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 47 — Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource has adopted FIN 47 in the fourth quarter 2005. Refer to Note 13, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

SFAS No. 158 — Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans by requiring employers to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, among other changes. SFAS No. 158 requires companies to recognize the funded status of a benefit plan and to provide disclosure requirements for fiscal years ending after December 15, 2006. Additionally, SFAS No. 158 requires employers to measure plan assets and benefit obligations as of the fiscal year-end statement of financial position for fiscal years ending after December 15, 2008. NiSource will adopt the provisions to record the funded status of its pension and other postretirement plans' and to provide the disclosure requirements in the fourth quarter of 2006. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at September 30, 2006, the impact of SFAS No. 158, should it have been in effect at September 30, 2006, would have reduced Total Assets by approximately $63 million, increased Total Liabilities by approximately $174 million and decreased total common stock equity by approximately $237 million. NiSource is currently evaluating what affects, if any, the adoption of SFAS No. 158 will have on regulatory assets or liabilities. SFAS No. 158 will not have an impact on the Statements of Consolidated Income at adoption and all impacts are non-cash.

SFAS No. 157 — Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157 to define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. NiSource is currently reviewing the provisions of SFAS No. 157 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and should be applied prospectively, with limited exceptions.

SAB No. 108 — Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. In September 2006, the SEC issued SAB No. 108 to provide guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 is effective for periods ending after November 15, 2006. NiSource will adopt SAB No. 108 as required.

FIN 48 — Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This interpretation is effective for fiscal years beginning after December 15, 2006.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations

(in millions)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Sales Revenues	**$ 468.0**	$ 448.1	**$ 3,349.8**	$ 3,214.7
Less: Cost of gas sold	**276.9**	267.5	**2,353.3**	2,166.9
Net Revenues	**191.1**	180.6	**996.5**	1,047.8
Operating Expenses				
Operation and maintenance	**142.4**	169.7	**534.2**	537.7
Depreciation and amortization	**57.7**	55.7	**173.3**	167.8
Impairment and gain on sale of assets	**(0.3)**	—	**(0.3)**	10.5
Other taxes	**22.9**	24.8	**120.9**	120.8
Total Operating Expenses	**222.7**	250.2	**828.1**	836.8
Operating Income (Loss)	**$ (31.6)**	$ (69.6)	**$ 168.4**	$ 211.0
Revenues ($ in Millions)				
Residential	**211.2**	227.8	**2,067.0**	2,026.6
Commercial	**86.3**	91.5	**773.2**	744.5
Industrial	**53.7**	59.1	**232.4**	233.6
Off System	**77.6**	13.8	**315.7**	134.1
Other	**39.2**	55.9	**(38.5)**	75.9
Total	**468.0**	448.1	**3,349.8**	3,214.7
Sales and Transportation (MMDth)				
Residential	**15.6**	16.1	**162.5**	196.2
Commercial	**20.0**	17.6	**114.3**	124.3
Industrial	**91.1**	84.8	**272.5**	281.9
Off System	**11.3**	1.3	**41.2**	17.6
Other	**0.1**	0.1	**0.6**	0.6
Total	**138.1**	119.9	**591.1**	620.6
Heating Degree Days	**69**	21	**2,752**	3,180
Normal Heating Degree Days	**58**	58	**3,165**	3,168
% Colder (Warmer) than Normal	**19%**	(64%)	**(13%)**	0%
Customers				
Residential			**2,983,908**	2,988,934
Commercial			**276,058**	285,449
Industrial			**7,849**	8,424
Other			**73**	61
Total			**3,267,888**	3,282,868

NiSource's natural gas distribution operations serve approximately 3.3 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

Restructuring
Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $0.5 million and $2.8 million for the third quarter and first nine months of 2006, respectively, and the restructuring liability remaining at September 30, 2006 was $0.8 million. In the third quarter, an adjustment was made to the restructuring reserve for leased office space, reducing the reserve by $5.2 million. This adjustment was made in connection with a reallocation of office space and assessment of office facilities. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE ® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of September 2006, approximately 731 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio's application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of September 30, 2006, Columbia of Ohio has $44.1 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. A hearing in these matters is scheduled to commence on November 29, 2006.

On October 31, 2006, the Massachusetts DTE approved a request by Bay State for a $3.6 million inflation adjustment to be collected annually over a twelve month period beginning November 1, 2006. Bay State is permitted, as part of its DTE-approved Performance Based Rate Plan, to adjust its rates each year to compensate for the impact of inflation.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

addition to the inflation adjustment, Bay State also requested an adjustment to its rates for revenue declines attributable to conservation in the amount of $5 million, annually. The DTE is expected to rule on Bay State's requests in the fourth quarter of 2006.

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

Northern Indiana continues to work with its regulatory stakeholders on a filing made earlier this year to simplify its residential rate structure.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of September 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

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

Weather in the Gas Distribution Operation's territories for the third quarter of 2006 was significantly cooler than the comparable quarter in 2005, and 19% cooler than normal overall.

For the first nine months of 2006, weather was 13% warmer than the comparable 2005 period and 13% warmer than normal.

Throughput
Total volumes sold and transported of 138.1 MMDth for the third quarter of 2006, increased 18.2 MMDth from the same period last year. This increase in volume was due to increased off-system sales and cooler weather in the current period partially offset by decreased residential sales due in part to reduced residential customer usage compared to the same period last year.

For the nine month period ended September 30, 2006, total volumes sold and transported were 591.1 MMDth, a decrease of 29.5 MMDth from the same period in 2005. This decrease reflected lower sales to residential, commercial, and industrial customers, which was attributable mainly to the milder weather, and decreased residential customer usage, partially offset by increased off-system sales in the first nine months of 2006 compared to the first nine months of 2005.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

Net Revenues
Net revenues for the three months ended September 30, 2006 were $191.1 million, an increase of $10.5 million from the same period in 2005, due to an increase from regulatory trackers of $5.2 million, which are primarily offset in operating expenses, the impact of cooler weather amounting to approximately $3 million for the quarter and increased revenues from gas cost incentive mechanisms of $2.4 million. These increases in net revenues were partially offset by an estimated decline in usage from residential customers of approximately $2 million and increased costs associated with certain retail products offered to gas distribution customers in some regions.

For the nine month period ended September 30, 2006, net revenues were $996.5 million, a $51.3 million decrease from the same period in 2005. This decrease in net revenues was due primarily to the impact of warmer weather amounting to approximately $60 million and a decline in residential usage of approximately $18 million. These decreases in net revenues were partially offset by a $32.1 million increase in revenues from regulatory trackers, which are primarily offset in operating expense.

Operating Income
For the third quarter of 2006, Gas Distribution Operations reported an operating loss of $31.6 million compared to an operating loss of $69.6 million for the same period in 2005. The decrease in operating loss was attributable to increased net revenues described above and lower operation and maintenance expenses. Operation and maintenance expenses were impacted by costs incurred in the third quarter of 2005 for transition, a pension and other post-retirement benefits charge and new system development costs totaling $29.9 million associated with the IBM agreement. Increased employee and administrative costs were offset by a reversal in the third quarter of a restructuring reserve for leased office space of $5.2 million. Increased depreciation expense was partially offset by a decrease in other taxes.

Operating income for the first nine months of 2006 totaled $168.4 million, a $42.6 million decrease compared to the same period in 2005, largely attributable to reduced net revenues described above. The comparable period last year was impacted by transition costs, a restructuring charge, a pension and other post-retirement benefits charge and new system development costs totaling $41.3 million associated with the IBM agreement and a $10.9 million goodwill impairment loss related to Kokomo Gas. Operating expenses were impacted this year by higher depreciation expense of $5.5 million and higher employee and administrative costs, partially offset by a reversal in the third quarter of a restructuring reserve for leased office space of $5.2 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations

(in millions)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Operating Revenues				
Transportation revenues	**$ 154.6**	$ 141.5	**$ 491.6**	$ 470.1
Storage revenues	**44.2**	44.4	**132.4**	133.6
Other revenues	**(0.8)**	1.8	**4.8**	9.5
Total Operating Revenues	**198.0**	187.7	**628.8**	613.2
Less: Cost of gas sold	**4.3**	6.4	**13.6**	18.3
Net Revenues	**193.7**	181.3	**615.2**	594.9
Operating Expenses				
Operation and maintenance	**83.6**	77.8	**229.7**	219.0
Depreciation and amortization	**28.4**	28.6	**85.7**	85.3
Loss on sale of assets	**—**	—	**0.5**	—
Other taxes	**12.8**	12.7	**41.1**	42.1
Total Operating Expenses	**124.8**	119.1	**357.0**	346.4
Operating Income	**$ 68.9**	$ 62.2	**$ 258.2**	$ 248.5
Throughput (MMDth)				
Columbia Transmission				
Market Area	**170.5**	144.1	**669.0**	708.2
Columbia Gulf				
Mainline	**108.1**	120.4	**397.7**	402.1
Short-haul	**36.4**	27.1	**83.8**	68.7
Columbia Pipeline Deep Water	**1.6**	2.7	**6.7**	9.4
Crossroads Gas Pipeline	**8.4**	9.5	**28.4**	31.5
Granite State Pipeline	**3.0**	3.2	**19.1**	22.8
Intrasegment eliminations	**(90.7)**	(110.4)	**(369.4)**	(390.6)
Total	**237.3**	196.6	**835.3**	852.1

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline, Granite State Gas and Central Kentucky Transmission. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in 19 northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation's largest underground natural gas storage systems.

Restructuring

Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.9 million and $2.0 million for the third quarter and first nine months of 2006, respectively, and the restructuring liability remaining at September 30, 2006 was $3.0 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters

On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. It is anticipated that operating expenses will increase

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

approximately $7 - $12 million in future years related to this guidance and the expenditures NiSource expects to incur to comply with the DOT's Integrity Management Rule. In November, 2005, INGAA sought review of the matter before the U. S. Court of Appeals for the D.C. Circuit (INGAA V. FERC, No. 05-1426). The matter remains pending before the Court.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf's system and the reliability of service to its customers. The FERC ruled that Tennessee Gas Pipeline's interconnection request should be governed by the existing Blue Water Pipeline Operating Agreement between Columbia Gulf and Tennessee Gas Pipeline. Columbia Gulf constructed the necessary taps and Tennessee Gas Pipeline then completed its portion of the interconnection facilities. The interconnection was ready to flow gas on October 1, 2006.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with the FERC's referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf's rehearing of the declaratory order issued by the FERC is pending.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of September 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Tax Matters
On July 28, 2006, the Ohio Board of Tax Appeals issued a favorable decision in the matter of Columbia Gas Transmission Corporation vs. Thomas M. Zaino, Tax Commissioner of Ohio. The Board ruled that Columbia Transmission's Ohio operations fall within the statutory definition of both a "natural gas company" and a "pipeline company" and that Columbia Transmission's property is to be assessed at the significantly lower "natural gas company" assessment ratio beginning with the 2001 tax year. The Ohio Tax Commissioner appealed the decision to the Ohio Supreme Court on July 31, 2006. The final outcome of the case and its impact on the financial statements are uncertain at this time.

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

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004. On March 31, 2006, the United States Federal District Court denied Millennium's appeal. On May 3, 2006 Millennium filed with FERC requesting it vacate portions of the Millennium certificate that relate to the Phase 2 facilities and any conditions relating to Phase 2. This reflects Millennium's decision not to appeal the United States Federal District Court ruling. Phase 2 options are still being studied. The content of the final FERC certificate for Phase I of Millennium, expected by year-end, could impact these options.

On August 1, 2005, Millennium submitted a certificate amendment filing to the FERC. This amended filing requests authorization from the FERC to construct the project in phases, which includes an allocation of prior project costs between the phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase 1 of the project. On May 3, 2006, Millennium made a second amended certificate filing to the FERC. This filing reflected the new partnership agreements and reconfigured ownership levels as discussed below. It also reflected the change in contributed assets from Columbia to Millennium and other project updates. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, Iroquois, and Islander East collectively referred to as the "Companion Pipelines." Millennium has also advised several counties in New York that without certain requested tax relief the project, as currently proposed, will not be built. Millennium did receive a Final Environmental Impact Statement from the FERC on October 13, 2006. A final FERC certificate for Millennium is expected by year end. Provided the necessary regulatory approvals for Millennium and the "Companion Pipelines" and requested tax relief are received in a timely manner, Millennium plans to begin construction in Spring 2007 with a projected in-service date of November 2008.

In March 2006, Columbia Atlantic Trading, a NiSource subsidiary, sold its 21.0% interest in the Millennium partnership to KeySpan Millennium (owned by KeySpan Corporation) and DTE Millennium (owned by DTE Energy Co.) through an equity redistribution and a re-writing of the partnership agreements. The Millennium partnership is now currently made up of the following companies: Columbia Transmission (47.5%), DTE Millennium (26.25%), and KeySpan Millennium (26.25%). Columbia Transmission will be the operator.

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States. Hardy Storage was then formed by Columbia Transmission and Piedmont to develop a natural gas storage field from a depleted natural gas production field in West Virginia. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is expected to be able to deliver 176 MMDth per day of firm storage service on behalf of the subscribing customers. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received a favorable order on November 1, 2005. On October 26, 2006, Hardy Storage filed an application seeking to amend the November 1, 2005 order to revise the initial rates and estimated costs for the project pursuant to executed settlement agreements with Hardy Storage's customers.

On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of Hardy Storage. Under the financing agreement, Columbia Transmission issued guarantees securing payment for amounts issued in connection with Hardy Storage up until such time as the project is placed in service and satisfies certain performance criteria. Additional information on this guarantee is provided in Note 15-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements. Construction began in the first quarter of 2006 and Hardy Storage is expected to be placed in service in the second quarter of 2007.

Other Growth Projects
Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements, continues with pre-filing activities.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Sales of Shorter-Term Transportation and Storage Services
Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $40 million of shorter-term business for 2006, $31.7 million of which was recorded during the nine months ended September 30, 2006.

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 237.3 MMDth for the third quarter 2006, compared to 196.6 MMDth for the same period in 2005. The increase of 40.7 MMDth is due to increased sales of shorter-term transportation and storage services described above.

Throughput for the nine months ended September 30, 2006 was 835.3 MMDth, a decrease of 16.8 MMDth from the same period in 2005, due to warmer weather in the first nine months of 2006 than for the comparable period in 2005 partially offset by increased sales of shorter-term transportation and storage services.

Net Revenues
Net revenues were $193.7 million for the third quarter 2006, an increase of $12.4 million from the same period in 2005, primarily due to increased sales of shorter-term transportation and storage services of $10.2 million. Seasonal price fluctuations in the national energy market continued to create opportunities for customers to utilize existing short-term tariff services.

Net revenues were $615.2 million for the first nine months of 2006 compared to $594.9 million for the first nine months of 2005. The increase in net revenues was mainly due to increased subscriptions for demand services of $5.7 million and sales of shorter-term transportation and storage services amounting to $27.6 million. The comparable period last year benefited from a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, which amounted to $8.9 million.

Operating Income
Operating income was $68.9 million for the third quarter 2006 compared to $62.2 million in the third quarter 2005. Increases in net revenues described above were partially offset by increased operating expenses of $5.7 million. Operation and maintenance expenses increased as a result of higher employee and administrative costs of $4.2 million, increased property insurance costs of $2.9 million and certain costs incurred to settle litigation during the quarter. These operation and maintenance expense increases were partially offset by the impact in the comparable 2005 period of transition costs and a pension and other postretirement benefit charge totaling $8.5 million associated with the IBM agreement. The increased property insurance costs were mainly attributable to insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico. The increases in insurance premiums were driven by the poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained from hurricanes such as Ivan, Katrina and Rita.

For the first nine months of 2006, operating income of $258.2 million increased $9.7 million compared to the first nine months of 2005 primarily due to increased net revenues described above. Operation and maintenance expenses increased as a result of higher employee and administrative costs of $8.7 million, increased property insurance premiums of $3.9 million mainly for offshore and onshore facilities located in or near the Gulf of Mexico, pipeline integrity related costs of $2.6 million, and certain costs incurred to settle litigation during the quarter. These operation and maintenance expense increases were partially offset by the impact in the comparable 2005 period of transition costs, a restructuring charge and a pension and other postretirement benefit charge totaling $11.2 million associated with the IBM agreement.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations

(in millions)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Sales revenues	**$ 378.7**	$ 373.2	**$ 988.5**	$ 938.1
Less: Cost of sales	**143.5**	142.4	**372.1**	331.0
Net Revenues	**235.2**	230.8	**616.4**	607.1
Operating Expenses				
Operation and maintenance	**66.5**	62.3	**193.4**	192.4
Depreciation and amortization	**47.3**	46.9	**140.3**	138.6
Gain on sale of assets	**—**	—	**—**	(0.4)
Other taxes	**13.1**	11.2	**43.0**	39.7
Total Operating Expenses	**126.9**	120.4	**376.7**	370.3
Operating Income	**$ 108.3**	$ 110.4	**$ 239.7**	$ 236.8
Revenues ($ in millions)				
Residential	**116.1**	118.3	**276.1**	269.0
Commercial	**103.0**	92.8	**276.0**	251.7
Industrial	**132.2**	116.9	**387.6**	333.9
Wholesale	**17.5**	14.6	**32.6**	28.4
Other	**9.9**	30.6	**16.2**	55.1
Total	**378.7**	373.2	**988.5**	938.1
Sales (Gigawatt Hours)				
Residential	**1,058.0**	1,197.9	**2,541.1**	2,732.9
Commercial	**1,077.5**	1,082.4	**2,921.0**	2,964.7
Industrial	**2,359.8**	2,240.1	**7,180.7**	6,753.6
Wholesale	**260.4**	336.5	**608.4**	693.6
Other	**38.5**	34.3	**78.9**	82.8
Total	**4,794.2**	4,891.2	**13,330.1**	13,227.6
Cooling Degree Days	**524**	655	**714**	935
Normal Cooling Degree Days	**576**	576	**803**	803
% Warmer (Colder) than Normal	**(9%)**	14%	**(11%)**	16%
Electric Customers				
Residential			**396,072**	393,382
Commercial			**51,791**	50,922
Industrial			**2,520**	2,512
Wholesale			**7**	12
Other			**760**	767
Total			**451,150**	447,595

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 451 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

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

The U.S. steel industry continues to adjust to changing market conditions including international competition, increased energy costs, and fluctuating demand for their products. The industry has responded with plant consolidation and rationalization to reduce costs and improve their position in the market place. Increased use of advanced technology by U.S. steel producers has lowered production costs and increased productivity, reducing the labor differential between international producers and those in the United States. NiSource continued to see strength in industrial sales volumes, up 6.3% over 2005 levels, due largely to the steel market and related industries.

Northern Indiana has identified a need for additional resources to meet its electric customers' demand in the coming years. To assess options to meet this need, a Request for Proposal for purchases of power (including renewable energy) and demand reducing options was issued. The bids are to provide power in the short term as well separate bids to provide power in the long term. These bids are being evaluated and compared to other options including building a power plant, acquiring a portion of an existing plant, entering into a natural gas purchase contract to provide low cost gas for power production and restarting or repowering of the Mitchell Station. No commitment to pursue any specific option or group of options has been made. Management anticipates that the evaluation of options will continue at least until early 2007.

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana's electric rates subsequent to the minimum period. The order included a rate moratorium that expired on July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $37.9 million and $46.7 million were recognized for electric customers for the first nine months of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, which are recovered through the FAC process. In addition, Northern Indiana incurs administrative fees, which relate to the MISO's management and operations of the transmission system. These fees, according to a 2004 IURC order, were not eligible for recovery or deferral until the end of Northern Indiana's rate moratorium, which expired on July 31, 2006. Day 2 charges included both fuel and non-fuel costs. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million was required for charges related to the period April 1, 2005 through December 8, 2005. Pending this order, Northern Indiana had provided a reserve of $8.7 million through December 2005. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $3.1 million for the first nine months of 2006. Day 2 non-fuel costs amounted to $12.7 million for the first nine months of 2006. Of this amount, $11.9 million was recorded as non-recoverable in net revenues through July 31, 2006 and, beginning August 1, 2006 per Cause No. 42685, $0.8 million has been deferred for consideration in a future rate case. Day 1 and Day 2 administrative fees totaled $4.0 million for the first nine months of 2006 and were $5.1 million for the year 2005. Of the $4.0 million in 2006, $1.0 million was deferred for consideration in a future rate proceeding. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

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

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

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. On August 23, 2006, the final order in cause 42824 requesting recovery of intermediate dispatchable power costs incurred August to December 2005 was issued. The final order from the IURC approved the Settlement Agreement between Northern Indiana, the OUCC and the Industrial Group. The IURC order also approved the Settlement Agreement between Northern Indiana and LaPorte County, whereby Northern Indiana is to issue a refund of $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases that were "subject to refund" as a condition in Northern Indiana's final orders in Cause Nos. 38706 FAC-69 and FAC-70. LaPorte County and its attorneys were awarded $0.5 million in fees and expenses. The attorney fees were paid in September 2006 and the amounts due to customers will be returned in the next FAC.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. On September 27, 2006, Northern Indiana filed for the voluntary dismissal of a Purchased Power and Transmission Tracker Mechanism, without prejudice, in accordance with the terms of the settlement agreement approved by the IURC order in cause 42824 (as described above). The final order approving the voluntary dismissal was issued on October 4, 2006.

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery was subject to refund impacted by the final order in cause No. 42824 that was issued on August 23, 2006 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC's May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

On September 28, 2006, the IURC issued an order approving FAC-72 rates on an interim basis subject to refund in the event that an excess rate of return is earned and subject to the resolution of the issues in Cause No. 38706-

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

FAC71 subdocket (described above). FAC-72 included a refund for the remaining $0.8 million of MISO-related costs.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. On October 18, 2006, Northern Indian filed for approval of the revised cost estimates to meet the environmental standards. Northern Indiana anticipates a total capital investment amounting to approximately $313 million. The ECRM revenues amounted to $19.7 million for the nine months ended September 30, 2006, and $71.5 million from inception to date, while EERM revenues were $10.9 million for the nine months ended September 30, 2006, and $19.7 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing. ECR-8 was filed in August 2006 for capital expenditures (net of accumulated depreciation) of $226.8 million and was approved by the IURC on September 28, 2006. ECR-9 and EER-4 are scheduled to be filed in February 2007.

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

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. While the IURC could not conclude that Northern Indiana failed to provide reasonably adequate service, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Northern Indiana and Jupiter both appealed the IURC's order to the Indiana Court of Appeals, which are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of September 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

Sales
Electric Operations sales quantities for the third quarter of 2006 were 4,794.2 gwh, a decrease of 97.0 gwh compared to the 2005 period, mainly due to decreased residential sales due to milder weather. This decrease was partially offset by increased industrial usage, particularly in the steel sector.

Electric sales for the first nine months of 2006 was 13,330.1 gwh, an increase of 102.5 gwh compared to the 2005 period, as a result of increased industrial sales described above. Residential and commercial sales quantities decreased due to cooler weather.

Net Revenues
In the third quarter of 2006, electric net revenues of $235.2 million increased by $4.4 million from the comparable 2005 period. This improvement was primarily a result of $4.0 million of lower unrecoverable MISO costs included in cost of sales, increased industrial usage of approximately $4 million, a reduction in customer credits of $2.4 million, due to the timing of the credits, and increased numbers of residential and commercial customers amounting to approximately $2 million. The lower unrecoverable MISO costs resulted mainly from the IURC's second quarter ruling on the recoverability of certain MISO costs as well as the deferral of certain costs for future recovery which began on August 1, 2006. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $10 million.

In the first nine months of 2006, electric net revenues were $616.4 million, an increase of $9.3 million from the comparable 2005 period primarily due to a reduction in customer credits of $8.7 million, due to the timing of the credits, $7.7 million of lower unrecoverable MISO costs included in cost of sales, increased environmental tracker revenues of $4.6 million (offset in expense), and an increase in residential and commercial customers amounting to approximately $5 million. The lower unrecoverable MISO costs resulted mainly from the IURC's second quarter ruling on the recoverability of certain MISO costs as well as the deferral of certain costs for future recovery which began on August 1, 2006. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $20 million.

Operating Income
Operating income for the third quarter of 2006 was $108.3 million, a decrease of $2.1 million from the same period in 2005. The decrease in operating income was due to increased operating expenses of $6.5 million partially offset by the increase in net revenue mentioned above. Operating expenses increased due to higher electric generation and maintenance expenses of $5.2 million and increased other taxes compared to the same period in 2005. Operation and maintenance expense increases were also partially offset by the impact in the comparable 2005 period of transition costs and a pension and other postretirement benefit charge totaling $5.0 million associated with the IBM agreement.

Operating income for the first nine months of 2006 was $239.7 million, an increase of $2.9 million from the same period in 2005. The increase in operating income was due to the changes in net revenue mentioned above. Operating expenses increased due to higher electric generation and maintenance expense of $8.4 million and increased other taxes compared to the same period in 2005, partially offset by lower employee and administrative expenses of approximately $3.3 million. Operation and maintenance expense was also impacted by transition costs, a restructuring charge and a pension and other postretirement benefit charge totaling $6.8 million associated with the IBM agreement made in the comparable 2005 period.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Other Operations

(in millions)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2005
Net Revenues				
Products and services revenue	**$ 176.3**	$ 226.9	**$ 694.3**	$ 653.8
Less: Cost of products purchased	**162.8**	210.8	**664.5**	625.8
Net Revenues	**13.5**	16.1	**29.8**	28.0
Operating Expenses				
Operation and maintenance	**12.5**	12.9	**34.6**	29.5
Depreciation and amortization	**1.8**	2.7	**7.5**	8.1
Impairment and gain on sale of assets	**0.1**	—	—	(0.6)
Other taxes	**(0.6)**	1.2	**2.8**	5.4
Total Operating Expenses	**13.8**	16.8	**44.9**	42.4
Operating Loss	**$ (0.3)**	$ (0.7)	**$ (15.1)**	$ (14.4)

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

PEI Holdings, Inc.

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

For the first nine months of 2006, the PEI holding companies' consolidated after-tax loss was $23.5 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery.

NiSource's Whiting Clean Energy facility and BP have reached a Memorandum of Understanding which, subject to the execution of a definitive agreement, would redefine terms under which Whiting Clean Energy will provide steam to BP. BP intends to develop alternative solutions to meet the refinery's steam needs by the end of 2009. Whiting Clean Energy and BP have also outlined a restructured steam pricing approach for operating the Whiting Clean Energy facility in the interim.

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

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Other Operations (continued)

interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte's appeal of the IURC's interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable.

Because of continued losses from Whiting Clean Energy, projected impacts from the Memorandum of Understanding reached between Whiting Clean Energy and BP, and expected utilization of the Whiting Clean Energy facility, an impairment study was performed during the third quarter of 2006 in accordance with SFAS No. 144. Under the provisions of SFAS No. 144, an impairment loss shall be recognized only if the carrying amount of a long lived asset is not recoverable and exceeds its fair value. The test compares the carrying amount of the long lived asset to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The study indicated that no impairment was necessary.

The study includes many estimates and assumptions for the 35-year estimated useful life of the facility. Changes in these estimates and assumptions, such as electricity and natural gas forward price volatility, impacts from the negotiations with BP in reaching a definitive agreement as discussed above, and utilization of the facility, could result in a situation where total undiscounted cash flows are less than the carrying value of the facility, which would result in a write-down that could be significant.

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at September 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve-months, are reflected as assets held for sale.

NDC Douglas Properties
NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the second quarter of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.1 million as of September 30, 2006 after impairment, as assets held for sale. Mortgage notes and other accrued liabilities related to these investments of $9.9 million are accounted for as liabilities held for sale.

Net Revenues
Net revenues of $13.5 million for the third quarter of 2006 decreased by $2.6 million from the third quarter of 2005, as a result of lower revenues from the Whiting Clean Energy facility of $4.5 partially offset by increased commercial and industrial gas marketing revenues.

For the first nine months of 2006, net revenues were $29.8 million, a $1.8 million increase compared to the same period in 2005. The increase was mainly due to increased commercial and industrial gas marketing revenues of $3.7 million partially offset by increased losses from the Whiting Clean Energy facility.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Other Operations (continued)

Operating Loss
Other Operations reported an operating loss of $0.3 million for the third quarter of 2006, versus an operating loss of $0.7 million for the comparable 2005 period. The decrease in the operating loss primarily resulted from lower property taxes and lower depreciation expense partially offset by lower net revenues described above.

For the first nine months of 2006, the operating loss was $15.1 million compared to an operating loss of $14.4 million for the comparable 2005 period. Operation and maintenance expense increased $5.1 million due to scheduled maintenance for Whiting Clean Energy of $4.5 million, an impairment charge of $1.2 million taken for a certain NDC Douglas property that will be disposed of during 2006 and a $0.3 million loss that was realized on the sale of the Sand Creek Golf Club property. These increases in operation and maintenance expenses were partially offset by the increase in net revenues from commercial and industrial gas marketing described above and lower accrued property taxes.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
NiSource's chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource's disclosure controls and procedures were effective.

Changes in Internal Controls
On July 1, 2006, NiSource began a multi-year process of transforming the information systems. As its initial step in this process, NiSource began using new systems in the finance and accounting, supply chain and human resource functions that support the Gas Transmission and Storage Operations, Corporate and Other Operations segments. NiSource adjusted the internal controls that apply to these functional areas to align them with the new systems and revised business processes.

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

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PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

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

On January 13, 2004, VNG filed with the FERC a "Complaint Seeking Compliance with the Natural Gas Act and with Regulations and Certificate Orders of the Federal Energy Regulatory Commission and Seeking Remedies" in Docket No. RP04-139. VNG alleged various violations during the winter of 2002-2003 by Columbia Transmission of its firm service obligations to VNG. VNG sought monetary damages and remedies (exceeding $37 million), and also sought certain prospective remedies. On July 29, 2004, the FERC issued an order in which it refused to grant VNG any monetary damages and said such claims are best determined by a court of law. The FERC also agreed with Columbia Transmission that Columbia Transmission had not abandoned its obligation to provide service and that it had not inappropriately continued interruptible service to the detriment of firm service. However, the FERC did find that Columbia Transmission had failed to exercise sufficient due diligence in its modifications to or its operation of vaporization equipment at its Chesapeake LNG facility and that Columbia Transmission had failed to deliver gas to VNG at 250 pounds per square inch gauge (psig) as called for by the agreement between VNG and Columbia Transmission. The FERC declined VNG's request to award damages in this case and, as noted above, stated that any claim for damages could best be determined by a court of law. Both Columbia Transmission and VNG have appealed the FERC's decision to the United States Court of Appeals for the D.C. Circuit. On May 12, 2006, the United States Court of Appeals for the D.C. Circuit issued an order on Columbia Transmission's and VNG's petitions for review of FERC's decision. The Court upheld FERC's holdings that the events at Columbia's Chesapeake LNG facility in February and March of 2003 did not constitute a force majeure event, and upheld the FERC's decision that Columbia had not unlawfully abandoned service to VNG. The Court also remanded the case to FERC directing FERC to articulate the basis for its authority to award damages (if any). The parties to this proceeding settled this matter in October 2006.

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

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

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

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

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

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ITEM 1. LEGAL PROCEEDINGS (continued)
NISOURCE INC.

The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. On May 13, 2005, the Special Master issued his report and recommendations and recommended dismissal of the action against the Columbia defendants. On October 20, 2006, the Federal District Court issued its Order on the Special Master's report and recommendation. The Order grants the Columbia defendants' motion to dismiss for lack of subject matter jurisdiction. The Plaintiff could still appeal this Order to the Court of Appeals.

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

The Plaintiffs, who are royalty owners, filed a lawsuit in early 2003 against CNR alleging that CNR underpaid royalties by improperly deducting post-production costs and not paying a fair value for the gas produced from their leases. Plaintiffs seek the alleged royalty underpayment and punitive damages claiming that CNR fraudulently concealed the deduction of post-production charges. The court has certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from CNR (and its predecessors or successors) on lands lying within the boundary of the state of West Virginia. All claims by the government of the United States are excluded from the class. CNR appealed the decision certifying the class and the West Virginia Supreme Court of Appeals denied the appeal. Although NiSource sold CNR in 2003, NiSource remains obligated to manage this litigation and also remains at least partly liable for any damages awarded to the plaintiffs. In December 2004, the court granted plaintiffs' motion to add NiSource and Columbia as defendants. The trial was originally scheduled for the first quarter of 2006, but was continued indefinitely, pending review by the West Virginia Supreme Court on the deductibility of post production expenses. On June 15, 2006, the West Virginia Supreme Court ruled against the defendants on this issue. The trial court has scheduled the trial of this case for the first quarter of 2007.

ITEM 1A. RISK FACTORS

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

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

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

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

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ITEM 1A. RISK FACTORS (continued)
NISOURCE INC.

As a part of this transformation, many new information technology systems and process changes have an accelerated time-line for completion increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition. In August, 2006, NiSource and IBM decided to delay further implementation of certain information technology systems beyond January 1, 2007 due to difficulties encountered with the first wave of new system implementations. This delay may decrease the level of projected operating cost savings while continuing to ensure stable operations. A high-level team of NiSource and IBM resources have been assigned to reassess some of the systems and processes involved to ensure a successful implementation.

Other than the risk factor disclosed above, there were no other material changes from the risk factors disclosed in NiSource's 2005 Form 10-K filed on March 10, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

NISOURCE INC.

(10.1) Amended and Restated Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the lender parties thereto as Lenders, Credit Suisse as Syndication Agent, JPMorgan Chase Bank, N.A., The Bank Of Tokyo-Mitsubishi UFJ, Ltd., Chicago Branch and Citicorp USA, Inc., as Co-Documentation Agents and Barclays Bank PLC, as Administrative Agent and LC Bank dated July 7, 2006 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2006).

(31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(31.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

(32.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

* Exhibit filed herewith.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

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SIGNATURE

NISOURCE INC.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NiSource Inc.
(Registrant)

Date: November 2, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer
and Duly Authorized Officer)

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 Quarterly Report of NiSource Inc. on Form 10-Q for the quarter ended September 30, 2006;
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: November 2, 2006

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, Michael W. O'Donnell, certify that:

1. I have reviewed this Quarterly Report of NiSource Inc. on Form 10-Q for the quarter ended September 30, 2006;
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: November 2, 2006

By: /s/ Michael W. O'Donnell
Michael W. O'Donnell
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 Quarterly Report of NiSource Inc. (the "Company") on Form 10-Q for the quarter ending September 30, 2006 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: November 2, 2006

Exhibit 32.2

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of NiSource Inc. (the "Company") on Form 10-Q for the quarter ending September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. O'Donnell, 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/ Michael W. O'Donnell
Michael W. O'Donnell
Executive Vice President and Chief Financial Officer

Date: November 2, 2006

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

FORM 8-K

CURRENT REPORT
Pursuant To Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 2, 2006

NiSource Inc.

(Exact name of registrant as specified in its charter)

Commission file number 001-16189

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)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On November 2, 2006, NiSource Inc. (the "Company") reported its financial results for the fiscal quarter ended September 30, 2006. The Company's press release, dated November 2, 2006, is attached as Exhibit 99.1.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

Exhibit Number	Description
99.1	Press Release, dated November 2, 2006, issued by NiSource Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: November 2, 2006 By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press Release, dated November 2, 2006, issued by NiSource Inc.

Exhibit 99.1

NEWS

NiSource

801 E. 86th Avenue
Merrillville, IN 46410

FOR IMMEDIATE RELEASE
November 2, 2006

FOR ADDITIONAL INFORMATION

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NiSource announces higher third-quarter earnings

Company reports progress on Whiting Clean Energy

MERRILLVILLE, Ind. — NiSource Inc. (NYSE: NI) today announced net operating earnings (non-GAAP) of $29.5 million, or 11 cents per share, for the three months ended Sept. 30, 2006, an increase from $16.4 million, or 6 cents per share, for the third quarter of 2005 (all per-share amounts are basic). Operating earnings (non-GAAP) were $142.8 million for the third quarter of 2006, up from $128.0 million for the same period in 2005. For a reconciliation of net operating earnings and operating earnings to GAAP, see Schedules 1 and 2 of this news release.

Primary drivers of the improvement in net operating earnings were strong results in the electric business; an improvement in gas distribution operations due to lower operating expenses; and a $10.3 million decrease in interest expense for the quarter due to the refinancing of $2.4 billion in long-term debt during 2005 at lower rates.

"Our core businesses produced a solid third quarter," said NiSource President and Chief Executive Officer Robert C. Skaggs, Jr. "Our electric unit turned in another strong performance, our gas distribution operations held the line on expenses while continuing to make progress on a number of key regulatory initiatives, and our gas transmission and storage team continued to deliver the revenue growth projected for the year."

These positive results reflect ongoing progress on the company's four-point plan for long-term, sustainable growth, Skaggs stated. The balanced plan centers on NiSource's portfolio of regulated assets and includes: commercial growth and expansion of the gas transmission and storage business;

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NiSource announces higher third - quarter earnings
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commercial and regulatory initiatives; management of the balance sheet; and process and expense management.

Significant progress on Whiting Clean Energy

Skaggs announced that NiSource's Whiting Clean Energy (WCE) unit and BP have reached a Memorandum of Understanding (MOU) which, subject to the execution of a definitive agreement, would redefine terms under which WCE will provide steam to BP. WCE is a 525-megawatt combined- cycle gas cogeneration facility located on the BP Whiting Refinery property in Whiting, Ind., that produces electricity to sell into the Midwest wholesale market and provides steam to BP for its oil refining process.

BP intends to develop alternative solutions to meet the refinery's steam needs by the end of 2009. WCE and BP have also outlined a restructured steam pricing approach for operating the WCE facility in the interim.

"This is an important milestone toward improving the financial performance of Whiting Clean Energy," Skaggs said. "We strongly value our business relationship with BP, which recently announced a major investment in the refinery, and its commitment to working with us to find a solution for the Whiting operations that will be mutually beneficial."

Continued focus on usage and attrition issues

Skaggs noted that NiSource's management and regulatory teams remain focused on the issues relating to customer usage and attrition in the gas distribution segment.

"Our current view concerning customer usage and attrition through the remainder of the year remains consistent with the outlook we provided after the second quarter," Skaggs said. "The recent decline in natural gas prices is welcome news for NiSource and our customers. However, it remains to be seen whether we will experience some moderation in the negative usage trends and attrition that have taken place over the last two years."

Skaggs noted that in light of the difficulty in predicting gas prices and customer behavior, the company does not intend to reforecast 2006 earnings.

He emphasized that NiSource is developing and pursuing a number of regulatory initiatives throughout its distribution markets to mitigate the impacts of conservation and customer attrition. For example, Northern Indiana Public Service Company (NIPSCO) continues to work with its regulatory stakeholders on a filing made earlier this year to simplify its residential rate structure.

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NiSource announces higher third-quarter earnings
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In addition, Skaggs indicated that the company is encouraged by the recent action by the Pennsylvania Public Utility Commission to establish a working group to address a variety of issues relating to residential customer demand, including potential changes in rate design.

"We applaud the Pennsylvania Commission's initiative on this important industry issue, and our Columbia Gas of Pennsylvania regulatory team plans to participate actively in the process," Skaggs said.

He also noted that other NiSource gas distribution companies will continue to develop and pursue additional regulatory initiatives over the course of the next few years. "We continue to work toward regulatory initiatives that will address the customer usage and attrition issues, as well as support profitable customer growth and infrastructure investments," he stated.

Overview of third-quarter operating earnings (non-GAAP) performance by business segment

Gas Distribution Operations

NiSource's Gas Distribution Operations segment reported an operating earnings loss of $30.8 million for the third quarter of 2006, compared with an operating earnings loss of $44.0 million a year ago. The improvement was primarily due to lower operating expenses from decreased employee and administrative costs, a change in the reserve balance for leased office space, and lower property tax accruals.

"Natural gas prices have moderated compared with last winter in most of our markets, which, again, is good news for our customers," Skaggs said. "Our gas utility employees continue to hold the line on expenses, in keeping with our four-point platform for growth. At the same time, our gas supply team continues to capitalize on short-term market opportunities to use our distribution business's extensive supply and storage portfolio to increase revenues that are shared with customers under various regulatory mechanisms."

Gas Transmission and Storage Operations

Operating earnings for the Gas Transmission and Storage Operations segment were $69.4 million, essentially flat with operating earnings of $69.8 million during the third quarter of 2005. Net revenues increased by $12.4 million, primarily due to sales of shorter-term transportation and storage services. However, expenses also increased, mainly due to higher property insurance premiums, employee and administrative costs, and costs to settle litigation.

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NiSource announces higher third-quarter earnings
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"Our commercial team, which we continue to build, is doing an excellent job of optimizing opportunities based on our market-leading storage and pipeline platform," Skaggs said, noting that the team this year has signed new agreements that are expected to result in more than $40 million in revenue for 2006. About $12.4 million of that revenue was recorded during the third quarter; a total of $31.7 million was recorded through the first nine months of the year.

Skaggs said that NiSource's transmission business continues to make progress on significant asset expansion projects. Construction continues on the Hardy Storage project, a joint venture between NiSource's Columbia Gas Transmission and a subsidiary of Piedmont Natural Gas Company. Service is scheduled to commence in April 2007.

Likewise, progress continues on Columbia Gas Transmission's Eastern Market Expansion project, and a certificate application is expected to be filed with the Federal Energy Regulatory Commission (FERC) during the first half of 2007. Service is on target to begin in the second quarter of 2009.

In addition, the Millennium Pipeline project received a favorable Supplemental Final Environmental Impact Statement from the FERC on Oct. 13, 2006, and the FERC is expected to issue certificate approval by year-end. "We are pleased with the continuing progress of the Millennium project," Skaggs said. He indicated that the project team is focused on the completion of the FERC review process and finalizing the project's construction estimates. In that regard, he also noted that the project team is in advanced discussions with local tax authorities concerning property tax abatement for Millennium.

Electric Operations

NiSource's electric business reported operating earnings of $113.1 million, up from $103.6 million in the third quarter of 2005. The increase was primarily due to lower unrecoverable Midwest Independent System Operator (MISO) costs, increased industrial sales, and the timing of regulatory revenue credits. Operating expenses were $5.0 million higher than a year ago due to higher electric generation and maintenance expenses.

"Steady growth in our northern Indiana market and continued strength in industrial sales volumes and margins helped drive another strong quarter in our electric business," Skaggs said. "Year-to-date sales volumes to NIPSCO's largest electric customers are up 9.6 percent over 2005 levels."

Other Operations

The Other Operations segment reported an operating earnings loss of $0.2 million in the third quarter of 2006, compared with operating earnings of $2.1 million in the year-ago period. The decrease was due primarily to increased losses at Whiting Clean Energy.

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NiSource announces higher third-quarter earnings
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Creating shareholder value

Skaggs noted that NiSource continues to move forward with the strategic effort initiated earlier this year to unlock the underlying value of the company's asset base.

"Clearly, our progress on Whiting Clean Energy is an important step forward in our comprehensive, integrated process," Skaggs said. "In addition, NiSource's Board of Directors is in the advanced stages of reviewing a variety of options developed during the analytic phase of our strategic review process. As always, we remain committed to communicating with investors and all other stakeholders in a transparent and timely fashion when decisions are made."

Income from Continuing Operations (GAAP)

On a GAAP basis, NiSource reported income from continuing operations for the three months ended Sept. 30, 2006, of $25.9 million, or 10 cents per share, compared with a loss of $5.9 million, or 2 cents per share, in the same period a year ago. The loss during 2005 was primarily due to a $49 million restructuring charge related to the outsourcing to IBM.

Operating income was $136.4 million for the third quarter of 2006, compared with $92.5 million in 2005.

Definition of non-GAAP measures

NiSource focuses on net operating earnings and operating earnings, which are both non-GAAP measures, because management believes these measures better represent the fundamental earnings strength and performance of the company. NiSource uses these measures internally for budgeting, for reporting to the board of directors, and for purposes of determining the payout under NiSource's annual incentive compensation plan for its employees.

Net operating earnings are a non-GAAP financial measure that NiSource defines as income from continuing operations determined in accordance with Generally Accepted Accounting Principles (GAAP) adjusted for certain items. Operating earnings are operating income determined in accordance with GAAP adjusted for certain items. Adjustments reflected in these measures are primarily weather, restructuring and transition costs related to the outsourcing contract with IBM, gains and losses on the sale of assets, certain reserve adjustments and other items. See Schedule 1 and Schedule 2 of this news release for the reconciliations of net operating earnings and operating earnings, respectively, to GAAP.

Conference call to be held this morning (Nov. 2)

NiSource will host an analyst conference call at 9 a.m. EST on Thursday, Nov. 2, 2006, to further discuss the company's third-quarter 2006 results. All interested parties may hear the conference call live by logging on to the NiSource Web site at www.nisource.com.

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NiSource announces higher third-quarter earnings
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Third-Quarter 2006 Operating Earnings — Segment Results (non-GAAP)
NiSource's consolidated third-quarter 2006 operating earnings (non-GAAP) were $142.8 million, compared to $128.0 million for the same period in 2005. Refer to Schedule 2 for the items included in 2006 and 2005 GAAP operating income but excluded from operating earnings.

Operating earnings for NiSource's business segments for the quarter ended September 30, 2006 are discussed below.

Gas Distribution Operations reported an operating earnings loss of $30.8 million compared to an operating earnings loss of $44.0 million during the comparable quarter of 2005. Lower operating expenses from decreased employee and administrative costs, a change in a restructuring reserve balance for leased office space, and lower property tax accruals were the main reasons for the improvement in net operating earnings. Excluding the impact of regulatory trackers, net revenues were essentially flat with the comparable quarter last year.

Gas Transmission and Storage Operations reported operating earnings of $69.4 million essentially flat with operating earnings of $69.8 million in the third quarter of 2005. Increased net revenues of $12.4 million were offset by higher operating expenses. The higher net revenues were due primarily to sales of shorter-term transportation and storage services. Seasonal price fluctuations in the national energy market continued to create opportunities for customers to utilize existing short-term tariff services. The operating expense increase was mainly due to higher employee and administrative costs, increased property insurance premiums, and costs to settle litigation. The higher employee and administrative costs is primarily due to the building of the commercial team to optimize revenue producing opportunities. The increased property insurance costs were attributable to increases in premiums for offshore and onshore facilities located in or near the Gulf of Mexico. Such increases were driven by the poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained from hurricanes such as Ivan, Katrina and Rita.

Electric Operations reported operating earnings of $113.1 million versus operating earnings of $103.6 million from the comparable period last year. Net revenues increased by $14.5 million due to lower unrecoverable MISO costs included in costs of sales, strong industrial volumes and the timing of revenue credits. The lower unrecoverable MISO costs resulted mainly from the IURC's second quarter ruling on the recoverability of certain MISO costs as well as the deferral of certain costs for future recovery which began on August 1, 2006. Operating expenses were $5.0 million higher than a year ago due to higher electric generation and maintenance expenses.

Other Operations reported an operating earnings loss of $0.2 million in the third quarter of 2006, versus operating earnings of $2.1 million in the third quarter of 2005. The $2.3 million decrease in operating earnings primarily resulted from increased losses at the Whiting Clean Energy facility partially offset by lower property tax accruals.

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NiSource announces higher third-quarter earnings
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Corporate reported an operating earnings loss of $8.7 million in the third quarter of 2006, versus an operating earnings loss of $3.5 million in the third quarter of 2005. The additional loss was primarily due to consulting and outside service costs and higher insurance costs.

Other Items
Interest expense decreased by $10.3 million due to the refinancing of $2.4 billion in long-term debt during 2005 at lower rates. Other, net expense of $0.8 million compares to other, net income of $3.3 million in the third quarter of 2005 due primarily to lower interest income and higher fees due to increased interest costs related to the sale of accounts receivable.

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NiSource announces higher third-quarter earnings
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Nine-Month Period 2006 Operating Earnings — Segment Results (non-GAAP)
NiSource's consolidated operating earnings (non-GAAP) for the nine months ended September 30, 2006 were $714.3 million, compared to $708.2 million for the same period in 2005. Refer to Schedule 2 for the items included in 2006 and 2005 GAAP operating income but excluded from operating earnings.

Operating earnings for NiSource's business segments for the nine months ended September 30, 2006 are discussed below.

Gas Distribution Operations reported operating earnings of $231.4 million versus operating earnings of $247.5 million in 2005. Excluding the impact of regulatory trackers discussed below, net revenues decreased by $21.0 million due primarily to declines in residential customer usage.

Operating expenses, excluding expenses that are the subject of regulatory trackers discussed below, were $4.9 million lower than last year. The decrease was due to lower operation and maintenance expenses and decreased other taxes partially offset by higher depreciation charges.

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 earnings results. Approximately $32.1 million of the increase in operation and maintenance expenses were subject to such trackers and were therefore primarily offset by a corresponding increase to net revenues reflecting recovery of certain costs.

Gas Transmission and Storage Operations reported operating earnings of $261.2 million versus operating earnings of $250.3 million during the nine months ended September 30, 2005. The increase resulted from $29.2 million of higher net revenues due to increased subscriptions for demand services and sales of shorter-term transportation and storage services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing short-term tariff services. Operating expenses increased by $18.3 million mainly due to higher employee and administrative costs, property insurance premiums, costs to settle litigation, and pipeline integrity expenses. The higher employee and administrative costs is primarily due to the building of the commercial team to optimize revenue producing opportunities.

Electric Operations reported operating earnings of $251.1 million versus operating earnings of $234.7 million during the comparable period last year. Net revenues increased by $28.0 million due to lower unrecoverable MISO costs, timing of revenue credits, increased industrial volumes and customer growth. The lower unrecoverable MISO costs resulted mainly from the IURC's second quarter ruling on the recoverability of certain MISO costs as well as the deferral of certain costs for future recovery which began on August 1, 2006. Operating expenses, excluding expenses subject to environmental trackers of $5.7 million, increased by $5.9 million primarily due to higher electric generation and maintenance expenses.

-more-

NiSource announces higher third-quarter earnings
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Other Operations reported an operating earnings loss of $15.0 million compared to an operating earnings loss of $14.2 million last year mainly due to increased losses at the Whiting Clean Energy facility offset by lower uncollectible accounts, higher gas marketing margins, and lower property tax accruals.

Corporate reported an operating earnings loss of $14.4 million versus an operating earnings loss of $10.1 million in the nine months ended September 30, 2005. The additional loss was primarily due to consulting and outside service costs.

Other Items
Interest expense decreased by $27.1 million due to the refinancing of $2.4 billion in long-term debt during 2005 at lower rates. Other, net expense of $6.9 million compares to other, net income of $6.4 million last year due primarily to lower interest income and higher costs related to the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher costs.

About NiSource
NiSource Inc. (NYSE: NI), based in Merrillville, Ind., is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Information about NiSource and its subsidiaries is available via the Internet at www.nisource.com . NI-F

Forward-Looking Statements
This news release includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

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NiSource Inc.
Consolidated Net Operating Earnings (Non - GAAP)

(in millions, except per share amounts *)*	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Gas Distribution	**$ 396.7**	$ 377.5	**$3,058.5**	$2,840.5
Gas Transportation and Storage	**202.7**	179.1	**743.8**	721.0
Electric	**377.4**	381.9	**985.0**	946.6
Other	**183.5**	222.3	**715.6**	666.2
Gross Revenues	**1,160.3**	1,160.8	**5,502.9**	5,174.3
Cost of Sales (excluding depreciation and amortization)	**525.0**	557.0	**3,187.1**	2,928.9
Total Net Revenues	**635.3**	603.8	**2,315.8**	2,245.4
Operating Expenses				
Operation and maintenance	**306.9**	283.1	**977.4**	907.1
Depreciation and amortization	**136.5**	135.9	**411.4**	406.9
Other taxes	**49.1**	56.8	**212.7**	223.2
Total Operating Expenses	**492.5**	475.8	**1,601.5**	1,537.2
Operating Earnings	**142.8**	128.0	**714.3**	708.2
Other Income (Deductions)				
Interest expense, net	**(96.2)**	(106.5)	**(284.9)**	(312.0)
Dividend requirements on preferred stock of subsidiaries	**—**	(1.0)	**(1.1)**	(3.2)
Other, net	**(0.8)**	3.3	**(6.9)**	6.4
Total Other Income (Deductions)	**(97.0)**	(104.2)	**(292.9)**	(308.8)
Operating Earnings From Continuing Operations Before Income Taxes	**45.8**	23.8	**421.4**	399.4
Income Taxes	**16.3**	7.4	**149.9**	147.7
Net Operating Earnings from Continuing Operations	**29.5**	16.4	**271.5**	251.7
GAAP Adjustment	**(3.6)**	(22.3)	**(51.2)**	(40.6)
GAAP Income (Loss) from Continuing Operations	**$ 25.9**	$ (5.9)	**$ 220.3**	$ 211.1
Basic Net Operating Earnings Per Share	**0.11**	0.06	**1.00**	0.93
GAAP Basic Earnings (Loss) Per Share from Continuing Operations	**0.10**	(0.02)	**0.81**	0.78
Basic Average Common Shares Outstanding (millions)	**272.5**	271.7	**272.4**	271.1

NiSource Inc.
Segment Operating Earnings (Non-GAAP)

Gas Distribution Operations *(in millions)*	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Sales Revenues	**$ 467.3**	$ 450.4	**$3,402.3**	$3,204.8
Less: Cost of gas sold	**276.9**	267.5	**2,353.3**	2,166.9
Net Revenues	**190.4**	182.9	**1,049.0**	1,037.9
Operating Expenses				
Operation and maintenance	**140.6**	145.1	**523.4**	496.0
Depreciation and amortization	**57.7**	55.7	**173.3**	167.8
Other taxes	**22.9**	26.1	**120.9**	126.6
Total Operating Expenses	**221.2**	226.9	**817.6**	790.4
Operating Earnings (Loss)	**$ (30.8)**	$ (44.0)	**$ 231.4**	$ 247.5
GAAP Adjustment	**(0.8)**	(25.6)	**(63.0)**	(36.5)
GAAP Operating Income (Loss)	**$ (31.6)**	$ (69.6)	**$ 168.4**	$ 211.0

Gas Transmission and Storage Operations *(in millions)*	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Transportation revenues	**$ 154.6**	$ 141.5	**$ 491.6**	$ 461.2
Storage revenues	**44.2**	44.4	**132.4**	133.6
Other revenues	**(0.8)**	1.8	**4.8**	9.5
Total Revenues	**198.0**	187.7	**628.8**	604.3
Less: Cost of gas sold	**4.3**	6.4	**13.6**	18.3
Net Revenues	**193.7**	181.3	**615.2**	586.0
Operating Expenses				
Operation and maintenance	**83.1**	70.2	**227.2**	208.3
Depreciation and amortization	**28.4**	28.6	**85.7**	85.3
Other taxes	**12.8**	12.7	**41.1**	42.1
Total Operating Expenses	**124.3**	111.5	**354.0**	335.7
Operating Earnings	**$ 69.4**	$ 69.8	**$ 261.2**	$ 250.3
GAAP Adjustment	**(0.5)**	(7.6)	**(3.0)**	(1.8)
GAAP Operating Income	**$ 68.9**	$ 62.2	**$ 258.2**	$ 248.5

NiSource Inc.
Segment Operating Earnings (Non-GAAP) (continued)

Electric Operations *(in millions)*	Three Months Ended September 30, **2006**	2005	Nine Months Ended September 30, **2006**	2005
Net Revenues				
Sales revenues	**$ 383.2**	$ 367.6	**$ 998.1**	$ 929.0
Less: Cost of sales	**143.5**	142.4	**372.1**	331.0
Net Revenues	**239.7**	225.2	**626.0**	598.0
Operating Expenses				
Operation and maintenance	**66.2**	59.9	**191.6**	182.7
Depreciation and amortization	**47.3**	46.9	**140.3**	138.6
Other taxes	**13.1**	14.8	**43.0**	42.0
Total Operating Expenses	**126.6**	121.6	**374.9**	363.3
Operating Earnings	**$ 113.1**	$ 103.6	**$ 251.1**	$ 234.7
GAAP Adjustment	**(4.8)**	6.8	**(11.4)**	2.1
GAAP Operating Income	**$ 108.3**	$ 110.4	**$ 239.7**	$ 236.8

Other Operations *(in millions)*	Three Months Ended September 30, **2006**	2005	Nine Months Ended September 30, **2006**	2005
Net Revenues				
Products and services revenue	**$ 176.3**	$ 226.9	**$ 694.3**	$ 653.8
Less: Cost of products purchased	**162.8**	210.8	**664.5**	625.8
Net Revenues	**13.5**	16.1	**29.8**	28.0
Operating Expenses				
Operation and maintenance	**12.5**	10.1	**34.5**	28.7
Depreciation and amortization	**1.8**	2.7	**7.5**	8.1
Other taxes	**(0.6)**	1.2	**2.8**	5.4
Total Operating Expenses	**13.7**	14.0	**44.8**	42.2
Operating Earnings (Loss)	**$ (0.2)**	$ 2.1	**$ (15.0)**	$ (14.2)
GAAP Adjustment	**(0.1)**	(2.8)	**(0.1)**	(0.2)
GAAP Operating Loss	**$ (0.3)**	$ (0.7)	**$ (15.1)**	$ (14.4)

Corporate *(in millions)*	Three Months Ended September 30, **2006**	2005	Nine Months Ended September 30, **2006**	2005
Operating Earnings Loss	**$ (8.7)**	$ (3.5)	**$ (14.4)**	$ (10.1)
GAAP Adjustment	**(0.2)**	(6.3)	**(1.2)**	(21.8)
GAAP Operating Loss	**$ (8.9)**	$ (9.8)	**$ (15.6)**	$ (31.9)

NiSource Inc.
Segment Volumes and Statistical Data

Gas Distribution Operations	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Sales and Transportation (MMDth)				
Residential	**15.6**	16.1	**162.5**	196.2
Commercial	**20.0**	17.6	**114.3**	124.3
Industrial	**91.1**	84.8	**272.5**	281.9
Off System	**11.3**	1.3	**41.2**	17.6
Other	**0.1**	0.1	**0.6**	0.6
Total	**138.1**	119.9	**591.1**	620.6
Weather Adjustment	**(0.4)**	**1.4**	**37.3**	**(2.7)**
Sales and Transportation Volumes — Excluding Weather	**137.7**	**121.3**	**628.4**	**617.9**
Heating Degree Days	**69**	21	**2,752**	3,180
Normal Heating Degree Days	**58**	58	**3,165**	3,168
% Colder (Warmer) than Normal	**19%**	(64%)	**(13%)**	0%
Customers				
Residential			**2,983,908**	2,988,934
Commercial			**276,058**	285,449
Industrial			**7,849**	8,424
Other			**73**	61
Total			**3,267,888**	3,282,868

Gas Transmission and Storage Operations	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Throughput (MMDth)				
Columbia Transmission				
Market Area	**170.5**	144.1	**669.0**	708.2
Columbia Gulf				
Mainline	**108.1**	120.4	**397.7**	402.1
Short-haul	**36.4**	27.1	**83.8**	68.7
Columbia Pipeline Deep Water	**1.6**	2.7	**6.7**	9.4
Crossroads Gas Pipeline	**8.4**	9.5	**28.4**	31.5
Granite State Pipeline	**3.0**	3.2	**19.1**	22.8
Intrasegment eliminations	**(90.7)**	(110.4)	**(369.4)**	(390.6)
Total	**237.3**	196.6	**835.3**	852.1

NiSource Inc.
Segment Volumes and Statistical Data (continued)

Electric Operations	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Sales (Gigawatt Hours)				
Residential	**1,058.0**	1,197.9	**2,541.1**	2,732.9
Commercial	**1,077.5**	1,082.4	**2,921.0**	2,964.7
Industrial	**2,359.8**	2,240.1	**7,180.7**	6,753.6
Wholesale	**260.4**	336.5	**608.4**	693.6
Other	**38.5**	34.3	**78.9**	82.8
Total	**4,794.2**	4,891.2	**13,330.1**	13,227.6
Weather Adjustment	**65.1**	**(82.5)**	**141.6**	**(152.4)**
Sales Volumes — Excluding Weather impacts	**4,859.3**	**4,808.7**	**13,471.7**	**13,075.2**
Cooling Degree Days	**524**	655	**714**	935
Normal Cooling Degree Days	**576**	576	**803**	803
% Warmer (Colder) than Normal	**(9%)**	14%	**(11%)**	16%
Electric Customers				
Residential			**396,072**	393,382
Commercial			**51,791**	50,922
Industrial			**2,520**	2,512
Wholesale			**7**	12
Other			**760**	767
Total			**451,150**	447,595

NiSource Inc.
Schedule 1 — Reconciliation of Net Operating Earnings to GAAP

(in millions, except per share amounts *)*	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Operating Earnings from Continuing Operations	**$ 29.5**	$ 16.4	**$ 271.5**	$ 251.7
Items excluded from operating earnings:				
Net Revenues:				
Weather — compared to normal	**(3.8)**	3.3	**(62.1)**	17.8
Gas costs and other changes	—	—	—	1.2
Third party buyout of bankruptcy claim	—	—	—	8.9
Operating Expenses:				
Restructuring, transition and consulting charges (outsourcing initiative)	**(2.4)**	(49.0)	**(11.8)**	(70.9)
Insurance recoveries, legal and reserve changes	—	5.3	—	(2.9)
Asset impairment	—	—	**(5.8)**	(21.8)
Gain (Loss) on sales of assets	**(0.2)**	—	**1.0**	1.4
Property and sales tax adjustments	—	4.9	—	8.1
Total items excluded from operating earnings	**(6.4)**	(35.5)	**(78.7)**	(58.2)
Loss on early redemption of preferred stock	—	—	**(0.7)**	—
Tax effect of above items and other income tax adjustments	**2.8**	13.2	**28.2**	17.6
Reported Income (Loss) from Continuing Operations — GAAP	**$ 25.9**	$ (5.9)	**$ 220.3**	$ 211.1
Basic Average Common Shares Outstanding (millions)	**272.5**	271.7	**272.4**	271.1
Basic Net Operating Earnings Per Share ($)	**0.11**	0.06	**1.00**	0.93
Items excluded from operating earnings (after-tax)	**(0.01)**	(0.08)	**(0.19)**	(0.15)
GAAP Basic Earnings Per Share	**0.10**	(0.02)	**0.81**	0.78

NiSource Inc.
Schedule 2 — Quarterly Adjustments by Segment from Operating Earnings to GAAP
For Quarter ended September 30, 2006

2006 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**(30.8)**	**69.4**	**113.1**	**(0.2)**	**(8.7)**	**$ 142.8**
Net Revenues:						
Weather (compared to normal)	$ 0.7	$ —	$ (4.5)	$ —	$ —	**$ (3.8)**
Total Impact — Net Revenues	**0.7**	**—**	**(4.5)**	**—**	**—**	**(3.8)**
Operating Expenses:						
Operation and Maintenance Expenses—						
Restructuring, transition and consulting charges (outsourcing initiative)	(1.4)	(0.5)	(0.3)	—	(0.2)	**(2.4)**
Loss on Sale of Assets	(0.1)	—	—	(0.1)	—	**(0.2)**
Total Impact — Operating Expenses	**(1.5)**	**(0.5)**	**(0.3)**	**(0.1)**	**(0.2)**	**(2.6)**
Total Impact — Operating Income (Loss)	**$ (0.8)**	**$ (0.5)**	**$ (4.8)**	**$ (0.1)**	**$ (0.2)**	**$ (6.4)**
Operating Income (Loss) — GAAP	**$ (31.6)**	**$ 68.9**	**$ 108.3**	**$ (0.3)**	**$ (8.9)**	**$ 136.4**

2005 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**(44.0)**	**69.8**	**103.6**	**2.1**	**(3.5)**	**$ 128.0**
Net Revenues:						
Weather (compared to normal)	$ (2.3)	$ —	$ 5.6	$ —	$ —	**$ 3.3**
Total Impact — Net Revenues	**(2.3)**	**—**	**5.6**	**—**	**—**	**3.3**
Operating Expenses:						
Operation and Maintenance Expenses—						
Restructuring, transition and consulting charges (outsourcing initiative)	(29.9)	(8.5)	(5.0)	(0.9)	(4.7)	**(49.0)**
Insurance recoveries, legal and other reserves	5.3	0.9	2.6	(1.9)	(1.6)	**5.3**
Property and sales tax adjustment	1.3	—	3.6	—	—	**4.9**
Total Impact — Operating Expenses	**(23.3)**	**(7.6)**	**1.2**	**(2.8)**	**(6.3)**	**(38.8)**
Total Impact — Operating Income (Loss)	**$ (25.6)**	**$ (7.6)**	**$ 6.8**	**$ (2.8)**	**$ (6.3)**	**$ (35.5)**
Operating Income (Loss) — GAAP	**$ (69.6)**	**$ 62.2**	**$ 110.4**	**$ (0.7)**	**$ (9.8)**	**$ 92.5**

NiSource Inc.
Schedule 2 — Year-to-Date Segment Adjustments from Operating Earnings to GAAP
For Nine Months ended September 30, 2006

2006 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**231.4**	**261.2**	**251.1**	**(15.0)**	**(14.4)**	**$ 714.3**
Net Revenues:						
Weather (compared to normal)	$ (52.5)	$ —	$ (9.6)	$ —	$ —	**$ (62.1)**
Total Impact — Net Revenues	**(52.5)**	**—**	**(9.6)**	**—**	**—**	**(62.1)**
Operating Expenses:						
Operation and Maintenance Expenses—						
Restructuring, transition and consulting charges (outsourcing initiative)	(8.2)	(1.4)	(1.4)	(0.1)	(0.7)	**(11.8)**
Asset Impairment	(2.6)	(1.1)	(0.4)	(1.2)	(0.5)	**(5.8)**
Gain on Sale of Assets	0.3	(0.5)	—	1.2	—	**1.0**
Total Impact — Operating Expenses	**(10.5)**	**(3.0)**	**(1.8)**	**(0.1)**	**(1.2)**	**(16.6)**
Total Impact — Operating Income (Loss)	**$ (63.0)**	**$ (3.0)**	**$ (11.4)**	$ (0.1)	**$ (1.2)**	**$ (78.7)**
Operating Income (Loss) — GAAP	**$ 168.4**	**$ 258.2**	**$ 239.7**	**$ (15.1)**	**$ (15.6)**	**$ 635.6**

2005 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**247.5**	**250.3**	**234.7**	**(14.2)**	**(10.1)**	**$ 708.2**
Net Revenues:						
Weather (compared to normal)	$ 7.4	$ —	$ 10.4	$ —	$ —	**$ 17.8**
Gas costs and other changes	2.5	—	(1.3)	—	—	**1.2**
Third party buyout of bankruptcy claim	—	8.9	—	—	—	**8.9**
Total Impact — Net Revenues	**9.9**	**8.9**	**9.1**	**—**	**—**	**27.9**
Operating Expenses:						
Operation and Maintenance Expenses—						
Restructuring, transition and consulting charges (outsourcing initiative)	(41.3)	(11.2)	(6.8)	(1.2)	(10.4)	**(70.9)**
Insurance recoveries, legal and other reserves	(0.4)	0.5	(2.9)	0.4	(0.5)	**(2.9)**
Asset Impairment	(10.9)	—	—	—	(10.9)	**(21.8)**
Gain on Sale of Assets	0.4	—	0.4	0.6	—	**1.4**
Property and Sales tax adjustments	5.8	—	2.3	—	—	**8.1**
Total Impact — Operating Expenses	**(46.4)**	**(10.7)**	**(7.0)**	**(0.2)**	**(21.8)**	**(86.1)**
Total Impact — Operating Income						

(Loss)	$ (36.5)	$ (1.8)	$ 2.1	$ (0.2)	$ (21.8)	$ (58.2)
Operating Income (Loss) — GAAP	**$ 211.0**	**$ 248.5**	**$ 236.8**	**$ (14.4)**	**$ (31.9)**	**$ 650.0**

NiSource Inc.
Income Statement (GAAP)
(*unaudited)*

(in millions, except per share amounts *)*	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Gas Distribution	**$ 392.9**	$ 380.8	**$2,996.4**	$2,868.4
Gas Transportation and Storage	**202.7**	179.1	**743.8**	721.0
Electric	**377.4**	381.9	**985.0**	946.6
Other	**183.5**	222.3	**715.6**	666.2
Gross Revenues	**1,156.5**	1,164.1	**5,440.8**	5,202.2
Cost of Sales (excluding depreciation and amortization)	**525.0**	557.0	**3,187.1**	2,928.9
Total Net Revenues	**631.5**	607.1	**2,253.7**	2,273.3
Operating Expenses				
Operation and maintenance	**309.8**	326.8	**989.2**	980.9
Depreciation and amortization	**136.5**	135.9	**411.4**	406.9
Impairment and (gain) loss on sale of assets	**(0.3)**	—	**4.8**	20.4
Other taxes	**49.1**	51.9	**212.7**	215.1
Total Operating Expenses	**495.1**	514.6	**1,618.1**	1,623.3
Operating Income	**136.4**	92.5	**635.6**	650.0
Other Income (Deductions)				
Interest expense, net	**(96.2)**	(106.5)	**(284.9)**	(312.0)
Dividend requirements on preferred stock of subsidiaries	—	(1.0)	**(1.1)**	(3.2)
Other, net	**(0.8)**	3.3	**(6.9)**	6.4
Loss on redemption of preferred stock	—	—	**(0.7)**	—
Total Other Income (Deductions)	**(97.0)**	(104.2)	**(293.6)**	(308.8)
Income (Loss) From Continuing Operations Before Income Taxes	**39.4**	(11.7)	**342.0**	341.2
Income Taxes	**13.5**	(5.8)	**121.7**	130.1
Income (Loss) from Continuing Operations	**25.9**	(5.9)	**220.3**	211.1
Loss from Discontinued Operations — net of taxes	**(0.3)**	(6.2)	**(1.4)**	(20.4)
Gain on Disposition of Discontinued Operations — net of taxes	**0.2**	5.3	**0.4**	47.8
Change in Accounting — net of taxes	—	—	**0.4**	—
Net Income (Loss)	**$ 25.8**	$ (6.8)	**$ 219.7**	$ 238.5
Basic Earnings (Loss) Per Share ($)				
Continuing operations	**0.10**	(0.02)	**0.81**	0.78
Discontinued operations	—	(0.01)	—	0.10
Basic Earnings (Loss) Per Share	**0.10**	(0.03)	**0.81**	0.88
Diluted Earnings (Loss) Per Share ($)				
Continuing operations	**0.10**	(0.02)	**0.81**	0.77
Discontinued operations	—	(0.01)	—	0.10
Diluted Earnings (Loss) Per Share	**0.10**	(0.03)	**0.81**	0.87
Dividends Declared Per Common Share ($)	**0.23**	0.23	**0.69**	0.69
Basic Average Common Shares Outstanding (millions)	**272.5**	271.7	**272.4**	271.1
Diluted Average Common Shares (millions)	**273.3**	273.7	**273.2**	272.9

NiSource Inc.
Consolidated Balance Sheets
(*unaudited*)

(in millions)	**September 30, 2006**	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$ 16,987.2**	$ 16,684.4
Accumulated depreciation and amortization	**(7,788.4)**	(7,556.8)
Net utility plant	**9,198.8**	9,127.6
Other property, at cost, less accumulated depreciation	**352.8**	426.7
Net Property, Plant and Equipment	**9,551.6**	9,554.3
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**46.8**	34.6
Unconsolidated affiliates	**70.9**	75.0
Other investments	**118.2**	114.2
Total Investments	**235.9**	223.8
Current Assets		
Cash and cash equivalents	**22.8**	69.4
Restricted cash	**203.0**	33.9
Accounts receivable (less reserve of $48.1 and $67.9, respectively)	**478.3**	1,254.6
Gas inventory	**682.8**	526.9
Underrecovered gas and fuel costs	**70.0**	421.8
Materials and supplies, at average cost	**85.3**	72.0
Electric production fuel, at average cost	**53.2**	24.9
Price risk management assets	**200.3**	183.1
Exchange gas receivable	**366.3**	169.8
Regulatory assets	**290.5**	195.0
Prepayments and other	**70.3**	109.3
Total Current Assets	**2,522.8**	3,060.7
Other Assets		
Price risk management assets	**73.1**	192.9
Regulatory assets	**590.1**	586.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**477.9**	495.8
Deferred charges and other	**188.0**	167.4
Total Other Assets	**5,006.4**	5,119.7
Total Assets	**$ 17,316.7**	$ 17,958.5

NiSource Inc.
Consolidated Balance Sheets (continued)
(unaudited)

(in millions, except share amounts)	September 30, 2006	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock — $0.01 par value, 400,000,000 shares authorized; 272,899,816 and 272,622,905 shares issued and outstanding, respectively	**$ 2.7**	$ 2.7
Additional paid-in-capital	**3,979.7**	3,969.4
Retained earnings	**950.4**	981.6
Accumulated other comprehensive loss	**(106.3)**	(5.6)
Treasury stock	**(21.1)**	(15.1)
Total common stock equity	**4,805.4**	4,933.0
Preferred stocks—Series without mandatory redemption provisions	**—**	81.1
Long-term debt, excluding amounts due within one year	**5,173.4**	5,271.2
Total Capitalization	**9,978.8**	10,285.3
Current Liabilities		
Current portion of long-term debt	**461.8**	440.7
Short-term borrowings	**861.0**	898.0
Accounts payable	**461.0**	866.7
Dividends declared on common and preferred stocks	**62.8**	1.1
Customer deposits	**104.9**	101.9
Taxes accrued	**137.2**	217.5
Interest accrued	**111.5**	86.2
Overrecovered gas and fuel costs	**144.4**	25.8
Price risk management liabilities	**242.1**	72.3
Exchange gas payable	**465.1**	425.2
Deferred revenue	**43.6**	51.3
Regulatory liabilities	**42.3**	46.3
Accrued liability for postretirement and postemployment benefits	**59.4**	61.1
Other accruals	**391.3**	549.1
Total Current Liabilities	**3,588.4**	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**40.0**	22.2
Deferred income taxes	**1,485.1**	1,591.9
Deferred investment tax credits	**63.7**	69.9
Deferred credits	**89.8**	81.1
Deferred revenue	**32.2**	60.4
Accrued liability for postretirement and postemployment benefits	**475.4**	511.0
Liabilities of discontinued operations and liabilities held for sale	**9.9**	—
Regulatory liabilities and other removal costs	**1,250.5**	1,196.2
Asset retirement obligations	**125.3**	119.8
Other noncurrent liabilities	**177.6**	177.5
Total Other Liabilities and Deferred Credits	**3,749.5**	3,830.0
Commitments and Contingencies	**—**	—
Total Capitalization and Liabilities	**$ 17,316.7**	$ 17,958.5

NiSource Inc.
Other Information
(*unaudited*)

(in millions, except share amounts)	**September 30, 2006**	December 31, 2005
Total Common Stock Equity	**$ 4,805.4**	$ 4,933.0
Shares Outstanding (thousands)	**272,900**	272,623
Book Value of Common Shares	**$ 17.61**	$ 18.09

NiSource Inc.
Statements of Consolidated Cash Flow
(*unaudited*)

Nine Months Ended September 30, *(in millions)*	2006	2005
Operating Activities		
Net income	**$ 219.7**	$ 238.5
Adjustments to reconcile net income to net cash from continuing operations:		
Loss on early redemption of preferred stock	**0.7**	—
Depreciation and amortization	**411.4**	406.9
Net changes in price risk management assets and liabilities	**50.4**	(85.7)
Deferred income taxes and investment tax credits	**(129.4)**	(56.8)
Deferred revenue	**(36.0)**	(11.6)
Stock compensation expense	**4.4**	6.6
Gain on sale of assets	**(1.1)**	(1.4)
Loss on impairment of assets	**5.9**	21.8
Cumulative effect of change in accounting principle, net of taxes	**(0.4)**	—
Income from unconsolidated affiliates	**(3.3)**	(3.5)
Gain on sale of discontinued operations	**(0.4)**	(47.8)
Loss from discontinued operations	**1.4**	20.4
Amortization of discount/premium on debt	**5.8**	14.6
AFUDC	**(7.4)**	(1.3)
Changes in assets and liabilities:		
Accounts receivable	**785.1**	423.8
Inventories	**(189.7)**	(212.6)
Accounts payable	**(397.9)**	(97.2)
Customer deposits	**3.0**	2.7
Taxes accrued	**(94.8)**	(7.7)
Interest accrued	**25.3**	62.9
(Under) Overrecovered gas and fuel costs	**470.4**	64.7
Exchange gas receivable/payable	**(159.7)**	(22.0)
Other accruals	**(67.9)**	(0.8)
Prepayments and other current assets	**38.8**	16.3
Regulatory assets/liabilities	**(62.0)**	(17.5)
Postretirement and postemployment benefits	**(1.5)**	41.6
Deferred credits	**(12.7)**	(5.7)
Deferred charges and other noncurrent assets	**2.7**	13.2
Other noncurrent liabilities	**(0.2)**	11.9
Net Operating Activities from Continuing Operations	**860.6**	774.3
Net Operating Activities from or (used for) Discontinued Operations	**4.7**	(17.4)
Net Cash Flows from Operating Activities	**865.3**	756.9
Investing Activities		
Capital expenditures	**(398.3)**	(406.9)
Proceeds from disposition of assets	**17.2**	7.4
Restricted cash	**(174.7)**	133.7
Other investing activities	**(4.6)**	(14.6)
Net Cash Flows used for Investing Activities	**(560.4)**	(280.4)
Financing Activities		
Issuance of long-term debt	—	1,000.0
Retirement of long-term debt	**(43.8)**	(115.9)
Change in short-term debt	**(37.0)**	(307.6)
Retirement of preferred stock	**(81.1)**	—
Issuance of common stock	**5.6**	39.3
Acquisition of treasury stock	**(6.0)**	(1.7)
Dividends paid — common stock	**(189.2)**	(187.6)
Net Cash Flows (used for) or from Financing Activities	**(351.5)**	426.5
Increase (Decrease) in cash and cash equivalents	**(46.6)**	903.0

Cash and cash equivalents at beginning of year	**69.4**	29.5
Cash and cash equivalents at end of period	**$ 22.8**	$ 932.5
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 261.2**	$ 240.0
Interest capitalized	**7.4**	1.3
Cash paid for income taxes	**245.1**	97.4

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): September 25, 2006

NISOURCE INC.

(Exact Name of Registrant as Specified in Charter)

Delaware (State or Other Jurisdiction of Incorporation)	001-16189 (Commission File Number)	35-2108964 (IRS Employer Identification No.)

801 East 86th Avenue,
Merrillville, Indiana 46410
(877) 647-5990
(Address and Telephone Number
of Principal Executive Offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 7.01. REGULATION FD DISCLOSURE

On September 26, 2006, Bob Skaggs, the Company's President and CEO, will be making a presentation at the Merrill Lynch Global Power and Gas Leaders Conference. Attached as Exhibit 99.1 to this Report on Form 8-K is a copy of the materials to be used by Mr. Skaggs as part of his presentation. Investors may access a webcast of Mr. Skaggs's presentation, as well as a copy of the attached exhibit at the Company's website (www.nisource.com).

The attached presentation includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

NiSource does not have, and expressly disclaims, any obligation to release publicly any updates or any changes in NiSource's expectations or any changes in events, conditions or circumstances on which any forward-looking statement is based.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

Exhibit Number	Description
99.1	Information to be presented at the Merrill Lynch Global Power and Gas Leaders Conference on September 26, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

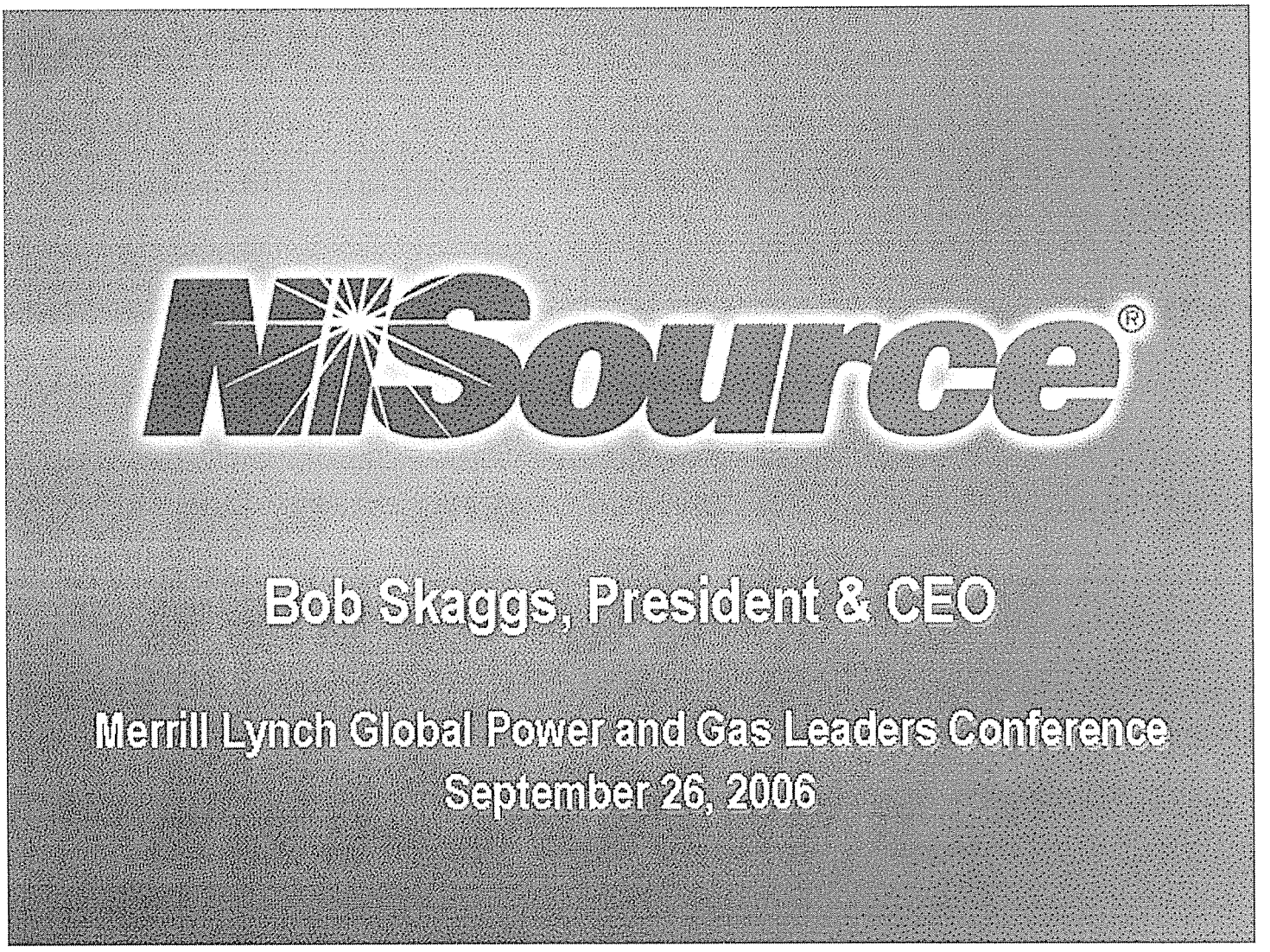
NiSource Inc.
(Registrant)

Date: September 25, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

EXHIBIT INDEX

Exhibit Number	Description
99.1	Information to be presented at the Merrill Lynch Global Power and Gas Leaders Conference on September 26, 2006.


NiSource®
Bob Skaggs, President & CEO
Merrill Lynch Global Power and Gas Leaders Conference
September 26, 2006

Forward-Looking Statement

"Safe Harbor" Statement
September 2006

This presentation includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

NiSource

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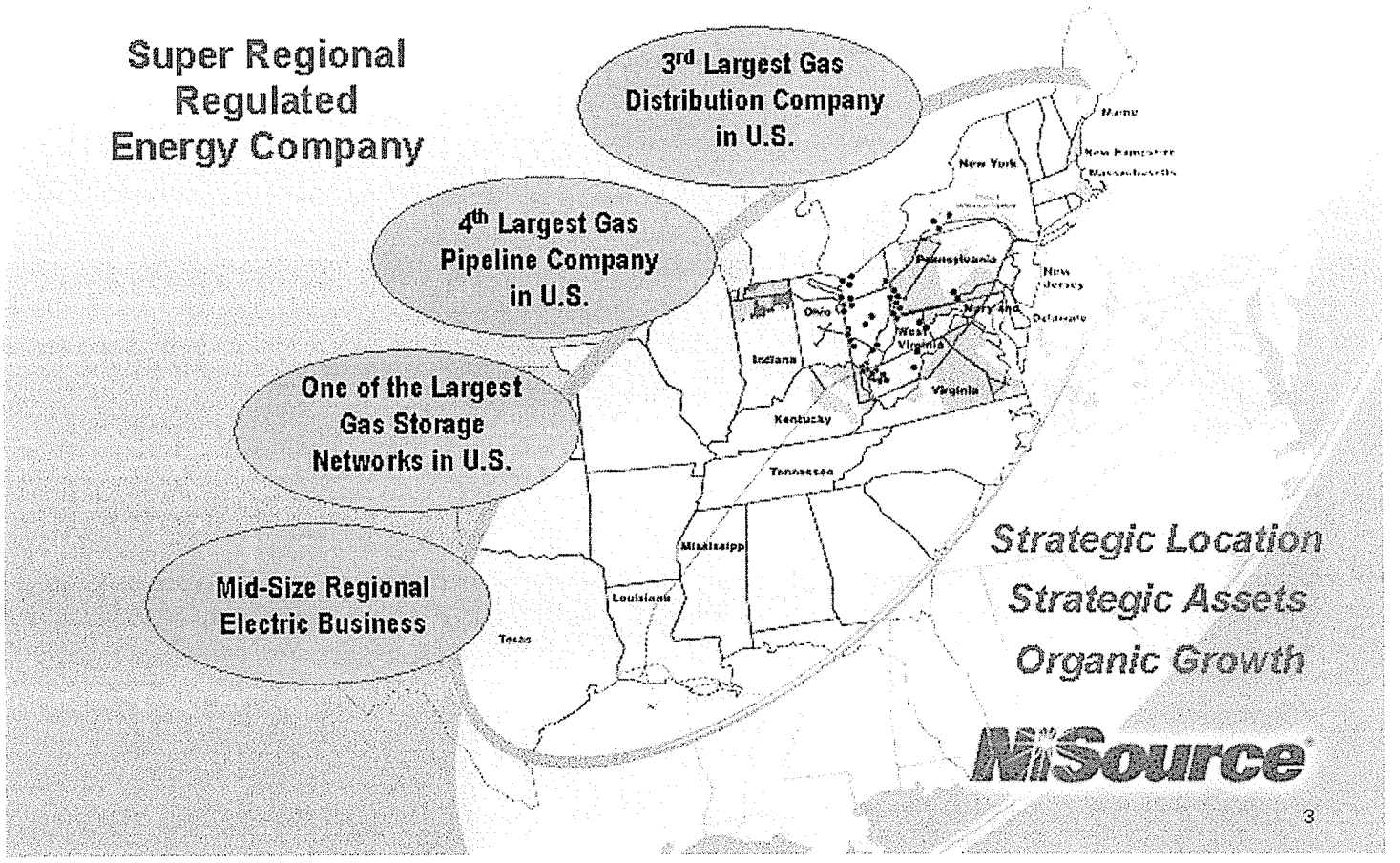
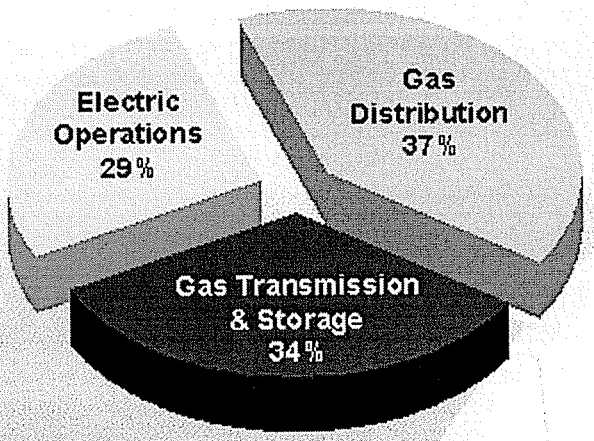
NiSource Today



Balanced/Low Risk Portfolio



100% of Operating Income From Regulated Businesses

Stable Credit Ratings

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

NiSource

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2006 Performance

- Solid First Half
  - Increased Pipeline Optimization Revenue; Continued Progress on Growth Projects
  - Electric Operations Earnings Growth; Strong Industrial Markets
  - Regulatory Initiatives Advance
  - Reduced Interest Expense
- Key Issues Remain
  - LDC Customer Usage/Attrition Issue
  - Uneven Regulatory-Political Environment

NiSource

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Transition to Growth

2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008

- **Strengthening the Balance Sheet**
  - –Divesting Non-core Businesses
  - –Maintain Investment Grade Credit
- **Managing Regulatory/ Commercial Transitions**
  - –COH Stipulation Renewal
  - –Pipeline Re-Contracting

- **Four-Point Platform for Growth**
  - –Pipeline/Storage Commercial Growth and Expansion
  - –Commercial and Regulatory Initiatives
  - –Financial Management
  - –Process & Expense Management
- **Initiatives to Create Value**
  - –Whiting Clean Energy
  - –Financial/Strategic Flexibility

Long-Term Sustainable Growth

NiSource

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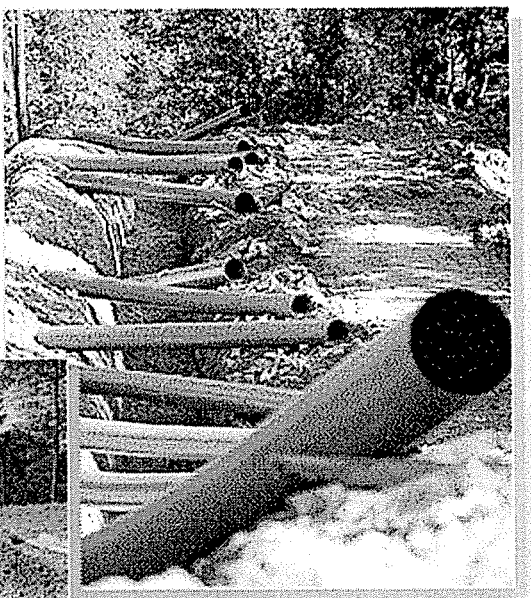
Gas Transmission & Storage Expansion and Commercial Growth

- Maximize Value from Existing GT&S Assets
- Disciplined Investment in Storage and Pipeline Expansion Projects



NiSource

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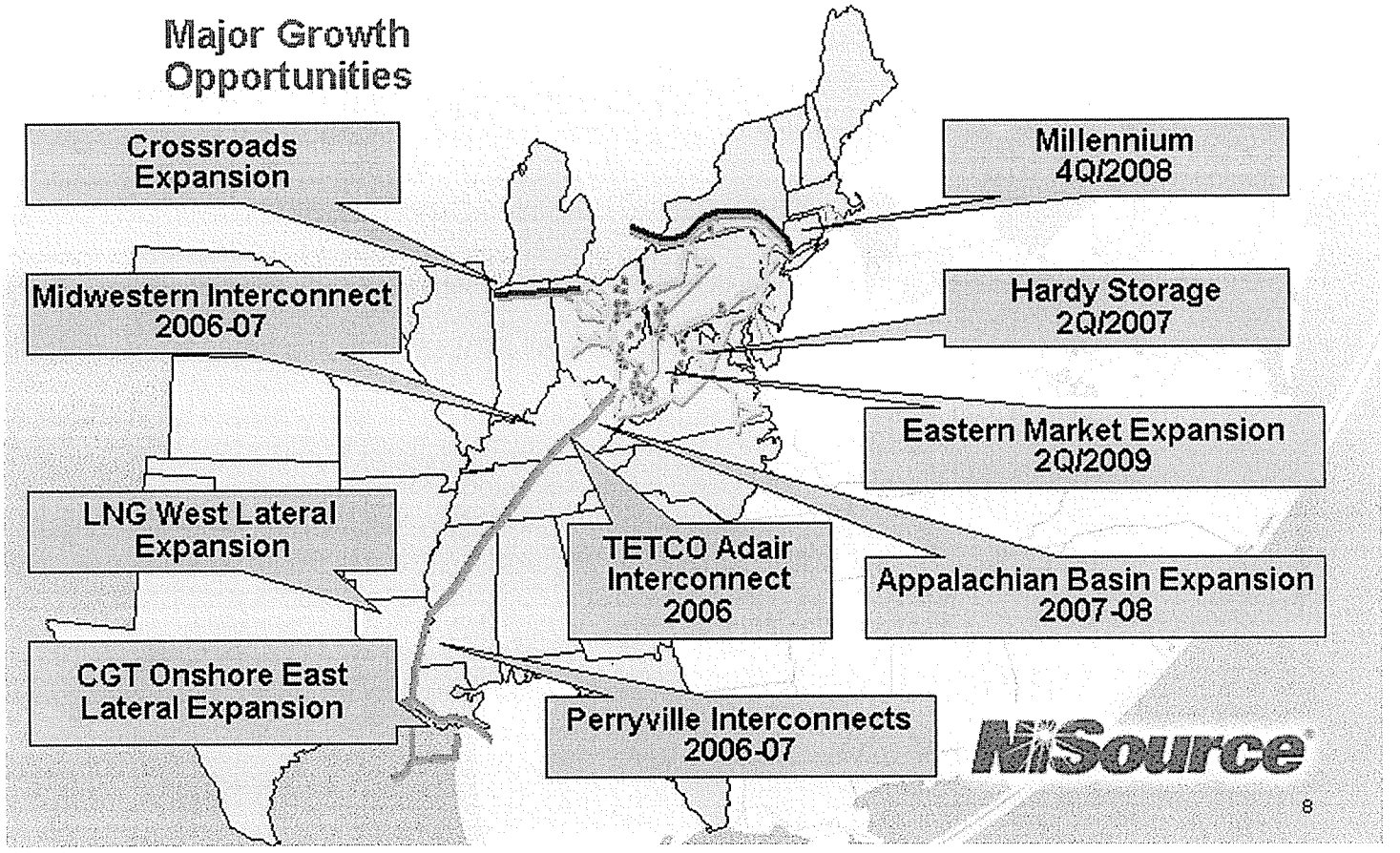
GT&S Expansion and Commercial Growth



Regulatory and Commercial Initiatives

- Optimization and Logistics Growth
  - GT&S
  - LDC's
- Recovery/Deferral of NIPSCO MISO Charges
- Bay State Gas Base Rate Increase
- Targeted Rate Initiatives
  - Rate Design Changes
  - Infrastructure Trackers
  - Base Rate Cases

- Virginia (11/2005)
- Indiana-Gas (5/2006)
- Bay State (9/2006)
- Kentucky (early 2007)
- Pennsylvania (late 2007/early 2008)
- Indiana-Electric ('07/'08)
- Ohio ('07/'08)

NiSource

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Financial Management

- Refinanced $2.4 Billion in Long-Term Debt in 2005
  - $43 Million of Annual Interest Expense Savings
  - Partially Offset by Short-term Interest Rates
- Working Capital Funding:
  - New Amendment to Revolving Credit Facility
    - $1.5 Billion of Capacity
    - Extends Termination Date to 7/2011
    - Additional Interest Expense Savings of $4.5M

NiSource

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Process and Expense Management

- IBM Providing Business Process and Support Services
- Comprehensive Upgrade/Consolidation of Systems
- 10-year Agreement Provides NiSource with Approximately $395 Million in O&M and Capital Savings
- Additional Savings Opportunities (*e.g.* Work Management)

NiSource

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Creating Shareholder Value

- Whiting Clean Energy
  - Expanded Evaluation of Potential Solutions
  - Encouraging Process
  - Update Progress by Year-End
- Financial/Strategic Review
  - "No Stone Unturned"
  - Update Progress by Year-End

NiSource

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NiSource Today

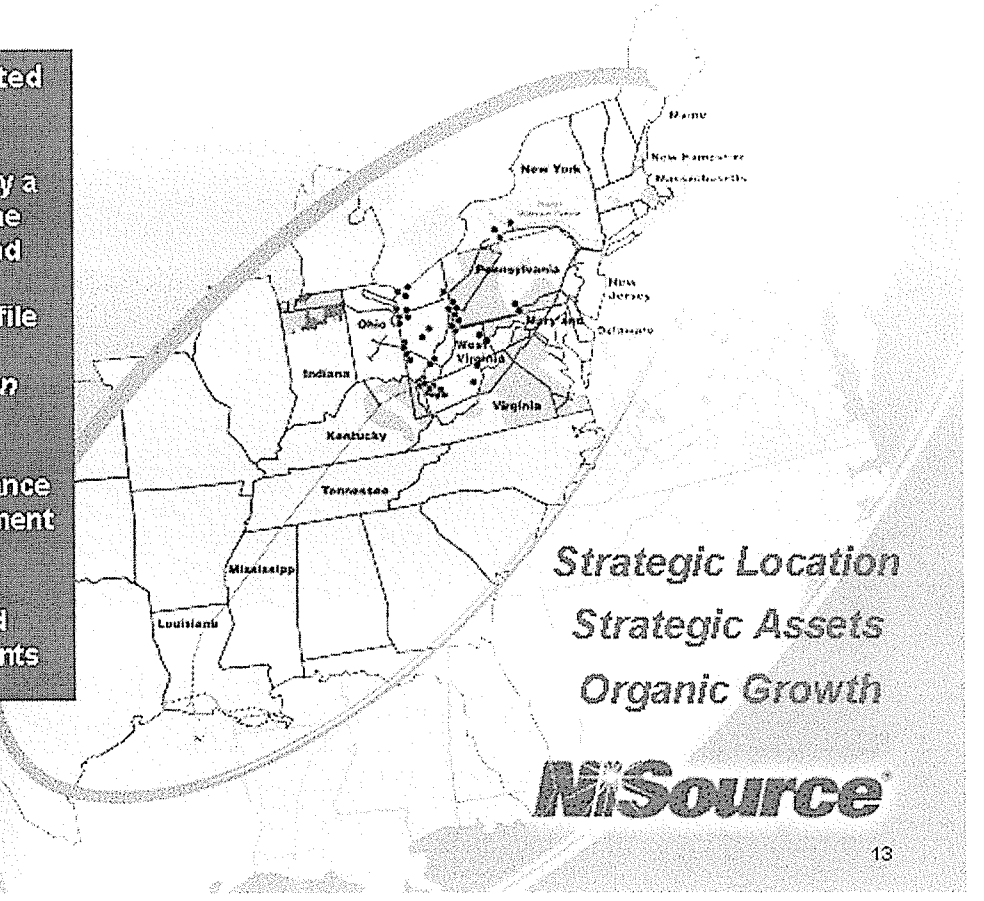
Super Regional Regulated Energy Company

Strategic Assets Overlay a Growth Market From the Midwest to New England

Low Business Risk Profile
- *100% Regulated*
- *3.7 Million Distribution Customers*

Stronger/De-levered Balance Sheet with Stable Investment Grade Credit

Focus on Growth and Productivity Improvements



Strategic Location
Strategic Assets
Organic Growth

NiSource

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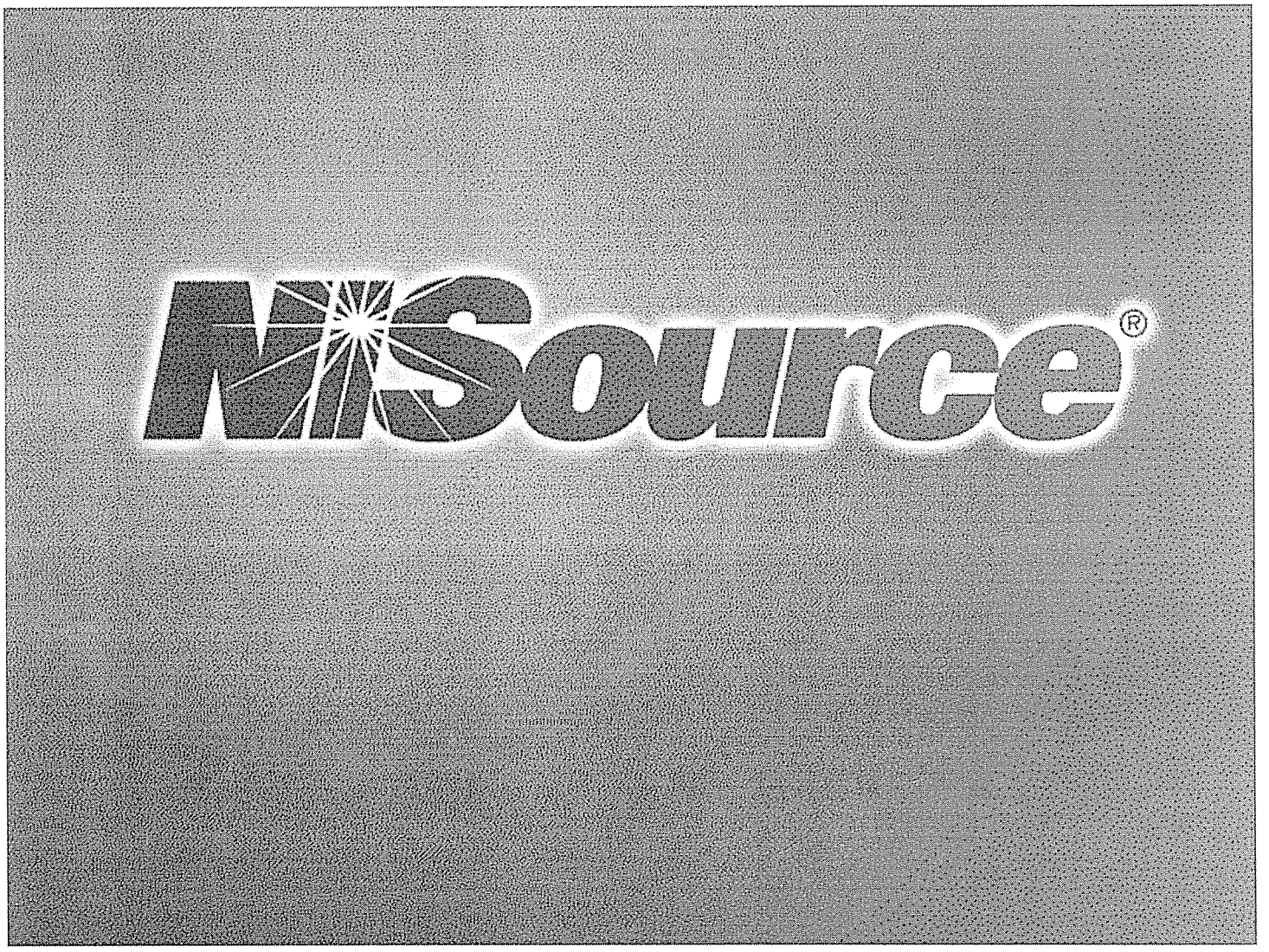
NISource®

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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 272,799,710 shares outstanding at July 31, 2006.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED JUNE 30, 2006

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DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

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

Abbreviations

APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
Day 1	Began October 1, 2003 and refers to Northern Indiana turning over operational control of the interchange facilities and its own transmission assets like many other Midwestern electric utilities to MISO
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and transmission service, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets

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DEFINED TERMS (continued)

DOT	United States Department of Transportation
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EER	Environmental Expense Recovery
EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FIN 48	FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PCB	Polychlorinated biphenyls
PIP	Percentage of Income Payment Plan
PPS	Price Protection Service
PRB	Powder River Basin
Private Power	Private Power, LLC
PUCO	Public Utilities Commission of Ohio
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 88	Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"
SFAS No. 106	Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"

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DEFINED TERMS (continued)

SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 132R	Statement of Financial Accounting Standards No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits — An Amendment of FASB Statements No. 87, 88, and 10"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 154	Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections"
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VNG	Virginia Natural Gas, Inc.
VSCC	Commonwealth of Virginia State Corporate Commission

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PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

(in millions, except per share amounts)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Gas Distribution	**$ 605.3**	$ 659.3	**$2,603.5**	$2,487.6
Gas Transportation and Storage	**220.5**	213.0	**541.1**	541.9
Electric	**301.9**	282.1	**607.6**	564.7
Other	**184.2**	201.2	**532.1**	443.9
Gross Revenues	**1,311.9**	1,355.6	**4,284.3**	4,038.1
Cost of Sales	**670.4**	701.7	**2,662.1**	2,371.9
Total Net Revenues	**641.5**	653.9	**1,622.2**	1,666.2
Operating Expenses				
Operation and maintenance	**307.0**	316.9	**679.4**	654.1
Depreciation and amortization	**138.1**	136.1	**274.9**	271.0
Impairment and loss on sale of assets	**4.2**	21.0	**5.1**	20.4
Other taxes	**60.6**	60.1	**163.6**	163.2
Total Operating Expenses	**509.9**	534.1	**1,123.0**	1,108.7
Operating Income	**131.6**	119.8	**499.2**	557.5
Other Income (Deductions)				
Interest expense, net	**(93.3)**	(101.5)	**(188.7)**	(205.5)
Dividend requirements on preferred stock of subsidiaries	**—**	(1.1)	**(1.1)**	(2.2)
Other, net	**(2.7)**	3.6	**(6.1)**	3.1
Loss on early redemption of preferred stock	**(0.7)**	—	**(0.7)**	—
Total Other Income (Deductions)	**(96.7)**	(99.0)	**(196.6)**	(204.6)
Income From Continuing Operations Before Income Taxes	**34.9**	20.8	**302.6**	352.9
Income Taxes	**13.4**	12.5	**108.2**	135.9
Income From Continuing Operations	**21.5**	8.3	**194.4**	217.0
Loss from Discontinued Operations — net of taxes	**(0.7)**	(12.0)	**(1.1)**	(14.2)
Gain on Disposition of Discontinued Operations — net of taxes	**0.2**	42.7	**0.2**	42.5
Change in Accounting — net of taxes	**—**	—	**0.4**	—
Net Income	**$ 21.0**	$ 39.0	**$ 193.9**	$ 245.3
Basic Earnings Per Share ($)				
Continuing operations	**0.08**	0.03	**0.71**	0.80
Discontinued operations	**—**	0.12	**—**	0.11
Basic Earnings Per Share	**0.08**	0.15	**0.71**	0.91
Diluted Earnings Per Share ($)				
Continuing operations	**0.08**	0.03	**0.71**	0.80
Discontinued operations	**—**	0.11	**—**	0.10
Diluted Earnings Per Share	**0.08**	0.14	**0.71**	0.90
Dividends Declared Per Common Share ($)	**0.23**	0.23	**0.46**	0.46
Basic Average Common Shares Outstanding (millions)	**272.4**	271.2	**272.4**	270.8
Diluted Average Common Shares (millions)	**273.2**	273.1	**273.1**	272.6

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets (unaudited)

(in millions)	**June 30, 2006**	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$16,857.9**	$ 16,684.4
Accumulated depreciation and amortization	**(7,710.6)**	(7,556.8)
Net utility plant	**9,147.3**	9,127.6
Other property, at cost, less accumulated depreciation	**354.7**	426.7
Net Property, Plant and Equipment	**9,502.0**	9,554.3
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**57.3**	34.6
Unconsolidated affiliates	**80.7**	75.0
Other investments	**100.1**	114.2
Total Investments	**238.1**	223.8
Current Assets		
Cash and cash equivalents	**57.9**	69.4
Restricted cash	**71.7**	33.9
Accounts receivable (less reserve of $69.4 and $67.9, respectively)	**472.1**	1,254.6
Gas inventory	**244.1**	526.9
Underrecovered gas and fuel costs	**81.2**	421.8
Materials and supplies, at average cost	**84.9**	72.0
Electric production fuel, at average cost	**48.3**	24.9
Price risk management assets	**144.5**	183.1
Exchange gas receivable	**780.6**	169.8
Regulatory assets	**233.2**	195.0
Prepayments and other	**70.5**	109.3
Total Current Assets	**2,289.0**	3,060.7
Other Assets		
Price risk management assets	**107.0**	192.9
Regulatory assets	**594.2**	586.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**489.4**	495.8
Deferred charges and other	**191.7**	167.4
Total Other Assets	**5,059.6**	5,119.7
Total Assets	**$17,088.7**	$ 17,958.5

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	June 30, 2006	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock — $0.01 par value, 400,000,000 shares authorized; 272,711,758 and 272,622,905 shares issued and outstanding, respectively	**$ 2.7**	$ 2.7
Additional paid-in-capital, net of deferred stock compensation	**3,972.8**	3,969.4
Retained earnings	**987.4**	981.6
Accumulated other comprehensive loss and other common stock equity	**(91.2)**	(20.7)
Total common stock equity	**4,871.7**	4,933.0
Preferred stocks—Series without mandatory redemption provisions	**—**	81.1
Long-term debt, excluding amounts due within one year	**5,163.5**	5,271.2
Total Capitalization	**10,035.2**	10,285.3
Current Liabilities		
Current portion of long-term debt	**441.8**	440.7
Short-term borrowings	**420.0**	898.0
Accounts payable	**329.8**	866.7
Dividends declared on common and preferred stocks	**62.8**	1.1
Customer deposits	**104.5**	101.9
Taxes accrued	**238.8**	217.5
Interest accrued	**90.1**	86.2
Overrecovered gas and fuel costs	**143.2**	25.8
Price risk management liabilities	**98.3**	72.3
Exchange gas payable	**854.3**	425.2
Deferred revenue	**37.9**	51.3
Regulatory liabilities	**35.6**	46.3
Accrued liability for postretirement and postemployment benefits	**61.0**	61.1
Other accruals	**319.3**	549.1
Total Current Liabilities	**3,237.4**	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**64.6**	22.2
Deferred income taxes	**1,497.6**	1,591.9
Deferred investment tax credits	**65.8**	69.9
Deferred credits	**91.3**	81.1
Deferred revenue	**41.4**	60.4
Accrued liability for postretirement and postemployment benefits	**505.0**	511.0
Liabilities of discontinued operations and liabilities held for sale	**10.0**	—
Regulatory liabilities and other removal costs	**1,237.2**	1,196.2
Asset retirement obligations	**123.5**	119.8
Other noncurrent liabilities	**179.7**	177.5
Total Other Liabilities and Deferred Credits	**3,816.1**	3,830.0
Commitments and Contingencies	**—**	—
Total Capitalization and Liabilities	**$17,088.7**	$ 17,958.5

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Six Months Ended June 30, *(in millions)*	2006	2005
Operating Activities		
Net income	**$ 193.9**	$ 245.3
Adjustments to reconcile net income to net cash from continuing operations:		
Loss on early redemption of preferred stock	**0.7**	—
Depreciation and amortization	**274.9**	271.0
Net changes in price risk management assets and liabilities	**16.7**	(9.0)
Deferred income taxes and investment tax credits	**(108.3)**	(81.6)
Deferred revenue	**(32.5)**	(12.4)
Stock compensation expense	**3.1**	4.7
Gain on sale of assets	**(0.8)**	(1.4)
Loss on impairment of assets	**5.9**	21.8
Cumulative effect of change in accounting principle, net of taxes	**(0.4)**	—
Income from unconsolidated affiliates	**(2.4)**	(2.8)
Gain on sale of discontinued operations	**(0.2)**	(42.5)
Loss from discontinued operations	**1.1**	14.2
Amortization of discount/premium on debt	**3.9**	9.7
Other adjustments	**(4.2)**	(0.4)
Changes in assets and liabilities:		
Accounts receivable	**793.8**	405.2
Inventories	**259.6**	241.7
Accounts payable	**(547.2)**	(250.0)
Customer deposits	**2.5**	0.5
Taxes accrued	**12.9**	38.5
Interest accrued	**3.9**	(0.9)
(Under) Overrecovered gas and fuel costs	**458.1**	247.0
Exchange gas receivable/payable	**(172.8)**	(61.8)
Other accruals	**(155.7)**	(71.4)
Prepayments and other current assets	**37.5**	5.1
Regulatory assets/liabilities	**(25.5)**	(27.6)
Postretirement and postemployment benefits	**1.1**	15.8
Deferred credits	**(7.7)**	(8.3)
Deferred charges and other noncurrent assets	**(8.4)**	(3.1)
Other noncurrent liabilities	**16.5**	6.6
Net Operating Activities from Continuing Operations	**1,020.0**	953.9
Net Operating Activities from or (used for) Discontinued Operations	**0.7**	(16.2)
Net Cash Flows from Operating Activities	**1,020.7**	937.7
Investing Activities		
Capital expenditures	**(267.6)**	(243.1)
Proceeds from disposition of assets	**7.6**	7.4
Restricted cash	**(43.5)**	24.6
Other investing activities	**3.1**	(14.9)
Net Cash Flows used for Investing Activities	**(300.4)**	(226.0)
Financing Activities		
Retirement of long-term debt	**(42.5)**	(81.0)
Change in short-term debt	**(478.0)**	(307.6)
Retirement of preferred shares	**(81.1)**	—
Issuance of common stock	**2.1**	32.1
Acquisition of treasury stock	**(5.9)**	(1.6)
Dividends paid — common shares	**(126.4)**	(124.9)
Net Cash Flows used for Financing Activities	**(731.8)**	(483.0)
Increase (Decrease) in cash and cash equivalents	**(11.5)**	228.7
Cash and cash equivalents at beginning of year	**69.4**	29.5

Cash and cash equivalents at end of period	**$ 57.9**	$ 258.2
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 185.1**	$ 200.8
Interest capitalized	**4.2**	0.4
Cash paid for income taxes	**166.0**	92.8

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Comprehensive Income (Loss) (unaudited)

(in millions, net of taxes)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Income	**$ 21.0**	$ 39.0	**$ 193.9**	$ 245.3
Other comprehensive income (loss)				
Net unrealized gains (losses) on cash flow hedges	**(14.5)**	(38.2)	**(65.5)**	16.2
Net gain (loss) on available for sale securities	**1.2**	(1.0)	**0.9**	0.5
Total other comprehensive income (loss)	**(13.3)**	(39.2)	**(64.6)**	16.7
Total Comprehensive Income (Loss)	**$ 7.7**	$ (0.2)	**$ 129.3**	$ 262.0

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

2. Recent Accounting Pronouncements

SFAS No. 123 (revised 2004) — Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. Upon adoption of SFAS No. 123R in the first quarter of 2006, NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the outstanding share-based awards will continue to be accounted for substantially as they were prior to the adoption of SFAS No. 123R. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for 2005.

(in millions, except per share data)		Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net Income			
As reported		$ 39.0	$ 245.3
Add:	Stock-based employee compensation expense included in reported net income, net of related tax effects	1.9	2.9
Less:	Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	1.9	9.1
Pro forma		$ 39.0	$ 239.1
Earnings per share ($)			
Basic	— as reported	0.15	0.91
	— pro forma	0.15	0.88
Diluted	— as reported	0.14	0.90
	— pro forma	0.14	0.88

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

SFAS No. 154 — Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 48 — Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This Interpretation is effective for fiscal years beginning after December 15, 2006.

3. Stock Options and Awards

Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123.

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

At the annual meeting of stockholders held on May 10, 2005, NiSource's stockholders approved proposed amendments to the 1994 Plan. The amendments (i) increased the maximum number of shares of NiSource common stock that may be subject to awards from 21 million to 43 million and (ii) extended the period during which awards could be granted to May 10, 2015 and extended the term of the plan until all the awards have been satisfied by either issuance of stock or the payment of cash. At June 30, 2006, there were 26,105,574 shares reserved for future awards under the amended and restated 1994 Plan.

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, awards may vest upon death, disability, or upon a change of control or retirement. There were 10,000 restricted shares outstanding at June 30, 2006, which were not a part of the time accelerated restricted stock award plan described below.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. These awards of restricted stock or restricted stock units generally vest over a period of six years or, in the case of restricted stock units at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. At June 30, 2006, NiSource had 824,495 awards outstanding which contain the time-accelerated provisions. The total shareholder return measures established for the 2003 awards were not met as of December 31, 2005, therefore these grants will not have an accelerated vesting period. The measures for the 2004 awards were not met as of June 30, 2006, therefore these grants will not have an accelerated vesting period.

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

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the Board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age 70, death or disability, any shares of common stock not vested as of the date of termination are forfeited. As of June 30, 2006, 89,860 restricted shares and 104,303 restricted stock units had been issued under the Plan.

Option grants are granted with an exercise price equal to the average of the high and low market price on the day of the grant. Stock option transactions for the first half of 2006 were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2006	**9,948,383**	**22.59**
Granted	—	N/A
Exercised	(84,908)	19.84
Cancelled	(587,180)	23.60
Outstanding at June 30, 2006	**9,276,295**	**22.55**
Exercisable at June 30, 2006	**9,276,295**	**22.55**

The following table summarizes information on stock options outstanding and exercisable at June 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
17.53 - 20.45	1,441,793	19.57	5.6	1,441,793	19.57
20.46 - 23.38	5,709,566	22.09	6.9	5,709,566	22.09
23.39 - 26.30	1,788,186	25.19	4.0	1,788,186	25.19
26.31 - 29.22	336,750	29.22	1.9	336,750	29.22
	9,276,295	22.55	6.0	9,276,295	22.55

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

There were no stock appreciation rights outstanding at June 30, 2006.

No options were granted during the six months ended June 30, 2006. The fair value of each option granted during the six months ended June 30, 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.1%. The weighted average fair value of the options granted during the six months ended June 30, 2005 was $3.34. The following assumptions were used:

	June 30, 2005
Expected Life (yrs.)	**4.2**
Interest Rate	**3.5 - 3.6%**
Volatility	**22.6%**

NiSource recognized compensation cost of $3.1 million and $4.7 million in the first six months of 2006 and 2005, respectively, as well as related tax benefits of $1.1 million and $1.8 million, respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years.

4. Income Taxes

NiSource's interim effective tax rates reflect the estimated annual effective tax rate for 2006 and 2005, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter and six months ended June 30, 2006 were 38.4% and 35.8%, respectively. The effective tax rates differ from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other permanent book/tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

5. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2006**	2005	**2006**	2005
Denominator				
Basic average common shares outstanding	**272,399**	271,172	**272,371**	270,752
Dilutive potential common shares				
Nonqualified stock options	**81**	429	**63**	402
Shares contingently issuable under employee stock plans	**560**	884	**560**	884
Shares restricted under employee stock plans	**126**	622	**114**	590
Diluted Average Common Shares	**273,166**	273,107	**273,108**	272,628

6. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. As of June 30, 2006, 861 employees were terminated as a result of the agreement with IBM, of which 554 became employees of IBM. During the second quarter of 2006, 41 employees were terminated, none of which became

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

employees of IBM. Adjustments to the restructuring liability were recorded mainly for changes in estimated expenses related to the outsourcing initiative. Adjustments in the estimated liability are reflected in "Operation and maintenance" expense.

In the fourth quarter of 2005, NiSource announced a plan to reduce its executive ranks by approximately 15% to 20% of the top-level executive group. As of June 30, 2006, the employment of 9 employees terminated as a result of the executive initiative, of whom 4 and 9 were terminated during the quarter and six months ended June 30, 2006, respectively. In part, this reduction has come through anticipated attrition and consolidation of basic positions.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of June 30, 2006, 1,566 employees were terminated, of whom no employees were terminated during the quarter and six months ended June 30, 2006. Of the $8.3 million remaining restructuring liability from the Columbia merger and related initiatives, $8.1 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2005	Benefits Paid	Adjustments	Balance at June 30, 2006
Outsourcing initiative	$ 11.5	$ (6.5)	$ (2.1)	$ 2.9
Executive initiative	2.9	(1.7)	—	1.2
Columbia merger and related initiatives	10.1	(1.8)	—	8.3
Total	$ 24.5	$ (10.0)	$ (2.1)	$ 12.4

7. Discontinued Operations and Assets Held for Sale

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $57.3 million and $34.6 million at June 30, 2006 and December 31, 2005, respectively.

NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the second quarter of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.2 million as of June 30, 2006 after impairment, as assets held for sale. Mortgage notes and other accrued liabilities related to these investments of $10.0 million are accounted for as liabilities held for sale.

NiSource Corporate Services is in the process of selling its Marble Cliff facility. An impairment loss of $2.5 million was recognized in the first quarter of 2006 due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility, valued at $12.7 million as of June 30, 2006 after impairment, as assets held for sale. Additionally, in the second quarter of 2006 NiSource Corporate Services made a decision to sell a corporate aircraft with an approximate fair value of $9.6 million, which is accounted for as assets held for sale. An impairment loss of $0.9 million was recognized in the second quarter of 2006 based on the estimated market value of the aircraft.

NiSource Development Company is in the process of selling its Northern Indiana headquarters facility. NiSource has accounted for this facility, with a net book value of $1.8 million as of June 30, 2006, as assets held for sale.

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As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel Gary Works exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation. In the second quarter of 2006, NiSource paid Private Power a sum of approximately $8.0 million to settle this obligation.

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at June 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.7 million, as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from NDC Douglas Properties low income housing investments, the golf course assets of Lake Erie Land and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2006**	2005	**2006**	2005
Revenues from Discontinued Operations	**$ 1.8**	$ 2.1	**$ 3.1**	$ 3.8
Loss from discontinued operations	**(1.1)**	(18.1)	**(1.8)**	(21.8)
Income tax benefit	**(0.4)**	(6.1)	**(0.7)**	(7.6)
Net Loss from Discontinued Operations	**$ (0.7)**	$ (12.0)	**$ (1.1)**	$ (14.2)

8. Regulatory Matters

Gas Distribution Operations Related Matters
Gas Distribution Operations continues to offer CHOICE ® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of June 2006, approximately 678 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio's application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of June 30, 2006, Columbia of Ohio has $41.0 million of uncollected accounts receivable pending future recovery.

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ITEM 1. FINANCIAL STATEMENTS (continued)

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On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to extend the filing of schedules until May 1, 2006 and issued a further Order on April 21, 2006 extending the time to file certain of the schedules until May 8, 2006. The required schedules were filed on May 1, 2006 and May 8, 2006. The VSCC issued an Order for Notice and Hearing on May 19, 2006. Columbia of Virginia filed testimony in support of its filings on May 19, 2006, June 1, 2006 and June 16, 2006. A hearing in these matters is scheduled to commence on November 29, 2006.

In accordance with the IURC's 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved Northern Indiana's GCA 7 on July 26, 2006.

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

On May 16, 2006, Northern Indiana filed a petition to simplify its residential rate structure, stabilize revenue streams and provide the company incentives to encourage energy efficiency measures. A hearing on the cause is set for the fourth quarter of 2006 with full resolution anticipated in the first quarter 2007.

Gas Transmission and Storage Operations Related Matters
On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be

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ITEM 1. FINANCIAL STATEMENTS (continued)

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recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf's system and the reliability of service to its customers. The Commission ruled that Tennessee Gas Pipeline's interconnection request should be governed by the existing Blue Water Pipeline operating agreement between Columbia Gulf and Tennessee Gas Pipeline.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with FERC's referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf considers whether to seek rehearing of the declaratory order issued by the FERC in this matter.

Electric Operations Related Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana's electric rates subsequent to the minimum period. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $22.9 million and $29.2 million were recognized for electric customers for the first half of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. Pending a clarifying order on these charges, a reserve was established for the charges, net of credits. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana's FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million will be required for charges related to the period April 1, 2005 through December 8, 2005. Northern Indiana had provided for a reserve of $8.7 million through December 2005. The actual amount of the refund was slightly more than the amount of the reserve, due to adjustments and MISO resettlements. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $1.7 million for the first six months of

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ITEM 1. FINANCIAL STATEMENTS (continued)

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2006. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $10.5 million for the first half of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $2.5 million for the first half of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

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

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

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

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

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the

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intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. IURC approval is pending.

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

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

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

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC's May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

FAC-72, scheduled for filing in the third quarter of 2006, will include a refund for the remaining $0.8 million of MISO-related costs.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $12.9 million for the six months ended June 30, 2006, and $64.6 million from inception to date, while EERM revenues were $6.2 million for the six months ended June 30, 2006, and $14.9 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing. ECR-8 is scheduled to be filed in August 2006.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter's motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges

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ITEM 1. FINANCIAL STATEMENTS (continued)

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service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

9. Risk Management and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments primarily to manage commodity price risk and interest rate risk exposure in its business as well as for commercial and industrial sales and some trading. NiSource accounts for its derivatives under SFAS No. 133. Under SFAS No. 133, if certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction.

NiSource's derivatives on the Consolidated Balance Sheets at June 30, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 137.6	$ 6.9	$ 144.5
Other assets	107.0	—	107.0
Total price risk management assets	$ 244.6	$ 6.9	$ 251.5
Price risk management liabilities			
Current liabilities	$ (76.9)	$ (21.4)	$ (98.3)
Other liabilities	(64.2)	(0.4)	(64.6)
Total price risk management liabilities	$ (141.1)	$ (21.8)	$ (162.9)

NiSource's derivatives on the Consolidated Balance Sheets at December 31, 2005 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 152.6	$ 30.5	$ 183.1
Other assets	185.5	7.4	192.9
Total price risk management assets	$ 338.1	$ 37.9	$ 376.0
Price risk management liabilities			
Current liabilities	$ (63.4)	$ (8.9)	$ (72.3)
Other liabilities	(22.2)	—	(22.2)
Total price risk management liabilities	$ (85.6)	$ (8.9)	$ (94.5)

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ITEM 1. FINANCIAL STATEMENTS (continued)

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The hedging activity for the quarter and six months ended June 30, 2006 and 2005 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

(in millions, net of taxes)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 99.7**	$ 148.1	**$ 150.7**	$ 93.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(13.1)**	(26.7)	**(64.8)**	25.8
Reclassification adjustment for net gain included in net income	**(1.4)**	(11.5)	**(0.7)**	(9.6)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 85.2**	$ 109.9	**$ 85.2**	$ 109.9

During the second quarter of 2006 and 2005, zero and $0.1 million, net of taxes respectively, were recognized in earnings due to the change in time value of certain derivative instruments. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the second quarter of 2006 and 2005, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in other comprehensive income of approximately $41.3 million, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. These derivative programs are accounted for as cash flow hedges.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that match the anticipated delivery needs of the program. This derivative program is accounted for as a cash flow hedge.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect Northern Indiana against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. Additionally, Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These derivative programs must be marked to fair value, but because these

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
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derivatives are used within the framework of their cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of there derivatives.

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

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, Columbia of Virginia and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These commodity swap derivatives are accounted for as cash flow hedges.

Commodity price risk programs included in price risk assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 4.6	$ (14.6)	$ 35.7	$ —
PPS program derivatives	0.6	(2.7)	1.8	(2.5)
DependaBill program derivatives	—	(0.6)	1.6	—
MISO FTR program derivatives	—	(0.1)	2.2	(0.4)
Power price volatility program derivatives	—	(1.3)	—	—
Regulatory incentive program derivatives	0.5	(4.3)	—	(8.5)
Forward purchase agreements derivatives	176.8	—	266.7	—

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

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

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

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

Interest rate risk activities programs included in price risk management assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$ —	$ (57.4)	$ —	$ (12.2)

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. In the second quarter of 2006, TPC, on behalf of Whiting Clean Energy, has also entered into power and gas derivative contracts to manage price risk associated with operating Whiting Clean Energy. These power and gas trading derivatives relating to the expected operation of Whiting Clean Energy are not being accounted for as hedges.

Marketing and trading programs included in price risk management assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing program derivatives	$ 67.2	$ (80.4)	$ 68.0	$ (70.9)
Gas trading program derivatives	0.8	(0.8)	—	—
Power trading program derivatives	1.0	(0.7)	—	—

10. Goodwill Assets

NiSource's goodwill assets at June 30, 2006 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at June 30, 2006 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

In the quarter ended June 30, 2006, NiSource performed its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas. The results of the June 30, 2006 impairment test indicated that no impairment charge was required. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

The results of the June 30, 2005 impairment test indicated that no impairment charge was required for the goodwill related to the purchase of Columbia or Northern Indiana Fuel and Light, and that an impairment charge of $10.9 million was required for goodwill related to the purchase of Kokomo Gas. This impairment charge was recorded in June 2005 and is reflected in operating expenses as an "Impairment and loss (gain) on sale of assets" on the

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Statements of Consolidated Income. Factors contributing to this charge were increased income that reduced the "regulatory earnings bank" and limitations on future operating income growth.

11. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. NiSource expects to make contributions of $7.1 million to its pension plans and $54.2 million to its other postretirement benefit plans in 2006.

The following tables provide the components of the plans' net periodic benefits cost for the second quarter and six months ended June 30, 2006 and 2005:

	Pension Benefits		Other Benefits	
Three Months Ended June 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 10.6**	$ 10.4	**$ 2.4**	$ 2.3
Interest cost	**31.3**	32.0	**10.1**	10.5
Expected return on assets	**(43.9)**	(41.1)	**(4.6)**	(4.0)
Amortization of transitional obligation	**—**	—	**2.0**	2.5
Amortization of prior service cost	**1.5**	2.6	**0.1**	0.2
Recognized actuarial loss	**4.6**	4.3	**1.5**	1.0
Net Periodic Benefits Cost	**$ 4.1**	$ 8.2	**$ 11.5**	$ 12.5

	Pension Benefits		Other Benefits	
Six Months Ended June 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 21.3**	$ 20.8	**$ 4.7**	$ 4.6
Interest cost	**62.5**	64.0	**20.2**	20.9
Expected return on assets	**(87.8)**	(82.2)	**(9.2)**	(8.0)
Amortization of transitional obligation	**—**	—	**4.0**	4.9
Amortization of prior service cost	**3.0**	5.2	**0.2**	0.4
Recognized actuarial loss	**9.2**	8.6	**3.1**	1.9
Settlement loss	**—**	0.4	**—**	—
Net Periodic Benefits Cost	**$ 8.2**	$ 16.8	**$ 23.0**	$ 24.7

12. Asset Retirement Obligations

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Changes in NiSource's liability for asset retirement obligations for the first half of 2006 are presented in the table below:

Six Months Ended June 30, *(in millions)*	2006
Beginning Balance	$ 119.8
Accretion	3.7
Ending Balance	$ 123.5

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

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143 and FIN 47. The amount of the other costs of removal reflected as a component of NiSource's accumulated depreciation and amortization was approximately $1.2 billion and $1.1 billion at June 30, 2006 and December 31, 2005, respectively, based on rates for estimated removal costs embedded in composite depreciation rates. Upon the adoption of SFAS No. 143 on January 31, 2003, NiSource reclassified its cost of removal from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the three months ended June 30, 2006, NiSource accrued $1.9 million of accretion, of which $0.2 million was expensed and $1.7 million was recorded as a regulatory asset. For the six months ended June 30, 2006, NiSource accrued $3.7 million of accretion, of which $0.5 million was expensed and $3.2 million was recorded as a regulatory asset. For the three and six months ended June 30, 2005, NiSource accrued $0.1 million and $0.2 million of accretion, respectively, of which the majority of it was expensed. NiSource anticipates that the depreciation and accretion amounts to be recognized in 2006 associated with its asset retirement obligation assets and liabilities will be $2.8 million and $7.5 million, respectively, and will primarily be recorded as a regulatory asset or liability pursuant to SFAS No. 71.

13. Redemption of Preferred Stock

On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

14. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at June 30, 2006 and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Guarantees of subsidaries debt	$4,967.1	$ 253.3	$ 32.5	$ 8.8	$ 464.1	$1,002.2	$3,206.2
Guarantees supporting commodity transactions of subsidiaries	751.4	234.4	258.8	37.5	41.1	—	179.6
Lines of credit	420.0	420.0	—	—	—	—	—
Letters of credit	91.7	7.8	19.5	64.4	—	—	—
Other guarantees	154.9	—	1.0	7.6	3.9	—	142.4
Total commercial commitments	$6,385.1	$ 915.5	$ 311.8	$ 118.3	$ 509.1	$1,002.2	$3,528.2

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

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $751.4 million of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. During November 2005, NiSource Finance also entered into a $300 million nine-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC that expires September 5, 2006. At June 30, 2006, NiSource had $120.0 million outstanding under the five-year revolving credit facility, and $300.0 million outstanding under the nine-month credit facility. Through the five-year revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $91.7 million for the benefit of third parties.

Other Guarantees or Obligations . On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreement, Columbia Transmission issued a guarantee securing payment for 50% of any amounts issued in connection with Hardy Storage up until such time as the project is placed in service and operated within certain specified parameters, which is expected to be in the second quarter of 2008. As of June 30, 2006, Hardy Storage borrowed $38.0 million under the financing agreement, for which Columbia Transmission recorded an accrued liability of approximately $1.0 million related to the fair value of its guarantee securing payment for 50% the $38.0 million borrowed. Hardy Storage borrowed an additional $11.3 million and $5.3 million in July 2006 and August 2006, respectively, for which Columbia Transmission recorded an additional liability of approximately $0.4 million for its respective guarantee related to these amounts.

After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

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

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

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

C. Environmental Matters.

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

As of June 30, 2006, a reserve of approximately $67 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations.
At a property in the City of Staunton Virginia the current property owner has been issued notice by the EPA that they need to evaluate potential impacts associated with a gasoline station and a former manufactured gas plant. The property owner is seeking contribution from Columbia of Virginia. Columbia of Virginia is currently assessing its liability in relation to the property.

Gas Transmission and Storage Operations.
On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. These actions could require further reductions in NOx emissions from various emission sources in and near nonattainment areas, including reductions from pipeline Transmission and Storage Operations.

On July 5, 2006, Columbia Gulf submitted the NOx SIP Call Compliance Plan to the State of Kentucky pending approval. This Plan would reduce NOx emissions by 950 tons per ozone season starting May 1, 2007. Currently Columbia Gulf anticipates installation of approximately $6 million to $8 million in NOx controls to achieve these reductions. The effects of other recent EPA actions on Transmission and Storage Operations cannot be determined at this time.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Columbia Transmission discovered and notified the State of West Virginia of compliance issues associated with turbine operations at two of its facilities. Columbia Transmission is currently finalizing resolution of this issue.

On June 29, 2006, Columbia Transmission entered into a Consent Agreement with Region III EPA related to the management of coal tar based pipe wrap. The Consent Agreement requires that Columbia Transmission, and its contractor, pay a civil penalty totaling $180,000.

Electric Operations.
Air. On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. Northern Indiana will continue to closely monitor developments in this area that could impact the emission control requirements for coal-fired boilers including Northern Indiana's electric generating stations.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. The main rulemaking established federal implementation plans, or FIPs, for power plants to ensure that the emissions reductions required by the CAIR are achieved on schedule and provide criteria, whereby SIPs that meet a majority of the federal requirements or abbreviated SIPs could be approved if submitted by the states within six months of the September 2006 deadline. As an affected state, Indiana initiated state rule making in June 2005, for creating rules detailing how it will implement the federal rule and meet the emission caps. Indiana structured, and preliminarily adopted in June 2006, a draft rule to meet the EPA abbreviated CAIR SIP requirements and should therefore be eligible for a six-month extension of the submittal deadline. Accordingly, Indiana anticipates that the state CAIR rule will be finalized by March of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On May 31, 2006, the EPA took final action on petitions to reconsider two actions regarding the air pollutant Mercury: 1) Its determination that regulation of electric utility steam generating units under section 112 of the Clean Air Act was neither necessary nor appropriate (the section 112 rule); and 2) The Clean Air Mercury Rule. Following the promulgation of the final section 112 rule, EPA received two petitions for reconsideration. In response to the two petitions, the EPA agreed to reconsider certain aspects of the final section 112 rule. After considering the petitions and the information that was submitted during the public comment period, the EPA determined that its original rule was correct. Indiana is developing a rule to implement the EPA Clean Air Mercury Rule. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On June 29, 2006, the IDEM held a public hearing to satisfy the public notice requirements for its proposed petition to the EPA to redesignate the Indiana counties of Lake and Porter to attainment of the 8-hour ozone NAAQS. The petition included EPA required technical and procedural information, as well as optional technical information, supporting the IDEM's redesignation request, as well as state plans to maintain the NAAQS upon the EPA redesignation, if granted. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignation to attainment, new source review rules would change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the outcome or timing of the approval of the petition.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating stations located on Lake Michigan. The State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. All issues in subsequent litigation related to the EPA's actions have been resolved with the exception of the EPA's disapproval of the IDEM method for testing whole effluent toxicity. The water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. Engineering studies have begun to determine specific compliance costs for this facility. The permit for the Bailly Generating Station was issued on June 26, 2006, and will become effective on August 1, 2006. Pending review and analysis of this permit, the cost of complying with the permit requirements cannot be estimated at this time.

15. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss, which is included in "Common stock equity," on the Consolidated Balance Sheets.

(in millions)	**June 30, 2006**	December 31, 2005
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	**$ 2.0**	$ 0.3
Tax (expense) on unrealized gains on securities	**(1.0)**	(0.3)
Unrealized gains on cash flow hedges	**126.8**	228.5
Tax (expense) on unrealized gains on cash flow hedges	**(41.6)**	(77.8)
Minimum pension liability adjustment	**(260.1)**	(260.1)
Tax benefit on minimum pension liability adjustment	**103.8**	103.8
Total Accumulated Other Comprehensive Loss, net of taxes	**$ (70.1)**	$ (5.6)

16. Business Segment Information

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

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

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
REVENUES				
Gas Distribution Operations				
Unaffiliated	**694.1**	748.8	**2,874.4**	2,766.9
Intersegment	**3.0**	0.5	**7.4**	(0.3)
Total	**697.1**	749.3	**2,881.8**	2,766.6
Gas Transmission and Storage Operations				
Unaffiliated	**146.9**	137.9	**305.4**	296.1
Intersegment	**52.3**	57.9	**125.4**	129.4
Total	**199.2**	195.8	**430.8**	425.5
Electric Operations				
Unaffiliated	**302.5**	281.8	**609.0**	563.6
Intersegment	**0.4**	0.4	**0.8**	1.3
Total	**302.9**	282.2	**609.8**	564.9
Other Operations				
Unaffiliated	**168.1**	186.8	**495.5**	410.6
Intersegment	**4.9**	4.8	**18.9**	9.8
Total	**173.0**	191.6	**514.4**	420.4
Adjustments and eliminations	**(60.3)**	(63.3)	**(152.5)**	(139.3)
Consolidated Revenues	**$1,311.9**	$1,355.6	**$4,284.3**	$4,038.1
Operating Income (Loss)				
Gas Distribution Operations	**(6.0)**	5.7	**200.0**	280.6
Gas Transmission and Storage Operations	**79.0**	76.8	**189.3**	186.3
Electric Operations	**63.3**	61.0	**131.4**	126.4
Other Operations	**(4.7)**	(8.5)	**(14.8)**	(13.7)
Corporate	**—**	(15.2)	**(6.7)**	(22.1)
Consolidated Operating Income	**$ 131.6**	$ 119.8	**$ 499.2**	$ 557.5

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

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

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

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the six months ended June 30, 2006, income from continuing operations was $194.4 million, or $0.71 per share. This compares to income from continuing operations of $217.0 million, or $0.80 per share, for the year-ago period. The difference was primarily due to lower net revenues due to the mild winter weather and declines in residential usage by natural gas utility customers. Weather was 14% warmer than normal and 15% warmer than a year ago. Weather reduced net revenues in NiSource's Gas Distribution Operations business segment by approximately $63 million during the first half of 2006. Gas Distribution Operations net revenues were also reduced by approximately $16 million due to residential usage declines. Residential usage declines are likely to continue to adversely impact the operating results of Gas Distribution Operations. Offsetting these revenue declines within Gas Distribution Operations were net revenue increases within Gas Transmission and Storage Operations and Electric Operations.

Excluding increases in expenses that are recovered through regulatory trackers, which are offset in net revenues (see discussion below), operating expenses decreased by approximately $18 million. This decrease was due primarily to lower restructuring and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. Partially offsetting these decreases were operating expense increases in the Gas Transmission and Storage Operations Segment primarily due to higher pipeline integrity and employee administrative expenses and higher depreciation charges.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

NiSource is recognizing interest expense savings due to the refinancing of $2.4 billion in long-term debt during 2005. Interest expense was reduced by $16.8 million for the six months ended June 30, 2006, compared with the year-ago period.

NiSource continues to focus on its four-point platform for long-term, sustainable growth. This plan is centered on its portfolio of low-risk, regulated assets: commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and expense management. Following are updates related to these initiatives.

Commercial and Regulatory Initiatives

Sales of Shorter-Term Transportation and Storage Services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $30 million of shorter-term business for 2006, $19.2 million of which was recorded during the first six months ended June 30, 2006. Columbia Gulf's mainline throughput increased by 3.0% over 2005 due to the increased utilization of these services.

Regulatory Trackers. Comparability of Gas Distribution Operations line item operating results are impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $29.8 million of the increase in operating expenses for the Gas Distribution Operations segment consisted of expenses that were subject to a tracker and offset by a corresponding increase to net revenues reflecting recovery of certain costs.

NiSource remains focused on the effects of customer conservation and is taking steps to address this issue, particularly through regulatory initiatives. NiSource anticipates making filings in various jurisdictions this year and next year, either through broader rate proceedings or specific mechanisms such as rate design, decoupling or other initiatives developed to moderate the impact of conservation.

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

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Hardy Storage. Construction of the Hardy Storage project in West Virginia has begun and on June 29, 2006, the project financing closed at which time the first tranche of $38 million of interim notes were issued at 5.95%. Subsequently, Hardy Storage borrowed an additional $11.3 million and $5.3 million under an associated revolving facility during July 2006 and August 2006, respectively.

Millennium Pipeline. Millennium Pipeline, as well as companion upstream and downstream projects, are proceeding with the regulatory approval process even as the project's projected in-service date recently was extended to November 1, 2008, or earlier if feasible. Pending regulatory approvals, the project's partners expect to begin construction activities during 2007. Millennium is anchored by long-term agreements with Consolidated Edison and KeySpan. Columbia and Central Hudson also hold long-term agreements on Millennium. The redistribution of equity among partners in the Millennium Pipeline is now complete, with NiSource subsidiary Columbia Transmission holding a 47.5% equity stake.

Eastern Market Expansion. Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements continues with pre-filing activities.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

Financial Management of the Balance Sheet

Interest Expense Savings. Interest expense, net was $188.7 million for the six months ended June 30, 2006, a decrease of $16.8 million compared to the first six months of 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. This improvement was partially offset by lower interest income and higher costs related to the sale of accounts receivable which both contributed to the $9.2 million change in other income (deductions).

Expense Management

Operating Expenses. Operating expenses for the first six months of 2006 were $1,123.0 million, an increase of $14.3 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers and corresponding increases in net revenues, operating expenses decreased by approximately $18 million. This decrease was due primarily to lower restructuring and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. Partially offsetting these decreases were operating expense increases in the Gas Transmission and Storage Operations Segment primarily due to higher pipeline integrity and employee administrative expenses and higher depreciation charges.

NiSource renewed both of the onshore property and casualty insurance programs on July 1, 2006. As a result of the demand for limited insurance capacity for offshore exposures, particularly the Gulf of Mexico, the offshore property program was renewed on June 1, 2006. NiSource sustained an increase of approximately $8 million in property insurance costs directly attributable to the increase in insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico. Casualty premiums remained relatively flat compared to the previous year. Such increases and restrictions in coverage for Gulf of Mexico windstorm exposures were driven by the overall poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained from hurricanes such as Ivan, Katrina and Rita.

2006 Outlook

NiSource had disclosed in its quarterly report ending March 31, 2006 an expectation of income from continuing operations for 2006 to be between $1.33 to $1.43 basic EPS. This expectation considered the unfavorable weather impact of 9 cents per share that occurred during the first quarter 2006. NiSource now believes that attaining this guidance will be unlikely, primarily as a result of increased customer attrition and reduced customer usage of natural gas. NiSource's initial earnings guidance included an assumption that usage declines would return to historic levels of 0.5% to 1%, as compared to its current view that the decline could approximate 5%. Customer attrition has also increased significantly from historic levels of about 0.5% to approximately 1.2%. The projected impact of these issues is a reduction in net revenues of nearly $40 million, or 10 cents per share, compared with the levels underlying NiSource's initial earnings guidance for the year. In addition, lower net interest savings are projected to increase interest expense and decrease other income by $12 million, or 3 cents per share, compared with the initial 2006 earnings guidance. NiSource has elected to not provide a reforecast of earnings for 2006 at this time.

Results of Operations
Quarter Ended June 30, 2006

Net Income

NiSource reported net income of $21.0 million, or $0.08 per share, for the three months ended June 30, 2006, compared to net income of $39.0 million, or $0.15 per share, for the three months ended June 30, 2005. Operating income was $131.6 million, an increase of $11.8 million from the same period in 2005. All per share amounts are basic EPS. Basic average shares of common stock outstanding at June 30, 2006 were 272.4 million compared to 271.2 million at June 30, 2005.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $7 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

Net Revenues
Total consolidated net revenues (gross revenues less cost of sales) for the three months ended June 30, 2006, were $641.5 million, a $12.4 million decrease from the same period last year. Excluding the impact of $7 million of trackers discussed above, net revenues decreased by approximately $19 million. The decrease in net revenues was primarily due to weather adversely affecting Gas Distribution Operations by approximately $17 million and Electric Operations by approximately $8 million. Gas Transmission and Storage Operations realized a net revenue increase of $5.9 million from the same period in 2005 due primarily to $14.7 million in increased sales of shorter-term transportation and storage services, which were partially offset by an $8.9 million benefit in the comparable quarter last year realized for a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract.

Expenses
Operating expenses for the second quarter 2006 were $509.9 million, a decrease of $24.2 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased approximately $31 million. This decrease was primarily due to impacts in the second quarter of 2005 which included $20.9 million of restructuring and transition charges associated with the IBM outsourcing initiative, a $10.9 million goodwill impairment loss related to Kokomo Gas and a $10.9 million charge for obsolete software systems. During the second quarter of 2006, NiSource recorded $3.3 million of asset impairment charges and $2.9 million of transition costs related to the IBM outsourcing initiative. In addition, operating expenses increased within the Gas Transmission and Storage Operations Segment by $3.7 million due primarily to higher pipeline integrity expenses and by $3.4 million in the Electric Operations Segment due to primarily higher generation and maintenance expenses.

Other Income (Deductions)
Interest expense, net was $93.3 million for the quarter, a decrease of $8.2 million compared to the second quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $2.7 million for the current quarter compared to income of $3.6 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes
Income tax expense for the second quarter of 2006 was $13.4 million, an increase of $0.9 million compared to the second quarter of 2005 due primarily to higher pretax income partially offset by a significantly lower effective tax rate. The effective tax rate for the quarter ended June 30, 2006 was 38.4% compared to 60.1% for the comparable period last year, which was impacted by the non-deductible goodwill impairment charge recorded in the second quarter of 2005 and additional tax recorded as a result of changes in Ohio income tax laws enacted on June 30, 2005. Excluding the impact of the goodwill impairment charge, the effective tax rate for the second quarter of 2005 was 39.4%.

Results of Operations
Six Months Ended June 30, 2006

Net Income
NiSource reported net income of $193.9 million, or $0.71 per share, for the six months ended June 30, 2006, compared to $245.3 million, or $0.91 per share, for the first six months of 2005. Operating income was $499.2 million, a decrease of $58.3 million from the same period in 2005. NiSource's net income reflects the $28.3 million gain on discontinued operations recorded in the first half of 2005, which is the result of changes to reserves for contingencies related to the previous sale of discontinued assets partially offset by an impairment charge for certain discontinued assets. Basic average shares of common stock outstanding for the six months ended June 30, 2006 were 272.4 million compared to 270.8 million at June 30, 2005.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $32 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues
Total consolidated net revenues (gross revenues less cost of sales) for the six months ended June 30, 2006, were $1,622.2 million, a $44.0 million decrease from the same period last year. Excluding the impact of $32 million of trackers discussed above, net revenues decreased by approximately $76 million, primarily due to weather adversely affecting Gas Distribution Operations by approximately $63 million and Electric Operations by approximately $10 million. Increased subscriptions for demand services and sales of shorter-term transportation and storage services in Gas Transmission and Storage Operations amounting to approximately $17 million was offset by a decline within Gas Distribution Operations caused by reductions in residential usage of approximately $16 million. Electric Operations positive impacts to net revenues included a reduction in customer credits of $6.3 million, increased environmental cost recovery trackers of $3.8 million, and $3.7 million of lower MISO costs, which included the impact of a favorable regulatory ruling on the recoverability of certain MISO charges. The comparable quarter last year benefited by $8.9 million related to a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract.

Expenses
Operating expenses for the first six months of 2006 were $1,123.0 million, an increase of $14.3 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased approximately $18 million. The decrease was primarily due to impacts in the second quarter of 2005 which included $20.9 million of restructuring and transition charges associated with the IBM outsourcing initiative, a $10.9 million charge for obsolete software systems and a $10.9 million impairment charge related to goodwill at Kokomo Gas. Operating expense increases in the first half of 2006 included transition and other restructuring charges associated with the IBM agreement of $9.4 million and asset impairment charges of $5.8 million. In addition, operating expenses increased within the Gas Transmission and Storage Operations Segment by $4.9 million due primarily to higher pipeline integrity expenses.

Other Income (Deductions)
Interest expense, net was $188.7 million for the first six months of 2006 compared to $205.5 million for the first six months of last year. This decrease of $16.8 million was mainly due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $6.1 million for the first half of 2006 compared to income of $3.1 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes
Income tax expense for the first six months of 2006 was $108.2 million, a decrease of $27.7 million compared to the 2005 period, due primarily to lower pre-tax income and a lower effective tax rate. The effective tax rate for the six months ended June 30, 2006 was 35.8% compared to 38.5% for the comparable period last year. This 2.7% decrease reflects reductions in deferred state income tax liabilities recorded in the first quarter of 2006 and the impact of the non-deductible goodwill impairment charge and increased taxes related to Ohio income tax law changes recorded in the second quarter of 2005, offset by additional tax expense associated with the reduction in low income housing credits.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas. The recent increase in the price of natural gas has resulted in an increase in working capital requirements to fund the cost of gas placed in storage, the cost of gas flowing directly to our customers and the related increase in accounts receivable. While the previous credit agreements were projected to adequately meet these needs, on July 7, 2006, NiSource Finance amended its $1.25 billion credit facility increasing its aggregate commitment level to $1.5 billion to help maintain a reasonable cushion of short-term liquidity.

Operating Activities

Net cash from operating activities for the six months ended June 30, 2006 was $1,020.7 million, an increase of $83.0 million from the six months ended June 30, 2005. This increase was primarily due to a significant reduction in outstanding accounts receivable and the collection of under-recovered gas cost partially offset by the impact in 2006 of reduced accounts payable balances. High gas cost in December 2005 resulted in unusually large balances in accounts receivable, accounts payable and under-recovered gas cost. A federal tax refund in the first quarter of 2005 compared to a tax payment in the first quarter of 2006 also decreased net cash from operating activities period over period.

Investing Activities

Capital expenditures of $267.6 million in the first six months of 2006 were $24.5 million higher than the comparable 2005 period. The spending for the first six months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in 2006 compared to last year, mainly for increased integrity-management improvements in the pipeline segment and expenditures to replace key components within electric generation in addition to new business projects. The program is expected to be funded primarily via cash from operations.

Financing Activities

On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of June 30, 2006, NiSource's shelf capacity was $850 million.

Cumulative Preferred Stock. On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

Long-term Debt. During May 2006, NiSource redeemed $25.0 million of Capital Markets medium-term notes, with an average interest rate of 7.50%.

During April 2006, NiSource redeemed $15.0 million of Capital Markets medium-term notes, with an average interest rate of 7.75%.

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10.0 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, NiSource redeemed $30.0 million of Capital Markets medium-term notes, with an average interest rate of 7.67%.

Credit Facilities. During July 2006, NiSource Finance amended its $1.25 billion five-year revolving credit facility increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. The amended facility will help maintain a reasonable cushion of short-term liquidity in anticipation of continuing volatile natural gas prices. During November 2005, NiSource Finance entered into a new $300 million nine-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC that expires September 5, 2006.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

NiSource Finance had outstanding credit facility advances of $420.0 million at June 30, 2006, at a weighted average interest rate of 5.44%, and advances of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%. As of June 30, 2006 and December 31, 2005, NiSource Finance had $91.7 million and $101.6 million of stand-by letters of credit outstanding, respectively. At June 30, 2006, $63.6 million of the $91.7 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource Finance obtained during February 2004. Of the remaining $28.1 million of stand-by letters of credit outstanding at June 30, 2006, $24.7 million resided under NiSource Finance's five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution. As of June 30, 2006, $1,105.3 million of credit was available under both credit facilities.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, under the terms of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The agreement, which had a scheduled expiration date of May 12, 2006, was extended for another year to May 11, 2007. The agreement was further amended on July 1, 2006 increasing the program limit from $300 million to $350 million and extending the expiration date to June 29, 2007. As of June 30, 2006, $175 million of accounts receivable had been sold by CORC.

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

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

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

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

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

Non-Trading Risks

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $5.5 million and $11.6 million for the quarter and six months ended June 30, 2006, respectively.

Credit Risk

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. NiSource's extension of credit is governed by a Corporate Credit Risk Policy. Written guidelines approved by NiSource's Risk Management Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of all commercial and trading operations. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

The transactions associated with NiSource's power and natural gas trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity and natural gas. TPC, on behalf of Whiting Clean Energy, has entered into power and gas derivative contracts in the second quarter of 2006 to manage price risk associated with operating Whiting Clean Energy. These power and gas trading derivatives relating to the expected operation of Whiting Clean Energy are not being accounted for as hedges, and where these contracts require settlement by physical delivery they are often net settled in accordance with industry standards. TPC's other power trading activities were all settled as of December 31, 2005.

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

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was zero, during the second quarter of 2006. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.2 million, $0.3 million and $0.1 million during the second quarter of 2006, respectively. Prospectively, management has set the VaR limit at $0.8 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was $2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Power and gas derivative contracts entered into to manage price risk associated with Whiting Clean Energy are limited to quantities surrounding the physical generation capacity of Whiting Clean Energy and the gas requirements to operate the facility.

Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $751.4 million of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 9, "Risk Management and Energy Trading Activities," and Note 14-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Other Information

Recently Adopted Accounting Pronouncements

SFAS No. 123 (revised 2004) — Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years.

SFAS No. 154 — Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 47 — Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

has adopted FIN 47 in the fourth quarter 2005. Refer to Note 12, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

FIN 48 — Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This Interpretation is effective for fiscal years beginning after December 15, 2006.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. On March 31, 2006, the FASB issued an Exposure Draft, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of SFAS No. 87, 88, 106, and 132R. This proposed Statement seeks to improve existing reporting for defined benefit postretirement plans by requiring employer business entities to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, among other changes. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at December 31, 2005, the impact of the proposed Statement, should it have been in effect at December 31, 2005, would have reduced Total Other Assets by approximately $69 million, increased Total Other Liabilities and Deferred Credits by approximately $171 million and decreased total common stock equity by approximately $240 million. The proposed rules will not have an impact on the Statement of Consolidated Income at adoption and all impacts are non-cash. Upon adoption of the proposed rules, NiSource would be required to change its measurement date for its pension and postretirement benefit plans from September, 30 to December, 31. The FASB is currently deliberating on the proposed rules based on comment letters received and other factors. The release of a final interpretation is scheduled for September of 2006, with an effective date for fiscal years ending after December 15, 2006.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Sales Revenues	**$697.1**	$749.3	**$ 2,881.8**	$ 2,766.6
Less: Cost of gas sold	**452.2**	480.2	**2,076.4**	1,899.4
Net Revenues	**244.9**	269.1	**805.4**	867.2
Operating Expenses				
Operation and maintenance	**163.3**	169.3	**391.8**	368.0
Depreciation and amortization	**58.3**	56.3	**115.6**	112.1
Impairment and gain on sale of assets	**—**	10.5	**—**	10.5
Other taxes	**29.3**	27.3	**98.0**	96.0
Total Operating Expenses	**250.9**	263.4	**605.4**	586.6
Operating Income (Loss)	**$ (6.0)**	$ 5.7	**$ 200.0**	$ 280.6
Revenues ($ in Millions)				
Residential	**373.4**	455.0	**1,855.8**	1,798.8
Commercial	**134.3**	162.3	**686.9**	653.0
Industrial	**63.3**	64.5	**178.7**	174.5
Off System	**142.8**	69.2	**238.1**	120.3
Other	**(16.7)**	(1.7)	**(77.7)**	20.0
Total	**697.1**	749.3	**2,881.8**	2,766.6
Sales and Transportation (MMDth)				
Residential	**30.3**	38.1	**146.9**	180.1
Commercial	**25.3**	28.0	**94.3**	106.7
Industrial	**83.3**	86.7	**181.4**	197.1
Off System	**19.1**	9.2	**29.9**	16.3
Other	**0.2**	0.1	**0.5**	0.5
Total	**158.2**	162.1	**453.0**	500.7
Heating Degree Days	**410**	486	**2,683**	3,159
Normal Heating Degree Days	**482**	483	**3,107**	3,110
% Colder (Warmer) than Normal	**(15)%**	1%	**(14)%**	2%
Customers				
Residential			**3,019,568**	3,007,696
Commercial			**285,138**	287,547
Industrial			**8,262**	8,413
Other			**72**	61
Total			**3,313,040**	3,303,717

NiSource's natural gas distribution operations serve approximately 3.3 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

Restructuring
Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $1.5 million and $2.4 million for the second quarter and first six months of 2006, respectively, and the restructuring liability remaining at June 30, 2006 was $6.5 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE ® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of June 2006, approximately 678 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio's application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of June 30, 2006, Columbia of Ohio has $41.0 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to extend the filing of schedules until May 1, 2006 and issued a further Order on April 21, 2006 extending the time to file certain of the schedules until May 8, 2006. The required schedules were filed on May 1, 2006 and May 8, 2006. The VSCC issued an Order for Notice and Hearing on May 19, 2006. Columbia of Virginia filed testimony in support of its filings on May 19, 2006, June 1, 2006 and June 16, 2006. A hearing in these matters is scheduled to commence on November 29, 2006.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

In accordance with the IURC's 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved Northern Indiana's GCA 7 on July 26, 2006.

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

On May 16, 2006, Northern Indiana filed a petition to simplify its residential rate structure, stabilize revenue streams and provide the company incentives to encourage energy efficiency measures. A hearing on the cause is set for the fourth quarter of 2006 with full resolution anticipated in the first quarter 2007.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

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

Weather in the Gas Distribution Operation's territories for the second quarter of 2006 was 16% warmer than the comparable quarter in 2005, and 15% warmer than normal overall.

For the first six months of 2006, weather was 15% warmer than the comparable 2005 period and 14% warmer than normal.

Throughput
Total volumes sold and transported of 158.2 MMDth for the second quarter of 2006, decreased 3.9 MMDth from the same period last year. This decrease in volume was experienced across residential, commercial, and industrial markets and was attributable mainly to the milder weather and decreased residential customer usage compared to the same period last year. Decreases in commercial and industrial customers also contributed to this decrease in gas volume.

For the six month period ended June 30, 2006, total volumes sold and transported were 453.0 MMDth, a decrease of 47.7 MMDth from the same period in 2005. This decrease was primarily reflecting decreased residential, commercial, and industrial sales, which was attributable mainly to the milder weather, and decreased residential customer usage, partially offset by increased off-system sales and transportation sales in the first half of 2006 compared to the first half of 2005.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

Net Revenues
Net revenues for the three months ended June 30, 2006 were $244.9 million, a decrease of $24.2 million from the same period in 2005 due primarily to the impact of warmer weather amounting to approximately $17 million for the quarter, the impact of a $5.9 million gas cost adjustment recognized in the comparable period last year and approximately $5 million due to residential usage declines. These decreases in net revenues were partially offset by increased off-system sales. The increase in off-system revenues resulted from short-term market opportunities, which are shared with customers under various regulatory mechanisms. Regulatory trackers, which are offset in operating expense, increased $5.0 million compared to the second quarter of 2005.

For the six month period ended June 30, 2006, net revenues were $805.4 million, a $61.8 million decrease from the same period in 2005. This decrease in net revenues was due primarily to the impact of warmer weather amounting to approximately $63 million and a decline in residential usage of approximately $16 million, a $3.6 million decline in transportation revenue due to reduced throughput, and the unfavorable impact of $2.5 million of gas cost adjustments in the comparable periods. These decreases in net revenues were partially offset by a $29.8 million increase in revenues from regulatory trackers, which are offset in operating expense.

Operating Income
For the second quarter of 2006, Gas Distribution Operations reported an operating loss of $6.0 million compared to operating income of $5.7 million for the same period in 2005. The decrease in operating income was mainly attributable to reduced net revenues described above. The comparable quarter last year was impacted by an $11.2 million restructuring charge and a $10.9 million goodwill impairment loss related to Kokomo Gas. Operating expenses were impacted by increases in accrued sales taxes in the second quarter of 2006 due to the reversal of a $5.8 million sales tax reserve in the comparable quarter last year and increased depreciation.

Operating income for the first six months of 2005 totaled $200.0 million, an $80.6 million decrease compared to the same period in 2005, largely attributable to reduced net revenues described above and transition costs associated with the IBM agreement amounting to $8.6 million. The comparable period last year was impacted by an $11.2 million restructuring charge and a $10.9 million goodwill impairment loss related to Kokomo Gas. Operating expenses were impacted by accrued sales taxes in the second quarter of 2006 due to the reversal of a $5.8 million sales tax reserve in the comparable quarter last year and increased depreciation.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Operating Revenues				
Transportation revenues	**$ 152.8**	$ 150.2	**$ 337.0**	$ 328.6
Storage revenues	**43.8**	44.0	**88.2**	89.2
Other revenues	**2.6**	1.6	**5.6**	7.7
Total Operating Revenues	**199.2**	195.8	**430.8**	425.5
Less: Cost of gas sold	**3.9**	6.4	**9.3**	11.9
Net Revenues	**195.3**	189.4	**421.5**	413.6
Operating Expenses				
Operation and maintenance	**73.8**	69.8	**146.1**	141.2
Depreciation and amortization	**28.6**	28.6	**57.3**	56.7
Loss on sale of assets	**0.5**	—	**0.5**	—
Other taxes	**13.4**	14.2	**28.3**	29.4
Total Operating Expenses	**116.3**	112.6	**232.2**	227.3
Operating Income	**$ 79.0**	$ 76.8	**$ 189.3**	$ 186.3
Throughput (MMDth)				
Columbia Transmission				
Market Area	**170.0**	168.5	**498.5**	564.1
Columbia Gulf				
Mainline	**128.0**	143.0	**289.6**	281.7
Short-haul	**30.8**	23.4	**47.4**	41.6
Columbia Pipeline Deep Water	**2.2**	3.2	**5.1**	6.7
Crossroads Gas Pipeline	**9.0**	10.0	**20.0**	22.0
Granite State Pipeline	**4.5**	5.7	**16.1**	19.6
Intrasegment eliminations	**(122.4)**	(141.6)	**(278.7)**	(280.2)
Total	**222.1**	212.2	**598.0**	655.5

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline, Granite State Gas and Central Kentucky Transmission. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in 19 northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation's largest underground natural gas storage systems.

Restructuring

Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.6 million and $1.1 million for the second quarter and first six months of 2006, respectively, and the restructuring liability remaining at June 30, 2006 was $2.3 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters

On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. It is anticipated that operating expenses will increase

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

approximately $7 - $12 million in future years related to this guidance and the expenditures NiSource expects to incur to comply with the DOT's Integrity Management Rule.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf's system and the reliability of service to its customers. The Commission ruled that Tennessee Gas Pipeline's interconnection request should be governed by the existing Blue Water Pipeline operating agreement between Columbia Gulf and Tennessee Gas Pipeline.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with FERC's referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf considers whether to seek rehearing of the declaratory order issued by the FERC in this matter.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Tax Matters
On July 28, 2006, the Ohio Board of Tax Appeals issued a favorable decision in the matter of Columbia Gas Transmission Corporation vs. Thomas M. Zaino, Tax Commissioner of Ohio. The Board ruled that Columbia Transmission's Ohio operations fall within the statutory definition of both a "natural gas company" and a "pipeline company" and that Columbia Transmission's property is to be assessed at the significantly lower "natural gas company" assessment ratio beginning with the 2001 tax year. The Ohio Tax Commissioner appealed the decision to the Ohio Supreme Court on July 31, 2006. The final outcome of the case and its impact on the financial statements are uncertain at this time.

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

The FERC issued an order in September 2002 in which it granted final certificate authority for the original Millennium project, but specified that Millennium could not begin construction until certain environmental and other conditions were met. One such condition, impacting what is now being marketed as Phase 2 of the project, was compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS determined that the Hudson River crossing plan was not consistent with the Coastal Zone Management Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004. On March 31, 2006, the United States Federal District Court denied Millennium's appeal. On May 3, 2006 Millennium filed with FERC requesting it vacate portions of the Millennium certificate that relate to the Phase 2 facilities and any conditions relating to Phase 2. This

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

reflects Millennium's decision not to appeal the United States Federal District Court ruling. Phase 2 options are still being studied.

On August 1, 2005, Millennium submitted a certificate amendment filing to the FERC. This amended filing requests authorization from the FERC to construct the project in phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase 1 of the project. On May 3, 2006, Millennium made a second amended certificate filing to the FERC. This filing reflected the new partnership agreements and reconfigured ownership levels as discussed below. It also reflected the change in contributed assets from Columbia to Millennium and other project updates. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, Iroquois, and Islander East collectively referred to as the "Companion Pipelines." Due to the timing of receipt of the necessary regulatory approvals for Millennium and the Companion Pipelines, the targeted in-service date for Phase 1 has been extended to November of 2008. Provided the necessary approvals are received in a timely manner, Millennium plans to begin construction in Spring 2007.

In March 2006, Columbia Atlantic Trading, a NiSource subsidiary, sold its 21.0% interest in the Millennium partnership to KeySpan Millennium (owned by KeySpan Corp.) and DTE Millennium (owned by DTE Energy Co.) through an equity redistribution and a re-writing of the partnership agreements. The Millennium partnership is now currently made up of the following companies: Columbia Transmission (47.5%), DTE Millennium (26.25%), KeySpan Millennium (26.25%). Columbia Transmission will be the operator.

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States. Hardy Storage was then formed by Columbia Transmission and Piedmont to develop a natural gas storage field from a depleted natural gas production field in West Virginia. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is planned to begin service in the second quarter of 2007, and is expected to be able to deliver 176 MMDth per day of firm storage service on behalf of the subscribing customers. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received a favorable order on November 1, 2005. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of Hardy Storage. Under the financing agreement, Columbia Transmission issued guarantees securing payment for amounts issued in connection with Hardy Storage up until such time as the project is placed in service and satisfies certain performance criteria. Additional information on this guarantee is provided in Note 14-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements. Construction began in the first quarter of 2006 and Hardy Storage is expected to be placed in service in the second quarter of 2007.

Other Growth Projects
Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements continues with pre-filing activities.

Sales of Shorter-Term Transportation and Storage Services
Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $30 million of shorter-term business for 2006, $19.2 million of which was recorded during the six moths ended June 30, 2006. Columbia Gulf's mainline throughput increased by 3.0% over 2005 due to the increased utilization of these services.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 222.1 MMDth for the second quarter 2006, compared to 212.2 MMDth for the same period in 2005. The increase of 9.9 MMDth is due to increased sales of shorter-term transportation and storage services described above partially offset by warmer weather and lower offshore natural gas production.

Throughput for the six months ended June 30, 2006 was 598.0 MMDth, a decrease of 57.5 MMDth from the same period in 2005, due to warmer weather in the first six months of 2006 than for the comparable period in 2005, and a continued overall decline of offshore natural gas production, and other non-weather factors.

Net Revenues
Net revenues were $195.3 million for the second quarter 2006, an increase of $5.9 million from the same period in 2005, primarily due to increased sales of shorter-term transportation and storage services of approximately $15 million. Seasonal price fluctuations in the national energy market continued to create opportunities for customers to utilize existing short-term tariff services. The comparable period last year benefited from a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, which amounted to $8.9 million.

Net revenues were $421.5 million for the first six months of 2006 compared to $413.6 million for the first six months of 2005. The increase in net revenues was mainly due to increased subscriptions for demand services and sales of shorter-term transportation and storage services amounting to approximately $17 million. The comparable period last year benefited from a third-party buyout of a bankruptcy claim discussed above.

Operating Income
Operating income was $79.0 million for the second quarter 2006 compared to $76.8 million in the second quarter 2005. Increases in net revenues described above were partially offset by increased operating expenses of $3.7 million. Operation and maintenance expenses increased as a result of increased pipeline integrity expenses of $2.2 million and higher employee and administrative costs of $1.2 million.

For the first six months of 2006, operating income of $189.3 million increased $3.0 million compared to the first six months of 2005 primarily due to increased net revenues described above. Operating expenses increased by $4.9 million as a result of higher employee and administrative costs of $2.9 million and increased pipeline integrity related costs of $2.2 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Sales revenues	**$ 302.9**	$ 282.2	**$ 609.8**	$ 564.9
Less: Cost of sales	**111.3**	92.6	**228.6**	188.6
Net Revenues	**191.6**	189.6	**381.2**	376.3
Operating Expenses				
Operation and maintenance	**66.4**	69.0	**126.9**	130.1
Depreciation and amortization	**46.9**	46.2	**93.0**	91.7
Gain on sale of assets	**—**	(0.4)	**—**	(0.4)
Other taxes	**15.0**	13.8	**29.9**	28.5
Total Operating Expenses	**128.3**	128.6	**249.8**	249.9
Operating Income	**$ 63.3**	$ 61.0	**$ 131.4**	$ 126.4
Revenues ($ in millions)				
Residential	**79.1**	77.3	**160.0**	150.7
Commercial	**90.6**	85.7	**173.0**	158.9
Industrial	**129.9**	104.6	**255.4**	217.0
Wholesale	**9.6**	6.3	**15.1**	13.8
Other	**(6.3)**	8.3	**6.3**	24.5
Total	**302.9**	282.2	**609.8**	564.9
Sales (Gigawatt Hours)				
Residential	**722.0**	768.0	**1,483.1**	1,535.0
Commercial	**949.5**	988.1	**1,843.5**	1,882.3
Industrial	**2,383.5**	2,185.2	**4,820.9**	4,513.5
Wholesale	**195.9**	195.9	**348.0**	357.1
Other	**11.8**	15.9	**40.4**	48.5
Total	**4,262.7**	4,153.1	**8,535.9**	8,336.4
Cooling Degree Days	**190**	280	**190**	280
Normal Cooling Degree Days	**227**	227	**227**	227
% Warmer (Colder) than Normal	**(16%)**	23%	**(16%)**	23%
Electric Customers				
Residential			**395,005**	392,788
Commercial			**51,522**	50,697
Industrial			**2,505**	2,519
Wholesale			**11**	15
Other			**762**	769
Total			**449,805**	446,788

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 450 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

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

The U.S. Steel Industry continues to adjust to changing market conditions including international competition, increased energy costs, and fluctuating demand for their products. The industry has responded with plant consolidation and rationalization to reduce costs and improve their position in the market place. Increased use of advanced technology by U.S. steel producers has lowered production costs and increased productivity, reducing the labor differential between international producers and those in the United States. Steel demand and pricing for the second half of 2006 are anticipated to remain steady. Steel inventory levels have remained relatively constant and are anticipated to remain so for the rest of 2006. Electric sales to the steel industry in the first half of 2006 were up 8.9% as compared to 2005.

In 2005, Northern Indiana coal deliveries from the PRB area were limited to 80 - 85% of contracted amounts as a result of maintenance problems on track owned jointly by the Union Pacific Railroad Company and Burlington Northern Santa Fe Railway Company. Northern Indiana met the expected electricity demand through the end of 2005 by changing the fuel blend, which reduced its need for PRB coal. Northern Indiana has been blending this fuel for a number of years. In the second quarter of 2006, track maintenance resumed, but Northern Indiana did not experience an impact on coal deliveries.

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana's electric rates subsequent to the minimum period. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $22.9 million and $29.2 million were recognized for electric customers for the first half of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. Pending a clarifying order on these charges, a reserve was established for the charges, net of credits. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana's FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million will be required for charges related to the period April 1, 2005 through December 8, 2005. Northern Indiana had provided for a reserve of $8.7 million through December 2005. The actual amount of the refund was slightly more than the amount of the reserve, due to adjustments and MISO

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

resettlements. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $1.7 million for the first six months of 2006. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $10.5 million for the first half of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $2.5 million for the first half of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

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

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

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

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. IURC approval is pending.

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

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

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

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC's May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

FAC-72, scheduled for filing in the third quarter of 2006, will include a refund for the remaining $0.8 million of MISO-related costs.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $12.9 million for the six months ended June 30, 2006, and $64.6 million from inception to date, while EERM revenues were $6.2 million for the six months ended June 30, 2006, and $14.9 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing. ECR-8 is scheduled to be filed in August 2006.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter's motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Sales
Electric Operations sales quantities for the second quarter of 2006 were 4,262.7 gwh, an increase of 109.6 gwh compared to the 2005 period, as a result of increased industrial usage, particularly in the steel sector. This increased usage was partially offset by slight declines due to milder weather.

Electric sales for the first six months of 2006 was 8,535.9 gwh, an increase of 199.5 gwh compared to the 2005 period, as a result of increased industrial sales described above. Residential and commercial sales quantities decreased due to cooler weather.

Net Revenues
In the second quarter of 2006, electric net revenues of $191.6 million increased by $2.0 million from the comparable 2005 period. This improvement was primarily a result of a $5.8 million of lower MISO costs, including the impact of a favorable regulatory ruling on the recoverability of certain MISO charges, a reduction in customer credits of $2.7 million, due to the timing of the credits, increased environmental tracker revenues of $1.3 million (partially offset in expense) and increased numbers of residential and commercial customers. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $8 million.

In the first six months of 2006, electric net revenues were $381.2 million, an increase of $4.9 million from the comparable 2005 period primarily due to a reduction in customer credits of $6.3 million, due to the timing of the credits, increased environmental tracker revenues of $3.8 million (partially offset in expense), $3.7 million of lower MISO costs, including the impact of a favorable regulatory ruling on the recoverability of certain MISO charges, and an increase due to greater residential and commercial customers. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $10 million.

Operating Income
Operating income for the second quarter of 2006 was $63.3 million, an increase of $2.3 million from the same period in 2005. The increase in operating income was due to the changes in net revenue mentioned above. Operating expenses remained relatively flat with a slight increase in other taxes compared to the same period in 2005 offset by lower employee and administrative expenses.

Operating income for the first six months of 2006 was $131.4 million, an increase of $5.0 million from the same period in 2005. The increase in operating income was due to the changes in net revenue mentioned above. Operation and maintenance expense decreased $3.2 million as lower employee and administrative expense of $6.4 million was partially offset by higher electric generation and maintenance expense of $3.1 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Other Operations

Three Months Ended March 31, *(in millions)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Products and services revenue	**$ 173.0**	$ 191.6	**$ 514.4**	$ 420.4
Less: Cost of products purchased	**162.8**	185.3	**498.9**	409.4
Net Revenues	**10.2**	6.3	**15.5**	11.0
Operating Expenses				
Operation and maintenance	**9.2**	9.7	**21.2**	15.7
Depreciation and amortization	**2.8**	2.7	**5.7**	5.4
Impairment and gain on sale of assets	**1.5**	—	**(0.1)**	(0.6)
Other taxes	**1.4**	2.4	**3.5**	4.2
Total Operating Expenses	**14.9**	14.8	**30.3**	24.7
Operating Loss	**$ (4.7)**	$ (8.5)	**$ (14.8)**	$ (13.7)

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

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at June 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve-months, are reflected as assets held for sale.

NDC Douglas Properties
NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the second quarter of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.2 million as of June 30, 2006 after impairment, as assets held for sale. Mortgage notes and other accrued liabilities related to these investments of $10.0 million are accounted for as liabilities held for sale.

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

For the first six months of 2006, the PEI holding companies' consolidated after-tax loss was approximately $17.1 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery. During the first quarter of 2005, Whiting

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Other Operations (continued)

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

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

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

Net Revenues

Net revenues of $10.2 million for the second quarter of 2006 increased by $3.9 million from the second quarter of 2005, as a result of higher revenues from the Whiting Clean Energy facility of $3.2 and increased commercial and industrial gas marketing revenues.

For the first six months of 2006, net revenues were $15.5 million, a $4.5 million increase compared to the same period in 2005. The

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

FORM 8-K

CURRENT REPORT
Pursuant To Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 2, 2006

NiSource Inc.

(Exact name of registrant as specified in its charter)

Commission file number 001-16189

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)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On August 2, 2006, NiSource Inc. (the "Company") reported its financial results for the fiscal quarter ended June 30, 2006. The Company's press release, dated August 2, 2006, is attached as Exhibit 99.1.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

Exhibit Number	Description
99.1	Press Release, dated August 2, 2006, issued by NiSource Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: August 2, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press Release, dated August 2, 2006, issued by NiSource Inc.

Exhibit 99.1

NEWS

801 E. 86th Avenue
Merrillville, IN 46410

FOR IMMEDIATE RELEASE
August 2, 2006

FOR ADDITIONAL INFORMATION

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NiSource reports higher second-quarter earnings

Company alerts markets on 2006 full-year guidance based on declining customer natural gas usage levels

MERRILLVILLE, Ind. — NiSource Inc. (NYSE: NI) today announced net operating earnings (non-GAAP) of $39.1 million, or 14 cents per share, for the three months ended June 30, 2006, an increase from $24.4 million, or 9 cents per share, for the second quarter of 2005 (all per-share amounts are basic). Operating earnings (non-GAAP) were $157.4 million for the second quarter of 2006, up from $137.8 million in 2005. For a reconciliation of net operating earnings and operating earnings to GAAP, see Schedules 1 and 2 of this news release.

Primary drivers of the improvement in net operating earnings were sales of shorter-term transportation and storage services in NiSource's gas transmission and storage business; improved results in the electric business; decreased losses at Whiting Clean Energy; and an $8.2 million decrease in interest expense for the quarter due to the refinancing of $2.4 billion in long-term debt at lower rates during the fourth quarter of 2005. These improvements were partially offset by continued declines in residential customer natural gas usage, which affected results in the gas distribution business, and lower interest income.

NiSource President and Chief Executive Officer Robert C. Skaggs, Jr. said that while the quarterly and six-month net operating earnings were higher than comparable periods last year, the company is nonetheless alerting stockholders that attaining its original 2006 net operating earnings guidance will be unlikely, primarily as a result of increased customer attrition and reduced customer usage of natural gas. Skaggs noted that for the full year, the projected impact of these issues is a reduction in net revenues of nearly $40 million, or 10 cents per share, compared with the levels underlying NiSource's initial earnings guidance for the year.

—more—

NiSource reports higher second-quarter earnings
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In addition, lower net interest savings are projected to increase interest expense and decrease other income by $12 million, or 3 cents per share, compared with the initial 2006 earnings guidance.

Skaggs said that given these factors — primarily customer usage and attrition, and higher interest rates — it is highly unlikely that NiSource can attain its original net operating earnings estimate of $1.45 to $1.55 per share. He added that largely because of the increased unpredictability of customer usage and customer attrition in the current environment, NiSource has elected to not provide a reforecast of earnings for 2006 at this time. As these issues and other variables clarify, NiSource will communicate the impacts to 2006 results on a timely basis.

"Conservation among natural gas customers continues to affect companies throughout the North American natural gas industry. Declining gas usage remains a major focus of our industry and certainly of our company," Skaggs said. He noted that when the company issued its guidance earlier this year, it assumed residential gas usage declines would return to historic levels of 0.5 percent to 1 percent, compared with its current view that the decline could approximate 5 percent.

"We are taking steps to address the issues that this presents, particularly through regulatory initiatives," Skaggs added. "For example, in Indiana, we are working with regulatory stakeholders to adjust our gas rate structure to better reflect current conditions, and we hope to reach agreement later this year. We anticipate making additional filings in other jurisdictions during 2006 and 2007, either through broader rate proceedings or specific mechanisms."

Skaggs said that in the face of high natural gas prices and increased shut-off levels, the company also has seen a softening in terms of the rate of overall customer additions as the year has progressed. "While our new customer additions are essentially on track for the year, residential customer attrition has increased significantly coming out of last winter, from historic levels of 0.5 percent to approximately 1.2 percent," he said. While some customers may return to the system this fall and usage levels could rebound to some extent, he noted that it is very difficult to provide a meaningful earnings estimate in such a volatile environment.

Continued commitment to four-point growth plan

Despite the customer usage challenge, Skaggs said NiSource continues to show steady progress on the company's four-point plan for long-term, sustainable growth.

"Our gas transmission and storage business is delivering the revenue growth that began in the first quarter, and our electric business continues to deliver solid performance," he said.

Skaggs noted that NiSource's balanced four-point plan centers on its portfolio of low-risk, regulated assets: commercial growth and expansion of the gas transmission and storage business; commercial and regulatory initiatives; management of the balance sheet; and expense management.

Overview of second-quarter operating earnings (non-GAAP) performance by business segment

Gas Distribution Operations

Operating earnings for NiSource's Gas Distribution Operations segment were $12.5 million for the second quarter of 2006, compared with $14.6 million in the same period a year ago. The decline was primarily due to continued reduced usage of natural gas by residential customers. Operating expenses were essentially flat with last year.

—more—

NiSource reports higher second-quarter earnings
Page 3

"In addition to the efforts to mitigate the usage impact through regulatory mechanisms, we also continue to work toward regulatory initiatives that will support profitable customer growth and infrastructure investments," Skaggs said.

Skaggs noted that during the second quarter, the gas distribution business continued to capitalize on short-term market opportunities, using its extensive supply and storage portfolio to increase off-system revenues. These revenues are shared with customers under various regulatory mechanisms.

Gas Transmission and Storage Operations

The Gas Transmission and Storage Operations segment reported operating earnings of $80.5 million for the second quarter, an increase of $9.9 million over the year-ago period. The increase resulted from higher net revenues of $14.8 million due to shorter-term transportation services and storage optimization initiatives. Operating expenses increased by $4.9 million, mainly due to higher pipeline integrity related expenses and employee and administrative costs.

"Our commercial team is delivering on the revenue growth we projected at the end of the first quarter," Skaggs said, noting that the team this year has signed new agreements that are expected to result in more than $30 million in revenue for 2006. About $15.8 million of that revenue was recorded during the second quarter.

Skaggs added that NiSource's transmission business continues to make progress on significant asset expansion projects.

Construction of the Hardy Storage project in West Virginia is continuing, and the project remains on target to be in service in the second quarter of 2007. NiSource's Columbia Gas Transmission and a subsidiary of Piedmont Natural Gas, the project's developers, closed on financing for the project in late June.

Meanwhile, pre-filing activities continue on Columbia Gas Transmission's Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region. The project is supported by binding customer agreements.

Electric Operations

NiSource's electric business reported operating earnings of $67.0 million, compared with $60.2 million in the second quarter of 2005. The increase was primarily due to lower Midwest Independent System Operator (MISO) costs, including the impact of a favorable regulatory ruling on the recoverability of certain MISO charges; the timing of revenue credits; and customer growth. Operating expenses, excluding those subject to environmental trackers, were $1.2 million higher than a year ago due primarily to higher electric generation and maintenance expenses and higher gross receipts tax accruals, partially offset by lower employee and administrative expenses.

As previously reported, as of Aug. 1, Northern Indiana Public Service Company (NIPSCO) has begun deferring MISO costs for future recovery.

"The electric segment had another good quarter," Skaggs said. "We are particularly encouraged by a 9 percent increase in industrial sales volumes. This uptick is due to increased demand by the strong steel market as well as by other industrial customers that service the steel industry."

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NiSource reports higher second-quarter earnings
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Other Operations

The Other Operations segment improved to an operating earnings loss of $3.1 million for the second quarter of 2006, compared with an operating earnings loss of $8.3 million in the year-ago period. The $5.2 million improvement was primarily due to decreased losses from Whiting Clean Energy, increased net revenues from commercial and industrial gas marketing activities and lower property tax accruals.

Building value for the long term

"Overall, our second-quarter and six-month performance was solid. Having said that, consistent with our commitment to transparency and timely communication with the investment community, we feel it is prudent at this time to alert the financial markets that attaining our original net operating earnings estimate for 2006 will be unlikely, based primarily on our uncertain customer usage outlook, as well as the difficulty in predicting the timing and outcome of regulatory solutions to this issue," Skaggs said. "Customer attrition and lower interest savings are other important factors in this decision.

"We also have forged ahead on a number of fronts in our ongoing effort to resolve certain issues and unlock the underlying value of our asset base," he added. "We have concluded the analytic phase of our review and are continuing the process. We expect to be in a position to report on our conclusions and direction by the end of the year. As always, we remain committed to communicating with investors and all other stakeholders in a transparent and timely fashion when decisions are made."

Income from Continuing Operations (GAAP)

On a GAAP basis, NiSource reported income from continuing operations for the three months ended June 30, 2006, of $21.5 million, or 8 cents per share, up from $8.3 million, or 3 cents per share, in the same period a year ago. In addition to the business results already discussed, the improvement was due to the reduction in interest expense, lower restructuring charges and reduced impact from asset impairments, partially offset by milder 2006 weather and a 2005 third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract.

Operating income was $131.6 million for the second quarter of 2006, compared with $119.8 million in the year-ago period.

Definition of non-GAAP measures

NiSource focuses on net operating earnings and operating earnings, which are both non-GAAP measures, because management believes these measures better represent the fundamental earnings strength and performance of the company. NiSource uses these measures internally for budgeting, for reporting to the board of directors, and for purposes of determining the payout under NiSource's annual incentive compensation plan for its employees.

Net operating earnings are a non-GAAP financial measure that NiSource defines as income from continuing operations determined in accordance with Generally Accepted Accounting Principles (GAAP) adjusted for certain items. Operating earnings are operating income determined in accordance with GAAP adjusted for certain items. Adjustments reflected in these measures are primarily weather, restructuring and transition costs related to the outsourcing contract with IBM, gains and losses on the sale of assets, certain reserve adjustments and other items. See Schedule 1 and Schedule 2 of this news release for the reconciliations of net operating earnings and operating earnings, respectively, to GAAP.

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NiSource reports higher second-quarter earnings
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Second-Quarter 2006 Operating Earnings — Segment Results (non-GAAP)
NiSource's consolidated second-quarter 2006 operating earnings (non-GAAP) were $157.4 million, compared to $137.8 million for the same period in 2005. Refer to Schedule 2 for the items included in 2006 and 2005 GAAP operating income but excluded from operating earnings.

Operating earnings for NiSource's business segments for the quarter ended June 30, 2006 are discussed below.

Gas Distribution Operations reported operating earnings of $12.5 million compared to operating earnings of $14.6 million during the comparable quarter of 2005. The decrease resulted from lower net revenues primarily due to continued declines in residential usage. Operating expenses were essentially flat with last year.

Gas Transmission and Storage Operations reported operating earnings of $80.5 million versus operating earnings of $70.6 million in the second quarter of 2005. The increase resulted from $14.8 million of higher net revenues due primarily to sales of shorter-term transportation and storage services. Seasonal price fluctuations in the national energy market continued to create opportunities for customers to utilize existing short-term tariff services. Operating expenses increased by $4.9 million mainly due to higher pipeline integrity expenses and employee and administrative costs.

Electric Operations reported operating earnings of $67.0 million versus operating earnings of $60.2 million from the comparable period last year. Increases in net revenues resulted primarily from lower MISO costs, including the impact of a favorable regulatory ruling on the recoverability of certain MISO charges, the timing of revenue credits, and customer growth. Operating expenses, excluding expenses subject to environmental trackers, were $1.2 million higher than a year ago due primarily to higher electric generation and maintenance expenses and gross receipts tax accruals partially offset by lower employee and administrative expenses.

Other Operations reported an operating earnings loss of $3.1 million in the second quarter of 2006, versus an operating earnings loss of $8.3 million in the second quarter of 2005. The $5.2 million decrease in the operating earnings loss primarily resulted from decreased losses at the Whiting Clean Energy facility, increased net revenues from commercial and industrial marketing activities and lower property tax accruals.

Other Items
Interest expense decreased by $8.2 million due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005. Other, net expense of $2.7 million compares to other, net income of $3.6 million in the second quarter of 2005 due primarily to lower interest income and higher costs related to the sale of accounts receivable. Interest income of $5.8 million was recognized in the second quarter last year compared to $2.0 million for the quarter ended June 30, 2006. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher costs.

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NiSource reports higher second-quarter earnings
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Six-Month Period 2006 Operating Earnings — Segment Results (non-GAAP)
NiSource's consolidated operating earnings (non-GAAP) for the six months ended June 30, 2006 were $571.9 million, compared to $568.9 million for the same period in 2005. Refer to Schedule 2 for the items included in 2006 and 2005 GAAP operating income but excluded from operating earnings.

Operating earnings for NiSource's business segments for the six months ended June 30, 2006 are discussed below.

Gas Distribution Operations reported operating earnings of $262.6 million versus operating earnings of $284.3 million in 2005. The decrease in operating earnings resulted from a decrease in net revenues primarily due to declines in customer usage.

Operating expenses, excluding expenses that are the subject of regulatory trackers discussed below, were $4.5 million lower than last year. The decrease was due to lower operation and maintenance expenses and decreased other taxes partially offset by higher depreciation charges.

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 earnings results. Approximately $29.8 million of the increase in operation and maintenance expenses were subject to such trackers and were therefore offset by a corresponding increase to net revenues reflecting recovery of certain costs.

Gas Transmission and Storage Operations reported operating earnings of $191.9 million versus operating earnings of $180.1 million during the six months ended June 30, 2005. The increase resulted from $16.8 million of higher net revenues due to increased subscriptions for demand services and sales of shorter-term transportation and storage services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing short-term tariff services. Operating expenses increased by $5.0 million mainly due to higher pipeline integrity expenses and employee and administrative costs.

Electric Operations reported operating earnings of $138.0 million versus operating earnings of $126.8 million during the comparable period last year. Increases in net revenues from timing of revenue credits, lower MISO costs, and customer growth were partially offset by lower bulk power and transmission revenues and by nonrecoverable demand fees associated with the purchase of intermediate dispatchable power. Operating expenses, excluding those subject to environmental trackers, were essentially flat with the comparable period last year.

Other Operations reported an operating earnings loss of $14.8 million compared to an operating earnings loss of $16.1 million last year. Increases in net revenues from commercial and industrial gas marketing activities and lower uncollectible accounts resulted in the decreased loss.

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NiSource reports higher second-quarter earnings
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Other Items
Interest expense decreased by $16.8 million due to refinancing of $2.4 billion in long-term debt at lower rates during 2005. Other, net expense of $6.1 million compares to other, net income of $3.1 million last year due primarily to lower interest income and higher costs related to the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher costs.

Conference call to be held this morning (Aug. 2)

NiSource will host an analyst conference call at 9 a.m. EDT on Wednesday, Aug. 2, 2006, to further discuss the company's second-quarter 2006 results. All interested parties may hear the conference call live by logging on to the NiSource Web site at www.nisource.com .

About NiSource
NiSource Inc. (NYSE: NI), based in Merrillville, Ind., is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.8 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Information about NiSource and its subsidiaries is available via the Internet at www.nisource.com .

Forward-Looking Statements
This news release includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

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NiSource Inc.
Consolidated Net Operating Earnings (Non-GAAP)

(in millions, except per share amounts *)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Gas Distribution	**$ 620.9**	$ 658.2	**$2,656.7**	$2,477.9
Gas Transportation and Storage	**220.5**	204.1	**541.1**	533.0
Electric	**305.1**	277.4	**612.7**	559.9
Other	**184.1**	201.2	**532.1**	443.9
Gross Revenues	**1,330.6**	1,340.9	**4,342.6**	4,014.7
Cost of Sales	**670.4**	707.6	**2,662.1**	2,373.1
Total Net Revenues	**660.2**	633.3	**1,680.5**	1,641.6
Operating Expenses				
Operation and maintenance	**304.1**	293.5	**670.1**	632.7
Depreciation and amortization	**138.1**	136.1	**274.9**	271.0
Other taxes	**60.6**	65.9	**163.6**	169.0
Total Operating Expenses	**502.8**	495.5	**1,108.6**	1,072.7
Operating Earnings	**157.4**	137.8	**571.9**	568.9
Other Income (Deductions)				
Interest expense, net	**(93.3)**	(101.5)	**(188.7)**	(205.5)
Dividend requirements on preferred stock of subsidiaries	**—**	(1.1)	**(1.1)**	(2.2)
Other, net	**(2.7)**	3.6	**(6.1)**	3.1
Total Other Income (Deductions)	**(96.0)**	(99.0)	**(195.9)**	(204.6)
Operating Earnings From Continuing Operations Before Income Taxes	**61.4**	38.8	**376.0**	364.3
Income Taxes	**22.3**	14.4	**133.6**	135.0
Net Operating Earnings from Continuing Operations	**39.1**	24.4	**242.4**	229.3
GAAP Adjustment	**(17.6)**	(16.1)	**(48.0)**	(12.3)
GAAP Income from Continuing Operations	**$ 21.5**	$ 8.3	**$ 194.4**	$ 217.0
Basic Net Operating Earnings Per Share	**0.14**	0.09	**0.89**	0.84
GAAP Basic Earnings Per Share from Continuing Operations	**0.08**	0.03	**0.71**	0.80
Basic Average Common Shares Outstanding (millions)	**272.4**	271.2	**272.4**	270.8

NiSource Inc.
Segment Operating Earnings (Non-GAAP)

Gas Distribution Operations *(in millions)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Sales Revenues	**$ 712.7**	$ 748.2	**$2,935.0**	$2,756.9
Less: Cost of gas sold	**452.2**	486.1	**2,076.4**	1,901.9
Net Revenues	**260.5**	262.1	**858.6**	855.0
Operating Expenses				
Operation and maintenance	**160.4**	158.1	**382.4**	356.8
Depreciation and amortization	**58.3**	56.3	**115.6**	112.1
Other taxes	**29.3**	33.1	**98.0**	101.8
Total Operating Expenses	**248.0**	247.5	**596.0**	570.7
Operating Earnings	**$ 12.5**	$ 14.6	**$ 262.6**	$ 284.3
GAAP Adjustment	**(18.5)**	(8.9)	**(62.6)**	(3.7)
GAAP Operating Income	**$ (6.0)**	$ 5.7	**$ 200.0**	$ 280.6

Gas Transmission and Storage Operations *(in millions)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Transportation revenues	**$ 152.8**	$ 141.3	**$ 337.0**	$ 319.7
Storage revenues	**43.8**	44.0	**88.2**	89.2
Other revenues	**2.6**	1.6	**5.6**	7.7
Total Revenues	**199.2**	186.9	**430.8**	416.6
Less: Cost of gas sold	**3.9**	6.4	**9.3**	11.9
Net Revenues	**195.3**	180.5	**421.5**	404.7
Operating Expenses				
Operation and maintenance	**72.8**	67.1	**144.0**	138.5
Depreciation and amortization	**28.6**	28.6	**57.3**	56.7
Other taxes	**13.4**	14.2	**28.3**	29.4
Total Operating Expenses	**114.8**	109.9	**229.6**	224.6
Operating Earnings	**$ 80.5**	$ 70.6	**$ 191.9**	$ 180.1
GAAP Adjustment	**(1.5)**	6.2	**(2.6)**	6.2
GAAP Operating Income	**$ 79.0**	$ 76.8	**$ 189.3**	$ 186.3

NiSource Inc.
Segment Operating Earnings (Non-GAAP) (continued)

Electric Operations *(in millions)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Sales revenues	**$ 306.1**	$ 277.5	**$ 614.9**	$ 560.1
Less: Cost of sales	**111.3**	92.6	**228.6**	187.3
Net Revenues	**194.8**	184.9	**386.3**	372.8
Operating Expenses				
Operation and maintenance	**65.9**	64.7	**125.4**	125.8
Depreciation and amortization	**46.9**	46.2	**93.0**	91.7
Other taxes	**15.0**	13.8	**29.9**	28.5
Total Operating Expenses	**127.8**	124.7	**248.3**	246.0
Operating Earnings	**$ 67.0**	$ 60.2	**$ 138.0**	$ 126.8
GAAP Adjustment	**(3.7)**	0.8	**(6.6)**	(0.4)
GAAP Operating Income	**$ 63.3**	$ 61.0	**$ 131.4**	$ 126.4

Other Operations (includes assets held for sale) *(in millions)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Products and services revenue	**$ 173.0**	$ 191.6	**$ 514.4**	$ 420.4
Less: Cost of products purchased	**162.8**	185.3	**498.9**	409.4
Net Revenues	**10.2**	6.3	**15.5**	11.0
Operating Expenses				
Operation and maintenance	**9.1**	9.5	**21.1**	17.5
Depreciation and amortization	**2.8**	2.7	**5.7**	5.4
Other taxes	**1.4**	2.4	**3.5**	4.2
Total Operating Expenses	**13.3**	14.6	**30.3**	27.1
Operating Earnings (Loss)	**$ (3.1)**	$ (8.3)	**$ (14.8)**	$ (16.1)
GAAP Adjustment	**(1.6)**	(0.2)	**—**	2.4
GAAP Operating Loss	**$ (4.7)**	$ (8.5)	**$ (14.8)**	$ (13.7)

Corporate *(in millions)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Operating Earnings (Loss)	**$ 0.5**	$ 0.7	**$ (5.8)**	$ (6.2)
GAAP Adjustment	**(0.5)**	(15.9)	**(0.9)**	(15.9)
GAAP Operating Loss	**$ —**	$ (15.2)	**$ (6.7)**	$ (22.1)

NiSource Inc.
Segment Volumes and Statistical Data

Gas Distribution Operations	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Sales and Transportation (MMDth)				
Residential	**30.3**	38.1	**146.9**	180.1
Commercial	**25.3**	28.0	**94.3**	106.7
Industrial	**83.3**	86.7	**181.4**	197.1
Off System	**19.1**	9.2	**29.9**	16.3
Other	**0.2**	0.1	**0.5**	0.5
Total	**158.2**	162.1	**453.0**	500.7
Weather Adjustment	**11.0**	**0.1**	**37.7**	**(4.1)**
Sales and Transportation Volumes — Excluding Weather	**169.2**	**162.2**	**490.7**	**496.6**
Heating Degree Days	**410**	486	**2,683**	3,159
Normal Heating Degree Days	**482**	483	**3,107**	3,110
% Colder (Warmer) than Normal	**(15%)**	1%	**(14%)**	2%
Customers				
Residential			**3,019,568**	3,007,696
Commercial			**285,138**	287,547
Industrial			**8,262**	8,413
Other			**72**	61
Total			**3,313,040**	3,303,717

Gas Transmission and Storage Operations	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Throughput (MMDth)				
Columbia Transmission				
Market Area	**170.0**	168.5	**498.5**	564.1
Columbia Gulf				
Mainline	**128.0**	143.0	**289.6**	281.7
Short-haul	**30.8**	23.4	**47.4**	41.6
Columbia Pipeline Deep Water	**2.2**	3.2	**5.1**	6.7
Crossroads Gas Pipeline	**9.0**	10.0	**20.0**	22.0
Granite State Pipeline	**4.5**	5.7	**16.1**	19.6
Intrasegment eliminations	**(122.4)**	(141.6)	**(278.7)**	(280.2)
Total	**222.1**	212.2	**598.0**	655.5

NiSource Inc.
Segment Volumes and Statistical Data (continued)

Electric Operations	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Sales (Gigawatt Hours)				
Residential	**722.0**	768.0	**1,483.1**	1,535.0
Commercial	**949.5**	988.1	**1,843.5**	1,882.3
Industrial	**2,383.5**	2,185.2	**4,820.9**	4,513.5
Wholesale	**195.9**	195.9	**348.0**	357.1
Other	**11.8**	15.9	**40.4**	48.5
Total	**4,262.7**	4,153.1	**8,535.9**	8,336.4
Weather Adjustment	**47.6**	**(68.1)**	**76.5**	**(69.9)**
Sales Volumes — Excluding Weather impacts	**4,310.3**	**4,085.0**	**8,612.4**	**8,266.5**
Cooling Degree Days	**190**	280	**190**	280
Normal Cooling Degree Days	**227**	227	**227**	227
% Warmer (Colder) than Normal	**(16%)**	23%	**(16%)**	23%
Electric Customers				
Residential			**395,005**	392,788
Commercial			**51,522**	50,697
Industrial			**2,505**	2,519
Wholesale			**11**	15
Other			**762**	769
Total			**449,805**	446,788

NiSource Inc.
Schedule 1 — Reconciliation of Net Operating Earnings to GAAP

(in millions, except per share amounts *)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Operating Earnings from Continuing Operations	**$ 39.1**	$ 24.4	**$ 242.4**	$ 229.3
Items excluded from operating earnings:				
Net Revenues:				
Weather — compared to normal	**(18.8)**	5.8	**(58.3)**	14.5
Gas costs and other changes	**—**	14.8	**—**	10.1
Operating Expenses:				
Restructuring, transition and consulting charges (outsourcing initiative)	**(2.9)**	(20.9)	**(9.4)**	(20.9)
Insurance recoveries, legal and reserve changes	**—**	(2.5)	**—**	(0.4)
Asset impairment	**(3.3)**	(21.8)	**(5.8)**	(21.8)
Gain (Loss) on sales of assets	**(0.8)**	0.8	**0.8**	1.3
Property and sales tax adjustments	**—**	5.8	**—**	5.8
Total items excluded from operating earnings	**(25.8)**	(18.0)	**(72.7)**	(11.4)
Loss on early redemption of preferred stock	**(0.7)**	—	**(0.7)**	—
Tax effect of above items and other income tax adjustments	**8.9**	1.9	**25.4**	(0.9)
Reported Income from Continuing Operations — GAAP	**$ 21.5**	$ 8.3	**$ 194.4**	$ 217.0
Basic Average Common Shares Outstanding (millions)	**272.4**	271.2	**272.4**	270.8
Basic Net Operating Earnings Per Share ($)	**0.14**	0.09	**0.89**	0.84
Items excluded from operating earnings (after-tax)	**(0.06)**	(0.06)	**(0.18)**	(0.04)
GAAP Basic Earnings Per Share	**0.08**	0.03	**0.71**	0.80

NiSource Inc.
Schedule 2 — Quarterly Adjustments by Segment from Operating Earnings to GAAP
For Quarter ended June 30, 2006

2006 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**12.5**	**80.5**	**67.0**	**(3.1)**	**0.5**	**$ 157.4**
Net Revenues:						
Weather (compared to normal)	$ (15.6)	$ —	$ (3.2)	$ —	$ —	**$ (18.8)**
Total Impact — Net Revenues	**(15.6)**	**—**	**(3.2)**	**—**	**—**	**(18.8)**
Operating Expenses:						
Operation and Maintenance Expenses—						
Restructuring, transition and consulting charges (outsourcing initiative)	(1.9)	(0.5)	(0.3)	(0.1)	(0.1)	**(2.9)**
Asset Impairment	(1.0)	(0.5)	(0.2)	(1.2)	(0.4)	**(3.3)**
Loss on Sale of Assets	—	(0.5)	—	(0.3)	—	**(0.8)**
Total Impact — Operating Expenses	**(2.9)**	**(1.5)**	**(0.5)**	**(1.6)**	**(0.5)**	**(7.0)**
Total Impact — Operating Income (Loss)	**$ (18.5)**	**$ (1.5)**	**$ (3.7)**	**$ (1.6)**	**$ (0.5)**	**$ (25.8)**
Operating Income (Loss) — GAAP	**$ (6.0)**	**$ 79.0**	**$ 63.3**	**$ (4.7)**	**$ —**	**$ 131.6**

2005 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**14.6**	**70.6**	**60.2**	**(8.3)**	**0.7**	**$ 137.8**
Net Revenues:						
Weather (compared to normal)	$ 1.1	$ —	$ 4.7	$ —	$ —	**$ 5.8**
Gas costs and other changes	5.9	8.9	—	—	—	**14.8**
Total Impact — Net Revenues	**7.0**	**8.9**	**4.7**	**—**	**—**	**20.6**
Operating Expenses:						
Operation and Maintenance Expenses—						
Restructuring, transition and consulting charges (outsourcing initiative)	(11.2)	(2.7)	(1.8)	(0.2)	(5.0)	**(20.9)**
Insurance recoveries, legal and other reserves	—	—	(2.5)	—	—	**(2.5)**
Asset Impairment	(10.9)	—	—	—	(10.9)	**(21.8)**
Gain on Sale of Assets	0.4	—	0.4	—	—	**0.8**
Property and sales tax adjustment	5.8	—	—	—	—	**5.8**
Total Impact — Operating Expenses	**(15.9)**	**(2.7)**	**(3.9)**	**(0.2)**	**(15.9)**	**(38.6)**

Total Impact — Operating Income	**$ (8.9)**	**$ 6.2**	**$ 0.8**	**$ (0.2)**	**$ (15.9)**	**$ (18.0)**
Operating Income (Loss) — GAAP	**$ 5.7**	**$ 76.8**	**$ 61.0**	**$ (8.5)**	**$ (15.2)**	**$ 119.8**

NiSource Inc.
Schedule 2 — Year-to-Date Segment Adjustments from Operating Earnings to GAAP
For 6 months ended June 30, 2006

2006 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**262.6**	**191.9**	**138.0**	**(14.8)**	**(5.8)**	**$ 571.9**
Net Revenues:						
Weather (compared to normal)	$ (53.2)	$ —	$ (5.1)	$ —	$ —	**$ (58.3)**
Total Impact — Net Revenues	**(53.2)**	**—**	**(5.1)**	**—**	**—**	**(58.3)**
Operating Expenses:						
Operation and Maintenance Expenses—						
Restructuring, transition and consulting charges (outsourcing initiative)	(6.8)	(1.0)	(1.1)	(0.1)	(0.4)	**(9.4)**
Asset Impairment	(2.6)	(1.1)	(0.4)	(1.2)	(0.5)	**(5.8)**
Gain (Loss) on Sale of Assets	—	(0.5)	—	1.3	—	**0.8**
Total Impact — Operating Expenses	**(9.4)**	**(2.6)**	**(1.5)**	**—**	**(0.9)**	**(14.4)**
Total Impact — Operating Income (Loss)	**$ (62.6)**	**$ (2.6)**	**$ (6.6)**	**$ —**	**$ (0.9)**	**$ (72.7)**
Operating Income (Loss) — GAAP	**$ 200.0**	**$ 189.3**	**$ 131.4**	**$ (14.8)**	**$ (6.7)**	**$ 499.2**

2005 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**284.3**	**180.1**	**126.8**	**(16.1)**	**(6.2)**	**$ 568.9**
Net Revenues:						
Weather (compared to normal)	$ 9.7	$ —	$ 4.8	$ —	$ —	**$ 14.5**
Gas costs and other changes	2.5	8.9	(1.3)	—	—	**10.1**
Total Impact — Net Revenues	**12.2**	**8.9**	**3.5**	**—**	**—**	**24.6**
Operating Expenses:						
Operation and Maintenance Expenses—						
Restructuring, transition and consulting charges (outsourcing initiative)	(11.2)	(2.7)	(1.8)	(0.2)	(5.0)	**(20.9)**
Insurance recoveries, legal and other reserves	—	—	(2.5)	2.1	—	**(0.4)**
Asset Impairment	(10.9)	—	—	—	(10.9)	**(21.8)**
Gain on Sale of Assets	0.4	—	0.4	0.5	—	**1.3**
Property and Sales tax adjustments	5.8	—	—	—	—	**5.8**
Total Impact — Operating Expenses	**(15.9)**	**(2.7)**	**(3.9)**	**2.4**	**(15.9)**	**(36.0)**

Total Impact — Operating Income	**$ (3.7)**	**$ 6.2**	**$ (0.4)**	**$ 2.4**	**$ (15.9)**	**$ (11.4)**
Operating Income (Loss) — GAAP	**$ 280.6**	**$ 186.3**	**$ 126.4**	**$ (13.7)**	**$ (22.1)**	**$ 557.5**

NiSource Inc.
Income Statement (GAAP)
(*unaudited)*

(in millions, except per share amounts *)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Gas Distribution	**$ 605.3**	$ 659.3	**$2,603.5**	$2,487.6
Gas Transportation and Storage	**220.5**	213.0	**541.1**	541.9
Electric	**301.9**	282.1	**607.6**	564.7
Other	**184.2**	201.2	**532.1**	443.9
Gross Revenues	**1,311.9**	1,355.6	**4,284.3**	4,038.1
Cost of Sales	**670.4**	701.7	**2,662.1**	2,371.9
Total Net Revenues	**641.5**	653.9	**1,622.2**	1,666.2
Operating Expenses				
Operation and maintenance	**307.0**	316.9	**679.4**	654.1
Depreciation and amortization	**138.1**	136.1	**274.9**	271.0
Impairment and loss on sale of assets	**4.2**	21.0	**5.1**	20.4
Other taxes	**60.6**	60.1	**163.6**	163.2
Total Operating Expenses	**509.9**	534.1	**1,123.0**	1,108.7
Operating Income	**131.6**	119.8	**499.2**	557.5
Other Income (Deductions)				
Interest expense, net	**(93.3)**	(101.5)	**(188.7)**	(205.5)
Dividend requirements on preferred stock of subsidiaries	**—**	(1.1)	**(1.1)**	(2.2)
Other, net	**(2.7)**	3.6	**(6.1)**	3.1
Loss on redemption of preferred stock	**(0.7)**	—	**(0.7)**	—
Total Other Income (Deductions)	**(96.7)**	(99.0)	**(196.6)**	(204.6)
Income From Continuing Operations Before Income Taxes	**34.9**	20.8	**302.6**	352.9
Income Taxes	**13.4**	12.5	**108.2**	135.9
Income from Continuing Operations	**21.5**	8.3	**194.4**	217.0
Loss from Discontinued Operations — net of taxes	**(0.7)**	(12.0)	**(1.1)**	(14.2)
Gain on Disposition of Discontinued Operations — net of taxes	**0.2**	42.7	**0.2**	42.5
Change in Accounting — net of taxes	**—**	—	**0.4**	—
Net Income	**$ 21.0**	$ 39.0	**$ 193.9**	$ 245.3
Basic Earnings Per Share ($)				
Continuing operations	**0.08**	0.03	**0.71**	0.80
Discontinued operations	**—**	0.12	**—**	0.11
Basic Earnings Per Share	**0.08**	0.15	**0.71**	0.91
Diluted Earnings Per Share ($)				
Continuing operations	**0.08**	0.03	**0.71**	0.80
Discontinued operations	**—**	0.11	**—**	0.10
Diluted Earnings Per Share	**0.08**	0.14	**0.71**	0.90
Dividends Declared Per Common Share ($)	**0.23**	0.23	**0.46**	0.46
Basic Average Common Shares Outstanding (millions)	**272.4**	271.2	**272.4**	270.8
Diluted Average Common Shares (millions)	**273.2**	273.1	**273.1**	272.6

NiSource Inc.
Consolidated Balance Sheets
(*unaudited*)

(in millions)	**June 30, 2006**	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$16,857.9**	$ 16,684.4
Accumulated depreciation and amortization	**(7,710.6)**	(7,556.8)
Net utility plant	**9,147.3**	9,127.6
Other property, at cost, less accumulated depreciation	**354.7**	426.7
Net Property, Plant and Equipment	**9,502.0**	9,554.3
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**57.3**	34.6
Unconsolidated affiliates	**80.7**	75.0
Other investments	**100.1**	114.2
Total Investments	**238.1**	223.8
Current Assets		
Cash and cash equivalents	**57.9**	69.4
Restricted cash	**71.7**	33.9
Accounts receivable (less reserve of $69.4 and $67.9, respectively)	**472.1**	1,254.6
Gas inventory	**244.1**	526.9
Underrecovered gas and fuel costs	**81.2**	421.8
Materials and supplies, at average cost	**84.9**	72.0
Electric production fuel, at average cost	**48.3**	24.9
Price risk management assets	**144.5**	183.1
Exchange gas receivable	**780.6**	169.8
Regulatory assets	**233.2**	195.0
Prepayments and other	**70.5**	109.3
Total Current Assets	**2,289.0**	3,060.7
Other Assets		
Price risk management assets	**107.0**	192.9
Regulatory assets	**594.2**	586.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**489.4**	495.8
Deferred charges and other	**191.7**	167.4
Total Other Assets	**5,059.6**	5,119.7
Total Assets	**$17,088.7**	$ 17,958.5

NiSource Inc.
Consolidated Balance Sheets (continued)
(unaudited)

(in millions, except share amounts)	**June 30, 2006**	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock — $0.01 par value, 400,000,000 shares authorized; 272,711,758 and 272,622,905 shares issued and outstanding, respectively	**$ 2.7**	$ 2.7
Additional paid-in-capital	**3,972.8**	3,969.4
Retained earnings	**987.4**	981.6
Accumulated other comprehensive loss and other common stock equity	**(91.2)**	(20.7)
Total common stock equity	**4,871.7**	4,933.0
Preferred stocks—Series without mandatory redemption provisions	**—**	81.1
Long-term debt, excluding amounts due within one year	**5,163.5**	5,271.2
Total Capitalization	**10,035.2**	10,285.3
Current Liabilities		
Current portion of long-term debt	**441.8**	440.7
Short-term borrowings	**420.0**	898.0
Accounts payable	**329.8**	866.7
Dividends declared on common and preferred stocks	**62.8**	1.1
Customer deposits	**104.5**	101.9
Taxes accrued	**238.8**	217.5
Interest accrued	**90.1**	86.2
Overrecovered gas and fuel costs	**143.2**	25.8
Price risk management liabilities	**98.3**	72.3
Exchange gas payable	**854.3**	425.2
Current deferred revenue	**37.9**	51.3
Regulatory liabilities	**35.6**	46.3
Accrued liability for postretirement and pension benefits	**61.0**	61.1
Other accruals	**319.3**	549.1
Total Current Liabilities	**3,237.4**	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**64.6**	22.2
Deferred income taxes	**1,497.6**	1,591.9
Deferred investment tax credits	**65.8**	69.9
Deferred credits	**91.3**	81.1
Noncurrent deferred revenue	**41.4**	60.4
Accrued liability for postretirement and pension benefits	**505.0**	511.0
Liabilities of discontinued operations and liabilities held for sale	**10.0**	—
Regulatory liabilities and other removal costs	**1,237.2**	1,196.2
Asset retirement obligations	**123.5**	119.8
Other noncurrent liabilities	**179.7**	177.5
Total Other	**3,816.1**	3,830.0
Commitments and Contingencies	**—**	—
Total Capitalization and Liabilities	**$17,088.7**	$ 17,958.5

NiSource Inc.
Other Information
(*unaudited*)

(in millions, except share amounts)	**June 30, 2006**	December 31, 2005
Total Common Stock Equity	**$ 4,871.7**	$ 4,933.0
Shares Outstanding (thousands)	**272,712**	272,623
Book Value of Common Shares	**$ 17.86**	$ 18.09

NiSource Inc.
Statements of Consolidated Cash Flow
(*unaudited*)

Six Months Ended June 30, *(in millions)*	2006	2005
Operating Activities		
Net income	**$ 193.9**	$ 245.3
Adjustments to reconcile net income to net cash from continuing operations:		
Loss on early redemption of preferred stock	**0.7**	—
Depreciation and amortization	**274.9**	271.0
Net changes in price risk management assets and liabilities	**16.7**	(9.0)
Deferred income taxes and investment tax credits	**(108.3)**	(81.6)
Deferred revenue	**(32.5)**	(12.4)
Stock compensation expense	**3.1**	4.7
Gain on sale of assets	**(0.8)**	(1.4)
Loss on impairment of assets	**5.9**	21.8
Cumulative effect of change in accounting principle, net of taxes	**(0.4)**	—
Income from unconsolidated affiliates	**(2.4)**	(2.8)
Gain on sale of discontinued operations	**(0.2)**	(42.5)
Loss from discontinued operations	**1.1**	14.2
Amortization of discount/premium on debt	**3.9**	9.7
Other adjustments	**(4.2)**	(0.4)
Changes in assets and liabilities:		
Accounts receivable	**793.8**	405.2
Inventories	**259.6**	241.7
Accounts payable	**(547.2)**	(250.0)
Customer deposits	**2.5**	0.5
Taxes accrued	**12.9**	38.5
Interest accrued	**3.9**	(0.9)
(Under) Overrecovered gas and fuel costs	**458.1**	247.0
Exchange gas receivable/payable	**(172.8)**	(61.8)
Other accruals	**(155.7)**	(71.4)
Prepayments and other current assets	**37.5**	5.1
Regulatory assets/liabilities	**(25.5)**	(27.6)
Postretirement and postemployment benefits	**1.1**	15.8
Deferred credits	**(7.7)**	(8.3)
Deferred charges and other noncurrent assets	**(8.4)**	(3.1)
Other noncurrent liabilities	**16.5**	6.6
Net Operating Activities from Continuing Operations	**1,020.0**	953.9
Net Operating Activities from or (used for) Discontinued Operations	**0.7**	(16.2)
Net Cash Flows from Operating Activities	**1,020.7**	937.7
Investing Activities		
Capital expenditures	**(267.6)**	(243.1)
Proceeds from disposition of assets	**7.6**	7.4
Restricted cash	**(43.5)**	24.6
Other investing activities	**3.1**	(14.9)
Net Cash Flows used for Investing Activities	**(300.4)**	(226.0)
Financing Activities		
Retirement of long-term debt	**(42.5)**	(81.0)
Change in short-term debt	**(478.0)**	(307.6)
Retirement of preferred shares	**(81.1)**	—
Issuance of common stock	**2.1**	32.1
Acquisition of treasury stock	**(5.9)**	(1.6)
Dividends paid — common shares	**(126.4)**	(124.9)
Net Cash Flows used for Financing Activities	**(731.8)**	(483.0)

Increase (decrease) in cash and cash equivalents	**(11.5)**	228.7
Cash and cash equivalents at beginning of year	**69.4**	29.5
Cash and cash equivalents at end of period	**$ 57.9**	$ 258.2
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 185.1**	$ 200.8
Interest capitalized	**4.2**	0.4
Cash paid (refunded) for income taxes	**166.0**	92.8

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

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): May 10, 2006

NISOURCE INC.

(Exact Name of Registrant as Specified in Charter)

Delaware	001-16189	35-2108964
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

801 East 86th Avenue,
Merrillville, Indiana 46410
(877) 647-5990
(Address and Telephone Number
of Principal Executive Offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 5.02. DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF PRINCIPAL OFFICERS.

At the Company's annual meeting of stockholders on May 10, 2006, the stockholders of the Company approved the declassification of the Company's board of directors, as described in Item 5.03 of this current report on Form 8-K. On May 10, 2006, consistent with the declassification proposal approved by the stockholders of the Company, each director whose term would not otherwise have expired at the 2007 annual meeting of the stockholders of the Company tendered his resignation effective as of the 2007 annual meeting of the stockholders of the Company. The directors submitting their resignations were Peter McCausland, Steven R. McCracken, Gary L. Neale, Ian M. Rolland, Robert C. Skaggs, Jr., Robert J. Welsh, and Roger A. Young.

A copy of the press release announcing the tender of resignation by each of the above directors is attached hereto as exhibit 99.1.

ITEM 5.03. AMENDMENTS TO ARTICLES OF INCORPORATION OR BYLAWS; CHANGE IN FISCAL YEAR.

Consistent with the declassification proposal approved by the stockholders of the Company on May 10, 2006, the Company amended its Certificate of Incorporation and Amended and Restated By-Laws to provide for a declassified board structure and the annual election of directors. Beginning with the annual meeting of stockholders to be held in 2007, each director will be elected annually to serve until the following annual meeting and the election and qualification of his or her successor. Prior to these amendments to the Company's Certificate of Incorporation and Amended and Restated By-Laws, the Company's directors were divided into three classes, and the directors in each class were elected to three-year terms. The amendments were effective as of May 12, 2006.

Further details regarding the amendments to the Company's Certificate of Incorporation and Amended and Restated By-Laws can be found in the definitive proxy statement filed by the Company on April 3, 2006.

A copy of the Amended and Restated Certificate of Incorporation is attached hereto as exhibit 3.1. A copy of the Amended and Restated By-Laws is attached hereto as exhibit 3.2.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation
3.2	Amended and Restated By-Laws
99.1	Press Release, dated May 10, 2006

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: May 16, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

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EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation
3.2	Amended and Restated By-Laws
99.1	Press Release, dated May 10, 2006

Exhibit 3.1

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

NISOURCE INC.

As Amended Through

May 12, 2006

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

NISOURCE INC.

Article I
Name

The name of this Corporation is NiSource Inc.

Article II
Registered Office

The registered office of the Corporation in the State of Delaware is located at Corporation Service Company, 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle. The name of its registered agent is Corporation Service Company, and the address of said registered agent is 2711 Centerville Road, Suite 400, in said city.

Article III
Statement of Purpose

The nature of the business to be conducted and the purposes of the Corporation are to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law, as amended.

Article IV
Classes of Capital Stock

The total number of shares of all classes of stock which the Corporation shall have authority to issue is Four hundred twenty million (420,000,000), of which Twenty million (20,000,000) shares of the par value $.01 each are to be of a class designated Preferred Stock and Four hundred million (400,000,000) shares of the par value of $.01 each are to be of a class designated Common Stock.

A. Common Stock

1. Subject to the powers, preferences and other special rights afforded Preferred Stock by the provisions of this Article IV or resolutions adopted pursuant hereto, the holders of the Common Stock shall be entitled to receive, to the extent permitted by Delaware law, such dividends as may from time to time be declared by the Board of Directors.

2. Except as otherwise required by Delaware law and as otherwise provided in this Article IV and resolutions adopted pursuant hereto with respect to Preferred Stock, and subject to the provisions of the Bylaws of the Corporation, as from time to time amended, with respect to

the closing of the transfer books and the fixing of a record date for the determination of stockholders entitled to vote, the holders of the Common Stock shall exclusively possess voting power for the election of directors and for all other purposes, and the holders of the Preferred Stock shall have no voting power and shall not be entitled to any notice of any meeting of stockholders.

3. Except as may otherwise be required by law, this Amended and Restated Certificate of Incorporation or the provisions of the resolution or resolutions as may be adopted by the Board of Directors pursuant to this Article IV with respect to Preferred Stock, each holder of Common Stock, and each holder of Preferred Stock, if entitled to vote on such matter, shall be entitled to one vote in respect of each share of Common Stock or Preferred Stock, as the case may be, held by such holder on each matter voted upon by stockholders, and any such right to vote shall not be cumulative.

4. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at an annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders. Except as otherwise required by law and subject to the rights of the holders of any class or any series of Preferred Stock, special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption).

5. In the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding-up of the Corporation, after distribution in full of the preferential amounts, if any, to be distributed to the holders of Preferred Stock, as set forth in this Article IV or the resolutions adopted with respect to such series under this Article IV, holders of Common Stock shall be entitled to receive all of the remaining assets of the Corporation of whatever kind available for distribution to the stockholders ratably and in proportion to the number of shares of Common Stock held by them respectively. The Board of Directors may distribute in kind to the holders of Common Stock such remaining assets of the Corporation or may sell, transfer, otherwise dispose of all or any part of such remaining assets to any other corporation, trust or other entity and receive payment therefor in cash, stock or obligations of such other corporation, trust or other entity, or a combination thereof, and may set all or make any part of the consideration so received and distributed or any balance thereof in kind to holders of Common Stock. The merger or consolidation of the Corporation into or with any other corporation, or the merger of any other corporation into it, or any purchase or redemption of shares of stock of the Corporation of any class, shall not be deemed to be a dissolution, liquidation, or winding-up of the Corporation for the purposes of this Article IV.

B. Preferred Stock

The express grant of authority to the Board of Directors of the Corporation to fix by resolution or resolutions the designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of the shares of Preferred Stock that are not fixed by this Amended and Restated Certificate of Incorporation is as follows:

1. The Preferred Stock may be issued from time to time in any amount, not exceeding in the aggregate the total number of shares of Preferred Stock herein above authorized, reduced by the number of shares of Preferred Stock designated under Section C of this Article IV, as Preferred Stock of one or more series, as hereinafter provided. All shares of any one series of

Preferred Stock shall be alike in every particular, each series thereof shall be distinctively designated by letter or descriptive words, and all series of Preferred Stock shall rank equally and be identical in all respects except as permitted by the provisions of Subsection B.2 of this Article IV.

2. Authority is hereby expressly granted to and vested in the Board of Directors from time to time to issue the Preferred Stock as Preferred Stock of any series and in connection with the creation of each such series to fix, by the resolution or resolutions providing for the issue of shares thereof, the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, if any, of such series, to the full extent now or hereafter permitted by the laws of the State of Delaware. Pursuant to the foregoing general authority vested in the Board of Directors, but not in limitation of the powers conferred on the Board of Directors thereby and by the laws of the State of Delaware, the Board of Directors is expressly authorized to determine with respect to each series of Preferred Stock other than the series designated under Section C of this Article IV:

(a) the designation of such series and number of shares constituting such series;

(b) the dividend rate or amount of such series, the payment dates for dividends on shares of such series, the status of such dividends as cumulative or non-cumulative, the date from which dividends on shares of such series, if cumulative, shall be cumulative, and the status of such as participating or non-participating after the payment of dividends as to which such shares are entitled to any preference;

(c) the price or prices (which amount may vary under different conditions or at different dates) at which, and the times, terms and conditions on which, the shares of such series may be redeemed at the option of the Corporation;

(d) whether or not the shares of such series shall be made optionally or mandatorily convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of stock of the Corporation or other securities and, if made so convertible or exchangeable, the conversion price or prices, or the rates of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made and any other terms and conditions of such conversion or exchange;

(e) whether or not the shares of such series shall be entitled to the benefit of a retirement or sinking fund to be applied to the purchase or redemption of shares of such series, and if so entitled, the amount of such fund and the manner of its application, including the price or prices at which shares of such series may be redeemed or purchased through the application of such fund;

(f) whether or not the issue of any additional shares of such series or any future series in addition to such series or of any shares of any other class

of stock of the Corporation shall be subject to restrictions and, if so, the nature thereof;

(g) the rights and preferences, if any, of the holders of such series of Preferred Stock upon the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, and the status of the shares of such series as participating or non-participating after the satisfaction of any such rights and preferences;

(h) the full or limited voting rights, if any, to be provided for shares of such series, in addition to the voting rights provided by law; and

(i) any other relative powers, preferences and participating, optional or other special rights and the qualifications, limitations or restrictions thereof, of shares of such series;

in each case, so far as not inconsistent with the provisions of this Amended and Restated Certificate of Incorporation or the Delaware General Corporation Law then in effect.

C. Series A Junior Participating Preferred Stock.

The designation and number of shares, and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of a series of Preferred Stock are fixed by this Section C of ARTICLE IV as follows:

1. Designation and Amount . The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be 4,000,000.

2. Dividends and Distributions .

(a) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar shares) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of Series A Preferred Stock, in preference to the holders of Common Stock and of any other junior shares, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the 20th day of February, May, August and November in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) $26 or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in Common Stock or a subdivision of the outstanding Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the

first Quarterly Dividend Payment Date, since the first issuance of any share of Series A Preferred Stock or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding Common Stock (by reclassification or otherwise than by payment of a dividend in Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph 2(a) of this Section C immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $26 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

3. Voting Rights . The holders of Series A Preferred Stock will have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided in this Amended and Restated Certificate of Incorporation, in any resolution creating a series of Preferred Stock or by law, the holders of Series A Preferred Stock and the holders of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) If at the time of any annual meeting of stockholders for the election of directors a "default in preference dividends" on the Series A Preferred Stock shall exist, the number of directors constituting the Board of Directors of the Corporation shall be increased by two (2), and the holders of the Preferred Stock of all series (whether or not the holders of such series of Preferred Stock would be entitled to vote for the election of directors if such default in preference dividends did not exist) shall have the right at such meeting, voting together as a single class without regard to series, to the exclusion of the holders of Common Stock, to elect two (2) directors of the Corporation to fill such newly created directorships. Such right shall continue until there are no dividends in arrears upon the Preferred Stock. Each director elected by the holders of Preferred Stock (a "Preferred Director") shall continue to serve as such director for the full term for which he shall have been elected, notwithstanding that prior to the end of such term a default in preference dividends shall cease to exist. Any Preferred Director may be removed by, and shall not be removed except by, the vote of the holders of record of the outstanding Preferred Stock voting together as a single class without regard to series, at a meeting of the stockholders or of the holders of Preferred Stock called for the purpose. So long as a default in any preference dividends on the Preferred Stock shall exist, (i) any vacancy in the office of a Preferred Director may be filled (except as provided in the following clause (ii)) by an instrument in writing signed by the remaining Preferred Director and filed with the Corporation and (ii) in the case of the removal of any Preferred Director, the vacancy may be filled by the vote of the holders of the outstanding Preferred Stock voting together as a single class without regard to series, at the same meeting at which such removal shall be voted. Each director appointed as

aforesaid by the remaining Preferred Director shall be deemed, for all purposes hereof, to be a Preferred Director. Whenever the term of office of the Preferred Directors shall end and a default in preference dividends shall no longer exist, the number of directors constituting the Board of Directors of the Corporation shall be reduced by two (2). For the purposes hereof, a "default in preference dividends" on the Preferred Stock shall be deemed to have occurred whenever the amount of accrued dividends upon any series of the Preferred Stock shall be equivalent to six (6) full quarterly dividends or more, and, having so occurred, such default shall be deemed to exist thereafter until, but only until, all accrued dividends on all Preferred Stock of each and every series then outstanding shall have been paid to the end of the last preceding quarterly dividend period.

(d) Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

4. Certain Restrictions .

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock, as provided in paragraph 2 of this Section C, are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity shares on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration any shares ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior shares in exchange for any shares of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any Series A Preferred Stock, or any shares ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made

in writing or by publication (as determined by the Board of Directors) to all holders of such stock upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of the Corporation unless the Corporation could, under paragraph 4(a) of this Section C, purchase or otherwise acquire such shares at such time and in such manner.

5. Reacquired Shares . Any Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and, upon the filing of any certificate that may be required by Delaware law, canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth in this Article IV or any resolution providing for the creation of any series of Preferred Stock adopted pursuant thereto or as otherwise required by law.

6. Liquidation, Dissolution or Winding Up . Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (a) to the holders of shares ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of Series A Preferred Stock shall have received $6,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock, or (b) to the holders of shares ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity shares in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (a) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of Common Stock that were outstanding immediately prior to such event.

7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other shares or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment

hereinafter set forth, equal to 100 times the aggregate amount of shares, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Shares payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

8. No Redemption . The Series A Preferred Stock shall not be redeemable.

9. Conversion . The Series A Preferred Stock shall not be convertible into Common Stock or shares of any other series of any other class of Preferred Stock.

10. Rank . The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of Preferred Stock, unless the terms of any such series shall provide otherwise.

11. Amendment . This Amended and Restated Certificate of Incorporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding Series A Preferred Stock, voting together as a single class.

Article V
Board of Directors

A. Election and Removal of Directors

1. The Board of Directors shall consist of not less than nine (9) or more than twelve (12) persons, the exact number to be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption), provided, however, this provision shall not act to limit Board size in the event the holders of one or more series of Preferred Stock are entitled to elect directors to the exclusion of holders of Common Stock. Each director who is serving as a director on the date of this Amended and Restated Certificate of Incorporation shall hold office until the next annual meeting of stockholders following such date and until his or her successor has been duly elected and qualified, notwithstanding that such director may have been elected for a term that extended beyond the date of such next annual meeting of stockholders. At each annual meeting of the stockholders of the Corporation after the date of this Amended and Restated Certificate of Incorporation, directors elected at such annual meeting shall hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified.

2. Notwithstanding the foregoing and except as otherwise provided by law, whenever the holders of any series of Preferred Stock shall have the right (to the exclusion of

holders of Common Stock) to elect directors of the Corporation pursuant to the provisions of Article IV or any resolution adopted pursuant thereto, the election of such directors of the Corporation shall be governed by the terms and provisions of Article IV or said resolutions and such directors shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the first year following their election or, if such right of the holders of the Preferred Stock is terminated, for a term expiring in accordance with the provisions of Article IV or such resolutions.

3. Newly-created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, even though less than a quorum of the Board of Directors, acting at a regular or special meeting. If any applicable provision of the Delaware General Corporation Law, Article IV or any resolution adopted pursuant to Article IV expressly confers power on stockholders to fill such a directorship at a special meeting of stockholders, such a directorship may be filled at such a meeting only by the affirmative vote of at least 80 percent of the combined voting powers of the outstanding shares of stock of the Corporation entitled to vote generally; provided, however, that when (a) pursuant to the provisions of Article IV or any resolutions adopted pursuant thereto, the holders of any series of Preferred Stock have the right (to the exclusion of holders of the Common Stock), and have exercised such right, to elect directors and (b) Delaware General Corporation Law, Article IV or any such resolution expressly confers on stockholders voting rights as aforesaid, if the directorship to be filled had been occupied by a director elected by the holders of Common Stock, then such directorship shall be filled by an 80 percent vote as aforesaid, but if such directorship to be filled had been elected by holders of Preferred Stock, then such directorship shall be filled in accordance with Article IV or the applicable resolutions adopted under Article IV. Any director elected in accordance with the two preceding sentences shall hold office until such director's successor shall have been elected and qualified unless such director was elected by holders of Preferred Stock (acting to the exclusion of the holders of Common Stock), in which case such director's term shall expire in accordance with Article IV or the applicable resolutions adopted pursuant to Article IV. No decrease in the number of authorized directors constituting the entire Board of Directors shall shorten the term of any incumbent director, except as otherwise provided in Article IV or the applicable resolutions adopted pursuant to Article IV with respect to directorships created pursuant to one or more series of Preferred Stock.

4. Subject to the rights of the holders of any series of Preferred Stock to elect directors under specified circumstances, any director or directors may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 80 percent of the combined voting power of all of the then-outstanding shares of stock of the Corporation entitled to vote generally, voting together as a single class (it being understood that for all purposes of this Article V, each share of Preferred Stock shall have the number of votes, if any, granted to it pursuant to this Amended and Restated Certificate of Incorporation or any resolution adopted pursuant to Article IV).

5. Notwithstanding any other provision of this Amended and Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the stock of the Corporation required by law, this Amended and Restated Certificate of Incorporation or any resolution adopted pursuant to Article IV, the affirmative vote of at least 80 percent of the total number of authorized directors (whether or not there exist any vacancies in previously authorized

directorships at the time any such alteration, amendment or repeal is presented to the Board for adoption), shall be required to alter, amend or repeal this Article V, or any provision hereof.

B. Liability, Indemnification and Insurance

1. Limitation on Liability . To the fullest extent that the Delaware General Corporation Law as it exists on the date hereof or as it may hereafter be amended permits the limitation or elimination of the personal liability of directors, no director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. No amendment to or repeal of this Section B.1 shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

2. Right to Indemnification . The Corporation shall to the fullest extent permitted by applicable law as then in effect indemnify any person (the Indemnitee) who was or is involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or of NiSource Corporate Services Company or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan) against all expenses including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding. Such indemnification shall be a contract right and shall include the right to receive payment of any expenses incurred by the Indemnitee in connection with such Proceeding in advance of its final disposition, consistent with the provisions of applicable law as then in effect.

3. Insurance, Contracts and Funding . The Corporation may purchase and maintain insurance to protect itself and any Indemnitee against any expenses, judgments, fines and amounts paid in settlement as specified in Subsection B.2 of this Section B or incurred by any Indemnitee in connection with any Proceeding referred to in Subsection B.2 of this Section B, to the fullest extent permitted by applicable law as then in effect. The Corporation may enter into contracts with any director, officer, employee or agent of the Corporation in furtherance of the provisions of this Section B and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Section B.

4. Indemnification; No Exclusive Right . The right of indemnification provided in this Section B shall not be exclusive of any other rights to which those seeking indemnification may otherwise be entitled, and the provisions of this Section B shall inure to the benefit of the heirs and legal representatives of any person entitled to indemnity under this Section B and shall be applicable to Proceedings commenced or continuing after the adoption of this Section B, whether arising from acts or omissions occurring before or after such adoption.

5. Advancement of Expenses; Procedures; Presumptions and Effect of Certain Proceedings; Remedies . In furtherance, but not in limitation of the foregoing provisions, the following procedures, presumptions and remedies shall apply with respect to advancement of expenses and the right to indemnification under this Section B:

(a) Advancement of Expenses . All reasonable expenses incurred by or on behalf of the Indemnitee in connection with any Proceeding shall be advanced to the Indemnitee by the Corporation within twenty (20) days after the receipt by the Corporation of a statement or statements from the Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the expenses incurred by the Indemnitee and, if required by law at the time of such advance, shall include or be accompanied by an undertaking by or on behalf of the Indemnitee to repay the amounts advanced if it should ultimately be determined that the Indemnitee is not entitled to be indemnified against such expenses pursuant to this Section B.

(b) Procedure for Determination of Entitlement to Indemnification.

(i) To obtain indemnification under this Section B, an Indemnitee shall submit to the Secretary of the Corporation a written request, including such documentation and information as is reasonably available to the Indemnitee and reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification (the "Supporting Documentation"). The determination of the Indemnitee's entitlement to indemnification shall be made not later than sixty (60) days after receipt by the Corporation of the written request for indemnification together with the Supporting Documentation. The Secretary of the Corporation shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that the Indemnitee has requested indemnification.

(ii) The Indemnitee's entitlement to indemnification under this Section B shall be determined in one of the following ways: (A) by a majority vote of the Disinterested Directors (as hereinafter defined), even if they constitute less than a quorum of the Board; (B) by a written opinion of Independent Counsel (as hereinafter defined) if (x) a Change of Control (as hereinafter defined) shall have occurred and the Indemnitee so requests or (y) there are no Disinterested Directors or a majority of such Disinterested Directors so directs; (C) by the stockholders of the Corporation (but only if a majority of the Disinterested Directors presents the issue of entitlement to indemnification to the stockholders for their determination); or (D) as provided in Section B.5(c).

(iii) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section B.5(b)(ii), a majority of the Disinterested Directors shall select the Independent Counsel (except that if there are no Disinterested Directors, the Corporation's General Counsel shall select the Independent Counsel), but only an Independent Counsel to which the Indemnitee does not reasonably object; provided, however, that if a Change of Control shall have occurred, the Indemnitee shall select such Independent Counsel, but only an Independent Counsel to which the Board of Directors does not reasonably object.

(iv) The only basis upon which a finding of no entitlement to indemnification may be made is that indemnification is prohibited by law.

(c) Presumptions and Effect of Certain Proceedings . Except as otherwise expressly provided in this Section B, if a Change of Control shall have occurred, the

Indemnitee shall be presumed to be entitled to indemnification under this Section B upon submission of a request for indemnification together with the Supporting Documentation in accordance with Section B.5(b)(i), and thereafter the Corporation shall have the burden of proof to overcome that presumption in reaching a contrary determination. In any event, if the person or persons empowered under Section B.5(b) to determine entitlement to indemnification shall not have been appointed or shall not have made a determination within sixty (60) days after receipt by the Corporation of the request therefor together with the Supporting Documentation, the Indemnitee shall be deemed to be entitled to indemnification and the Indemnitee shall be entitled to such indemnification unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. The termination of any Proceeding described in Section B.2, or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, adversely affect the right of the Indemnitee to indemnification or create a presumption that the Indemnitee did not act in good faith and in a manner which the Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that the Indemnitee's conduct was unlawful.

(d) Remedies of Indemnitee .

(i) In the event that a determination is made, pursuant to Section B.5(b) that the Indemnitee is not entitled to indemnification under this Section B, (A) the Indemnitee shall be entitled to seek an adjudication of his entitlement to such indemnification either, at the Indemnitee's sole option, in (x) an appropriate court of the State of Delaware or any other court of competent jurisdiction or (y) an arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association; (B) any such judicial Proceeding or arbitration shall be de novo and the Indemnitee shall not be prejudiced by reason of such adverse determination; and (C) in any such judicial Proceeding or arbitration the Corporation shall have the burden of proving that the Indemnitee is not entitled to indemnification under this Section B.

(ii) If a determination shall have been made or deemed to have been made, pursuant to Section B.5(b) or (c), that the Indemnitee is entitled to indemnification, the Corporation shall be obligated to pay the amounts constituting such indemnification within five (5) days after such determination has been made or deemed to have been made and shall be conclusively bound by such determination unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. In the event that (x) advancement of expenses is not timely made pursuant to Section B.5(a) or (y) payment of indemnification is not made within five (5) days after a determination of entitlement to indemnification has been made or deemed to have been made pursuant to Section B.5(b) or (c), the Indemnitee shall be entitled to seek judicial enforcement of the Corporation's obligation to pay to the Indemnitee such advancement of expenses or indemnification. Notwithstanding the foregoing, the Corporation may bring an action, in an appropriate court in the State of Delaware or any other court of competent jurisdiction, contesting the right of the Indemnitee to receive indemnification hereunder due to the

occurrence of an event described in subclause (A) or (B) of this clause (ii) (a "Disqualifying Event"); provided, however, that in any such action the Corporation shall have the burden of proving the occurrence of such Disqualifying Event.

(iii) The Corporation shall be precluded from asserting in any judicial Proceeding or arbitration commenced pursuant to this Section B.5(d) that the procedures and preemptions of this Section B are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Section B.

(iv) In the event that the Indemnitee, pursuant to this Section B.5(d), seeks a judicial adjudication of or an award in arbitration to enforce his rights under, or to recover damages for breach of, this Section B, the Indemnitee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any expenses actually and reasonably incurred by the Indemnitee if the Indemnitee prevails in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by the Indemnitee in connection with such judicial adjudication or arbitration shall be prorated accordingly.

(e) Definitions . For purposes of this Section B.5:

(i) "Change in Control" means (A) so long as the Public Utility Holding Company Act of 1935 is in effect, any "company" becoming a "holding company in respect to the Corporation or any determination by the Securities and Exchange Commission that any "person" should be subject to the obligations, duties, and liabilities if imposed by said Act by virtue of his, hers or its influence over the management or policies of the Corporation, or (B) whether or not said Act is in effect a change in control of the Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), whether or not the Corporation is then subject to such reporting requirement; provided that, without limitation, such a change in control shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing ten percent or more of the combined voting power of the Corporation's then outstanding securities without the prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such acquisition; (ii) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose election or nomination for election by the Corporation's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors

at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors.

(ii) "Disinterested Director" means a director of the Corporation who is not or was not a party to the Proceeding in respect of which indemnification is sought by the Indemnitee.

(iii) "Independent Counsel" means a law firm or a member of a law firm that neither presently is, nor in the past five years has been, retained to represent: (A) the Corporation or the Indemnitee in any matter material to either such party or (B) any other party to the Proceeding giving rise to a claim for indemnification under this Section B. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing under Delaware law, would have a conflict of interest in representing either the Corporation or the Indemnitee in an action to determine the Indemnitee's rights under this Section B.

6. Severability . If any provision or provisions of this Section B shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provision of this Section B (including, without limitation, all portions of any paragraph of this Section B containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Section B (including, without limitation, all portions of any paragraph of this Section B containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

7. Successor Laws, Regulations and Agencies . Reference herein to laws, regulations or agencies shall be deemed to include all amendments thereof, substitutions therefor and successors thereto.

Article VI
General Powers of the Board of Directors

A. Bylaws

The Board of Directors shall have the power to make, alter, amend and repeal the Bylaws of the Corporation in such form and with such terms as the Board may determine, subject to the power granted to stockholders to alter or repeal the Bylaws provided under Delaware law; provided, however, that, notwithstanding any other provision of this Amended and Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, the affirmative vote of at least 80 percent of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such alteration, amendment or repeal is presented to the Board for adoption), shall be required to alter, amend or repeal any provision of the Bylaws which is to the same effect as any one or more sections of this Article VI.

B. Charter Amendments

Subject to the provisions hereof, the Corporation, through its Board of Directors, reserves the right at any time, and from time to time, to amend, alter, repeal or rescind any provision contained in this Amended and Restated Certificate of Incorporation in the manner now or hereinafter prescribed by law, and any other provisions authorized by Delaware law at the time enforced may be added or inserted, in the manner now or hereinafter prescribed by law, and any and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Amended and Restated Certificate of Incorporation in its present form or as hereinafter amended are granted subject to the rights reserved in this Article.

Exhibit 3.2

NISOURCE INC.

AMENDED AND RESTATED
BY-LAWS

As Amended through May 12, 2006

AMENDED AND RESTATED

BY-LAWS

OF

NISOURCE INC.

ARTICLE I

SEAL

The corporate seal of the Corporation shall consist of a metallic stamp circular in form, bearing in its center the figures "2000" and the words "Incorporated" and "Delaware" and on the outer edge the name of the Corporation.

ARTICLE II

OFFICES

The location of the Corporation's principal office shall be at 801 East 86th Avenue, in the Town of Merrillville, County of Lake, in the State of Indiana.

The Corporation may, in addition to its principal office in the State of Indiana, establish and maintain an office or offices in such other states and places as the Board of Directors may from time to time find necessary or desirable.

The books, documents, and papers of the Corporation, except as may be otherwise required by the laws of the State of Delaware, may be kept outside of the said State at such places as the Board of Directors may from time to time designate.

ARTICLE III

CAPITAL STOCK

Every stockholder shall be entitled to have a certificate, signed by, or in the name of the Corporation by, the Chairman, the President or a Vice President and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation; provided, however, that any such signature on the certificate may be a facsimile. In case any officer or officers, Transfer Agent or Registrar who shall have signed, or whose facsimile signature or signatures shall have been used on any such certificate or certificates shall cease to be such officer or officers of the Corporation, Transfer Agent or Registrar, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not

ceased to be such officer or officers of the Corporation, Transfer Agent or Registrar. Such certificates shall be transferable on the stock books of the Corporation in person or by attorney, but, except as hereinafter provided in the case of loss, destruction or mutilation of certificates, no transfer of stock shall be entered until the previous certificate, if any, given for the same shall have been surrendered and canceled.

The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

The Board of Directors may make such rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for shares of the capital stock of the Corporation. It may appoint one or more Transfer Agents or one or more Registrars or both, and may require all certificates of stock to bear the signature of either or both.

In order that the Corporation may determine the stockholders entitled to notice of, or to vote at, a meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix in advance a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If in any case involving the determination of stockholders for any purpose other than notice of or voting at a meeting of stockholders the Board shall not fix such a record date, the record date for determining stockholders for such purpose shall be the close of business on the day on which the Board shall adopt the resolution relating thereto. A determination of stockholders entitled to notice of, or to vote at, a meeting of stockholders, shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

In case of loss, destruction or mutilation of any certificate of stock, another may be issued in its place upon proof of such loss, destruction or mutilation and upon the giving to the Corporation of a bond sufficient to indemnify the Corporation, its Transfer Agents and Registrars, against any claim that may be made against it or them on account of the alleged loss or destruction of any such certificate or the issuance of such new certificate; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of the Board of Directors, it is proper so to do.

ARTICLE IV

STOCKHOLDERS' MEETINGS

(a) All meetings of the stockholders shall be held at such place, either within or without the State of Delaware, as the Board of Directors shall determine. The place at which any given meeting shall be held shall be distinctly specified in the notice of such meeting.

(b) The annual meeting of the stockholders of the Corporation, for the election of Directors and for the transaction of such other business as may come before the meeting, shall be held on the second Tuesday in May of each year, at ten o'clock in the morning, unless such day shall fall on a legal holiday, in which event the annual meeting shall be held on the day following. Such date and time of meeting may be changed by action of the Board of Directors.

(c) Special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption)

(d) If the annual meeting of the stockholders is not held as herein prescribed, the election of Directors may be held at any meeting thereafter called pursuant to these By-Laws.

(e) Notice of the annual and of all special meetings of the stockholders shall be given each holder of stock of the Corporation having power to vote at such meeting by depositing in the United States mail a written or printed notice of the same not less than ten nor more than sixty days prior to the meeting, with postage prepaid, to each such stockholder of record of the Corporation and addressed to him at his address as registered upon the books of the Corporation. Except in special cases where other provision is made by statute, no publication of any notice of a meeting of stockholders shall be required. Every notice of a meeting of stockholders shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy except a stockholder who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened. Except where otherwise required by statute for an adjournment exceeding thirty days or if a new record date is fixed for the adjourned meeting, notice of any adjourned meeting of the stockholders of the Corporation shall not be required to be given if the time and place thereof are announced at the meeting which is adjourned.

It shall be the duty of the officer who shall have charge of the stock ledger of the Corporation to prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing their addresses of record and the number of shares held by each. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. In the event that the meeting is to be held at a place other than the Corporation's principal place of business, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

(f) The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of any business except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws. If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat present in person or by proxy shall have power to adjourn the meeting from time to time. At any such adjourned meeting at which the requisite amount of voting stock shall be represented any business may be transacted which might have been transacted at the meeting as originally called.

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy, but no proxy shall be valid after three years from the date of its execution, unless a longer time is expressly provided therein. Without limiting the manner in which a shareholder may authorize another person or persons to act for such shareholder as proxy pursuant to the foregoing sentence, a shareholder may validly grant such authority (i) by executing a writing authorizing another person or persons to act for such stockholder as proxy or (ii) by authorizing another person or persons to act for such stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic submission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or similar agency duly authorized by the person who will be the holder of the proxy to receive the submission, provided that any such telegram, cablegram or other means of electronic submission must either contain or be accompanied by information from which it can be determined that the telegram, cablegram or other electronic submission was transmitted by or authorized by the stockholder, or by any other method allowed under the Delaware General Corporation Law.

(g) Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

(h) At any annual or special meeting of stockholders, persons nominated for election as directors by stockholders and the proposal of business to be considered by the stockholders shall be entertained only if advance notice thereof has been timely given as provided herein and such proposals or nominations are otherwise proper for consideration under applicable law and the Certificate of Incorporation and By-Laws of the Corporation. Notice of any proposal to be presented by any stockholder or of the name of any person to be nominated by any stockholder for election as a director of the Corporation at any meeting of stockholders shall be delivered to the Secretary of the Corporation at its principal executive office not less than 90 nor more than 120 days prior to the date of the meeting; provided, however, that if the date of the meeting is first publicly announced or disclosed (in a public filing or otherwise) less than 100 days prior to the date of the meeting, such advance notice shall be given not more than ten days after such date is first so announced or disclosed. Public notice shall be deemed to have been given more than 100 days in advance of the annual meeting if the Corporation shall have previously disclosed, in these By-Laws or otherwise, that the annual meeting in each year is to be held on a determinable date, unless and until the Board determines to hold the meeting on a different date. Any stockholder who gives notice of any such proposal shall deliver therewith the text of the proposal to be presented and a brief written statement of the reasons why such stockholder favors the proposal and setting forth such stockholder's name and address, the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder and any material interest of such stockholder in the proposal (other than as a stockholder). Any stockholder desiring to nominate any person for election as a director of the Corporation shall deliver with such notice a statement in writing setting forth the name of the person to be nominated, the number and class of all shares of each class of stock of the Corporation beneficially owned by such person, the information regarding such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S—K adopted by the U.S. Securities and Exchange Commission (or the corresponding provisions of any regulation subsequently adopted by the U.S. Securities and Exchange Commission applicable to the Corporation), such person's signed consent to serve as a director of the Corporation if elected, such stockholder's name and address and the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder. As used herein, shares "beneficially owned" shall mean all shares as

to which such person, together with such person's affiliates and associates (as defined in Rule 12b—2 under the Securities Exchange Act of 1934), may be deemed to beneficially own pursuant to Rules 13d—3 and 13d—5 under the Securities Exchange Act of 1934, as well as all shares as to which such person, together with such person's affiliates and associates, has the right to become the beneficial owner pursuant to any agreement or understanding, or upon the exercise of warrants, options or rights to convert or exchange (whether such rights are exercisable immediately or only after the passage of time or the occurrence of conditions). The person presiding at the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall determine whether such notice has been duly given and shall direct that proposals and nominees not be considered if such notice has not been given.

ARTICLE V

BOARD OF DIRECTORS

(a) The management of business and affairs of the Corporation shall be under the direction of a Board of Directors consisting of not less than nine (9) or more than twelve (12) persons, the exact number to be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time of any such resolution is presented to the Board for adoption). Each director who is serving as a director immediately following the annual meeting of stockholders on May 10, 2006 shall hold office until the next annual meeting of stockholders following such date and until his or her successor has been duly elected and qualified, notwithstanding that such director may have been elected for a term that extended beyond the date of such next annual meeting of stockholders. At each annual meeting of the stockholders of the Corporation after the annual meeting of stockholders on May 10, 2006, directors elected at such annual meeting shall hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified.

(b) Any director of the Corporation may resign at any time by giving written notice thereof to the Corporation. Such resignation shall take effect at the time specified therefor, and unless otherwise specified with respect thereto the acceptance of such resignation shall not be necessary to make it effective. Subject to the rights of the holders of the Preferred Stock to elect directors under specified circumstances, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 80 percent of the combined voting power of all of the then outstanding shares of stock of all classes and series of the Corporation entitled to vote generally (the "Voting Stock"), voting together as a single class (it being understood that, for all purposes of these By-Laws, each share of the Preferred Stock shall have the number of votes granted to it pursuant to the Corporation's Certificate of Incorporation or any designation of terms of any class or series of Preferred Stock made pursuant to the Certificate of Incorporation). The Corporation must notify the director of the grounds of his impending removal and the director shall have an opportunity, at the expense of the Corporation, to present his defense to the stockholders by a statement which accompanies or precedes the Corporation's solicitation of proxies to remove him. The term "entire Board" as used in these By-Laws means the total number of directors which the Corporation would have if there were no vacancies.

(c) Newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority

vote of the directors then in office, even though less than a quorum of the Board of Directors, acting at a regular or special meeting. If any applicable provision of the Delaware General Corporation Law expressly confers power on stockholders to fill such a directorship at a special meeting of stockholders, such a directorship may be filled at such a meeting only by the affirmative vote of at least 80 percent of the Voting Stock of the Corporation; provided, however, that when (a) pursuant to the provisions of Article IV of the Certificate of Incorporation the holders of Preferred Stock have the right, and have exercised such right, to elect directors and (b) The Delaware General Corporation Law expressly confers on stockholders voting rights as aforesaid, if the directorship to be filled had been occupied by a director elected by holders of Common Stock, then such directorship shall be filled by an 80 percent vote as aforesaid, but if such directorship to be filled had been elected by holders of Preferred Stock, then such directorship shall be filled by the majority vote of the holders of Preferred Stock. Any director elected in accordance with the two preceding sentences shall hold office until such director's successor shall have been elected and qualified. No decrease in the authorized number of directors constituting the entire Board of Directors shall shorten the term of any incumbent director.

(d) Without prejudice to the general powers conferred by subdivision (a) of this Article, the Board of Directors shall have and exercise each and every power granted to them in Article VI of the Certificate of Incorporation of the Corporation.

(e) Regular meetings of the Board of Directors shall be held at such office or offices, whether within or without the State of Delaware, and at such times as the Board shall from time to time determine.

Special meetings of the Board of Directors may be called at any time by the Chief Executive Officer or the Chairman or, if both are incapacitated or unable to call such meetings, by any member of the Board of Directors. Such meetings may take place in the office of the Corporation in the State of Delaware or in such office or offices as the Directors may establish.

(f) Except as aforesaid, notice of all special meetings of the Board of Directors shall be given to each Director by five days' service of the same by telegram, or telephone or letter or personally. Notice of any special meeting of the Board of Directors shall state the place and hour of the meeting, but need not state the purposes thereof. Notice of any meeting of the Board or of any Committee need not be given to any Director if waived by him in writing, or by telegraph or cable, whether before or after such meeting be held, or if he shall be present at the meeting; and any meeting of the Board of Directors or of any Committee shall be a legal meeting without any notice thereof having been given, if all the members shall be present thereat. Notice of regular meetings of the Board need not be given. In the absence of written instructions from a Director designating some other address, notice shall be sufficiently given if addressed to him at his usual business address.

(g) Except as provided in clause (c) of this Article, a majority of the total number of Directors shall constitute a quorum for the transaction of business at all meetings of the Board of Directors; but less than a quorum may adjourn the meeting.

(h) Each Director of the Corporation shall be entitled to receive such fixed sum per meeting of the Board of Directors attended, or such annual sum, or both, as the Board shall from time to time determine, together with his expenses of attendance at such meeting.

(I) The Board of Directors may from time to time, but in no event less frequently than annually, elect from among its members a Chairman of the Board. The Chairman shall, if present, preside at all meetings of the stockholders and at all meetings of the Board of Directors. If the Chairman is not present, the Lead Director shall preside at all meetings of the stockholders and the Board of Directors. The Chairman shall have such other responsibilities, and shall perform such duties, as may from time to time be assigned to him or her by the Board of Directors.

(j) The Chairman shall be responsible, in consultation with the Chief Executive Officer, for setting an agenda for each meeting of the Board of Directors.

ARTICLE VI

COMMITTEES

(a) The Board of Directors may from time to time, in its discretion, by resolution passed by a majority of the Board, designate, and appoint, from the directors committees of one or more persons which shall have and may exercise such lawfully delegable powers and duties conferred or authorized by the resolutions of designation and appointment. The Board of Directors shall have power at any time to change the members of any such committee, to fill vacancies, and to discharge any such committee.

(b) Unless the Board of Directors shall provide otherwise, the presence of one-half of the total membership of any committee of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of such committee and the act of a majority of those present shall be necessary and sufficient for the taking of any action thereat.

ARTICLE VII

OFFICERS

(a) The officers of the Corporation shall be the Chief Executive Officer, the President, the Presidents of the Corporation's Business Segments, one or more Vice Presidents, the Secretary, and the Treasurer, who shall be elected by the Board of Directors, and may include the Controller, such additional Assistant Secretaries, Assistant Treasurers, and special subordinate officers as may from time to time be elected or appointed by the Board of Directors or appointed by the Chief Executive Officer.

Any two of the above offices may be held by the same person except those of President and Secretary.

The Chief Executive Officer or an officer designated by the Chief Executive Officer shall make a report on the state of the business of the Corporation at each annual meeting of stockholders.

All of the officers of the Corporation shall hold office for one year and until others are elected or appointed and qualified in their stead, unless in the election or appointment of the officer it shall be specified that he holds his office for a shorter period or subject to the pleasure of the Board of Directors or the Chief Executive Officer.

All vacancies in such offices by resignation, death or otherwise may be filled by the Board of Directors. In the case of absence or inability to act of any officer of the Corporation, and of any person herein authorized to act in his place, the Board of Directors may from time to time delegate the powers or duties of such officer to any other officer or any Director or other person whom they may select.

(b) The Chief Executive Officer shall have general and active supervision and direction over the business and affairs of the Corporation and over its several officers; subject, however, to the control of the Board of Directors. The Chief Executive Officer shall see that all orders and resolutions of the Board of Directors are carried into effect. The Chief Executive Officer shall perform such other duties as from time to time may be assigned by the Board of Directors.

(c) The President, the Presidents of the Corporation's Business Segments and the Vice Presidents shall perform such duties as the Chief Executive Officer or the Board of Directors shall, from time to time, require.

(f) The Treasurer shall have charge and be responsible for keeping full and accurate accounts of receipts and disbursements in books belonging to the Corporation, depositing all moneys and other valuables in the name and to the credit of the Corporation, in such depositaries as may be directed by the Board of Directors, disbursing the funds of the Corporation as may be ordered by the Board of Directors or the Chief Executive Officer taking proper vouchers therefor and rendering to the Chief Executive Officer and the Directors whenever they may require it an account of all his transactions as Treasurer and of the financial condition of the Corporation.

The Treasurer shall also perform such other duties as the Board of Directors may from time to time require. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in a form and in a sum with surety satisfactory to the Board of Directors for the faithful performance of the duties of the office of Treasurer and the restoration to the Corporation in the case of the officer's death, resignation or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the officer's possession belonging to the Corporation.

At the request of the Treasurer, or in the Treasurer's absence or inability to act, the Assistant Treasurer or, if there be more than one, the Assistant Treasurer designated by the Treasurer, shall perform the duties of the Treasurer and when so acting shall have the powers of and be subject to all the restrictions of the Treasurer. The Assistant Treasurers shall perform such other duties as may from time to time be assigned to them by the Chief Executive Officer, the Treasurer or the Board of Directors.

(g) The Secretary shall attend all meetings of the Board of Directors and of the stockholders and act as Clerk thereof and record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for the standing committees when required.

The Secretary shall keep in safe custody the seal of the Corporation and, whenever authorized by the Board, affix the seal to any instrument requiring the same.

The Secretary shall see that proper notice is given of all meetings of the stockholders of the Corporation and of the Board of Directors and shall perform such other duties as may be prescribed from time to time by the Board of Directors or the Chief Executive Officer.

At the request of the Secretary, or in the Secretary's absence or inability to act, the Assistant Secretary or, if there be more than one, the Assistant Secretary designated by the Secretary, shall perform the duties of the Secretary and when so acting shall have all the powers of and be subject to all the restrictions of the Secretary. The Assistant Secretaries shall perform such other duties as may from time to time be assigned to them by the Chief Executive Officer, the Secretary or the Board of Directors.

(h) Any officer of the Corporation may be removed, either with or without cause, at any time, by resolution adopted by the Board of Directors at a regular meeting or at a special meeting of the Board called for that purpose, by any Committee upon whom such power of removal may be conferred by the Board of Directors or by a superior officer upon whom such power of removal may be conferred by the Board of Directors.

ARTICLE VIII

CONTRACTS, CHECKS, NOTES, ETC.

(a) All contracts and agreements authorized by the Board of Directors shall, unless otherwise directed by the Board of Directors, or unless otherwise required by law, be signed by any one of the following officers: the Chief Executive Officer, the President, any President of a Business Segment, any Vice President, the Treasurer, the Secretary, any Assistant Treasurer or any Assistant Secretary, any other person authorized by a resolution of the Board of Directors, and any other person authorized by the Chief Executive Officer, as evidenced by a written instrument of delegation. Any such authorization by the Board of Directors or the Chief Executive Officer shall remain in effect until rescinded by action of the Board of Directors or (in the case of a delegation by the Chief Executive Officer) by the Chief Executive Officer and, where it identifies the authorized signatory by office rather than by name, shall not be rescinded solely by virtue of a change in the person holding that office or a temporary vacancy in that office. All checks, drafts, notes, bonds, bills of exchange and orders for the payment of money (including orders for repetitive or non—repetitive electronic funds transfers) may be signed by any one of the Chief Executive Officer, the President, any President of a Business Segment, any Vice President, the Treasurer, any Assistant Treasurer or the Controller or in such manner as shall from time to time be determined by resolution of the Board of Directors. Further, the Treasurer is authorized to designate to the Corporation's banks, in writing, individuals employed in the NiSource Corporate Services Company, who need not be officers or employees of the Corporation, to give in the name of the Corporation telephonic, telegraphic, or electronic transfer instructions for the payment of money, which may, with respect to routine items, include instructions as to the amount to be transferred, to any bank, pursuant to previously issued written orders, signed by officers of the Corporation in any manner provided above, which designate the recipients of such amounts and which identify what shall be treated as routine items.

(b) Anything in subdivision (a) of this Article VIII to the contrary notwithstanding, the officers of this Corporation may open in the name of the Corporation special accounts appropriately designated in which shall be deposited funds of the Corporation transferred from the Corporation's other accounts by its checks signed in accordance with the requirements of subdivision (a) of this Article VIII, but from which special accounts funds may be disbursed by

check, draft, or other instrument of the Corporation designated as drawn against such special account and signed by the single signature of any one of the executive officers of the Corporation authorized by subdivision (a) of this Article VIII to sign checks, drafts and other instruments of the Corporation or signed by the single signature of any other person expressly authorized by the Board to sign checks, drafts and other instruments disbursing funds from such special accounts.

(c) Anything in subdivision (a) of this Article VIII to the contrary notwithstanding, (i) bonds, notes, debentures and other evidence of indebtedness of the Corporation issued under an indenture may be executed in the name of the Corporation by the facsimile signature, printed, engraved or otherwise used thereon, of the Chief Executive Officer, the President, any President of a Business Segment, any Vice President, the Treasurer or any Assistant Treasurer of the Corporation, and the corporate seal affixed thereto or impressed, printed, engraved or otherwise reproduced thereon may be attested by the facsimile signature of the Secretary or an Assistant Secretary of the Corporation, provided that the indenture require the same to be authenticated by the trustee under such indenture, and (ii) interest coupons attached to any such bond, note, debenture or other evidence of indebtedness may be executed on behalf of the Corporation by the facsimile signature of the Treasurer or any Assistant Treasurer of the Corporation.

ARTICLE IX

FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of January in each year.

ARTICLE X

AMENDMENT OF BY LAWS

These By-Laws may be amended, added to, rescinded or repealed at any meeting of the Board of Directors or of the stockholders, provided notice of the proposed change was given in the notice of the meeting or, in the case of a meeting of the Board of Directors, in a notice given not less than two days prior to the meeting; provided, however, that, notwithstanding any other provisions of these By-Laws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the Voting Stock required by law, the Certificate of Incorporation, any class or series of Preferred Stock or these By-Laws, the affirmative vote of at least 80 percent of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such alteration, amendment or repeal is presented to the Board for adoption), shall be required to alter, amend or repeal Article IV (c) , IV (g) , V (a) , V (b), V (c) , and V (g) of these By-Laws or this proviso to this Article X of these By-Laws.

Exhibit 99.1

NEWS

NiSource

801 E. 86th Avenue
Merrillville, IN 46410

FOR IMMEDIATE RELEASE
May 10, 2006

FOR ADDITIONAL INFORMATION

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NiSource president and CEO discusses continuing progress on growth strategy at Annual Stockholders Meeting

HOUSTON, Texas — NiSource Inc. (NYSE:NI) today held its annual meeting of stockholders in Houston, Texas, which serves as the headquarters for the corporation's subsidiary, Columbia Gulf Transmission, and base for its natural gas transmission and storage commercial team. President and Chief Executive Officer Robert C. Skaggs, Jr. spoke to stockholders about the company's four-point platform for long-term, balanced growth.

"Our Four-Point Platform for Growth has now been in place for more than a year and is on target for delivering long-term, sustainable growth," Skaggs said. He explained the plan's key components:

- Expansion and commercial growth in the natural gas transmission and storage business;
- Commercial and regulatory initiatives;
- Financial management; and
- Process and expense management.

Skaggs further defined the company's strategy by focusing on the opportunities and successes NiSource has realized within each of the four areas this past year, including:

- more-

NiSource Annual Stockholders Meeting
Page 2

- Maximizing the value of the company's existing natural gas transmission and storage assets through commercial optimization of the system and disciplined investments in expansion projects. Projects currently in development include the Hardy Storage Project, Millennium Pipeline and the Eastern Market Expansion. Skaggs also noted progress on a number of other pipeline and storage projects across its system.
- Commercial and regulatory initiatives, including: robust asset optimization programs; strong margin expansion efforts; contributions from the recent Bay State Gas rate case; a renewed Customer Choice pilot program at Columbia Gas of Kentucky; a new Northern Indiana Alternative Regulatory Plan (ARP) Program effective through April 2010; and a variety of long-term initiatives underway.
- The refinancing of $2.4 billion in long-term debt in 2005, resulting in $43 million in annual interest savings.
- Aggressive and continuing cost management across the company, disciplined capital spending programs, and additional process and expense management gains derived from the 10-year outsourcing of business process and support services to IBM.

"NiSource is well positioned to meet our 2006 objectives and continue to build for the future," added Skaggs. "Our recent results show that we can deliver; that we're on track with the right plan and the right team. We are committed to doing what it takes to enhance long-term shareholder value."

During the meeting, stockholders voted in favor of a Charter Amendment Proposal to declassify board members, which the company will adopt. As a result, the annual election of all directors will begin with the 2007 annual stockholder meeting, with the terms for all current directors ending on the date of the 2007 annual meeting. Going forward, stockholders will have the ability to evaluate and elect directors on an annual basis.

In addition, stockholders voted in favor of a proposal to elect directors by majority vote. Stockholder proposals, by their nature, are advisory and not binding on the corporation, and any such changes would require a charter or by-law amendment to become effective.

Stockholders also voted to elect Gary L. Neale, Robert J. Welsh and Roger A. Young, as directors of the company. Due to the simultaneous adoption of the Charter Amendment Proposal, as voted on by the stockholders, these directors' terms will end on the date of the 2007 annual stockholders' meeting. Finally, stockholders voted in favor of the ratification of the appointment of Deloitte and Touche LLP as the company's independent public accountants for 2006.

About NiSource

NiSource Inc. (NYSE: NI), based in Merrillville, Ind., is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.8 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Information about NiSource and its subsidiaries is available via the Internet at www.nisource.com.

- more-

NiSource Annual Stockholders Meeting
Page 3

Forward-Looking Statements

This news release includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-16189

NiSource Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 272,665,100 shares outstanding at April 28, 2006.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2006

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302 Certification of Chief Executive Officer
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DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

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

Abbreviations

APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
APB No. 28	Accounting Principles Board Opinion No. 28, "Interim Financial Reporting"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
Day 1	Began October 1, 2003 and refers to Northern Indiana turning over operational control of the interchange facilities and its own transmission assets like many other Midwestern electric utilities to MISO
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and transmission service, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DOT	United States Department of Transportation

ECRM Environmental Cost Recovery Mechanism

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DEFINED TERMS (continued)

EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPCA	Electric Power Cost Adjustment
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 18	FASB Interpretation No. 18, "Accounting for Income Taxes In Interim Periods (An Interpretation of APB Opinion No. 28)"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OPSB	Ohio Power Siting Board
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PPS	Price Protection Service
PRB	Powder River Basin
PUCO	Public Utilities Commission of Ohio
RAM	Retainage Adjustment Mechanism
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 88	Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"
SFAS No. 106	Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"
SFAS No. 109	Statement of Financial Accounting Standards No. 109, "Accounting for Uncertain Tax Positions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"

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DEFINED TERMS (continued)

SFAS No. 132R	Statement of Financial Accounting Standards No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits — An Amendment of FASB Statements No. 87, 88, and 10"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 154	Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections"
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VSCC	Commonwealth of Virginia State Corporate Commission

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PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

Three Months Ended March 31, *(in millions,* except per share amounts *)*	2006	2005
Net Revenues		
Gas Distribution	**$1,998.2**	$1,828.3
Gas Transportation and Storage	**320.6**	328.9
Electric	**305.7**	282.6
Other	**348.3**	243.5
Gross Revenues	**2,972.8**	2,683.3
Cost of Sales	**1,991.7**	1,670.3
Total Net Revenues	**981.1**	1,013.0
Operating Expenses		
Operation and maintenance	**372.9**	337.6
Depreciation and amortization	**136.9**	135.1
Impairment and gain on sale of assets	**(0.2)**	(0.5)
Other taxes	**103.0**	103.1
Total Operating Expenses	**612.6**	575.3
Operating Income	**368.5**	437.7
Other Income (Deductions)		
Interest expense, net	**(95.8)**	(104.0)
Dividend requirements on preferred stock of subsidiaries	**(1.0)**	(1.1)
Other, net	**(3.4)**	(0.5)
Total Other Income (Deductions)	**(100.2)**	(105.6)
Income From Continuing Operations Before Income Taxes	**268.3**	332.1
Income Taxes	**96.5**	123.4
Income From Continuing Operations	**171.8**	208.7
Loss from Discontinued Operations — net of taxes	**(0.3)**	(2.2)
Gain (Loss) on Disposition of Discontinued Operations — net of taxes	**1.0**	(0.2)
Change in Accounting — net of taxes	**0.4**	—
Net Income	**$ 172.9**	$ 206.3
Basic Earnings (Loss) Per Share ($)		
Continuing operations	**0.63**	0.77
Discontinued operations	**—**	(0.01)
Basic Earnings Per Share	**0.63**	0.76
Diluted Earnings (Loss) Per Share ($)		
Continuing operations	**0.63**	0.77
Discontinued operations	**—**	(0.01)
Diluted Earnings Per Share	**0.63**	0.76
Dividends Declared Per Common Share ($)	**0.23**	0.23
Basic Average Common Shares Outstanding (millions)	**272.3**	270.3
Diluted Average Common Shares (millions)	**273.1**	272.1

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets (unaudited)

(in millions)	**March 31, 2006**	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$16,745.9**	$ 16,684.4
Accumulated depreciation and amortization	**(7,637.2)**	(7,556.8)
Net utility plant	**9,108.7**	9,127.6
Other property, at cost, less accumulated depreciation	**388.5**	426.7
Net Property, Plant and Equipment	**9,497.2**	9,554.3
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**49.7**	34.6
Unconsolidated affiliates	**72.5**	75.0
Other investments	**101.4**	114.2
Total Investments	**223.6**	223.8
Current Assets		
Cash and cash equivalents	**83.4**	69.4
Restricted cash	**57.9**	33.9
Accounts receivable (less reserve of $75.8 and $67.9, respectively)	**1,161.8**	1,254.6
Gas inventory	**165.0**	526.9
Underrecovered gas and fuel costs	**190.8**	421.8
Materials and supplies, at average cost	**73.7**	72.0
Electric production fuel, at average cost	**44.8**	24.9
Price risk management assets	**136.6**	183.1
Exchange gas receivable	**516.7**	169.8
Regulatory assets	**213.1**	195.0
Prepayments and other	**99.3**	109.3
Total Current Assets	**2,743.1**	3,060.7
Other Assets		
Price risk management assets	**137.7**	192.9
Regulatory assets	**611.6**	586.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**492.7**	495.8
Deferred charges and other	**178.4**	167.4
Total Other Assets	**5,097.7**	5,119.7
Total Assets	**$17,561.6**	$ 17,958.5

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	March 31, 2006	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock — $0.01 par value, 400,000,000 shares authorized; 272,636,673 and 272,622,905 shares issued and outstanding, respectively	**$ 2.7**	$ 2.7
Additional paid-in-capital, net of deferred stock compensation	**3,970.6**	3,969.4
Retained earnings	**1,029.1**	981.6
Accumulated other comprehensive loss and other common stock equity	**(77.9)**	(20.7)
Total common stock equity	**4,924.5**	4,933.0
Preferred stocks—Series without mandatory redemption provisions	**81.1**	81.1
Long-term debt, excluding amounts due within one year	**5,229.6**	5,271.2
Total Capitalization	**10,235.2**	10,285.3
Current Liabilities		
Current portion of long-term debt	**442.7**	440.7
Short-term borrowings	**379.2**	898.0
Accounts payable	**538.7**	866.7
Dividends declared on common and preferred stocks	**63.8**	1.1
Customer deposits	**104.6**	101.9
Taxes accrued	**381.0**	217.5
Interest accrued	**105.3**	86.2
Overrecovered gas and fuel costs	**114.6**	25.8
Price risk management liabilities	**85.7**	72.3
Exchange gas payable	**660.1**	425.2
Deferred revenue	**35.1**	51.3
Regulatory liabilities	**37.3**	46.3
Accrued liability for postretirement and postemployment benefits	**61.1**	61.1
Other accruals	**499.5**	549.1
Total Current Liabilities	**3,508.7**	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**46.9**	22.2
Deferred income taxes	**1,542.7**	1,591.9
Deferred investment tax credits	**67.9**	69.9
Deferred credits	**83.4**	81.1
Deferred revenue	**50.7**	60.4
Accrued liability for postretirement and postemployment benefits	**501.2**	511.0
Regulatory liabilities	**1,224.9**	1,196.2
Asset retirement obligations	**121.6**	119.8
Other noncurrent liabilities	**178.4**	177.5
Total Other Liabilities and Deferred Credits	**3,817.7**	3,830.0
Commitments and Contingencies	**—**	—
Total Capitalization and Liabilities	**$17,561.6**	$ 17,958.5

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statement of Consolidated Cash Flow (unaudited)

Three Months Ended March 31, *(in millions)*	2006	2005
Operating Activities		
Net income	**$ 172.9**	$ 206.3
Adjustments to reconcile net income to net cash from continuing operations:		
Depreciation and amortization	**136.9**	135.1
Net changes in price risk management assets and liabilities	**10.2**	(31.2)
Deferred income taxes and investment tax credits	**(40.5)**	(29.8)
Deferred revenue	**(26.0)**	(8.6)
Stock compensation expense	**1.3**	1.5
Gain on sale of assets	**(2.7)**	(0.5)
Loss on impairment of assets	**2.5**	—
Cumulative effect of change in accounting principle, net of taxes	**(0.4)**	—
Income from unconsolidated affiliates	**(1.0)**	(2.0)
Loss (gain) on sale of discontinued operations	**(1.0)**	0.2
Loss from discontinued operations	**0.3**	2.2
Amortization of discount/premium on debt	**2.0**	4.8
Other adjustments	**(1.6)**	0.2
Changes in assets and liabilities:		
Accounts receivable	**110.2**	0.1
Inventories	**442.1**	615.5
Accounts payable	**(340.6)**	(141.4)
Customer deposits	**2.7**	3.1
Taxes accrued	**151.6**	218.0
Interest accrued	**19.1**	61.7
(Under) Overrecovered gas and fuel costs	**319.7**	139.4
Exchange gas receivable/payable	**(126.0)**	(80.7)
Other accruals	**(80.1)**	(102.9)
Prepayments and other current assets	**9.9**	11.4
Regulatory assets/liabilities	**(19.1)**	(4.1)
Postretirement and postemployment benefits	**(6.0)**	8.9
Deferred credits	**2.3**	(10.7)
Deferred charges and other noncurrent assets	**(5.2)**	1.4
Other noncurrent liabilities	**(7.3)**	(2.6)
Net Operating Activities from Continuing Operations	**726.2**	995.3
Net Operating Activities from Discontinued Operations	**0.1**	0.1
Net Cash Flows from Operating Activities	**726.3**	995.4
Investing Activities		
Capital expenditures	**(121.6)**	(104.1)
Proceeds from disposition of assets	**3.9**	5.8
Restricted cash	**(21.8)**	26.2
Other investing activities	**14.0**	(11.9)
Net Cash Flows used for Investing Activities	**(125.5)**	(84.0)
Financing Activities		
Issuance of long-term debt	**0.1**	—
Retirement of long-term debt	**(0.5)**	(0.3)
Change in short-term debt	**(518.8)**	(307.6)
Issuance of common stock	**1.0**	18.7
Acquisition of treasury stock	**(5.9)**	(1.4)
Dividends paid — common shares	**(62.7)**	(62.3)
Net Cash Flows used for Financing Activities	**(586.8)**	(352.9)
Increase in cash and cash equivalents	**14.0**	558.5
Cash and cash equivalents at beginning of year	**69.4**	29.5
Cash and cash equivalents at end of period	**$ 83.4**	$ 588.0

Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 76.3**	$ 36.4
Interest capitalized	**1.6**	(0.2)
Cash paid (refunded) for income taxes	**4.2**	(25.3)

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Comprehensive Income (unaudited)

Three Months Ended March 31, *(in millions, net of taxes)*	**2006**	2005
Net Income	**$ 172.9**	$ 206.3
Other comprehensive income (loss)		
Net unrealized gains (losses) on cash flow hedges	**(51.0)**	54.4
Net gain (loss) on available for sale securities	**(0.3)**	1.5
Total other comprehensive income (loss)	**(51.3)**	55.9
Total Comprehensive Income	**$ 121.6**	$ 262.2

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. In the Statements of Consolidated Cash Flows for the three months ended March 31, 2005, the classification of the activity in restricted cash balances has been reclassified to an investing activity. NiSource previously presented such changes as an operating activity. For the three months ended March 31, 2005, this resulted in a $26.2 million increase to investing cash flows and a corresponding decrease to operating cash flows from the amounts previously reported.

2. Recent Accounting Pronouncements

SFAS No. 123 (revised 2004) — Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of March 31, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $8.2 million, which will be amortized over the weighted-average remaining requisite service period of 2.8 years. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation in the first quarter of 2005.

(in millions, except per share data)	March 31, 2005
Net Income	
As reported	$ 206.3
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1.0
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	7.2
Pro forma	$ 200.1
Earnings per share ($)	
Basic — as reported	0.76
— pro forma	0.74
Diluted — as reported	0.76
— pro forma	0.74

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

SFAS No. 154 — Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

Accounting for Uncertain Tax Positions. On July 14, 2005, the FASB issued an Exposure Draft, "Accounting for Uncertain Tax Positions," an interpretation of SFAS No. 109. This proposal seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, the proposal would require that a tax position meet a "probable recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements. The proposal would require recognition in the financial statements of the best estimate of the effects of a tax position only if that position is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of the Exposure Draft to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. FASB has not yet issued a final statement.

3. Stock Options and Awards

Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123.

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

At the annual meeting of stockholders held on May 10, 2005, NiSource's stockholders approved proposed amendments to the 1994 Plan. The amendments (i) increased the maximum number of shares of NiSource common stock that may be subject to awards from 21 million to 43 million and (ii) extended the period during which awards could be granted to May 10, 2015 and extended the term of the plan until all the awards have been satisfied by either issuance of stock or the payment of cash. At March 31, 2006, there were 26,019,910 shares reserved for future awards under the amended and restated 1994 Plan.

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, awards may vest upon death, disability, or upon a change of control or retirement. There were 10,000 restricted shares outstanding at March 31, 2006, which were not a part of the time accelerated restricted stock award plan described below.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. These awards of restricted stock or restricted stock units generally vest over a period of six years or, in the case of restricted stock units at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. At March 31, 2006, NiSource had 820,542 awards outstanding which contain the time-accelerated provisions. The total shareholder return measures established for the 2003 awards were not met as of December 31, 2005, therefore these grants will not have an accelerated vesting period. The measures for the 2004 awards were not met as of March 31, 2006.

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

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the Board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age seventy, death or disability, any shares of common stock not vested as of the date of termination are forfeited. As of March 31, 2006, 89,860 restricted shares and 98,603 restricted stock units had been issued under the Plan.

Option grants are granted with an exercise price equal to the average of the high and low market price on the day of the grant. Stock option transactions for the first quarter ended March 31, 2006, were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2006	**9,948,383**	**22.59**
Granted	—	**N/A**
Exercised	**(38,250)**	**20.22**
Cancelled	**(503,587)**	**23.76**
Outstanding at March 31, 2006	**9,406,546**	**22.54**
Exercisable at March 31, 2006	**9,377,975**	**22.54**

The following table summarizes information on stock options outstanding and exercisable at March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
17.53 - 20.45	1,480,993	19.56	5.8	1,480,993	19.56
20.46 - 23.38	5,790,917	22.09	7.1	5,762,346	22.09
23.39 - 26.30	1,797,886	25.18	4.3	1,797,886	25.18
26.31 - 29.22	336,750	29.22	2.2	336,750	29.22
	9,406,546	22.54	6.2	9,377,975	22.54

There were no stock appreciation rights outstanding at March 31, 2006.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

No options were granted during the first three months ended March 31, 2006. The fair value of each option granted during the first quarter ended March 31, 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.1%. The weighted average fair value of the options granted during the first quarter of 2005 was $3.34. The following assumptions were used:

	March 31, 2005
Expected Life (yrs.)	**4.2**
Interest Rate	**3.5-3.6%**
Volatility	**22.6%**

NiSource recognized compensation cost of $1.3 million and $1.5 million in the first quarter of 2006 and 2005, respectively, as well as related tax benefits of $0.5 million and $0.5 million, respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of March 31, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $8.2 million, which will be amortized over the weighted-average remaining requisite service period of 2.8 years.

4. Income Taxes

For the three months ended March 31, 2006 and 2005, NiSource's provision for income taxes was calculated in accordance with APB No. 28 and FIN 18. Accordingly, the interim effective tax rate reflects the estimated annual effective tax rate for 2006 and 2005, respectively, adjusted for tax expense associated with certain discrete items recorded during the quarter. The effective tax rate differs from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other permanent book/tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

5. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

Three Months Ended March 31, *(in thousands)*	2006	2005
Denominator		
Basic average common shares outstanding	**272,342**	270,327
Dilutive potential common shares		
Nonqualified stock options	**50**	319
Shares contingently issuable under employee stock plans	**572**	885
Shares restricted under employee stock plans	**119**	601
Diluted Average Common Shares	**273,083**	272,132

6. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. As of March 31, 2006, 821 employees were terminated as a result of the agreement with IBM, of which 554 became employees of IBM. During the first quarter of 2006, 142 employees were terminated and 10 became employees of IBM.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

In the fourth quarter of 2005, NiSource announced a plan to reduce its executive ranks by approximately 15% to 20% of the top-level executive group. In part, this reduction will come through anticipated attrition and consolidation of basic positions. As of March 31, 2006, the employment of 5 employees terminated as a result of the executive initiative, all of which occurred in the first quarter of 2006.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of March 31, 2006, approximately 1,565 employees were terminated, of whom zero employees were terminated during the first quarter of 2006.

Adjustments to the restructuring liability were recorded mainly for adjustments in estimated expenses related to previous restructuring initiatives. Adjustments in the estimated liability are reflected in "Operation and Maintenance" expense. Of the $9.2 million remaining restructuring liability from the Columbia merger and related initiatives, $8.7 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2005	Benefits Paid	Adjustments	Balance at March 31, 2006
Outsourcing initiative	$ 11.5	$ (4.7)	$ (1.3)	$ 5.5
Executive initiative	2.9	(0.9)	—	2.0
Columbia merger and related initiatives	10.1	(0.9)	—	9.2
Total	$ 24.5	$ (6.5)	$ (1.3)	$ 16.7

7. Discontinued Operations and Assets Held for Sale

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $49.7 million and $34.6 million at March 31, 2006 and December 31, 2005, respectively.

NiSource Corporate Services is in the process of selling its Marble Cliff facility. An impairment loss of $2.5 million was recognized in the first quarter of 2006 due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility, valued at $12.7 million as of March 31, 2006 after impairment, as assets held for sale.

NiSource Development Company is in the process of selling its Northern Indiana headquarters facility. NiSource has accounted for this facility, with a net book value of $1.8 million as of March 31, 2006, as assets held for sale.

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

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $11.9 million as of March 31, 2006, are

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.7 million, as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from the golf course assets of Lake Erie Land and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

Three Months Ended March 31, *(in millions)*	2006	2005
Revenues from Discontinued Operations	**$ 0.9**	$ 1.0
Loss from discontinued operations	**(0.5)**	(3.8)
Income tax benefit	**(0.2)**	(1.6)
Net Loss from Discontinued Operations	**$ (0.3)**	$ (2.2)

8. Regulatory Matters

Gas Distribution Operations Related Matters

Gas Distribution Operations continues to offer CHOICE ® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of March 2006, approximately 693 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On June 1, 2005, the PUCO approved Columbia of Ohio's application to decrease its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $26.3 million for the twelve months ended March 31, 2006, reflecting a reduction of $11.4 million of uncollected accounts receivable pending future recovery. As of March 31, 2006, Columbia of Ohio has $38.9 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the forty-five day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

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

In accordance with the IURC's 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved the rates on an interim basis subject to refund on November 22, 2005. A final order approving this filing is expected in the second quarter of 2006.

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

Electric Operations Related Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $10.7 million and $14.4 million were recognized for electric customers for the first quarter of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. These particular charges, which amounted to $8.7 million in 2005, and $1.6 million for the first three months of 2006, were included as recoverable in Northern Indiana's FAC-68, FAC-69 and FAC-70 filings, but, pending a clarifying order from the IURC, Northern Indiana has provided a reserve for the full amount. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana's FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $0.5 million for the first three months of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $1.2 million for the first quarter of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all

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ITEM 1. FINANCIAL STATEMENTS (continued)

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non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

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

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

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

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

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

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

Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

charges under consideration in cause 42962 as described above. The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 as described above. The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $6.9 million for the three months ended March 31, 2006, and $58.6 million from inception to date, while EERM revenues were $2.3 million for the first quarter of 2006 and $11.1 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter's motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. No hearing dates have been set.

9. Risk Management and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments to manage certain risks in its business. NiSource accounts for its derivatives under SFAS No. 133.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Hedging Activities. The activity for the first quarter of 2006 and 2005 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

Three Months Ended March 31, *(in millions, net of taxes)*	2006	2005
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 150.7**	$ 93.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(51.7)**	52.6
Reclassification adjustment for net gain included in net income	**0.7**	1.8
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 99.7**	$ 148.1

Unrealized gains and losses on NiSource's hedges were recorded as price risk management assets and liabilities along with unrealized gains and losses on NiSource's trading portfolio. The accompanying Consolidated Balance Sheets include price risk management assets related to unrealized gains and losses on hedges of $266.3 million and $338.1 million at March 31, 2006 and December 31, 2005, respectively, of which $129.9 million and $152.6 million were included in "Current Assets," and $136.4 million and $185.5 million were included in "Other Assets." Price risk management liabilities related to unrealized gains and losses on hedges (including net option premiums) were $121.8 million and $85.6 million at March 31, 2006 and December 31, 2005, respectively, of which $74.9 million and $63.4 million were included in "Current Liabilities," and $46.9 million and $22.2 million were included in "Other Liabilities and Deferred Credits."

During the first quarter of 2006 and 2005, zero and a loss of $0.1 million, net of taxes respectively, was recognized in earnings due to the change in value of certain derivative instruments primarily representing time value. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the first quarter of 2006 and 2005, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income recognition of amounts currently classified in other comprehensive income of approximately $38.3 million, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives. The Consolidated Balance Sheets reflected $6.1 million and $35.7 million of price risk management assets associated with these programs at March 31, 2006 and December 31, 2005, respectively. In addition, the Consolidated Balance Sheets reflected $6.3 million and zero of price risk management liabilities associated with these programs at March 31, 2006 and December 31, 2005, respectively.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. The Consolidated Balance Sheets reflected $0.8 million and $1.8 million of price risk management assets and $3.8 million and $2.5 million of price risk management liabilities associated with these programs at March 31, 2006 and December 31, 2005, respectively.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that match the anticipated delivery needs of the program. These derivatives are presently designated as cash flow hedges. The Consolidated Balance Sheets reflected zero and $1.6 million of price risk management assets and $0.3 million and zero of price risk management liabilities at March 31, 2006 and December 31, 2005, respectively, associated with the DependaBill program.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect Northern Indiana against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. The Consolidated Balance Sheets reflected $1.2 million and $2.2 million of price risk management assets and zero and $0.4 million of price risk management liabilities associated with this program at March 31, 2006 and December 31, 2005, respectively.

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

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, Columbia of Virginia and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings. The Consolidated Balance Sheets reflected $0.7 million and zero of price risk management assets and $4.5 million and $8.5 million of price risk management liabilities associated with the programs at March 31, 2006 and December 31, 2005, respectively.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These swaps are designated as cash flow hedges of the anticipated purchases. The Consolidated Balance Sheets reflected $205.0 million and $266.7 million of price risk management assets associated with this program at March 31, 2006 and December 31, 2005, respectively.

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

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

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

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

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. As of March 31, 2006, all power trading contracts were settled. TPC may enter into power derivative contracts in the future to manage price risk associated with operating Whiting Clean Energy, which may not qualify for hedge treatment as determined by SFAS No. 133.

In April 2003, the remaining gas-related activities (physical commodity sales to commercial and industrial customers) that had been classified as derivatives were considered to fall within the normal purchase and sale exception under SFAS No. 133. Therefore, all gas-related derivatives used to offset the physical obligations necessary to fulfill these commodity sales were designated as cash flow hedges. The Consolidated Balance Sheets reflected $60.5 million and $68.0 million of price risk management assets and $79.2 million and $70.9 million of price risk management liabilities associated with this program at March 31, 2006 and December 31, 2005, respectively.

The fair market values of NiSource's power trading assets and liabilities were zero at March 31, 2006 and December 31, 2005.

10. Goodwill Assets

NiSource's goodwill assets at March 31, 2006 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at March 31, 2006 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

NiSource will perform its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas in the quarter ended June 30, 2006. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

11. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. NiSource expects to make contributions of $7.1 million to its pension plans and $54.2 million to its other postretirement benefit plans in 2006.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

The following table provides the components of the plans' net periodic benefits cost for the first quarter of 2006 and 2005:

	Pension Benefits		Other Benefits	
Three Months Ended March 31, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 10.7**	$ 10.4	**$ 2.3**	$ 2.3
Interest cost	**31.2**	32.0	**10.1**	10.4
Expected return on assets	**(43.9)**	(41.1)	**(4.6)**	(4.0)
Amortization of transitional obligation	**—**	—	**2.0**	2.4
Amortization of prior service cost	**1.5**	2.6	**0.1**	0.2
Recognized actuarial loss	**4.6**	4.3	**1.6**	0.9
Settlement loss	**—**	0.3	**—**	—
Net Periodic Benefits Cost	**$ 4.1**	$ 8.5	**$ 11.5**	$ 12.2

12. Asset Retirement Obligations

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

Changes in NiSource's liability for asset retirement obligations for the first quarter of 2006 are presented in the table below:

Three Months Ended March 31, *(in millions)*	**2006**
Beginning Balance	**$ 119.8**
Accretion	**1.8**
Ending Balance	**$ 121.6**

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

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143 and FIN 47. The amount of the other costs of removal reflected as a component of NiSource's accumulated depreciation and amortization was approximately $1.2 billion and $1.1 billion at March 31, 2006 and December 31, 2005, respectively, based on rates for estimated removal costs embedded in composite depreciation

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

rates. Upon the adoption of SFAS No. 143 on January 31, 2003, NiSource reclassified its cost of removal from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the three months ended March 31, 2006, NiSource accrued $1.8 million of accretion, of which $0.3 million was expensed and $1.5 million was recorded as a regulatory asset. For the three months ended March 31, 2005, NiSource accrued $0.1 million of accretion, of which the majority of it was expensed. NiSource anticipates that the depreciation and accretion amounts to be recognized in 2006 associated with its asset retirement obligation assets and liabilities will be $2.8 million and $7.5 million, respectively, and will primarily be recorded as a regulatory asset or liability pursuant to SFAS No. 71.

13. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at March 31, 2006 and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Guarantees of subsidiaries debt	$5,008.6	$ 293.1	$ 32.4	$ 8.6	$ 464.0	$1,004.3	$3,206.2
Guarantees supporting commodity transactions of subsidiaries	1,018.8	571.0	204.2	39.6	43.3	—	160.7
Lines of credit	379.2	379.2	—	—	—	—	—
Letters of credit	96.0	7.8	19.5	68.7	—	—	—
Other guarantees	158.3	—	—	8.4	4.1	—	145.8
Total commercial commitments	$6,660.9	$1,251.1	$ 256.1	$ 125.3	$ 511.4	$1,004.3	$3,512.7

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

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $1.0 billion of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. At March 31, 2006, NiSource had $379.2 million outstanding under the revolving line of credit. Through this revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $96.0 million for the benefit of third parties.

Other Guarantees or Obligations . After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy.

As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances,

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation.

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

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

C. Environmental Matters.

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

As of March 31, 2006, a reserve of approximately $68 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations.
There were no new environmental matters relating to Gas Distribution Operations during the first quarter of 2006.

Gas Transmission and Storage Operations.
On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. These actions could require further reductions in NOx emissions from various emission sources in and near nonattainment areas, including reductions from pipeline Transmission and Storage Operations. The effects of the recent EPA actions on Transmission and Storage Operations cannot be determined at this time.

Columbia Transmission discovered and notified the State of West Virginia of compliance issues associated with turbine operations at two of its facilities. Columbia Transmission is currently negotiating with the West Virginia Department of Environmental Protection to resolve these issues.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Electric Operations.

Air. On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. Northern Indiana will continue to closely monitor developments in this area that could impact the emission control requirements for coal-fired boilers including Northern Indiana's electric generating stations.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. The main rulemaking established federal implementation plans, or FIPs, for power plants to ensure that the emissions reductions required by the CAIR are achieved on schedule and provide criteria, whereby SIPs that meet a majority of the federal requirements or abbreviated SIPs could be approved if submitted by the states within six months of the September 2006 deadline. As an affected state, Indiana initiated state rule making in June 2005, for creating rules detailing how it will implement the federal rule and meet the emission caps. Indiana structured the draft rule to meet the EPA abbreviated CAIR SIP requirements and should therefore be eligible for a six-month extension of the submittal deadline. Accordingly, Indiana anticipates that the state CAIR rule will be finalized by March of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating stations located on Lake Michigan. The State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. All issues in subsequent litigation related to the EPA's actions have been resolved with the exception of the EPA's disapproval of the IDEM method for testing whole effluent toxicity. The water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. Engineering studies have begun to determine specific compliance costs for this facility. The permit for the Bailly Generating Station is expected to be finalized within the next calendar quarter. Pending issuance of this permit, the cost of complying with these requirements cannot be predicted at this time.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

14. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss, which is included in "Common stock equity," on the Consolidated Balance Sheets.

(in millions)	**March 31, 2006**	December 31, 2005
Other comprehensive income (loss), before taxes:		
Unrealized gains (losses) on securities	**$ (0.2)**	$ 0.3
Tax (expense) or benefit on unrealized gains (losses) on securities	**(0.1)**	(0.3)
Unrealized gains on cash flow hedges	**148.6**	228.5
Tax (expense) on unrealized gains on cash flow hedges	**(48.9)**	(77.8)
Minimum pension liability adjustment	**(260.1)**	(260.1)
Tax benefit on minimum pension liability adjustment	**103.8**	103.8
Total Accumulated Other Comprehensive Loss, net of taxes	**$ (56.9)**	$ (5.6)

15. Business Segment Information

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

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

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Three Months Ended March 31, *(in millions)*	2006	2005
REVENUES		
Gas Distribution Operations		
Unaffiliated	**2,180.3**	2,018.1
Intersegment	**4.4**	(0.8)
Total	**2,184.7**	2,017.3
Gas Transmission and Storage Operations		
Unaffiliated	**158.5**	158.2
Intersegment	**73.1**	71.5
Total	231.6	229.7
Electric Operations		
Unaffiliated	**306.5**	281.8
Intersegment	**0.4**	0.9
Total	**306.9**	282.7
Other Operations		
Unaffiliated	**327.7**	224.5
Intersegment	**14.0**	5.0
Total	**341.7**	229.5
Adjustments and eliminations	**(92.1)**	(75.9)
Consolidated Revenues	**$2,972.8**	$2,683.3
Operating Income (Loss)		
Gas Distribution Operations	**206.0**	274.9
Gas Transmission and Storage Operations	**110.3**	109.5
Electric Operations	**68.1**	65.4
Other Operations	**(9.2)**	(5.2)
Corporate	**(6.7)**	(6.9)
Consolidated Operating Income	**$ 368.5**	$ 437.7

16. Subsequent Event

On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

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

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

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the first quarter of 2006, income from continuing operations was $171.8 million, or $0.63 per share. This compares to income from continuing operations of $208.7 million, or $0.77 per share, for the year-ago period. The quarterly difference was due to lower net revenues due primarily to the mild winter weather and declines in residential usage by natural gas utility customers. Weather was 13% warmer than normal and 15% warmer than a year ago. Weather reduced net revenues in NiSource's Gas Distribution Operations business segment by approximately $46 million. Gas Distribution Operations net revenues were also reduced by approximately $11 million due to residential usage declines, which were slightly offset by approximately $2 million as a result of an increase in the number of residential customers. Residential usage declines are likely to continue to adversely impact the operating results of Gas Distribution Operations.

Excluding expenses that are recovered through regulatory trackers, and thereby increase both operating expenses and net revenues (see discussion below), operating expenses were up $16.0 million. This increase was due to $8.3 million of transition costs associated with the IBM agreement and $4.5 million of costs associated with scheduled maintenance at the Whiting Clean Energy facility.

NiSource is recognizing interest expense savings due to the refinancing of $2.4 billion in long-term debt during 2005. Interest expense was reduced by $8.2 million for the first quarter of 2006, compared with the year-ago period.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

NiSource continues to focus on its four-point platform for long-term, sustainable growth. This plan is centered on its portfolio of low-risk, regulated assets: commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and expense management. Following are updates related to these initiatives.

Commercial and Regulatory Initiatives

Sales of Shorter-Term Transportation and Storage Services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $25 million of shorter-term business for 2006, $3.4 million of which was recorded during the first quarter ended March 31, 2006. Columbia Gulf's mainline throughput increased by 16.5% over 2005 due to the increased utilization of these services.

Regulatory Trackers. Comparability of Gas Distribution Operations line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. The expenses that are recovered through these trackers increase both operating expenses and net revenues and have essentially no impact on total operating earnings results. Approximately $23.2 million of the increase in operation and maintenance expenses for the Gas Distribution Operations segment was a result of the effect of the regulatory trackers with a corresponding increase to net revenues reflecting recovery of certain costs.

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

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Hardy Storage and Millennium Pipeline. Construction of the Hardy Storage project in West Virginia has begun and the project financing is expected to close in the second quarter of 2006. The redistribution of equity among partners in the Millennium Pipeline is now complete, with NiSource subsidiary Columbia Transmission holding a 47.5% equity stake. Subject to the receipt of regulatory approvals of all companion pipeline projects, the project has a targeted in-service date in the fourth quarter of 2007.

Financial Management of the Balance Sheet

Interest Expense Savings. Interest expense, net was $95.8 million for the quarter, a decrease of $8.2 million compared to the first quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates.

Expense Management

Operating Expenses. Operating expenses for the first quarter 2006 were $612.6 million, an increase of $37.3 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers that increase both operating expenses and net revenues, operating expenses were up $16.0 million. This increase was primarily due to $8.3 million of transition costs associated with the IBM agreement and $4.5 million of costs associated with scheduled maintenance at the Whiting Clean Energy facility.

With the majority of the NiSource property and casualty insurance renewing on July 1, 2006, indications are that NiSource will see an increase in premiums related to insurance for Offshore and Onshore facilities located in or near the Gulf of Mexico. In addition to increased premiums, deductibles and retentions along with added restrictions to coverage and limitations in capacity, for its property insurance program and to a lesser extent for the casualty insurance program are anticipated. Such increases and restrictions in coverage are being driven by the overall poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

sustained over the last few years from hurricanes such as Ivan, Katrina and Rita. This drives the need for underwriters to seek higher premiums and further restrict coverage.

2006 Outlook

NiSource currently expects income for continuing operations for 2006 to be between $1.33 to $1.43 basic earnings per share. This expectation takes in account the weather impact of 9 cents per share that occurred during the first quarter 2006.

Results of Operations
Quarter Ended March 31, 2006

Net Income

NiSource reported net income of $172.9 million, or $0.63 per share, for the three months ended March 31, 2006, compared to net income of $206.3 million, or $0.76 per share, for the first quarter 2005. Operating income was $368.5 million, a decrease of $69.2 million from the same period in 2005. All per share amounts are basic earnings per share. Basic average shares of common stock outstanding at March 31, 2006 were 272.3 million compared to 270.3 million at March 31, 2005.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the three months ended March 31, 2006, were $981.1 million, a $31.9 million decrease from the same period last year. Excluding the impact of $21.3 million of trackers discussed above, net revenues decreased by $53.2 million. The quarterly difference was due to lower Gas Distribution Operations net revenues due primarily to the mild winter weather and declines in residential usage partially offset by net revenue increases within Gas Transmission and Storage Operations and Electric Operations. Weather negatively impacted net revenues of Gas Distribution Operations by approximately $46 million. Gas Distribution Operations net revenues were also reduced by approximately $11 million due to residential usage declines, which were slightly offset by approximately $2 million as a result of an increase in the number of residential customers. Electric Operations net revenue increases of $2.9 were primarily a result of increased environmental cost recovery trackers, a reduction in customer credits, and an increase in industrial usage and the number of residential and commercial customers. Gas Transmission and Storage Operations net revenue increases of $2.0 million from the same period in 2005 were due to increased sales of shorter-term transportation and storage services described above.

Expenses

Operating expenses for the first quarter 2006 were $612.6 million, an increase of $37.3 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers that increase both operating expenses and net revenues (see discussion above), operating expenses were up $16.0 million. This increase was primarily due to $8.3 million of transition costs associated with the IBM agreement and $4.5 million of costs associated with scheduled maintenance at the Whiting Clean Energy facility.

Other Income (Deductions)

Interest expense, net was $95.8 million for the quarter, a decrease of $8.2 million compared to the first quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $3.4 million for the current quarter compared to loss of $0.5 million for the comparable 2005 period due to increased costs associated with factoring of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses.

Income Taxes

Income tax for the first quarter of 2006 was $96.5 million, a decrease of $26.9 million compared to the first quarter of 2005 due primarily to lower pretax income and a lower effective tax rate. The effective tax rate for the quarter ended March 31, 2006 was 36.0% compared to 37.2% for the comparable period last year. The lower effective tax rate is due to a reduction of $5.3 million in deferred state income tax liabilities resulting from revised estimates of

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

consolidated state income tax apportionment factors, offset by $1.4 million of additional tax expense for recapture of income tax credits associated with disposition of NiSource's investment in a low income housing partnership.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas. The recent increase in the price of natural gas has resulted in an increase in working capital requirements to fund the cost of gas placed in storage, the cost of gas flowing directly to our customers and the related increase in accounts receivable. While the $1.25 billion revolving line of credit is projected to adequately meet these needs, on November 30, 2005, NiSource Finance entered into a new $300 million nine-month revolving credit agreement to further improve its available liquidity.

Operating Activities

Net cash from operating activities for the three months ended March 31, 2006 was $726.3 million, a decrease of $269.1 million from the three months ended March 31, 2005. This decrease was primarily due to the impact in 2006 of reducing relatively high accounts payable balances partially offset by the collection of under-recovered gas cost. High gas cost in December 2005 resulted in unusually large balances in accounts payable and under-recovered gas cost. Much milder weather in the first quarter of 2006 compared to the first quarter of 2005 resulted in less inventory being withdrawn and converted to cash in 2006. A federal tax refund in the first quarter of 2005 compared to a tax payment in the first quarter of 2006 and the timing of interest payments also decreased net cash from operating activities period over period.

Investing Activities

Capital expenditures of $121.6 million in the first three months of 2006 were $17.5 million higher than the comparable 2005 period. The spending for the first three months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in 2006 compared to last year, mainly for increased integrity-management improvements in the pipeline segment and expenditures to replace key components within electric generation in addition to new business projects. The program is expected to be funded primarily via cash from operations.

Financing Activities

On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of March 31, 2006, NiSource's shelf capacity was $850 million.

Cumulative Preferred Stock. On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

Credit Facilities. On November 30, 2005, NiSource Finance entered into a new $300 million 9-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC. The new facility will further improve NiSource's available liquidity in the current environment of volatile natural gas prices. During March 2005, NiSource Finance obtained a new $1.25 billion five-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an expiring $500 million 364-day credit facility, as well as a $750 million three-year credit facility that would have expired in March 2007.

NiSource Finance is currently considering an amendment to the Barclays credit facility, which would increase the aggregate commitment level to $1.5 billion and reduce its borrowing costs under the facility.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

NiSource Finance had outstanding credit facility advances of $379.2 million at March 31, 2006, at a weighted average interest rate of 5.01%, and advances of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%. As of March 31, 2006 and December 31, 2005, NiSource Finance had $96.0 million and $101.6 million of stand-by letters of credit outstanding, respectively. At March 31, 2006, $67.9 million of the $96.0 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource Finance obtained during February 2004. Of the remaining $28.1 million of stand-by letters of credit outstanding at March 31, 2006, $24.7 million resided under NiSource Finance's five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution. As of March 31, 2006, $1,146.1 million of credit was available under both credit facilities.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement has a scheduled expiration date of May 12, 2006, and can be renewed if mutually agreed to by both parties. As of March 31, 2006, $285 million of accounts receivable had been sold by CORC.

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

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

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

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

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

Non-Trading Risks

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates during the first quarter of 2006, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $6.1 million for the three months ended March 31, 2006.

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

Trading Risks

The transactions associated with NiSource's power trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity. The power trading operations market and trade over-the-counter contracts for the purchase and sale of electricity. Those contracts within the power trading portfolio that require settlement by physical delivery are often net settled in accordance with industry standards. As of March 31, 2006, all power trading contracts were settled. TPC may enter into power derivative contracts in the future to manage price risk associated with operating Whiting Clean Energy.

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

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was zero, during the first quarter of 2006. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.6 million, $0.9 million and $0.2 million during the first quarter of 2006, respectively. Prospectively, management has set the VaR limit at $0.5 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was $2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Should TPC enter into power derivative contracts in the future to manage price risk associated with Whiting Clean Energy, those contracts would be limited to the physical generation capacity of Whiting Clean Energy.

Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $1.0 billion of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

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

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 9, "Risk Management and Energy Trading Activities," and Note 13-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Other Information

Recently Adopted Accounting Pronouncements

SFAS No. 123 (revised 2004) – Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of March 31, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $8.2 million, which will be amortized over the weighted-average remaining requisite service period of 2.8 years.

SFAS No. 154 – Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FASB Interpretation No. 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource has adopted FIN 47 in the fourth quarter 2005. Refer to Note 12, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

Recently Issued Accounting Pronouncements

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. On March 31, 2006, the FASB issued an Exposure Draft, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of SFAS No. 87, 88, 106, and 132R. This proposed Statement seeks to improve existing reporting for defined benefit postretirement plans by requiring these employer business entities to do the following; a) recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, b) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that were not recognized as components of net periodic benefit cost pursuant to prior rules, c) recognize to the opening balance of retained earnings any transition asset or obligation remaining from the initial application of SFAS No. 87 or 106, d) measure defined benefit plan assets and defined benefit plan obligations as of the date of the employer's statement of financial position, and e) disclose additional information in the notes to financial statements about certain affects on net periodic benefit cost in the upcoming fiscal year. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at December 31, 2005, the impact of the proposed Statement, should it have been in effect at December 31, 2005, would have reduced Total Other Assets by approximately $69 million, increased Total Other Liabilities and Deferred Credits by approximately $171 million and decreased Total common stock equity by approximately $240 million. The proposed rules will not have an impact on the Statement of Consolidated Income at adoption and all impacts are non-cash. The release of a final interpretation is scheduled for September of 2006, with an effective date for fiscal years ending after December 15, 2006.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations

Three Months Ended March 31, *(in millions)*	2006	2005
Net Revenues		
Sales Revenues	$ 2,019.1	$ 1,840.5
Less: Cost of gas sold	1,624.2	1,419.2
Net Sales Revenues	394.9	421.3
Transportation Revenues	165.6	176.8
Net Revenues	560.5	598.1
Operating Expenses		
Operation and maintenance	228.5	198.7
Depreciation and amortization	57.3	55.8
Other taxes	68.7	68.7
Total Operating Expenses	354.5	323.2
Operating Income	$ 206.0	$ 274.9
Revenues ($ in Millions)		
Residential	1,409.0	1,261.7
Commercial	494.5	431.3
Industrial	81.3	74.6
Transportation	165.6	176.8
Off System Sales	95.3	51.2
Other	(61.0)	21.7
Total	2,184.7	2,017.3
Sales and Transportation (MMDth)		
Residential sales	91.5	109.1
Commercial sales	33.3	39.5
Industrial sales	6.6	7.8
Transportation	152.4	174.7
Off System Sales	10.8	7.1
Other	0.3	0.4
Total	294.9	338.6
Heating Degree Days	2,273	2,673
Normal Heating Degree Days	2,625	2,627
% Colder (Warmer) than Normal	(13%)	2%
Customers		
Residential	2,448,796	2,382,114
Commercial	213,199	215,719
Industrial	5,193	5,740
Transportation	698,951	749,831
Other	59	61
Total	3,366,198	3,353,465

NiSource's natural gas distribution operations serve approximately 3.4 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

Restructuring

Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $0.9 million for the first quarter of 2006 and the restructuring liability remaining at March 31, 2006 was $8.1 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters

Gas Distribution Operations continues to offer CHOICE ® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of March 2006, approximately 693 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On June 1, 2005, the PUCO approved Columbia of Ohio's application to decrease its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $26.3 million for the twelve months ended March 31, 2006, reflecting a reduction of $11.4 million of uncollected accounts receivable pending future recovery. As of March 31, 2006, Columbia of Ohio has $38.9 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the forty-five day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006.

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

In accordance with the IURC's 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved the rates on an interim basis subject to refund on November 22, 2005. A final order approving this filing is expected in the second quarter of 2006.

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

Environmental Matters

Currently, various environmental matters impact the Gas Distribution Operations segment. As of March 31, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 13-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

Weather

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

Weather in the Gas Distribution Operation's territories for the first quarter of 2006 was 15% warmer than the comparable quarter in 2005, and 13% warmer than normal overall.

Throughput

Total volumes sold and transported of 294.9 MMDth for the first quarter of 2006, decreased 43.7 MMDth from the same period last year. This decrease in volume was experienced across residential, commercial, and industrial markets and was attributable mainly to the milder weather and decreased residential customer usage compared to the same period last year. Decreases in commercial and industrial customers also contributed to this decrease in gas volume.

Net Revenues

Net revenues for the three months ended March 31, 2006 were $560.5 million, a decrease of $37.6 million from the same period in 2005 due primarily to the impact of warmer weather amounting to approximately $46 million for the quarter and approximately $11 million due to residential usage declines. This decrease in net revenues was partially offset by an increase in revenues recognized for regulatory trackers of $23.2 million, which are offset in operating expenses, and approximately $2 million as a result of an increase in the number of residential customers.

Operating Income

For the first quarter of 2006, Gas Distribution Operations reported operating income of $206.0 million, a decrease of $68.9 million from the same period in 2005. The decrease in operating income was mainly attributable to warmer weather and reduced residential customer usage described above as well as $6.1 million of transition costs and new system development costs associated with the IBM agreement. The $23.2 million increase in revenues from regulatory trackers was offset by $23.2 million of increased tracker related operation and maintenance expenses.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations

Three Months Ended March 31, *(in millions)*	2006	2005
Operating Revenues		
Transportation revenues	**$ 184.2**	$ 178.4
Storage revenues	**44.4**	45.2
Other revenues	**3.0**	6.1
Total Operating Revenues	**231.6**	229.7
Less: Cost of gas sold	**5.4**	5.5
Net Revenues	**226.2**	224.2
Operating Expenses		
Operation and maintenance	**72.3**	71.4
Depreciation and amortization	**28.7**	28.1
Other taxes	**14.9**	15.2
Total Operating Expenses	**115.9**	114.7
Operating Income	**$ 110.3**	$ 109.5
Throughput (MMDth)		
Columbia Transmission		
Market Area	**328.5**	395.6
Columbia Gulf		
Mainline	**161.6**	138.7
Short-haul	**16.6**	18.2
Columbia Pipeline Deep Water	**2.9**	3.5
Crossroads Gas Pipeline	**11.0**	12.0
Granite State Pipeline	**11.6**	13.9
Intrasegment eliminations	**(156.3)**	(138.6)
Total	**375.9**	443.3

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline and Granite State Gas. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in nineteen northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation's largest underground natural gas storage systems.

Restructuring

Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.6 million for the first quarter of 2006 and the restructuring liability remaining at March 31, 2006 was $2.8 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters

On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. It is anticipated that operating expenses will increase approximately $7 — $12 million in future years related to this guidance and the expenditures NiSource expects to incur to comply with the DOT's Integrity Management Rule.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations

Environmental Matters

Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of March 31, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 13-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Proposed Millennium Pipeline Project

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

The FERC issued an order in September 2002 in which it granted final certificate authority for the original Millennium project, but specified that Millennium could not begin construction until certain environmental and other conditions were met. One such condition, impacting what is now being marketed as Phase 2 of the project, was compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS determined that the Hudson River crossing plan was not consistent with the Coastal Zone Management Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004. On March 31, the United States Federal District Court denied Millennium's appeal.

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

In March 2006, Columbia Atlantic Trading, a NiSource subsidiary, sold its 21.0% interest in the Millennium partnership to KeySpan Millennium (owned by KeySpan Corp.) and DTE Millennium (owned by DTE Energy Co.) through an equity redistribution and a re-writing of the partnership agreements. The Millennium partnership is now currently made up of the following companies: Columbia Transmission (47.5%), DTE Millennium (26.25%), KeySpan Millennium (26.25%). Columbia Transmission will be the operator.

Hardy Storage Project

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

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

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

customers have also signed long-term firm agreements with Columbia Transmission for transportation capacity to deliver gas from Hardy Storage to their markets. Columbia Transmission will expand its natural gas transmission system to create this capacity.

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

Other Growth Projects

Columbia Transmission recently held open seasons for three additional projects, two Eastern Market expansion projects, and an Appalachian pipeline expansion in Kentucky and West Virginia. Columbia Gulf recently held an open season to expand the East Lateral System. Market interest for all projects is encouraging. Columbia Transmission has signed precedent agreements with four East Coast customers for one of the Eastern Market expansions. Customer negotiations are ongoing for the remaining projects.

Sales of Shorter-Term Transportation and Storage Services

Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $25 million of shorter-term business for 2006, $3.4 million of which was recorded during the first quarter ended March 31, 2006. Columbia Gulf's mainline throughput increased by 16.5% over 2005 due to the increased utilization of these services.

Throughput

Throughput for the Gas Transmission and Storage Operations segment totaled 375.9 MMDth for the first quarter 2006, compared to 443.3 MMDth for the same period in 2005. The decrease of 67.4 MMDth is due to warmer weather and to a lesser extent lower offshore natural gas production due to the 2005 Gulf of Mexico hurricanes which impacted the first quarter of 2006. Columbia Gulf mainline throughput increased to 161.6 MMDth for the first quarter of 2006 compared to 138.7 MMDth for the same period in 2005 due to increased utilization of the shorter-term transportation and storage services described above.

Net Revenues

Net revenues were $226.2 million for the first quarter 2006, an increase of $2.0 million from the same period in 2005, primarily due to increased sales of shorter-term transportation and storage services described above.

Operating Income

Operating income was $110.3 million for the first quarter 2006 compared to $109.5 million in the first quarter 2005. Operating income increased as a result of the change in net revenues described above, partially offset by slightly higher operating expenses of $1.2 million. Operation and maintenance expenses increased slightly as a result of higher employee and administrative expense of $1.5 million due primarily to transition costs associated with the IBM agreement.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations

For the Three Months Ended March 31, *(in millions)*	2006	2005
Net Revenues		
Sales revenues	$ 306.9	$ 282.7
Less: Cost of sales	117.3	96.0
Net Revenues	189.6	186.7
Operating Expenses		
Operation and maintenance	60.5	61.1
Depreciation and amortization	46.1	45.5
Other taxes	14.9	14.7
Total Operating Expenses	121.5	121.3
Operating Income	$ 68.1	$ 65.4
Revenues ($ in millions)		
Residential	80.9	73.4
Commercial	82.4	73.2
Industrial	125.5	112.4
Wholesale	5.5	7.5
Other	12.6	16.2
Total	306.9	282.7
Sales (Gigawatt Hours)		
Residential	761.1	767.0
Commercial	894.0	894.2
Industrial	2,437.4	2,328.3
Wholesale	152.1	161.2
Other	28.6	32.6
Total	4,273.2	4,183.3
Electric Customers		
Residential	395,653	392,527
Commercial	51,313	50,485
Industrial	2,521	2,531
Wholesale	8	28
Other	762	766
Total	450,257	446,337

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 450 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

Market Conditions

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

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

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

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

Regulatory Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $10.7 million and $14.4 million were recognized for electric customers for the first quarter of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. These particular charges, which amounted to $8.7 million in 2005, and $1.6 million for the first three months of 2006, were included as recoverable in Northern Indiana's FAC-68, FAC-69 and FAC-70 filings, but, pending a clarifying order from the IURC, Northern Indiana has provided a reserve for the full amount. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana's FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $0.5 million for the first three months of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $1.2 million for the first quarter of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

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

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

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

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

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

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

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 as described above. The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $6.9 million for the three months ended March 31, 2006, and $58.6 million from inception to date, while EERM revenues were $2.3 million for the first quarter of 2006 and $11.1 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter's motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. No hearing dates have been set.

Environmental Matters

Currently, various environmental matters impact the Electric Operations segment. As of March 31, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 13-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Sales

Electric Operations sales quantities for the first quarter of 2006 were 4,273.2 gwh, an increase of 89.9 gwh compared to the 2005 period, as a result of increased industrial usage.

Net Revenues

In the first quarter of 2006, electric net revenues of $189.6 million increased by $2.9 million from the comparable 2005 period. This improvement was primarily a result of increased environmental cost recovery trackers of $2.5, a reduction in customer credits, and an increase in industrial usage and the number of residential and commercial customers mentioned above.

Operating Income

Operating income for the first quarter of 2006 was $68.1 million, an increase of $2.7 million from the same period in 2005. The increase was primarily due to the changes in net revenue mentioned above. While operating expenses were relatively flat as compared to the 2005 period, increases in unrecoverable MISO costs of $0.5 million and increased maintenance expenditures were offset by reduced employee and administrative expense.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Other Operations

Three Months Ended March 31, *(in millions)*	2006	2005
Net Revenues		
Products and services revenue	**$ 341.7**	$ 229.5
Less: Cost of products purchased	**336.1**	224.1
Net Revenues	**5.6**	5.4
Operating Expenses		
Operation and maintenance	**12.4**	6.4
Depreciation and amortization	**3.0**	2.9
Gain on sale of assets	**(2.7)**	(0.5)
Other taxes	**2.1**	1.8
Total Operating Expenses	**14.8**	10.6
Operating Loss	**$ (9.2)**	$ (5.2)

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

Lake Erie Land Company, Inc.

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $11.9 million at March 31, 2006, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

PEI Holdings, Inc.

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

For the first three months of 2006, the PEI holding companies' consolidated after-tax loss was approximately $10.2 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery. During the first quarter of 2005, Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time for the next three years.

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

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Other Operations (continued)

Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable. The evidentiary hearing and final order are expected in the second quarter of 2006.

Net Revenues

Net revenues of $5.6 million for the first quarter of 2006 increased by $0.2 million from the first quarter of 2005, as a result of increased gas marketing revenues of $1.1 million.

Operating Loss

Other Operations reported an operating loss of $9.2 million for the first quarter of 2006, versus an operating loss of $5.2 million for the comparable 2005 period. The increase in the operating loss resulted primarily from increased scheduled maintenance for Whiting Clean Energy of $4.5 million.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NiSource's chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource's disclosure controls and procedures were adequate and effective.

Changes in Internal Controls

There was no change in NiSource's internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource's internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

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

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

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

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

ITEM 1A. RISK FACTORS

No material changes from the risk factors disclosed in NiSource's 2005 Form 10-K filed on March 10, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Company Purchases of Equity Securities

The following table provides information about purchases by the Company during the quarter ended March 31, 2006 of equity securities registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans
January 2006	280,306	$21.03	N/A	N/A

(1) Shares of Common Stock that are tendered by employees to the Company to satisfy the employees' tax withholding obligations in connection with the vesting of awards of restricted stock, which are repurchased by the Company based on their fair market value on the vesting date.

(2) The calculation of the average price per share does not give effect to any fees, commissions or other costs associated with the repurchase of such shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

NISOURCE INC.

(10.1) Amended and Restated NiSource Inc. Executive Severance Policy (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on January 31, 2006). *

(10.2) Amended and Restated NiSource Inc. Directors' Charitable Gift Program (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on January 31, 2006). *

(31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **

(31.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **

(32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **

(32.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **

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

** Exhibit filed herewith.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

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SIGNATURE

NISOURCE INC.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NiSource Inc.
(Registrant)

Date: May 5, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer
and Duly Authorized Officer)

Exhibit 31.1

I, Robert C. Skaggs, Jr., certify that:

1. I have reviewed this Quarterly Report of NiSource Inc. on Form 10-Q for the quarter ended March 31, 2006;
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: May 5, 2006

By: /s/ Robert C. Skaggs, Jr.
Robert C. Skaggs, Jr.
Chief Executive Officer

Exhibit 31.2

I, Michael W. O'Donnell, certify that:

1. I have reviewed this Quarterly Report of NiSource Inc. on Form 10-Q for the quarter ended March 31, 2006;
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: May 5, 2006

By: /s/ Michael W. O'Donnell
Michael W. O'Donnell
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 Quarterly Report of NiSource Inc. (the "Company") on Form 10-Q for the quarter ending March 31, 2006 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: May 5, 2006

Exhibit 32.2

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of NiSource Inc. (the "Company") on Form 10-Q for the quarter ending March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. O'Donnell, 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/ Michael W. O'Donnell
Michael W. O'Donnell
Executive Vice President and Chief Financial Officer

Date: May 5, 2006

Download: [PDF] [RTF] [XLS]

United States
Securities and Exchange Commission
Washington, DC 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): May 3, 2006

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)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On May 3, 2006, NiSource Inc. (the "Company") reported its financial results for the fiscal quarter ended March 31, 2006. The Company's press release, dated May 3, 2006, is attached as Exhibit 99.1.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

Exhibit Number	Description
99.1	Press Release, dated May 3, 2006, issued by NiSource Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: May 3, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press Release, dated May 3, 2006, issued by NiSource Inc.

EXHIBIT 99.1

NEWS

801 E. 86th Avenue
Merrillville, IN 46410

FOR IMMEDIATE RELEASE
May 3, 2006

FOR ADDITIONAL INFORMATION

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NiSource reports first-quarter earnings and progress on growth strategy
Company on track with 2006 business plan

MERRILLVILLE, Ind. — NiSource Inc. (NYSE: NI) today announced net operating earnings (non-GAAP) of $203.6 million, or 75 cents per share, for the three months ended March 31, 2006, compared with $202.4 million, or 75 cents per share, for the first quarter of 2005 (all per-share amounts are basic). Operating earnings were $416.1 million for the first three months of 2006, compared with $427.7 million in 2005.

On a GAAP basis, taking into account the effect of record-setting warm winter weather conditions that were 15 percent warmer than a year ago, income from continuing operations for the first quarter of 2006 was $171.8 million, or 63 cents per share, compared with $208.7 million, or 77 cents per share, for the year-ago period. For a reconciliation of net operating earnings (non-GAAP) to income from continuing operations (GAAP), see Schedule 1 of this news release.

Net operating earnings, compared with the year-ago period, were positively affected by successful sales of shorter-term transportation and storage services in NiSource's gas transmission and storage business; growth in the electric distribution business; and an $8.2 million decrease in interest expense for the quarter due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005.

These positive impacts were offset by a continuing decline in usage by natural gas utility customers. Also, as anticipated, losses at Whiting Clean Energy increased compared with the year-ago period due to planned maintenance.

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NiSource reports first-quarter earnings and progress on growth strategy
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"Despite significant external challenges, NiSource delivered solid first-quarter results that are on the mark with our 2006 net operating earnings outlook. Additionally, we continued to make progress on every component of our four-part growth plan," said President and Chief Executive Officer Robert C. Skaggs, Jr. "Like every company in the North American gas utility industry, we've had to deal with unprecedented weather and high gas prices that, among other dislocations, have continued to weaken residential customers' usage of natural gas and make for a more challenging regulatory-political environment."

In meeting these challenges, Skaggs said, our continuing focus on NiSource's core assets and capabilities was evident. These include: strong opportunities for marketing short-term services in the Gas Transmission and Storage business; capacity and supply optimization opportunities in Gas Distribution Operations; robust market interest for expansion capacity on NiSource's extensive natural gas storage and transmission network; steady growth in NiSource's electric business; and across-the-board continued cost control.

"These fundamentals, plus our ongoing focus on all aspects of our four-point business plan, have NiSource on track to deliver net operating earnings for the full year consistent with the range of $1.45 to $1.55 per share that we provided in late January, assuming no further material usage deterioration," Skaggs stated. A reconciliation of non-GAAP earnings guidance to GAAP guidance is provided later in this release.

Skaggs noted that NiSource's balanced four-point plan centers on its portfolio of low-risk, regulated assets: commercial growth and expansion of the gas transmission and storage business; commercial and regulatory initiatives; management of the balance sheet; and expense management.

Overview of first-quarter operating earnings (non-GAAP) performance by business segment

Gas Distribution Operations

Operating earnings for NiSource's Gas Distribution Operations were down by $15 million, to $251.3 million for the first quarter of 2006. The reduction was due primarily to continued declines in residential customer usage.

Skaggs noted that weather-normalized residential usage declined by 7 MMDth, or 5 percent, due in part to historically high gas prices.

"These residential volume declines decreased operating earnings for the segment by approximately $11 million. Partly offsetting that reduction were increased revenues from residential customer additions of approximately $2 million," Skaggs said. "Although we continue to see residential customer growth in our gas distribution markets, we remain focused on customer usage, and we continue to work on all fronts to fashion appropriate mechanisms to better address usage and conservation."

During the first quarter, the Gas Distribution segment was able to capitalize on short-term market opportunities and used its extensive supply and storage portfolio to increase revenues. These revenues are shared with customers under various regulatory mechanisms.

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NiSource reports first-quarter earnings and progress on growth strategy
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In addition, the segment reported the first full quarter of benefit from the new rates at Bay State Gas Company.

Employees continue to hold the line on costs as well, Skaggs noted. Excluding expenses that are recovered through regulatory trackers, operation and maintenance expenses for the Gas Distribution segment were down slightly for the quarter compared with the year-ago period.

Gas Transmission and Storage Operations

The Gas Transmission and Storage segment reported operating earnings of $111.7 million for the first quarter, an increase of $2.2 million over the year-ago period. The increase resulted from higher net revenues due to increased subscriptions for demand services and shorter-term transportation and storage optimization initiatives. A 16.5 percent year-over-year increase in mainline throughput on Columbia Gulf Transmission was directly related to the company's optimization initiatives.

"Our Houston-based commercial team has capitalized on near-term market opportunities to optimize the value of our extensive network of pipeline and storage assets," Skaggs said. "The earnings growth in this business is consistent with our expectations and should be sustainable going forward. Our commercial team has signed new agreements that we expect to result in more than $25 million in revenue for 2006, with about $3.4 million recorded during the first quarter, as compared to full-year 2005 revenues of $4.1 million."

In addition, Skaggs said, this segment continues to make progress on significant asset expansion projects that are driven by both the market and producers. Most notably, construction of the Hardy Storage project in West Virginia began in the first quarter, and the first phase of the project is on target to be in service in the second quarter of 2007.

"We have executed binding customer agreements for Columbia Gas Transmission's Eastern Market Expansion, which, like Hardy Storage, is a combined storage and transportation project designed to meet core market growth in the Mid-Atlantic region," Skaggs added.

Skaggs also noted that this business segment is currently evaluating the very strong market response it has received to a number of recently completed open seasons on Columbia Gas Transmission and Columbia Gulf Transmission.

Meanwhile, the Millennium Pipeline, as well as companion upstream and downstream projects, are proceeding with the regulatory approval process. As previously reported, Millennium is anchored by long-term agreements with Consolidated Edison and KeySpan. During the first quarter, the redistribution of equity among the Millennium partners was completed, with Columbia Gas Transmission now holding a 47.5 percent equity stake.

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NiSource reports first-quarter earnings and progress on growth strategy
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Electric Operations

NiSource's electric business reported operating earnings of $71.2 million for the quarter, compared with $66.6 million during the first quarter a year ago. Increases in net revenues from lower revenue credits, improved industrial usage, increased customer growth and trackers associated with ongoing expenses and capital investments, were partially offset by unrecoverable costs associated with the Midwest Independent System Operator (MISO).

As previously reported, as of Aug. 1, 2006, Northern Indiana Public Service Company (NIPSCO) expects to defer MISO costs for future recovery.

"The electric segment had a strong first quarter," Skaggs said. "O&M expenses were down by about $2 million. In addition to revenue increases attributable to our environmental tracker, we continue to see steady growth in our electric residential market and a solid expansion of margins in our large industrial market.

"We also continue to work with other MISO members to control cost levels and on cost recovery issues."

Other Operations

The Other Operations segment reported an operating earnings loss of $11.7 million for the first quarter of 2006, compared with an operating earnings loss of $7.8 million for the year-ago period.

The increased operating earnings loss primarily resulted from increased losses at Whiting Clean Energy, which were factored into the company's 2006 operating earnings outlook. The increased losses at Whiting Clean Energy during the 2006 period resulted primarily from costs associated with scheduled maintenance.

Business plan remains on track

"Overall, our first-quarter performance was solid, and meeting our 2006 objectives clearly remains a priority," Skaggs said. "We continue to partner with IBM to transform the way we operate our business process and support services through the outsourcing agreement we entered into last year; and we are realizing the expected savings in interest expense from the refinancing of our balance sheet completed during 2005. These and other elements of our four-part business plan will keep us on track to building a platform for long-term, sustainable growth. Having said that, as noted in my recent annual letter to stockholders published in our Annual Report, we believe that NiSource is currently undervalued, we are committed to unlocking the long-term value of our assets, and we will report on the progress of our efforts in future communications."

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NiSource reports first-quarter earnings and progress on growth strategy
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Definition of non-GAAP measures and reconciliation of earnings guidance to GAAP

NiSource focuses on net operating earnings and operating earnings, which are both non-GAAP measures, because management believes these measures better represent the fundamental earnings strength and performance of the company. NiSource uses these measures internally for budgeting, for reporting to the board of directors, and for purposes of determining the payout under NiSource's annual incentive compensation plan for its employees.

Net operating earnings are a non-GAAP financial measure that NiSource defines as income from continuing operations determined in accordance with Generally Accepted Accounting Principles (GAAP) adjusted for certain items. Operating earnings are operating income determined in accordance with GAAP adjusted for certain items. Adjustments reflected in these measures are primarily weather, transition costs related to the outsourcing contract with IBM, gains and losses on the sale of assets, certain reserve adjustments and other items. See Schedule 1 and Schedule 2 of this news release for the reconciliations of net operating earnings and operating earnings, respectively, to GAAP.

On a GAAP basis, NiSource's current 2006 guidance for income for continuing operations is $1.33 to $1.43 basic earnings per share. The weather impact from the first quarter of approximately 9 cents per share and transition costs associated with the outsourcing initiative with IBM of approximately 3 cents per share comprise the difference between guidance for net operating earnings (non-GAAP) and income from continuing operations.

Conference call to be held this morning (May 3)

NiSource will host an analyst conference call at 9:30 a.m. EDT on Wednesday, May 3, 2006, to further discuss the company's first-quarter 2006 results. All interested parties may hear the conference call live by logging on to the NiSource Web site at www.nisource.com .

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NiSource reports first-quarter earnings and progress on growth strategy
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First-Quarter 2006 Operating Earnings — Segment Results (non-GAAP)
NiSource's consolidated first-quarter 2006 operating earnings (non-GAAP) were $416.1 million, compared to $427.7 million for the same period in 2005. Refer to Schedule 2 for the items included in 2006 and 2005 GAAP operating income but excluded from operating earnings.

Operating earnings for NiSource's business segments for the quarter ended March 31, 2006 are discussed below.

Gas Distribution Operations reported operating earnings of $251.3 million versus operating earnings of $266.3 million in the first quarter of 2005. The decrease in operating earnings was primarily due to continued declines in customer usage, which is more apparent after excluding the effect of regulatory trackers, as discussed below. Residential volume declines of approximately 7 MMDth reduced operating earnings by approximately $11 million. Partially offsetting the usage decline were customer additions that contributed approximately $2.0 million of incremental net revenues.

Operating expenses, excluding the impact of regulatory trackers discussed below, were essentially flat with the comparable period last year.

Comparability of Gas Distribution Operations line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Increases in the expenses that are the subject of trackers result in a corresponding increase in net revenues and have essentially no impact on total operating earnings results. Approximately $23.2 million of the increase in operation and maintenance expenses was offset by a corresponding increase to net revenues reflecting recovery of certain costs.

Gas Transmission and Storage Operations reported operating earnings of $111.7 million versus operating earnings of $109.5 million in the first quarter of 2005. The increase resulted from higher net revenues due to increased subscriptions for demand services and sales of shorter-term transportation and storage services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing short-term tariff services. Operating expenses were essentially flat with the comparable period last year.

Electric Operations reported operating earnings of $71.2 million versus operating earnings of $66.6 million from the comparable period last year. Increases in net revenues from environmental trackers, customer growth, industrial usage, and lower revenue credits were partially offset by unrecoverable MISO costs, which began in April 2005. Operating expenses were $1.0 million lower than a year ago due primarily to lower employee and administrative expenses.

Other Operations reported an operating earnings loss of $11.7 million in the first quarter of 2006, versus an operating earnings loss of $7.8 million in the first quarter of 2005. The $3.9 million increase in the operating earnings loss primarily resulted from costs associated with scheduled maintenance at the Whiting Clean Energy facility partially offset by lower uncollectible accounts due to the settlement of Enron bankruptcy claims.

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NiSource reports first-quarter earnings and progress on growth strategy
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Corporate reported an operating earnings loss of $6.4 million versus an operating earnings loss of $6.9 million in the comparable 2005 period. The decreased loss was primarily the result of lower employee and administrative expenses.

Other Items
Interest expense decreased by $8.2 million due to refinancing of $2.4 billion in long-term debt at lower rates during 2005. Other, net expense of $3.4 million increased from the other net expense of $0.5 million in the first quarter of 2005 due primarily to increased costs associated with factoring of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses.

About NiSource
NiSource Inc. (NYSE: NI), based in Merrillville, Ind., is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.8 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Information about NiSource and its subsidiaries is available via the Internet at www.nisource.com .

Forward-Looking Statements
This news release includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

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NiSource Inc.
Consolidated Net Operating Earnings (Non - GAAP)

Three Months Ended March 31, *(in millions,* except per share amounts *)*	2006	2005
Net Revenues		
Gas Distribution	**$2,037.7**	$1,820.9
Gas Transportation and Storage	**320.6**	328.9
Electric	**305.7**	282.6
Other	**348.3**	243.5
Gross Revenues	**3,012.3**	2,675.9
Cost of Sales	**1,991.7**	1,670.3
Total Net Revenues	**1,020.6**	1,005.6
Operating Expenses		
Operation and maintenance	**364.6**	339.7
Depreciation and amortization	**136.9**	135.1
Other taxes	**103.0**	103.1
Total Operating Expenses	**604.5**	577.9
Operating Earnings	**416.1**	427.7
Other Income (Deductions)		
Interest expense, net	**(95.8)**	(104.0)
Dividend requirements on preferred stock of subsidiaries	**(1.0)**	(1.1)
Other, net	**(3.4)**	(0.5)
Total Other Income (Deductions)	**(100.2)**	(105.6)
Operating Earnings From Continuing Operations Before Income Taxes	**315.9**	322.1
Income Taxes	**112.3**	119.7
Net Operating Earnings from Continuing Operations	**203.6**	202.4
GAAP Adjustment	**(31.8)**	6.3
GAAP Income from Continuing Operations	**$ 171.8**	$ 208.7
Basic Net Operating Earnings Per Share	**0.75**	0.75
GAAP Basic Earnings Per Share	**0.63**	0.77
Basic Average Common Shares Outstanding (millions)	**272.3**	270.3

NiSource Inc.
Segment Operating Earnings (Non-GAAP)

Gas Distribution Operations

Three Months Ended March 31, *(in millions)*	2006	2005
Net Revenues		
Sales Revenues	**$2,056.7**	$1,831.9
Less: Cost of gas sold	**1,624.2**	1,419.2
Net Sales Revenues	**432.5**	412.7
Transportation Revenues	**165.6**	176.8
Net Revenues	**598.1**	589.5
Operating Expenses		
Operation and maintenance	**220.8**	198.7
Depreciation and amortization	**57.3**	55.8
Other taxes	**68.7**	68.7
Total Operating Expenses	**346.8**	323.2
Operating Earnings	**$ 251.3**	$ 266.3
GAAP Adjustment	**(45.3)**	8.6
GAAP Operating Income	**$ 206.0**	$ 274.9

Gas Transmission and Storage Operations

Three Months Ended March 31, *(in millions)*	2006	2005
Net Revenues		
Transportation revenues	**$ 184.2**	$ 178.4
Storage revenues	**44.4**	45.2
Other revenues	**3.0**	6.1
Total Revenues	**231.6**	229.7
Less: Cost of gas sold	**5.4**	5.5
Net Revenues	**226.2**	224.2
Operating Expenses		
Operation and maintenance	**70.9**	71.4
Depreciation and amortization	**28.7**	28.1
Other taxes	**14.9**	15.2
Total Operating Expenses	**114.5**	114.7
Operating Earnings	**$ 111.7**	$ 109.5
GAAP Adjustment	**(1.4)**	—
GAAP Operating Income	**$ 110.3**	$ 109.5

NiSource Inc.
Segment Operating Earnings (Non-GAAP) (continued)

Electric Operations

Three Months Ended March 31, *(in millions)*	2006	2005
Net Revenues		
Sales revenues	**$ 308.8**	$ 283.9
Less: Cost of sales	**117.3**	96.0
Net Revenues	**191.5**	187.9
Operating Expenses		
Operation and maintenance	**59.3**	61.1
Depreciation and amortization	**46.1**	45.5
Other taxes	**14.9**	14.7
Total Operating Expenses	**120.3**	121.3
Operating Earnings	**$ 71.2**	$ 66.6
GAAP Adjustment	**(3.1)**	(1.2)
GAAP Operating Income	**$ 68.1**	$ 65.4

Other Operations (includes assets held for sale)

Three Months Ended March 31, *(in millions)*	2006	2005
Net Revenues		
Products and services revenue	**$ 341.7**	$ 229.5
Less: Cost of products purchased	**336.1**	224.1
Net Revenues	**5.6**	5.4
Operating Expenses		
Operation and maintenance	**12.2**	8.5
Depreciation and amortization	**3.0**	2.9
Other taxes	**2.1**	1.8
Total Operating Expenses	**17.3**	13.2
Operating Earnings (Loss)	**$ (11.7)**	$ (7.8)
GAAP Adjustment	**2.5**	2.6
GAAP Operating Loss	**$ (9.2)**	$ (5.2)

Corporate

Three Months Ended March 31, *(in millions)*	2006	2005
Operating Earnings (Loss)	**$ (6.4)**	$ (6.9)
GAAP Adjustment	**(0.3)**	—
GAAP Operating Loss	**$ (6.7)**	$ (6.9)

NiSource Inc.
Segment Volumes and Statistical Data (Non-GAAP)

Gas Distribution Operations

Three Months Ended March 31,	2006	2005
Sales and Transportation (MMDth)		
Residential sales	**91.5**	109.1
Commercial sales	**33.3**	39.5
Industrial sales	**6.6**	7.8
Transportation	**152.4**	174.7
Off System Sales	**10.8**	7.1
Other	**0.3**	0.4
Total	**294.9**	338.6
Weather Adjustment	**26.7**	**(4.0)**
Sales and Transportation Volumes — Excluding Weather	**321.6**	**334.6**
Heating Degree Days	**2,273**	2,673
Normal Heating Degree Days	**2,625**	2,627
% Colder (Warmer) than Normal	**(13%)**	2%
Customers		
Residential	**2,448,796**	2,382,114
Commercial	**213,199**	215,719
Industrial	**5,193**	5,740
Transportation	**698,951**	749,831
Other	**59**	61
Total	**3,366,198**	3,353,465

Gas Transmission and Storage Operations

Three Months Ended March 31,	2006	2005
Throughput (MMDth)		
Columbia Transmission		
Market Area	**328.5**	395.6
Columbia Gulf		
Mainline	**161.6**	138.7
Short-haul	**16.6**	18.2
Columbia Pipeline Deep Water	**2.9**	3.5
Crossroads Gas Pipeline	**11.0**	12.0
Granite State Pipeline	**11.6**	13.9
Intrasegment eliminations	**(156.3)**	(138.6)
Total	**375.9**	443.3

NiSource Inc.
Segment Volumes and Statistical Data (continued)
(Non-GAAP)

Electric Operations

Three Months Ended March 31,	2006	2005
Sales (Gigawatt Hours)		
Residential	**761.1**	767.0
Commercial	**894.0**	894.2
Industrial	**2,437.4**	2,328.3
Wholesale	**152.1**	161.2
Other	**28.6**	32.6
Total	**4,273.2**	4,183.3
Weather Adjustment	**28.9**	**(1.7)**
Sales Volumes — Excluding Weather impacts	**4,302.1**	**4,181.6**
Electric Customers		
Residential	**395,653**	392,527
Commercial	**51,313**	50,485
Industrial	**2,521**	2,531
Wholesale	**8**	28
Other	**762**	766
Total	**450,257**	446,337

NiSource Inc.
Schedule 1 — Reconciliation of Net Operating Earnings to GAAP

Three Months Ended March 31, *(in millions,* except per share amounts *)*	2006	2005
Net Operating Earnings from Continuing Operations	**$ 203.6**	$ 202.4
Items excluded from operating earnings:		
Net Revenues:		
Weather — compared to normal	**(39.5)**	8.7
Gas costs and other changes	—	(1.3)
Operating Expenses:		
Restructuring, transition and consulting charges (outsourcing initiative)	**(8.3)**	—
Insurance recoveries, legal and reserve changes	—	2.1
Asset impairment	**(2.5)**	—
Gain on sales of assets	**2.7**	0.5
Total items excluded from operating earnings	**(47.6)**	10.0
Tax effect of above items and other income tax adjustments	**15.8**	(3.7)
Reported Income from Continuing Operations — GAAP	**$ 171.8**	$ 208.7
Basic Average Common Shares Outstanding (millions)	**272.3**	270.3
Basic Net Operating Earnings Per Share ($)	**0.75**	0.75
Items excluded from operating earnings (after-tax)	**(0.12)**	0.02
GAAP Basic Earnings Per Share	**0.63**	0.77

NiSource Inc.
Schedule 2 — Quarterly Adjustments by Segment from Operating Earnings to GAAP

Quarter Ended March 31, 2006 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**251.3**	**111.7**	**71.2**	**(11.7)**	**(6.4)**	**$ 416.1**
Net Revenues:						
Weather (compared to normal)	$ (37.6)	$ —	$ (1.9)	$ —	$ —	**$ (39.5)**
Total Impact — Net Revenues	**(37.6)**	**—**	**(1.9)**	**—**	**—**	**(39.5)**
Operating Expenses:						
Operation and Maintenance Expenses- Restructuring, transition and consulting charges (outsourcing initiative)	(6.1)	(0.8)	(1.0)	(0.1)	(0.3)	**(8.3)**
Asset Impairment	(1.6)	(0.6)	(0.2)	(0.1)	—	**(2.5)**
Gain on Sale of Assets	—	—	—	2.7	—	**2.7**
Total Impact — Operating Expenses	**(7.7)**	**(1.4)**	**(1.2)**	**2.5**	**(0.3)**	**(8.1)**
Total Impact — Operating Income (Loss)	**$ (45.3)**	**$ (1.4)**	**$ (3.1)**	**$ 2.5**	**$ (0.3)**	**$ (47.6)**
Operating Income (Loss) — GAAP	**$ 206.0**	**$ 110.3**	**$ 68.1**	**$ (9.2)**	**$ (6.7)**	**$ 368.5**

Quarter Ended March 31, 2005 (in millions)

	Gas Distribution	Transmission and Storage	Electric	Other	Corporate	Total
Operating Earnings (Loss)	**266.3**	**109.5**	**66.6**	**(7.8)**	**(6.9)**	**$ 427.7**
Net Revenues:						
Weather (compared to normal)	$ 8.6	$ —	$ 0.1	$ —	$ —	**$ 8.7**
Gas costs and other changes	—	—	(1.3)	—	—	**(1.3)**
Total Impact — Net Revenues	**8.6**	**—**	**(1.2)**	**—**	**—**	**7.4**
Operating Expenses:						
Operation and Maintenance Expenses- Insurance recoveries, legal and other reserves	—	—	—	2.1	—	**2.1**
Gain on Sale of Assets	—	—	—	0.5	—	**0.5**
Total Impact — Operating Expenses	**—**	**—**	**—**	**2.6**	**—**	**2.6**
Total Impact — Operating Income	**$ 8.6**	**$ —**	**$ (1.2)**	**$ 2.6**	**$ —**	**$ 10.0**
Operating Income (Loss) — GAAP	**$ 274.9**	**$ 109.5**	**$ 65.4**	**$ (5.2)**	**$ (6.9)**	**$ 437.7**

NiSource Inc.
Income Statement (GAAP)
(*unaudited)*

Three Months Ended March 31, *(in millions,* except per share amounts *)*	2006	2005
Net Revenues		
Gas Distribution	**$1,998.2**	$1,828.3
Gas Transportation and Storage	**320.6**	328.9
Electric	**305.7**	282.6
Other	**348.3**	243.5
Gross Revenues	**2,972.8**	2,683.3
Cost of Sales	**1,991.7**	1,670.3
Total Net Revenues	**981.1**	1,013.0
Operating Expenses		
Operation and maintenance	**372.9**	337.6
Depreciation and amortization	**136.9**	135.1
Impairment and gain on sale of assets	**(0.2)**	(0.5)
Other taxes	**103.0**	103.1
Total Operating Expenses	**612.6**	575.3
Operating Income	**368.5**	437.7
Other Income (Deductions)		
Interest expense, net	**(95.8)**	(104.0)
Dividend requirements on preferred stock of subsidiaries	**(1.0)**	(1.1)
Other, net	**(3.4)**	(0.5)
Total Other Income (Deductions)	**(100.2)**	(105.6)
Income From Continuing Operations Before Income Taxes	**268.3**	332.1
Income Taxes	**96.5**	123.4
Income from Continuing Operations	**171.8**	208.7
Loss from Discontinued Operations — net of taxes	**(0.3)**	(2.2)
Gain (Loss) on Disposition of Discontinued Operations — net of taxes	**1.0**	(0.2)
Change in Accounting — net of taxes	**0.4**	—
Net Income	**$ 172.9**	$ 206.3
Basic Earnings (Loss) Per Share ($)		
Continuing operations	**0.63**	0.77
Discontinued operations	**—**	(0.01)
Basic Earnings Per Share	**0.63**	0.76
Diluted Earnings (Loss) Per Share ($)		
Continuing operations	**0.63**	0.77
Discontinued operations	**—**	(0.01)
Diluted Earnings Per Share	**0.63**	0.76
Dividends Declared Per Common Share ($)	**0.23**	0.23
Basic Average Common Shares Outstanding (millions)	**272.3**	270.3
Diluted Average Common Shares (millions)	**273.1**	272.1

NiSource Inc.
Consolidated Balance Sheets
(*unaudited*)

(in millions)	**March 31, 2006**	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$16,745.9**	$ 16,684.4
Accumulated depreciation and amortization	**(7,637.2)**	(7,556.8)
Net utility plant	**9,108.7**	9,127.6
Other property, at cost, less accumulated depreciation	**388.5**	426.7
Net Property, Plant and Equipment	**9,497.2**	9,554.3
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**49.7**	34.6
Unconsolidated affiliates	**72.5**	75.0
Other investments	**101.4**	114.2
Total Investments	**223.6**	223.8
Current Assets		
Cash and cash equivalents	**83.4**	69.4
Restricted cash	**57.9**	33.9
Accounts receivable (less reserve of $75.8 and $67.9, respectively)	**1,161.8**	1,254.6
Gas inventory	**165.0**	526.9
Underrecovered gas and fuel costs	**190.8**	421.8
Materials and supplies, at average cost	**73.7**	72.0
Electric production fuel, at average cost	**44.8**	24.9
Price risk management assets	**136.6**	183.1
Exchange gas receivable	**516.7**	169.8
Regulatory assets	**213.1**	195.0
Prepayments and other	**99.3**	109.3
Total Current Assets	**2,743.1**	3,060.7
Other Assets		
Price risk management assets	**137.7**	192.9
Regulatory assets	**611.6**	586.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**492.7**	495.8
Deferred charges and other	**178.4**	167.4
Total Other Assets	**5,097.7**	5,119.7
Total Assets	**$17,561.6**	$ 17,958.5

NiSource Inc.
Consolidated Balance Sheets (continued)
(*unaudited*)

(in millions, except share amounts)	**March 31, 2006**	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock — $0.01 par value, 400,000,000 shares authorized; 272,636,673 and 272,622,905 shares issued and outstanding, respectively	**$ 2.7**	$ 2.7
Additional paid-in-capital	**3,970.6**	3,969.4
Retained earnings	**1,029.1**	981.6
Accumulated other comprehensive loss and other common stock equity	**(77.9)**	(20.7)
Total common stock equity	**4,924.5**	4,933.0
Preferred stocks—Series without mandatory redemption provisions	**81.1**	81.1
Long-term debt, excluding amounts due within one year	**5,229.6**	5,271.2
Total Capitalization	**10,235.2**	10,285.3
Current Liabilities		
Current portion of long-term debt	**442.7**	440.7
Short-term borrowings	**379.2**	898.0
Accounts payable	**538.7**	866.7
Dividends declared on common and preferred stocks	**63.8**	1.1
Customer deposits	**104.6**	101.9
Taxes accrued	**381.0**	217.5
Interest accrued	**105.3**	86.2
Overrecovered gas and fuel costs	**114.6**	25.8
Price risk management liabilities	**85.7**	72.3
Exchange gas payable	**660.1**	425.2
Current deferred revenue	**35.1**	51.3
Regulatory liabilities	**37.3**	46.3
Accrued liability for postretirement and pension benefits	**61.1**	61.1
Other accruals	**499.5**	549.1
Total Current Liabilities	**3,508.7**	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**46.9**	22.2
Deferred income taxes	**1,542.7**	1,591.9
Deferred investment tax credits	**67.9**	69.9
Deferred credits	**83.4**	81.1
Noncurrent deferred revenue	**50.7**	60.4
Accrued liability for postretirement and pension benefits	**501.2**	511.0
Regulatory liabilities and other removal costs	**1,224.9**	1,196.2
Asset retirement obligations	**121.6**	119.8
Other noncurrent liabilities	**178.4**	177.5
Total Other	**3,817.7**	3,830.0
Commitments and Contingencies	**—**	—
Total Capitalization and Liabilities	**$17,561.6**	$ 17,958.5

NiSource Inc.
Other Information
(*unaudited*)

(in millions, except share amounts)	**March 31, 2006**	December 31, 2005
Total Common Stock Equity	**$ 4,924.5**	$ 4,933.0
Shares Outstanding (thousands)	**272,637**	272,623
Book Value of Common Shares	**$ 18.06**	$ 18.09

NiSource Inc.
Consolidated Statements of Cash Flows (*unaudited*)

Three Months Ended March 31, *(in millions)*	2006	2005
Operating Activities		
Net income	**$ 172.9**	$ 206.3
Adjustments to reconcile net income to net cash from continuing operations:		
Depreciation and amortization	**136.9**	135.1
Net changes in price risk management assets and liabilities	**10.2**	(31.2)
Deferred income taxes and investment tax credits	**(40.5)**	(29.8)
Deferred revenue	**(26.0)**	(8.6)
Stock compensation expense	**1.3**	1.5
Gain on sale of assets	**(2.7)**	(0.5)
Loss on impairment of assets	**2.5**	—
Cumulative effect of change in accounting principle, net of taxes	**(0.4)**	—
Income from unconsolidated affiliates	**(1.0)**	(2.0)
Loss (gain) on sale of discontinued operations	**(1.0)**	0.2
Loss from discontinued operations	**0.3**	2.2
Amortization of discount/premium on debt	**2.0**	4.8
Other adjustments	**(1.6)**	0.2
Changes in assets and liabilities:		
Accounts receivable and unbilled revenue	**110.2**	0.1
Inventories	**442.1**	615.5
Accounts payable	**(340.6)**	(141.4)
Customer deposits	**2.7**	3.1
Taxes accrued	**151.6**	218.0
Interest accrued	**19.1**	61.7
(Under) Overrecovered gas and fuel costs	**319.7**	139.4
Exchange gas receivable/payable	**(126.0)**	(80.7)
Other accruals	**(80.1)**	(102.9)
Prepayments and other current assets	**9.9**	11.4
Regulatory assets/liabilities	**(19.1)**	(4.1)
Postretirement and postemployment benefits	**(6.0)**	8.9
Deferred credits	**2.3**	(10.7)
Deferred charges and other noncurrent assets	**(5.2)**	1.4
Other noncurrent liabilities	**(7.3)**	(2.6)
Net Operating Activities from Continuing Operations	**726.2**	995.3
Net Operating Activities from Discontinued Operations	**0.1**	0.1
Net Cash Flows from Operating Activities	**726.3**	995.4
Investing Activities		
Capital expenditures	**(121.6)**	(104.1)
Proceeds from disposition of assets	**3.9**	5.8
Restricted cash	**(21.8)**	26.2
Other investing activities	**14.0**	(11.9)
Net Cash Flows used for Investing Activities	**(125.5)**	(84.0)
Financing Activities		
Issuance of long-term debt	**0.1**	—
Retirement of long-term debt	**(0.5)**	(0.3)
Change in short-term debt	**(518.8)**	(307.6)
Issuance of common stock	**1.0**	18.7
Acquisition of treasury stock	**(5.9)**	(1.4)
Dividends paid — common shares	**(62.7)**	(62.3)
Net Cash Flows used for Financing Activities	**(586.8)**	(352.9)

Increase in cash and cash equivalents	**14.0**	558.5
Cash and cash equivalents at beginning of year	**69.4**	29.5
Cash and cash equivalents at end of period	**$ 83.4**	$ 588.0
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 76.3**	$ 36.4
Interest capitalized	**1.6**	(0.2)
Cash paid (refunded) for income taxes	**4.2**	(25.3)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): April 06, 2006

NISOURCE INC.

(Exact Name of Registrant as Specified in Charter)

Delaware (State or Other Jurisdiction of Incorporation)	001-16189 (Commission File Number)	35-2108964 (IRS Employer Identification No.)

801 East 86th Avenue,
Merrillville, Indiana 46410
(877) 647-5990
(Address and Telephone Number
of Principal Executive Offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 7.01. REGULATION FD DISCLOSURE

On April 6, 2006, Glen Kettering, the Company's Senior Vice President, Corporate Affairs, will be making a presentation at the Midwest Utility Seminar. Attached as Exhibit 99.1 to this Report on Form 8-K is a copy of the materials to be used by Mr. Kettering as part of his presentation. Investors may access a webcast of Mr. Kettering's presentation, as well as a copy of the attached exhibit at the Company's website (www.nisource.com).

The attached presentation includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

NiSource does not have, and expressly disclaims, any obligation to release publicly any updates or any changes in NiSource's expectations or any changes in events, conditions or circumstances on which any forward-looking statement is based.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

Exhibit Number	Description
99.1	Information to be presented at the Midwest Utility Seminar on April 06, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

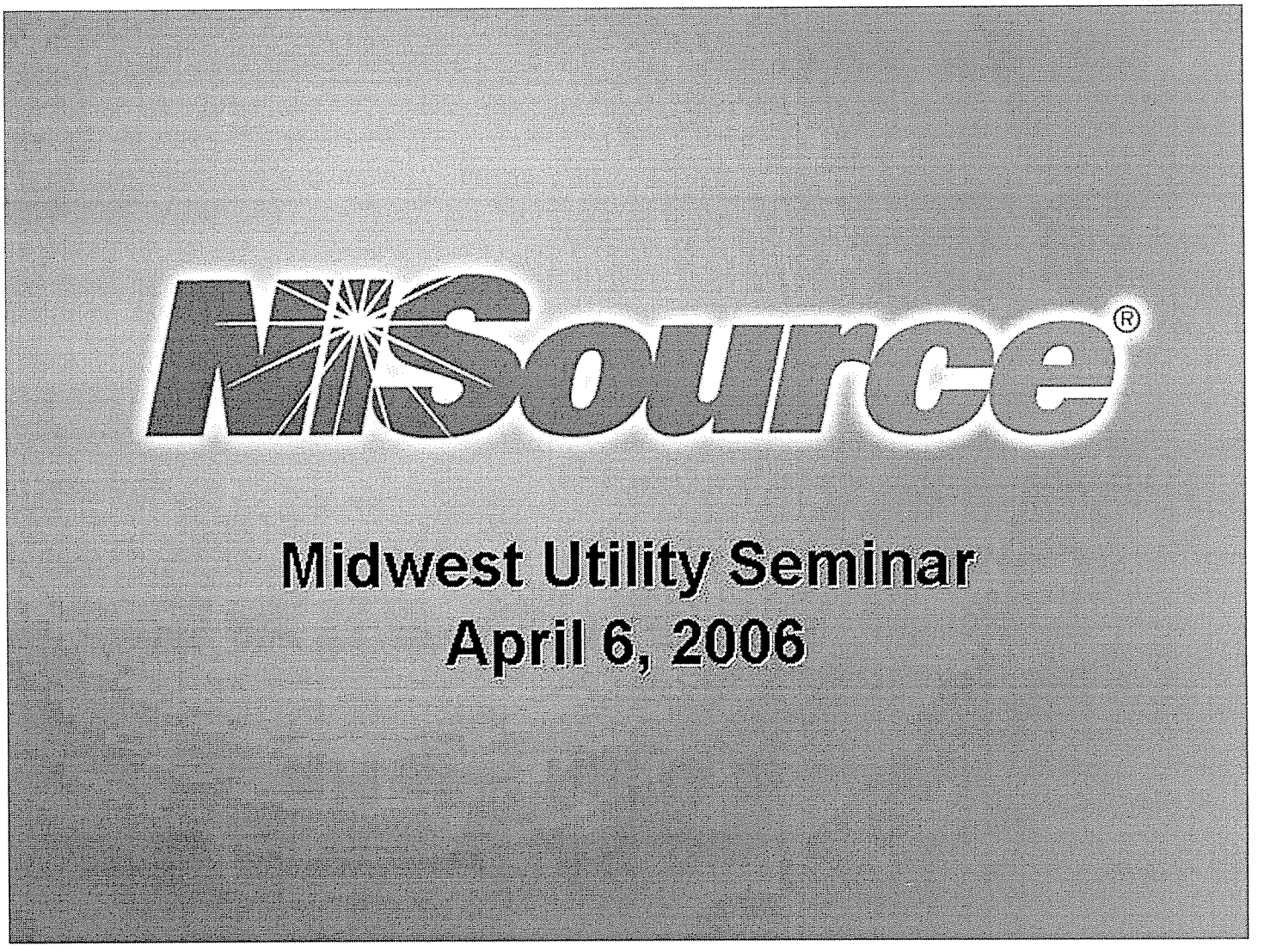
Date: April 06, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

EXHIBIT INDEX

Exhibit Number	Description
99.1	Information to be presented at the Midwest Utility Seminar on April 06, 2006.

EXHIBIT 99.1



Forward-Looking Statement

"Safe Harbor" Statement
April 2006

This presentation includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

NiSource®

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NiSource Today

Super Regional Regulated Energy Company

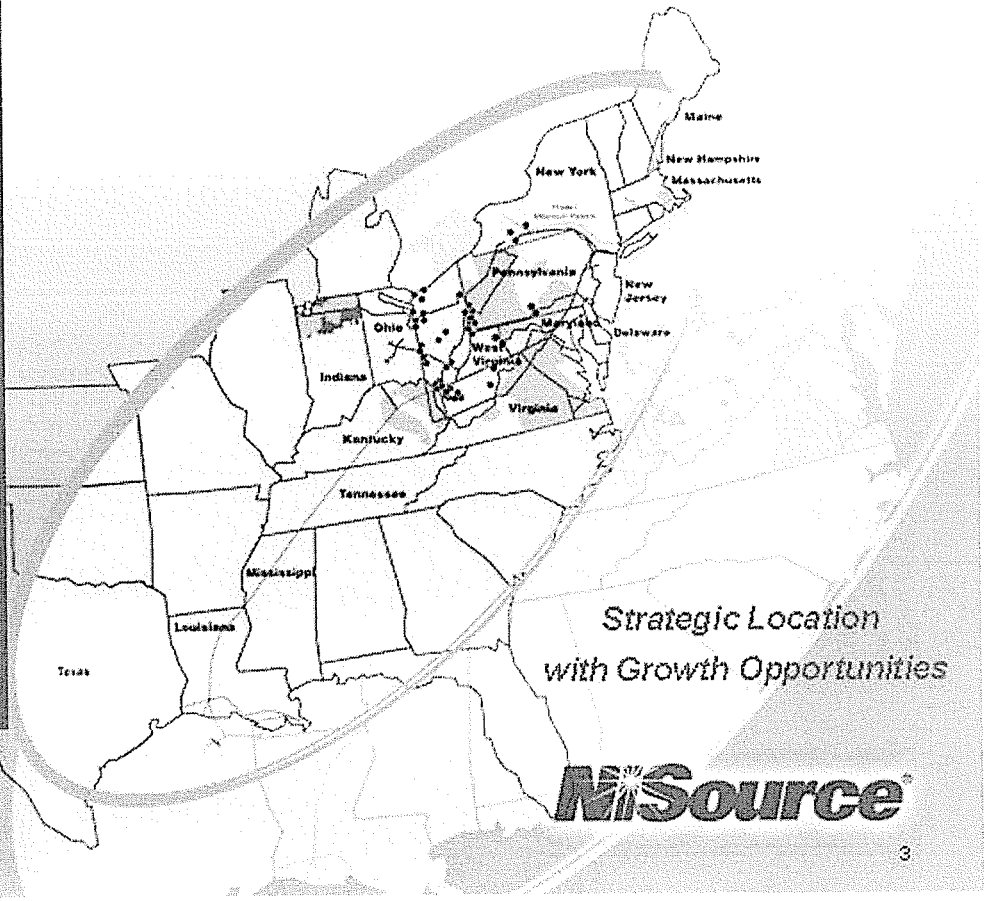
3rd Largest Gas Distribution Company in U.S.

4th Largest Gas Pipeline Company in U.S.

One of the Largest Gas Storage Networks in U.S.

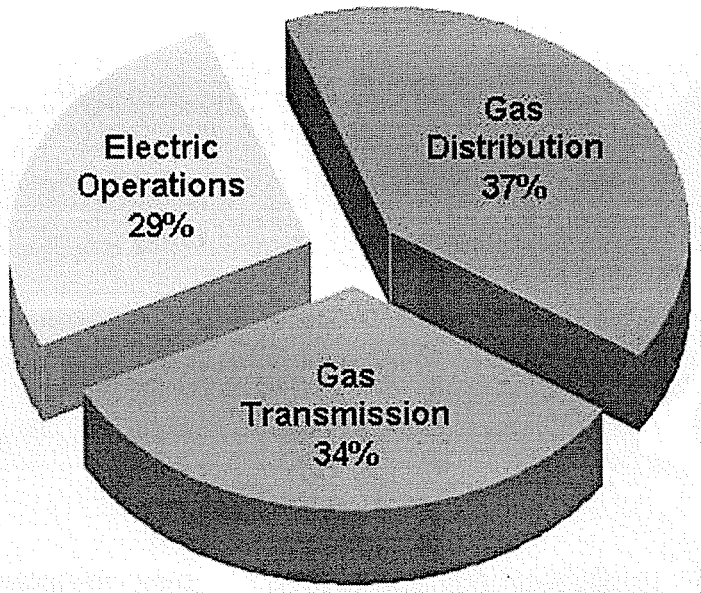
Mid Size Regional Electric Business

100% of Operating Income from Regulated Operations



Balanced Portfolio

Operating Income



100% Of Operating Income From Regulated Businesses

NiSource

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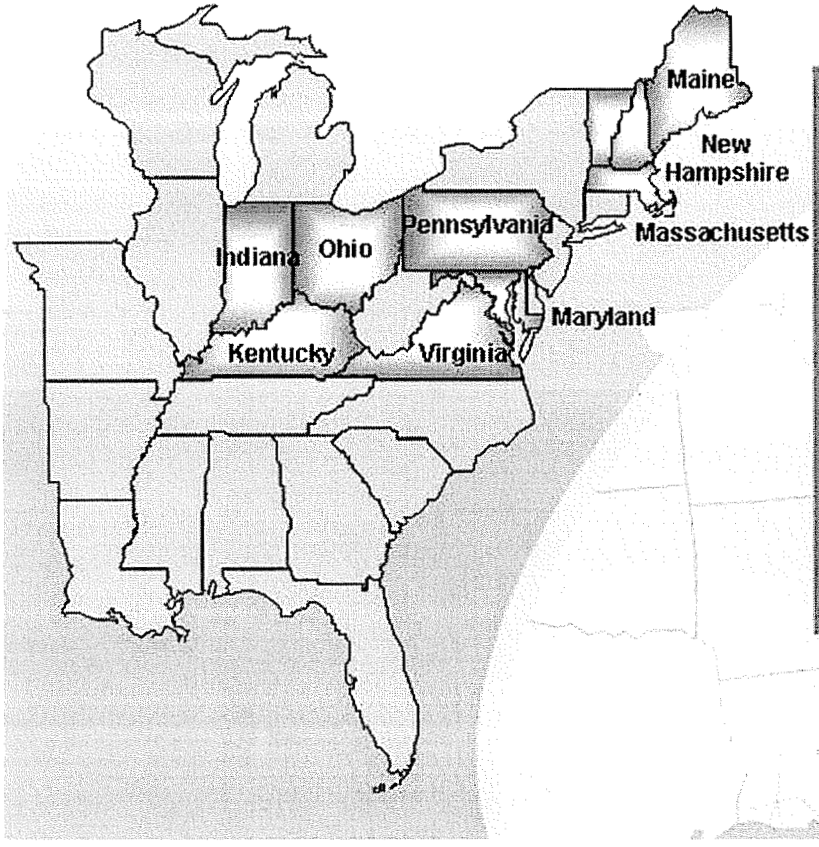
Gas Distribution Operations

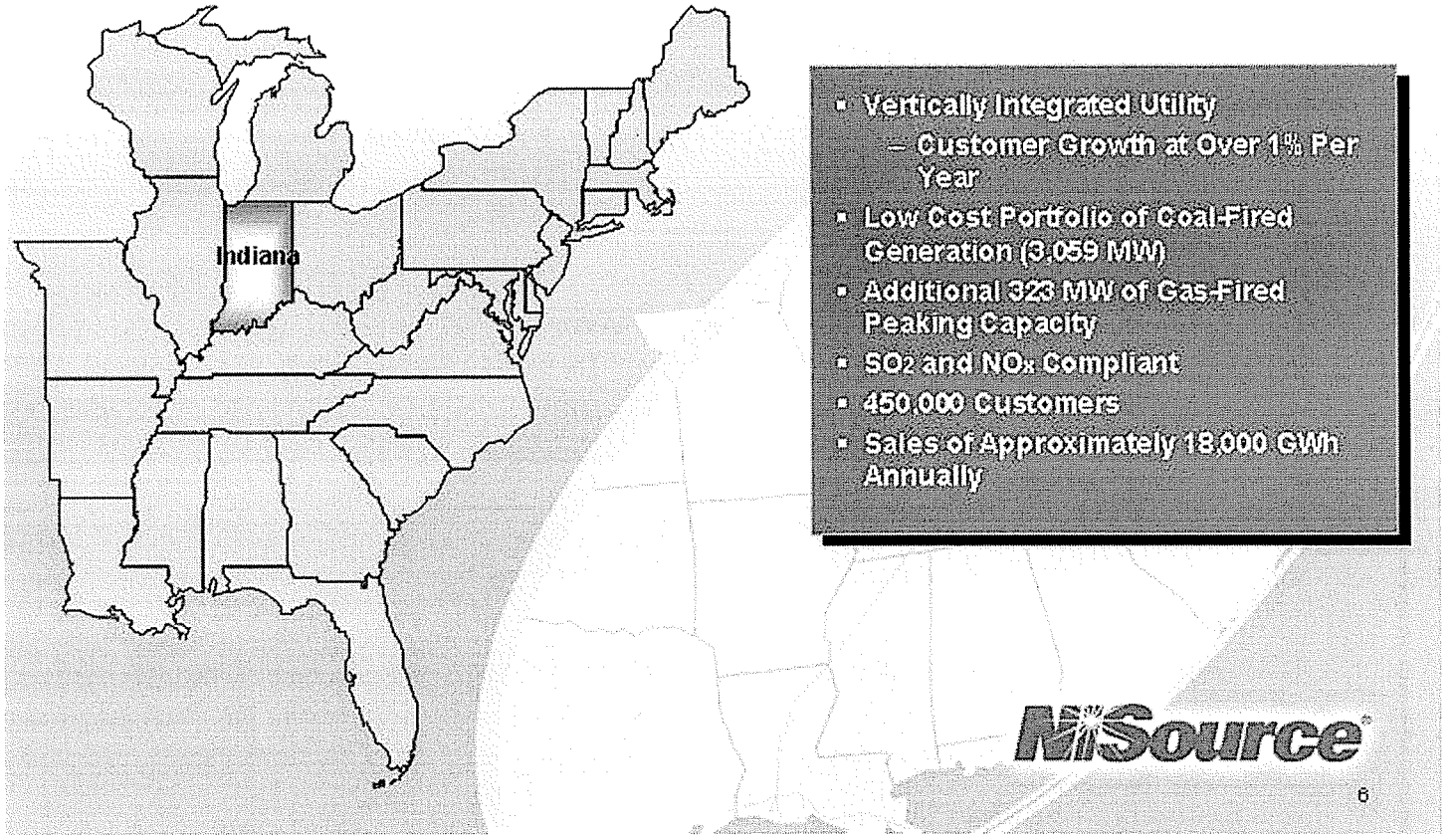


- Third Largest Gas Distribution Company in the U.S.
  - 3.3 Million Customers – 9 States and Growing at a Rate of 1 to 1.5% Per Year
  - Added Approximately 27,600 New Customers in 2005
  - Delivered Over 850 Bcf of Gas in 2005
- Favorable Overall Regulatory Environment
  - Customer Choice in All States
  - Strong Regulatory Relationships
- Vertical Integration With Transmission / Storage in Major Gas Markets

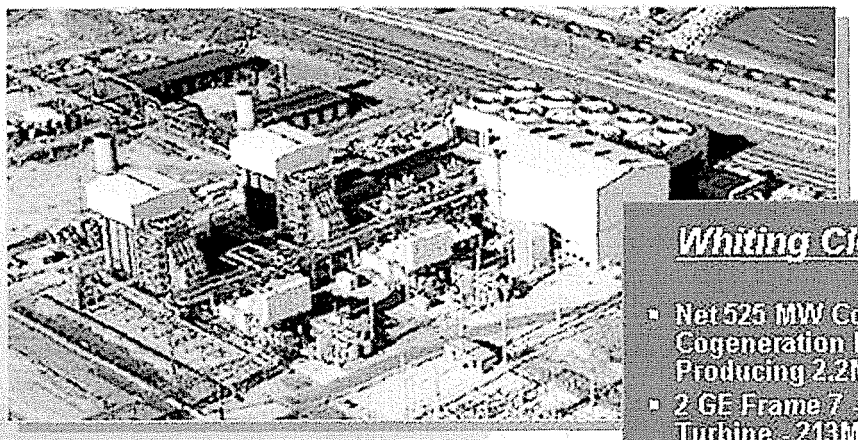
NiSource

5

Electric Operations



Other Operations



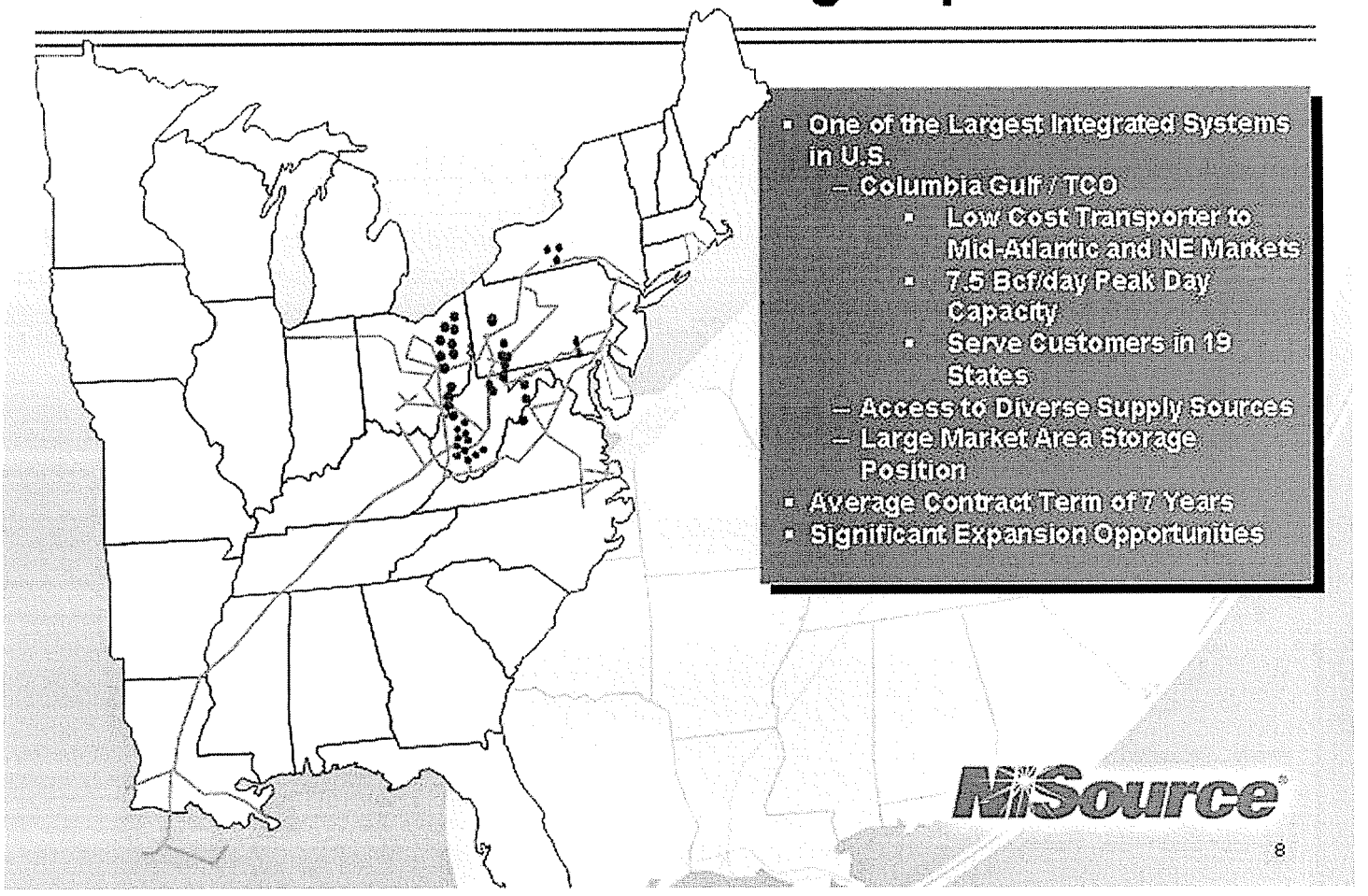
Whiting Clean Energy (WCE)

- Net 525 MW Combined Cycle Gas Cogeneration Facility, Capable of Producing 2.2M lbs/hr of Process Steam
- 2 GE Frame 7 - 166MW Each & 1 Steam Turbine - 213MW with Heat Rate of Approx. 8,000
- Merchant Plant Produces Electricity to Sell in the Wholesale Market and Provides Steam to BP Oil Refinery
- Located on BP Oil Property in Whiting, IN

NiSource

7

Transmission and Storage Operations



- One of the Largest Integrated Systems in U.S.
  - Columbia Gulf / TCO
    - Low Cost Transporter to Mid-Atlantic and NE Markets
    - 7.5 Bcf/day Peak Day Capacity
    - Serve Customers in 19 States
  - Access to Diverse Supply Sources
  - Large Market Area Storage Position
- Average Contract Term of 7 Years
- Significant Expansion Opportunities

NiSource Business Focus

Four-Point Platform For Growth

- Pipeline/Storage Expansion & Commercial Growth
- Regulatory & Commercial Initiatives
- Financial Management
- Process & Expense Management

9

Regulatory and Commercial Initiatives

- Bay State Gas Received Approval for a $11.1 Million Rate Increase
- Renewed Pilot Program for Customer Choice at Columbia Gas of Kentucky
- New Northern Indiana ARP Program Effective Through April 30, 2010
- NIPSCO MISO Charges can be Deferred as of July 31, 2006

Financial Management

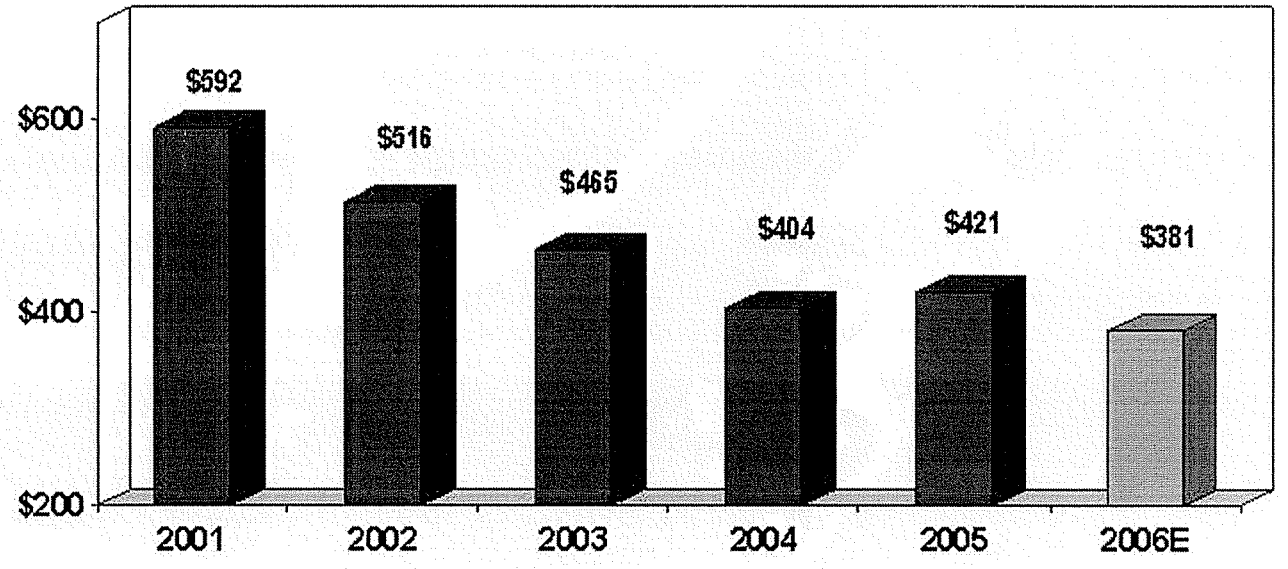
- NiSource Completed Refinancing of $2.4 Billion in Long-Term Debt in 2005
  - $43 Million of Annual Interest Expense Savings
- Working Capital Funding:
  - New 5-year $1.25 Billion Credit Agreement
  - Additional $300 Million Short-Term Credit Facility

NiSource

11

Financial Management

Interest Expense
(Millions of Dollars)



NiSource

12

Process and Expense Management

10-Year Outsourcing Agreement with IBM

- IBM to Provide Business Process and Support Services
- 10-year Agreement Provides NiSource with Approximately $395 Million in Net Operating and Capital Savings
- Additional Savings Opportunities (*e.g.* Work Management)

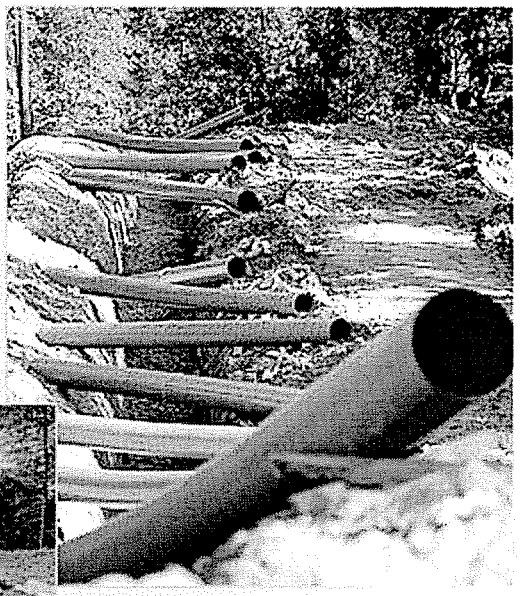
NiSource

13

Pipeline Expansion and Commercial Growth

Two Part Strategy

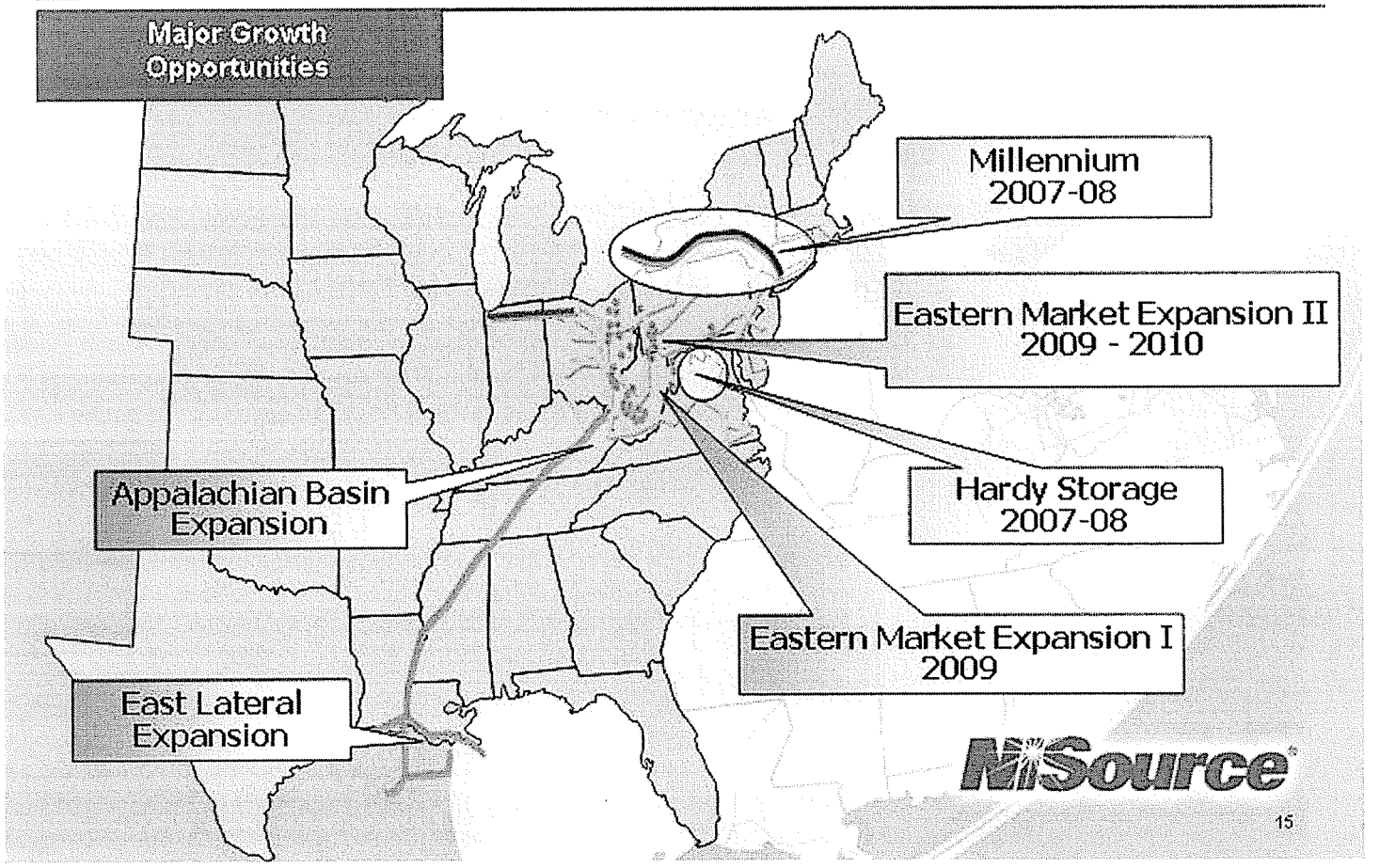
- **Maximize Value from Existing Storage and Pipeline Assets**
- **Disciplined Investment in Storage and Pipeline Expansion Projects**



NiSource

14

Pipeline Expansion and Commercial Growth



NiSource Today

Super Regional Regulated Energy Company

Strategic Assets Overlay a Growth Market From the Midwest to New England

Low Business Risk Profile
- *100% Regulated*
- *3.7 Million Distribution Customers*

Stronger/De-levered Balance Sheet with Stable Investment Grade Credit

Focus on Growth and Productivity Improvements

NiSource®

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

Amendment No. 1

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): February 17, 2006

NISOURCE INC.

(Exact Name of Registrant as Specified in Charter)

Delaware (State or Other Jurisdiction of Incorporation)	001-16189 (Commission File Number)	35-2108964 (IRS Employer Identification No.)

801 East 86th Avenue,
Merrillville, Indiana 46410
(877) 647-5990
(Address and Telephone Number
of Principal Executive Offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 5.02. DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF PRINCIPAL OFFICERS.

This amendment to the Current Report on Form 8-K of NiSource Inc. (the "Company") filed on February 23, 2006 is being filed to report that Mr. Peter McCausland, previously announced as being appointed to the Company's board of directors, was appointed on March 28, 2006 as a member of the following committees of the board of directors: Corporate Governance, Officer Nomination and Compensation and Environmental, Health and Safety.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: March 28, 2006

By: /s/ Gary W. Pottorff
Gary W. Pottorff
Corporate Secretary

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): March 7, 2006

NISOURCE INC.

(Exact Name of Registrant as Specified in Charter)

Delaware (State or Other Jurisdiction of Incorporation)	001-16189 (Commission File Number)	35-2108964 (IRS Employer Identification No.)

801 East 86th Avenue,
Merrillville, Indiana 46410
(877) 647-5990
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- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

Effective March 7, 2006, the Officer Nomination and Compensation Committee of the NiSource Inc. (the "Company") Board of Directors approved the financial goals for the 2006 NiSource Inc. Corporate Incentive Plan. The measure used to determine the funding of an incentive pool will be earnings per share from net operating earnings for the year ended December 31, 2006, after accounting for the cost of the incentive pool and assuming normal weather as reflected in the Company's 2006 financial plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: March 13, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

Download: [PDF] [RTF] [XLS]

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

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): February 17, 2006

NISOURCE INC.

(Exact Name of Registrant as Specified in Charter)

Delaware	001-16189	35-2108964
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

801 East 86th Avenue,
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(877) 647-5990

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☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

At a meeting of the NiSource Inc. (the "Company") board of directors on February 17, 2006, the board of directors, upon the recommendation of the Company's Corporate Governance Committee (the "Governance Committee"), approved an Amended and Restated NiSource Inc. Directors' Charitable Gift Program (the "Program"), which freezes eligibility in the Program such that no director elected on or after February 17, 2006 is eligible to participate in the Program. Under the Program, the Company makes a donation to one or more eligible tax-exempt organizations as designated by each eligible director. Organizations eligible to receive a gift under the program include charitable organizations and accredited United States institutions of higher learning. Individual directors derive no financial benefit from the program, as all deductions relating to the charitable donations accrue solely to the Company. A director's private foundation is not eligible to receive donations under the program.

A copy of the Amended and Restated NiSource Inc. Directors' Charitable Gift Program is attached to this Current Report as exhibit 10.1 and is incorporated by reference into this Item 1.01.

ITEM 5.02. DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF PRINCIPAL OFFICERS.

As disclosed in the Company's Current Report on Form 8-K filed on August 26, 2005, Mr. John W. Thompson resigned from the board of directors effective as of August 24, 2005. Mr. Thompson's term as a director was to expire at the annual meeting of stockholders of the Company in 2008. At a meeting of the board of directors on February 17, 2006, the Company's board of directors, upon the recommendation of the Company's Governance Committee, appointed Mr. Peter McCausland to fill the vacancy created by Mr. Thompson's resignation. The board of directors has not yet determined the board committees on which Mr. McCausland will serve.

Mr. McCausland, age 56, is the Chairman and Chief Executive Officer of Airgas, Inc., a distributor of industrial, medical and specialty gases, welding equipment and safety supplies, a position he has held since 1987. In addition, Mr. McCausland holds in excess of 10% of the outstanding stock of Airgas, Inc. The Company and its subsidiaries use certain of the products sold by Airgas, Inc. in their business operations from time to time and purchase such products from Airgas, Inc. in the ordinary course of business. In 2005, the Company's total purchases of products from Airgas, Inc. were approximately $428,904.

A copy of the press release announcing the appointment of Mr. McCausland and including additional information regarding his background and experience is attached hereto as exhibit 99.1.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

Exhibit Number	Description
10.1	Amended and Restated NiSource Inc. Directors' Charitable Gift Program
99.1	Press Release, dated February 22, 2006

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NiSource Inc.
(Registrant)

Date: February 23, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller

EXHIBIT INDEX

Exhibit Number	Description
10.1	Amended and Restated NiSource Inc. Directors' Charitable Gift Program
99.1	Press Release, dated February 22, 2006

Exhibit 10.1

NISOURCE INC.
DIRECTORS' CHARITABLE GIFT PROGRAM

1. PURPOSE OF THE PROGRAM

Under the NiSource Inc. Directors' Charitable Gift Program (**Program**), NiSource Inc. (**Company**) will make a donation on behalf of each eligible Director, in the Director's name, to the eligible tax-exempt organization(s) (**Donee(s)**) selected by the Director. The purpose of the Program is to acknowledge the service of the Company's Directors, to recognize the interest of the Company and its Directors in supporting worthy charitable organizations and institutions of higher learning and to enhance the Company's ability to continue to attract and retain highly qualified individuals to serve as Directors.

2. ELIGIBILITY

All persons serving as Directors of the Company as of February 16, 2006, other than Directors who are current or former employees of the Company or any of its subsidiaries, shall be eligible to participate in the Program. All Directors who join the Company's Board of Directors after that date shall not be eligible to participate in the Program.

3. DONATION AMOUNT

While serving as a Director, the donation amount for a Director will be determined based on the Director's completed years of Board service, in accordance with the following schedule.

Completed Years of Service	Cumulative Donations
Less than 5	$0
5-9	$125,000
10 or more	$250,000

Notwithstanding this schedule, a Director who has completed at least five years of service will be treated as having served for 10 or more years if he or she terminates Board service as a result of death, disability or mandatory retirement.

4. RECOMMENDATION OF DONATION

At any time after a Director becomes eligible to participate in the Program, he or she may make a written recommendation to the Company, on a form provided by the Company for this purpose, designating the Donee(s) which he or she recommends as the recipient(s) of the Company donation to be made on his or her behalf. A Director may revise or revoke any such recommendation prior to

payment of the donation by signing a new recommendation form and submitting it to the Company. Each eligible Director may choose one Donee or several Donees to receive a Company donation, provided that each Donee must be recommended to receive a donation of at least $25,000.

5. DONEES

To be eligible to receive a donation, a recommended organization must be a charitable organization or an accredited United States institution of higher learning and such charitable organization or institution of higher learning must initially, and at the time a donation is to be made, qualify to receive tax-deductible donations under the Internal Revenue Code. An organization or institution will be approved unless it is determined, in the exercise of good faith judgment, that a donation to the organization or institution would be detrimental to the best interests of the Company. A Director's private foundation is not eligible to receive donations under the Program.

6. TIMING OF DONATION

Each donation made on a Director's behalf will be made by the Company as soon as is practicable after the Company receives the Director's recommendation, the Director completes the requisite number of years of service, and the Company confirms the eligibility of the Donee, or at such later date as the Director may specify.

7. FUNDING AND PROGRAM ASSETS

The Company currently intends not to fund the Program. However, if in the future the Company elects to fund the Program in any manner, neither the Directors nor their recommended Donee(s) shall have any rights or interests in any assets of the Company identified for such purpose. Nothing contained in the Program shall create, or be deemed to create, a trust, actual or constructive, for the benefit of a Director or any Donee recommended by a Director to receive a donation, or shall give, or be deemed to give, any Director or recommended Donee any interest in any assets of the Program or the Company.

8. AMENDMENT OR TERMINATION

The Board of Directors of the Company, may at any time, without the consent of the Directors participating or eligible to participate in the Program, amend, suspend or terminate the Program.

9. ADMINISTRATION

The Program shall be administered by the officers of the NiSource Charitable Foundation or any other employees of the Company or its subsidiaries designated

by the Chairman of the Company (**Committee**). The Committee shall have plenary authority in its discretion, but subject to the provisions of the Program, to prescribe, amend and rescind rules, regulations and procedures relating to the Program. The determinations of the Committee on the foregoing matters shall be conclusive and binding on all interested parties.

10. GOVERNING LAW

The Program shall be construed, enforced and administered according to the laws of the State of Indiana, other than the conflicts of law provisions thereof.

11. EFFECTIVE DATE

The effective date of the amended and restated Program is January 27, 2006. The recommendation of any individual Director will be effective when he or she completes and submits to the Committee a written recommendation on the form provided for that purpose.

12. SUPERSEDES PREVIOUS PROGRAM

The terms of this Program supersede the terms of a similar program that was adopted in 1994 by a predecessor to the Company (**Previous Program**). Donations made by the Company's predecessor on behalf of a particular Director under the Previous Program shall count against that Director's cumulative donations under section 3 of this Program.

Exhibit 99.1

NEWS

NiSource®

801 E. 86th Avenue
Merrillville, IN 46410

FOR IMMEDIATE RELEASE
February 22, 2006

FOR ADDITIONAL INFORMATION

Media
Kris Falzone
Vice President, Corporate Communications
(219) 647-5581
klfalzone@nisource.com

Carol Churchill
Director, Corporate Communications
(888) 696-0481
cchurchill@nisource.com

Investors
Randy Hulen
Director, Investor Relations
(219) 647-5688
rhulen@nisource.com

Rae Kozlowski
Manager, Investor Relations
(219) 647-6083
ekozlowski@nisource.com

NiSource elects Peter McCausland to Board of Directors

MERRILLVILLE, Ind. — The Board of Directors of NiSource Inc. (NYSE: NI) has elected Peter McCausland, Chairman and Chief Executive Officer of Airgas, Inc., to the NiSource Board.

"The NiSource board is honored to have Peter McCausland join our ranks," said Gary L. Neale, Chairman of the Board. "Peter's knowledge of industry, his understanding of financing and the law, and his success in building a business from the ground up complement the experiences of our other independent board members very well."

Airgas, Inc. (NYSE: ARG) is the largest distributor of industrial, medical and specialty gases and welding equipment and one of the largest distributors of safety supplies in the United States. McCausland founded Airgas, Inc. in 1982 and has been the chairman and CEO since 1987. Before starting the firm, he served as general counsel for MG Industries, Inc., an industrial gas producer. He also was a partner in the law firm of McCausland, Keen and Buckman, which specialized in mergers, acquisitions and financings.

McCausland's term on the NiSource board is scheduled to expire on the date of the 2008 Annual Meeting of Stockholders. He fills a vacancy on the board.

-more-

NiSource elects Peter McCausland to Board of Directors
Page 2

About NiSource
NiSource Inc. (NYSE: NI), based in Merrillville, Ind., is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.8 million customers located within the high demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Information about NiSource and its subsidiaries is available via the Internet at http://www.nisource.com .

Forward-Looking Statements
This news release includes 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. Those statements include statements regarding the intent, belief or current expectations of NiSource Inc. and its management. Although NiSource believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the effectiveness of NiSource's outsourcing initiative; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk.

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BEFORE THE PUBLIC SERVICE COMMISSION
CASE NO. 2000-129
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JUNE 30, 2000

From the Order at Page 25:

CKY to file service outage reports.

Response:

See attached Service Outage Report for 2006

Columbia Gas of Kentucky, Inc.
Service Outages - 2006

Location - Date	# of customers	What occurred	Time with out service
653 Mt. Vernon Road Fayette County 15-Jan-06	1	Property owner damaged main while installing drain lines. Gas was shut off at 7:42 PM to make repairs. Customer had service restored by 11:55 PM.	4 hours and 13 minutes
3051 Kirklevington Drive Fayette County 2-Mar	1	Contractor damaged a main line while excavating. Gas was shut off at 12:26 PM. Customer had service restored by 8:27 PM	8 hours and 1 minute
Lake Wales Court Fayette County 13-Dec	97	Gas was shut off for a main line repair at 11:27 AM. Gas service was restored to all customers that were home by Midnight.	12 hours 33 minutes

BEFORE THE PUBLIC SERVICE COMMISSION
CASE NO. 2000-129
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JUNE 30, 2000

From the Order at B-5:

A report that identifies professional personnel transferred from Columbia of Kentucky to Columbia Energy, NiSource, or any of the non-utility subsidiaries. Included should be a brief description of the duties performed while employed by Columbia of Kentucky and those to be performed subsequent to the transfer. This report will also include the years of service at Columbia of Kentucky and the salaries of professional employees transferred from Columbia of Kentucky to Columbia Energy, NiSource, or its subsidiaries.

Response:

No professional employees have transferred from Columbia of Kentucky to Columbia Energy, NiSource or any of the non-utility subsidiaries.

BEFORE THE PUBLIC SERVICE COMMISSION
CASE NO. 2000-129
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JUNE 30, 2000

From the Order at A-6:

NiSource will provide a report to the PSC detailing CEG's and CKY's proportionate shares of NiSource's total assets, total operating revenues, operating and maintenance expenses, and number of employees.

Response:

This information is duplicated in part by NiSource's Annual Report on Form U5S. The U5S contains consolidating financial statements from which proportionate shares of total assets, total operating expenses, and O&M expenses can be determined. Information regarding number of employees is not duplicated and is therefore attached.

Columbia Energy Group and Columbia of Kentucky
Proportionate Shares
For the Quarter Ended Decemeber 31, 2006

	Columbia of Kentucky		Columbia Energy Consolidated		NiSource Inc.	
Gross Revenue	$ 167,702	2.24%	$ 3,685,144	49%	$ 7,490,079	100%
Operating & Maintenance Expenses	$ 26,615	1 92%	$ 803,019	58%	$ 1,389,477	100%
Employees	130	1.75%	3,334	45%	7,439	100%

BEFORE THE PUBLIC SERVICE COMMISSION
CASE NO. 2000-129
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JUNE 30, 2000

From the Order at B-5:

Annual balance sheets and income statements of any non-consolidated subsidiary of CEG or NiSource.

Response:

See Attached.

Hardy Storage Company, LLC
Statement of Income - Unaudited
For the Month Ended December 31, 2006

	December	YTD
Revenue:		
Transportation	$ -	$ -
Storage	-	-
OGDR & ACA	-	-
Trackers & Other Items Not Affecting Income	-	-
Total Service Revenue	-	-
Gains on Disposition of Property	-	-
Partnership Earnings	-	-
Other - Other Operating Revenue	-	-
Total Operating Revenue	-	-
Expenses:		
Gas Supply	-	-
Loss on Disposition of Property	-	-
Operation & Maintenance	-	-
Tracker Expense	-	-
Depreciation	-	-
Taxes Other Than Income	-	-
Total Operating Expenses	-	-
Operating Income	-	-
Other Income:		
Interest Income on Excess Cash	6,216.14	9,642.97
Interest Income on WGL/Hampshire Discount	-	-
AFUDC - Equity (41910000)	-	-
AFUDC - Equity Tax Gross-up (40744000)	-	-
Total Other Income	6,216.14	9,642.97
AFUDC - Debt	(312,357.69)	(559,922.42)
Less Other Interest Expense		-
Earnings Before Interest & Taxes (EBIT)	318,573.83	569,565.39
Interest Expense	400,242.65	762,759.97
Income Before Income Taxes	(81,668.82)	(193,194.58)
Income Taxes:		
State Income Taxes:		
Current	(7,350.00)	(17,387.00)
Deferred	-	-
Federal Income Taxes:		
Current	(26,011.00)	(61,532.00)
Deferred	-	-
Total Income Taxes	(33,361.00)	(78,919.00)
Net Income	$ (48,307.82)	(114,275.58)

Hardy Storage Company, LLC
Balance Sheet - Unaudited
As of October 31, 2006 and December 31, 2006

	October, 2006	December, 2006	Difference
Property, Plant & Equipment			
Project Expenditures	$ 83,602,308.16	$ 98,649,738.75	$ 15,047,430.59
Less Accumulated Depreciation	-	-	
Net Property, Plant & Equipment	83,602,308.16	98,649,738.75	15,047,430.59
Current Assets			
Cash	1,536,020.88	294,735.31	(1,241,285.57)
Accounts Receivable Detail:			
TCO	-	-	-
Piedmont	-	-	-
McJunkin Appalachian	2,217.16	2,217.16	-
Chesapeake	-	900,000.00	900,000.00
Hampshire Gas/WGL	993,738.00	993,738.00	-
Total Accounts Receivable	995,955.16	1,895,955.16	900,000.00
Deferred Income Taxes	-	-	-
Regulatory Assets	-	-	-
Other Current Assets	10,275,461.67	-	(10,275,461.67)
Total Current Assets	12,807,437.71	2,190,690.47	(10,616,747.24)
Other Assets			
Regulatory Asset - AFUDC Equity (18230000)	934,879.00	934,879.00	-
Cash distributions of deferred income tax benefits	-	-	-
Hampshire Gas/WGL	993,738.00	993,738.00	-
Unamortized Debt Expense	2,663,517.99	2,679,747.64	16,229.65
Total Other Assets	$ 4,592,134.99	$ 4,608,364.64	$ 16,229.65
Total Assets	**101,001,880.86**	**105,448,793.86**	**4,446,913.00**
Liabilities and Partners' Equity			
Columbia Hardy's Equity - Capital Contribution	$ 29,961,000.00	$ 29,961,000.00	$ -
Columbia Hardy's Equity - Income Tax Credit	(29,058.50)	(68,518.00)	(39,459.50)
Columbia Hardy's Equity - Distribution	(29,961,000.00)	(29,961,000.00)	-
Piedmont Hardy's Equity - Capital Contribution	29,961,000.00	29,961,000.00	-
Piedmont Hardy's Equity - Income Tax Credit	(29,058.50)	(68,518.00)	(39,459.50)
Piedmont Hardy's Equity -Distribution	(29,961,000.00)	(29,961,000.00)	-
Total Partnership Equity	(58,117.00)	(137,036.00)	(78,919.00)
Columbia Hardy's Portion Retained Earnings	634,768.22	577,630.43	(57,137.79)
Piedmont Hardy's Portion Retained Earnings	634,768.22	577,630.43	(57,137.79)
Total Retained Earnings	1,269,536.44	1,155,260.86	(114,275.58)
Total Partners' Equity	1,211,419.44	1,018,224.86	(193,194.58)
Long Term Debt	56,995,661.70	81,495,195.28	24,499,533.58
Total Capitalization	58,207,081.14	82,513,420.14	24,306,339.00
Short Term Debt	8,125,519.14	-	(8,125,519.14)
Liabilities:			
Current Liabilities			
Accounts Payable	$ 31,423,630.01	$ 19,612,776.07	$ (11,810,853.94)
Estimated Rate Refunds	-	-	-
Accrued Taxes	-	-	-
Accrued Interest	-	-	-
Regulatory Liabilities	-	-	-
Estimated Supplier Obligations			
Other	323,295.57	400,242.65	76,947.08
Total Current Liabilities	31,746,925.58	20,013,018.72	(11,733,906.86)
Noncurrent Liabilities & Deferred Credits			
Deferred Income Taxes	934,879.00	934,879.00	-
Regulatory Liabilities	-	-	-
Investment Tax Credits	-	-	-
PostRetire Benefits other than Pensions	-	-	-
Deferred Credits	1,987,476.00	1,987,476.00	-
Total Capitalization & Liabilities	**$ 101,001,880.86**	**$ 105,448,793.86**	**$ 4,446,913.00**
			-

Chicago Southshore Railroad
INCOME STATEMENT
For the Month Ending December 31, 2006

	PERIOD TO DATE				
	Actual	*Curr Budget*	*Budget Var*	*Prior Year*	*Pr Yr Var*
RAILWAY OPERATING REVENUES:					
Revenues	1,468,995	1,499,180	(30,185)	1,535,105	(66,110)
Other Freight Services	28,018	46,000	(17,983)	60,515	(32,498)
Switching, Allowances & Refund	(33,478)	(3,334)	(30,144)	(82,283)	48,805
Total Railway Operating Revenues	1,463,534	1,541,846	(78,312)	1,513,337	(49,803)
RAILWAY OPERATING EXPENSES:					
Ways & Structures	148	27,108	26,960	(28)	(176)
Equipment	149,423	113;848	(35,574)	110,767	(38,655)
Transportation	413,406	407,626	(5,779)	531,415	118,010
Maintenance of Way	149,208	143,414	(5,795)	144,658	(4,550)
General & Administration	300,664	262,503	(38,161)	429,383	128,719
Depreciation	74,998	51,956	(23,042)	48,159	(26,839)
Total Railway Operating Expenses	1,087,847	1,006,455	(81,391)	1,264,355	176,509
Income From Railway Operations	375,688	535,391	(159,703)	248,981	126,706
OTHER INCOME:					
Other Income	78,704	44,060	34,644	62,794	15,910
Railway Income & Other Income	454,392	579,451	(125,059)	311,775	142,616
OTHER EXPENSE:					
Interest Expense	127,046	62,104	(64,942)	89,543	(37,503)
Franchise Rights Fee Paid NICTD	91,897	104,167	12,270	93,662	1,765
Other Expenses	23,806	0	(23,806)	3,840	(19,966)
Total Other Expenses	242,749	166,271	(76,478)	187,045	(55,704)
NET INCOME	211,643	413,180	(201,538)	124,730	86,912

x.40

84 657.20

Chicago Southshore Railroad
BALANCE SHEET
For the Twelve Months Ending December 31, 2006

ASSETS

CURRENT ASSETS:			
Cash & Cash Equivalents		7,278,663	
Accounts Receivable:			
Trade	2,346,202		
Foreign Line	1,288,299		
Others	81,872		
	3,716,373		
Less Allowance For Doubtful Accounts	(10,000)		
Net Accounts Receivable		3,706,373	
Prepaid Expenses		356,894	
Materials & Supplies		302,903	
Other Current Assets		0	
Total Current Assets		11,644,834	
PROPERTY, PLANT & EQUIPMENT	25,860,298		
Less Accumulated Depreciation	(9,661,075)		
Net Plant, Property & Equipment		16,199,223	
OTHER ASSETS		0	
ORGANIZATIONAL EXPENSES		0	
TOTAL ASSETS			27,844,056

Chicago Southshore Railroad
BALANCE SHEET
For the Twelve Months Ending December 31, 2006

LIABILITIES & PARTNERS' EQUITY

CURRENT LIABILITIES:			
Current Portion of LT Debt		1,780,964	
Accounts Payable:			
Trade	372,962		
Foreign Lines	3,109,715		
Others	133,452		
Total Accounts Payable		3,616,129	
Accrued Expenses:			
Interest	0		
Compensation	402,877		
Payroll Taxes	25,684		
Other Taxes	208,715		
NICTD	11,987		
Other	322,408		
Total Accrued Expenses		971,672	
Other Current Liabilities		511	
Total Current Liabilities		6,369,276	
LT DEBT, NET OF CURRENT		14,273,387	
OTHER LIABILITIES & RESERVES		156,145	
TOTAL LIABILITIES			20,798,808
PARTNERS' EQUITY:			
Common Units	500,000		
RETAINED EARNINGS-PRIOR	60,642,960		
Distributions - Preferred	(480,000)		
Distributions - Common	(30,370,415)		
Distributions - For Taxes	(29,493,890)		
RETAINED EARNINGS-CURRENT YEAR	6,246,593		
Total Partners' Equity			7,045,249
TOTAL LIABILITIES & PARTNERS' EQUITY			27,844,056

(480 000)
(30 370 415)
(29 493 890)
(60 344 305)

60 642 960
6 246 593
66 889 553

Pre-Audit Final

Illinois Indiana Development Co.
Income Statement
For the Twelve Months Ending December 31, 2006

	Current Period Actual	% of Total Revenue	Year to Date Actual	% of Total Revenue
Operating Revenue				
Miscellaneous Revenue				
Trackage Right Fees	5,270.40	100.0%	248,803.20	100.0%
Total Miscellaneous Revenue	5,270.40	100.0%	248,803.20	100.0%
Total Operating Revenue	5,270.40	100.0%	248,803.20	100.0%
Operating Expenses				
Corporate Overhead				
Professional Services				
Audit & Tax Fees	300.00	5.7%	3,730.00	1.5%
APCI	1,000.00	19.0%	12,000.00	4.8%
Total Professional Services	1,300.00	24.7%	15,730.00	6.3%
Other Overhead Costs				
Insurance Premiums	(31,565.68)	(598.9%)	3,436.32	1.4%
Miscellaneous	3,665.34	69.5%	39,062.01	15.7%
Property Taxes	39,600.00	751.4%	67,650.00	27.2%
Total Other Overhead Costs	11,699.66	222.0%	110,148.33	44.3%
Total Corporate Overhead	12,999.66	246.7%	125,878.33	50.6%
Depreciation & Amortization				
Depreciation Exp - Freight Track	5,271.10	100.0%	63,253.20	25.4%
Depreciation Exp - Misc Structures	2,403.64	45.6%	28,843.68	11.6%
Amortization Exp - Loan Origination Fee	65.84	1.2%	790.08	0.3%
Total Depreciation & Amortization	7,740.58	146.9%	92,886.96	37.3%
Income From Railway Operations	(15,469.84)	(293.5%)	30,037.91	12.1%
Other Income & Expenses				
Property Rents	(23,381.50)	(443.6%)	(266,578.00)	(107.1%)
Pole, Wire & Other Easements	(14,838.02)	(281.5%)	(120,085.94)	(48.3%)
Interest Income	(5,897.00)	(111.9%)	(30,733.32)	(12.4%)
Interest Expense - Bank	1,138.05	21.6%	14,690.17	5.9%
Total Other Income & Expenses	(42,978.47)	(815.5%)	(402,707.09)	(161.9%)
Income Before Income Tax	27,508.63	521.9%	432,745.00	173.9%
Net Income (Loss)	27,508.63	521.9%	432,745.00	173.9%

Printed: 01/19/07

Illinois Indiana Development Co.
Balance Sheet
For the Twelve Months Ending December 31, 2006

Assets

Current Assets

Cash & Cash Equivalents		
Cash In Bank-LaSalle Checking	190,915.04	
LaSalle Bank - Savings	1,519,690.82	
Total Cash & Cash Equivalents		1,710,605.86
Other Receivables		
Accrued Receivables	107,458.55	
Total Other Receivables		107,458.55
Total Accounts Receivable		107,458.55
Net Account Receivables		107,458.55
Other Current Assets		
Other Current Assets	38,000.00	
Total Other Current Assets		38,000.00
Total Current Assets		1,856,064.41

Property, Plant and Equipment

Fixed Assets		
Land - Nonoperating	1,600,995.09	
Track	1,212,323.91	
Miscellaneous Structures	576,872.57	
Total Fixed Assets		3,390,191.57
Accumulated Depreciation		
Accum Depr - Misc. Structure	91,338.32	
Accum Depr - Track	262,495.32	
Total Accumulated Depreciation		353,833.64
Total Property, Plant & Equipment		3,036,357.93

Intangible Assets

Asset		
Loan Origionation Fees	5,530.50	
Total Intangible Assets		5,530.50
Accumulated Amortization		
Accum Amort - Loan Origionation Fees	2,436.08	
Total Accumulated Amortization		2,436.08
Net Intangible Assets		3,094.42
Total Assets		4,895,516.76

Illinois Indiana Development Co.
Balance Sheet
For the Twelve Months Ending December 31, 2006

Liabilities & Stockholders Equity

Current Liabilities

Current Portion of Long Term Debt			
Short Term Bank Debt	54,287.41		
Total Current Portion of Long Term Debt		54,287.41	
Accrued Expenses			
Other Accrued Expenses			
Accrued Payables	216.97		
Customer Deposits	49,600.42		
Accrued Professional Fees	2,805.00		
Accrued Property Tax	42,564.81		
Total Other Accrued Expenses		95,187.20	
Total Accrued Expenses		95,187.20	
Total Current Liabilities		149,474.61	
Long Term Debt Net of Current Portion			
Long Term Bank Debt		174,500.03	
Total Long Term Debt		174,500.03	
Total Liabilities		323,974.64	
Stockholders' Equity			
Partners' Contribution - JOF		1,268,166.00	
Partners' Contribution - South Shore		1,902,249.00	
Distributions - JOF		(97,600.00)	
Distributions - South Shore		(146,400.00)	
Retained Earnings		1,212,382.12	40%
Current Year Net Income		432,745.00	40%
Total Stockholders' Equity		4,571,542.12	
Total Liabilities & Equity		4,895,516.76	

Illinois Indiana Development Co.
Statement of Cash Flows
For the Twelve Months Ending December 31, 2006

	CP	YTD	
Operating Activities:			
Net Income (Loss)	27,508.63	432,745.00	
Adjustments:			
Depreciation Expense	7,740.58	92,886.96	
Changes In Assets & Liabilities			
Change in Accounts Receivable	(11,379.65)	25,884.70	
Change in Prepaid Expenses	6,634.32	3,436.32	
Change in Other Assets	(6,500.00)	(38,000.00)	
Change in Accrued Expenses	(7,458.10)	37,343.21	
Total Adjustments	(10,962.85)	121,551.19	
Net Cash Provided from Operating Activities	16,545.78	554,296.19	
Distributions - JOF	0.00	(68,800.00)	172 000.00
Distributions - SouthShore	0.00	(103,200.00)	
Long Term Debt	(4,317.35)	(50,289.84)	
Net Cash Used - Financing Activities	(4,317.35)	(222,289.84)	
Net Increase in Cash	12,228.43	332,006.35	
Cash & Equivalents - Beginning of Month/Year	1,698,377.43	1,378,599.51	
Cash & Equivalents - End of Year	1,710,605.86	1,710,605.86	

Southern Dunes Joint Venture (Wellingshire)
Detailed Income Statement
Period Ending December 31, 2006

	2006 Actual													2005 Actual	2005-2006
	January	February	March	April	May	June	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	Year-to-Date	Year-to-Date	Variance
Income															
LOTS SOLD - PAWNEE 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
LOTS SOLD - PAWNEE 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - PAWNEE 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - PAWNEE 4	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - PAWNEE 5	0.00	0.00	0.00	0.00	44,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	44,000.00	0.00	44,000.00
LOTS SOLD - SENECA POINTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - HURON LAKE 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - HURON LAKE 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - HURON LAKE 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - WICHITA HILLS 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - WICHITA HILLS 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - HUDSON BAY 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - HUDSON BAY 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - WHISPERING FALLS 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - CHIPPEWA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	83,000.00	0.00	0.00	0.00	83,000.00	0.00	83,000.00
Lots Sold - Ashbury Par 1 & 25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	300,000.00	(300,000.00)
Lots Sold - Cheyenne Sec 1	294,000.00	147,000.00	0.00	198,000.00	294,000.00	0.00	343,000.00	0.00	0.00	98,000.00	0.00	0.00	1,372,000.00	682,000.00	690,000.00
Lots Sold - Cheyenne Sec 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	49,000.00	49,000.00	0.00	49,000.00
Lots Sold - Cheyenne Sec 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Shawnee 1 & 2(Texas)	0.00	0.00	0.00	218,000.00	0.00	0.00	0.00	103,000.00	0.00	0.00	0.00	0.00	321,000.00	0.00	321,000.00
LOTS SOLD - SHAWNEE 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Villas Lakota	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOTS SOLD - AMOCO LAND	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Arapaho Ridge 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Arapaho Point 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	304,761.90	(304,761.90)
Lots Sold - Arrowhead crossing 1	65,000.00	0.00	0.00	0.00	0.00	0.00	0.00	80,000.00	70,124.64	0.00	0.00	0.00	215,124.64	130,000.00	85,124.64
PAR 2 - COMMERCIAL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	50,000.00	0.00	0.00	0.00	0.00	50,000.00	0.00	50,000.00
Total Income	359,000.00	147,000.00	0.00	412,000.00	338,000.00	0.00	343,000.00	233,000.00	153,124.64	98,000.00	0.00	49,000.00	2,117,124.64	2,216,761.90	(99,637.26)
Cost of Lots Sold															
Lots Sold - Wichita Hills 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Lots Sold - Wichita Hills 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Pawnee 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Pawnee 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Pawnee 4	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Pawnee 5	0.00	0.00	0.00	0.00	16,335.25	907.00	0.00	0.00	0.00	0.00	0.00	0.00	17,242.25	0.00	17,242.25
LOT SOLD - SENECA POINTE Villas Par A	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOT SOLD - COMM PARCEL 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOT SOLD - COMM PARCEL 9A	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Huron Lake 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Huron Lake 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Huron Lake 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Hudson Bay 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Hudson Bay 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Hudson Bay 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Whispering Falls 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Chippewa	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	19,550.00	0.00	0.00	0.00	19,550.00	0.00	19,550.00
Lots Sold - Ashbury Par 1 & 25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	720.00	(720.00)
Lots Sold - Cheyenne Sec 1	235,254.20	125,059.20	0.00	168,718.83	250,118.40	0.00	248,111.20	0.00	0.00	65,124.74	0.00	0.00	1,118,423.84	488,170.50	624,252.84
Lots Sold - Cheyenne Sec 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	30,000.00	30,000.00	0.00	30,000.00
Lots Sold - Cheyenne Sec 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Shawnee 1 (Texas)	0.00	0.00	0.00	147,144.92	0.00	0.00	0.00	131,298.66	(54,078.24)	0.00	12,488.25	221.44	236,770.62	0.00	236,770.62
Lots Sold - Shawnee 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Villas Lake Lakota	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Arapaho Point 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Loop Road COS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Circle to Walker COS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Title - Weill to Lot 40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Title - Cross Bridge COS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
OTHER COS EXPENSES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Arapaho Ridge 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	634,650.79	(634,650.79)
Lots Sold - Arrowhead crossing 1	0.00	0.00	16,507.09	0.00	0.00	0.00	0.00	33,175.56	18,099.00	0.00	0.00	0.00	65,120.04	32,008.14	33,423.92
Total Cost of Lots Sold	235,254.20	125,059.20	16,507.09	318,389.92	266,453.65	907.00	248,111.20	164,472.21	(18,468.24)	65,124.74	12,488.25	30,221.44	1,493,103.25	1,059,275.42	(20,803.83)
Expenses															
EXP - WICHITA HILLS 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
EXP - WICHITA HILLS 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD PAWNEE II	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD PAWNEE III	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD PAWNEE IV	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD PAWNEE V	0.00	0.00	0.00	0.00	370.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	370.00	0.00	370.00

Southern Dunes Joint Venture (Wellingshire)
Detailed Income Statement
Period Ending December 31, 2006

	2006 Actual													2005 Actual	2006-2005
	January	February	March	April	May	June	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	Year-to-Date	Year-to-Date	Variance
EXP - SENECA POINTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - COMMERCIAL PARCEL 9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - COMMERCIAL PARCEL 9A	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD HURON LAKE 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD HURON LAKE 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD HURON LAKE 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD HUDSON BAY 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD HUDSON BAY 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD HUDSON BAY 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD WHISPERING FALLS 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD CHIPPEWA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	205.00	0.00	0.00	0.00	205.00	0.00	205.00
Lots Sold - Ashbury Park 1 & 25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD Cheyenne 1	1,050.00	600.00	0.00	700.00	6,000.00	0.00	1,220.00	0.00	0.00	300.00	0.00	0.00	1,831.88	3,700.00	(1,831.88)
EXP - LOT SOLD Cheyenne 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	162.00	162.00	0.00	162.00
EXP - LOT SOLD Cheyenne 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	150.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Shawnee 1 (Fenton)	0.00	0.00	0.00	300.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EXP - LOT SOLD SHAWNEE II	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Villas Lakeside	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Arapaho Point 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lots Sold - Arapaho Ridge 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Expenses	1,050.00	600.00	0.00	1,000.00	1,450.00	0.00	1,220.00	150.00	205.00	300.00	0.00	162.00	8,297.00	9,001.88	(1,724.88)
Gross Profit	$22,075.20	28,410.80	(18,597.08)	97,020.00	70,000.05	(507.00)	(0,618.00)	73,337.70	151,387.81	12,515.25	(12,146.25)	18,138.50	830,778.00	1,149,684.82	(319,743.23)
Operation Expenses															
Accounting Legal	0.00	1,617.50	3,788.00	180.00	319.00	327.00	3,021.00	368.50	0.00	1,404.00	610.50	451.00	20,980.50	16,163.12	3,817.38
Bank Service Charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	70.00	(70.00)
Depreciation Expense	3,161.00	3,161.00	3,161.00	2,577.76	2,577.76	16.70	2,033.26	2,330.26	2,138.26	2,308.26	2,308.26	2,308.26	28,605.84	35,706.00	(7,100.16)
Management Fees	9,020.00	4,150.00	1,520.00	12,000.00	10,140.00	0.00	10,220.00	5,640.00	1,690.00	2,840.00	0.00	1,470.00	59,010.00	56,302.65	(3,292.65)
Miscellaneous Expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	54.05	0.00	0.00	0.00	0.00	54.05	0.81	53.22
Media Entertainment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank Expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	24.00	(24.00)
Real Estate Taxes	0.00	0.00	(817.16)	19,299.73	552.19	0.00	0.00	0.00	0.00	0.00	10,145.50	0.00	29,179.69	25,410.42	3,769.28
UTILITIES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UTILITIES - 7405 BELMONT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BELMONT EXPENSES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,946.50	(2,946.50)
H.O.A. EXPENSES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	28,468.00	(28,468.00)
H.O.A. EXPENSE LIGHT LEASE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
H.O.A. EXP WATER COMPANY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MOWING/MAINTENANCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21,413.62	21,413.62	19,741.29	1,672.33
CONTRIBUTION EXP - SD SCHOOL LAND	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CONTRIBUTION EXP - SD SCHOOL FMV	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SCHEDULE TIRE - POLITICAL COMM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PERFORMANCE CERTIFICATION EXPENSE	0.00	0.00	37,240.89	0.00	0.00	118,630.00	0.00	0.00	87,700.62	0.00	4,002.92	(2,115.00)	165,293.30	125,084.02	39,308.21
Total Operating Expenses	11,981.00	8,188.50	51,292.73	34,724.52	13,589.34	119,133.53	17,960.26	8,420.82	91,939.88	8,650.26	17,397.18	23,565.88	345,884.93	312,827.04	32,057.89
Other Income													0.16	0.16	
WATER EXTENSION REFUNDS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	39,544.00	(39,544.00)
INTEREST EARNED	857.41	723.70	495.52	881.13	708.82	107.87	351.20	582.54	569.38	503.15	93.84	183.13	4,952.00	3,953.17	1,178.80
FARM INCOME	0.00	0.00	0.00	0.00	0.00	61,844.00	0.00	0.00	0.00	0.00	0.00	0.00	61,844.00	0.00	61,844.00
MISC INCOME - FORFEITED DEPOSIT 3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100,000.00	50,000.00	150,000.00	100,000.00	50,000.00
SD POOL INCOME	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17,301.00	17,301.00	17,251.00	750.00
RENTAL INCOME	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GAIN ON DISPOSITION - SCHOOL LAND	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Other Income	857.41	723.70	495.52	881.13	708.82	62,051.87	351.20	582.54	569.38	503.15	100,093.84	83,129.14	214,757.00	220,618.17	(5,861.17)
Other Expense															
SD POOL EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Other Expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	22,697.44	22,697.44	20,055.27	2,642.17
											0.00	22,697.44	22,697.44	20,055.27	2,642.17
Net Income	111,052.21	12,352.00	(67,394.89)	63,176.69	57,219.83	(57,991.69)	76,061.74	65,493.51	119,897.36	5,361.45	70,210.41	40,458.40	496,653.02	1,036,100.48	(539,247.46)

Southern Dunes Joint Venture (Wellingshire)
Balance Sheet at
December 31, 2006

		YEAR TO DATE		
		ACTUAL		
ASSETS		**2006**	**2005**	**VARIANCE**
CASH IN BANK - SAVINGS ACCOUNT		74,742	7,117	67,625
INTERCOMPANY		0	0	0
RETENTION		0	0	0
A/R TRADE		0	0	0
MISC. TRADE		0	0	0
A/R - CROSSMAN		0	0	0
INVENTORY WIP		4,370,885	4,301,638	69,247
LOT COST		0	0	0
LAND/AMOCO @ SD		0	0	0
HURON HOUSE		0	91,746	(91,746)
HURON HOUSE LAND		0	27,000	(27,000)
ACCUM DEPREC-HURON HOUSE		0	(11,666)	11,666
SIGNS		8,096	8,096	0
ACCUM DEPREC - SIGNS		(7,012)	(6,290)	(722)
CAHOKIA HOUSE		0	112,099	(112,099)
ACCUM DEPREC-CAHOKIA HOUSE		0	(10,901)	10,901
SOUTH BELMONT HOUSE		0	0	0
ACCUM DEPREC-BELMONT HOUSE		0	0	0
SD POOL		236,410	236,410	0
ACCUM DEPREC - SD POOL		(55,055)	(34,280)	(20,775)
SD POOL HOUSE		185,541	185,541	0
ACCUM DEPREC - SD POOL HSE		(12,492)	(7,735)	(4,757)
SD TENNIS COURT		27,690	27,690	0
ACCUM DEPREC - TENNIS CRT		(6,449)	(4,016)	(2,433)
SD WEIGHT EQUIP-WORKOUT RM		2,344	0	2,344
UNDEVELOPED LAND		3,808,083	4,419,154	(611,071)
DEVELOPED LAND HELD FOR SALE		1,121,101	663,999	457,101
	TOTAL ASSETS	**9,753,883**	**10,005,602**	**(251,719)**
LIABILITIES				
LOT DEPOSITS		150,000	100,000	50,000
	TOTAL LIABILITIES	**150,000**	**100,000**	**50,000**
SHAREHOLDER'S EQUITY				
RETAINED EARNINGS		0	0	0
CAPITAL - NISOURCE		8,414,258	7,896,207	518,050
DISTRIBUTION - NISOURCE		(1,664,677)	(1,458,590)	(206,087)
CAPITAL - RNTD		2,054,851	1,536,801	518,050
DISTRIBUTION - RNTD		(10,296,520)	(7,974,089)	(2,322,431)
CONTRIBUTION - RNTD		10,599,118	8,869,172	1,729,946
YTD NET INCOME		496,853	1,036,100	(539,247)
	TOTAL SHAREHOLDERS' EQUITY	**9,603,883**	**9,905,602**	**(301,719)**
	TOTAL LIABILITIES & EQUITY	**9,753,883**	**10,005,602**	**(251,719)**

BEFORE THE PUBLIC-SERVICE COMMISSION OF KENTUCKY
CASE NO. 2000-129
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JUNE 30, 2000

From the Order at page 25, Item 14:

Columbia Gas of Kentucky's current 3-year capital and O&M budgets, including an explanation for any reductions in a budget item greater than 10 percent.

Response:

Columbia Gas of Kentucky does not prepare 3 year budgets. Budgets are prepared for one year only.

The 2007 O&M budget is $27,735,048 which is an increase of 5.3 percent from the 2006 budget of $26,335,000.

The 2007 Capital budget is $12,403,000 which is an increase of almost 38 percent from the 2006 budget of $9,000,000. The increased budget is due to Columbia's program for accelerated replacement of unprotected steel and cast iron mains and other related infrastructure facilities.

BEFORE THE PUBLIC-SERVICE COMMISSION OF KENTUCKY
CASE NO. 2000-129
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
IN ORDER DATED JUNE 30, 2000

From the Order at page 25, Item 13:

Columbia of Kentucky should report annually its economic development activities and its actual expenditures for economic development activities and civic and charitable activities:

Response:

2006 economic development expenditures:

$ 21,360

2006 civic and charitable activities expenditures:

$ 318,015