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Certain types of natural gas risers, which are owned by customers, on Columbia of Ohio's distribution system have been evaluated under a study required by the PUCO and have been found prone to leak natural gas under certain conditions. On February 1, 2007, Columbia of Ohio announced plans to identify and replace these risers on its distribution system. As of March 31, 2008, Columbia of Ohio deferred $7.5 million of costs associated with the study and identification of these natural gas risers as a regulatory asset and currently has estimated approximately $120 million for the cost to identify and replace the risers. On October 26, 2007, Columbia of Ohio and the PUCO Staff filed a Joint Stipulation and Recommendation that provided for Columbia of Ohio's assumption of financial responsibility for the repair or replacement of customer-owned service lines and the replacement of risers prone to leak. In addition, the Stipulation provides for Columbia of Ohio to capitalize its investment in the service lines and risers, as well as the establishment of a tracking mechanism that would provide for the recovery of operating and maintenance costs related to Columbia of Ohio's capitalized investment and its expenses incurred in identifying risers prone to leak. On December 28, 2007, Columbia of Ohio entered into a Stipulation with the Ohio Consumers' Counsel and Ohio Partners for Affordable Energy, addressing the issues of Columbia of Ohio's authority to assume responsibility for repair or replacement of hazardous customer owned service lines, the establishment of accounting authority for costs related to such activities, and the establishment of a mechanism to recover such costs. The parties recommended approval of the Stipulation to the PUCO, and on April 9, 2008, the PUCO issued an order in this matter approving the Stipulation in all material respects. On April 23, 2008, Utility Service Partners, Inc. requested that the PUCO stay its order, pending the resolution of any applications on rehearing. Columbia of Ohio filed its response to the motion on April 28, 2008.

On December 28, 2007, Columbia of Ohio entered into a Stipulation with the Ohio Consumers' Counsel and PUCO Staff and other stakeholders resolving litigation concerning a pending Gas Cost Recovery audit of Columbia of Ohio. The Stipulation calls for an accelerated pass back to customers of $36.6 million that will occur from January 31, 2008 through January 31, 2009, generated through off-system sales and capacity release programs, the development of new energy efficiency programs for introduction in 2009, and the development of a wholesale auction process for customer supply to take effect in 2010. Approximately $12.7 million was passed back through March 2008. The Stipulation also resolves issues related to pending and future Gas Cost Recovery Management Performance audits through 2008. The PUCO approved this agreement on January 23, 2008.

Gas Transmission and Storage Operations Regulatory Matters

Significant FERC Developments. Columbia Gulf and Columbia Transmission are cooperating with the FERC on an informal, non-public investigation of certain operating practices regarding tariff services offered by those companies. Although the companies are continuing to cooperate with the FERC in an effort to reach a consensual settlement, it is likely that any settlement will require the payment of fines or refunds.

Eastern Market Expansion Project. On May 3, 2007, Columbia Transmission filed a certificate application before the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. This Eastern Market Expansion project is projected to add 97,000 Dth per day of storage and transportation capacity and is fully subscribed on a 15-year contracted firm basis. On January 14, 2008, the FERC issued a favorable order which granted a certificate to construct the project and the project is expected to be in service by spring 2009.

Appalachian Expansion Project. On February 29, 2008, Columbia Transmission filed an application before the FERC for approval to build a new 9,470 horsepower compressor station in West Virginia. This Appalachian Expansion Project will add 100,000 Dth per day of transportation capacity and is fully subscribed on a 15-year contracted firm basis. The project is expected to be in service in the fourth quarter of 2009.

Electric Operations Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

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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. The credits will continue at approximately the same annual level and per the same methodology, until the IURC enters a base rate order that approves revised Northern Indiana electric rates. 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; therefore, in times of high usage the credit may be more than $55.1 million. Credits amounting to $12.5 million and $13.7 million were recognized for electric customers for the first quarter of 2008 and 2007, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding of the administrative fees and certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first quarter of 2008 non-fuel cost credits of $0.9 million were deferred in accordance with the aforementioned orders. In addition, administrative, FERC and other fees of $1.8 million were deferred. In the first quarter of 2008 and 2007, MISO costs of $0.9 million and $2.5 million, respectively, were deferred.

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 on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to the start of the Day 2 Market. The resettlement began on June 9, 2007 and ended in January 2008. Certain charge types included in the resettlement were originally considered to be non-fuel and were recorded as regulatory assets, in accordance with previous IURC orders allowing deferral of certain non-fuel MISO costs. During the fourth quarter 2007, based on precedent set by an IURC ruling for another Indiana utility, Northern Indiana reclassified these charges, totaling $16.7 million, as fuel and included them in the fuel cost recovery mechanism in its latest FAC filing. Prior to the hearing for FAC-78 on April 17, 2008, several intervenors objected to a portion of the $16.7 million and Northern Indiana agreed to remove $7.6 million from the FAC filing. This amount represents the portion of the resettlement costs related to periods prior to December 9, 2005. The $7.6 million was recorded as a reduction to net revenues in the first quarter of 2008.

On September 14, 2007, MISO filed a tariff with the FERC outlining the development of an ASM. The ASM will allow participants to buy and sell operating reserves and regulation services that are essential to reliability. The pricing of these markets will be simultaneously co-optimized with the current energy markets with the intent to lower the overall cost of providing electric service. MISO is currently targeting the start of the ASM for September 2008. Northern Indiana is an active stakeholder in the process used in designing, testing and implementing the ASM and in developing the surrounding business practices. On January 18, 2008, Northern Indiana as part of a Joint Petition among several other Indiana utilities, filed a request to the IURC to participate in ASM and seek approval of timely cost recovery for the associated costs of participating. At this time, Northern Indiana is unable to determine what impact the ASM will have on its operations or cash flows.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana.

On January 30, 2008, the IURC approved a settlement agreement which was reached in October 2007 with the OUCC, LaPorte County and a group of Northern Indiana industrial customers to resolve questions relating to the costs paid by customers for power purchased by Northern Indiana versus the amount of these costs absorbed by Northern Indiana. The terms of the settlement call for Northern Indiana to make a one-time payment to resolve this question as it relates to power purchased from January 1, 2006 through September 30, 2007. The amount of the refund is set at $33.5 million and will be refunded February 2008 through July 2008. A reserve for the entire amount was recorded in the third quarter of 2007. Northern Indiana implemented a new "benchmarking standard" that will govern the allocation of costs for purchased power between customers and Northern Indiana. The benchmark defines the price below which customers will pay for power purchases and above which Northern Indiana must absorb a portion of the costs. The benchmark is based upon the costs of power generated by a hypothetical natural gas fired CCGT using gas purchased and delivered to Northern Indiana. Purchased power costs exceeding the benchmark amounted to $3.8 million in the first quarter of 2008. These costs were not passed through to customers, but were absorbed by Northern Indiana. This benchmark will likely result in Northern Indiana absorbing some purchased power costs that will reduce net revenues during future periods. The agreement also contemplates Northern Indiana adding generating capacity to its existing portfolio. The benchmark will be adjusted as new capacity is added. The added generating capacity will substantially reduce the amount of purchased power and mitigate the impact of the adjusted benchmark. Further, the settling parties agreed to support Northern Indiana's deferral and future recovery of carrying costs and depreciation associated with the acquisition of new generating facilities. In the approving order, the IURC dictated that, while the parties agreed to support the deferral of costs mentioned above, the IURC would rule on such deferral in CPCN proceedings.

On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed the need to add approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana filed a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN requested approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly-owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. On December 22, 2007, BPAE indicated it would exercise a contractual right of first refusal to purchase the Whiting Clean Energy facility and subsequently signed a purchase agreement on April 18, 2008. As a result, on January 25, 2008, Northern Indiana filed an amended CPCN to address just the Sugar Creek CCGT facility. The estimated cost of the facility is $329 million. The CPCN hearing before the IURC took place on March 25, 2008. Northern Indiana anticipates an order in May 2008. The FERC approved the purchase on February 27, 2008.

On November 26, 2002, Northern Indiana received approval from the IURC 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. In December 2006, Northern Indiana filed a petition with the IURC for appropriate cost treatment and recovery of emission control construction needed to address the Phase I CAIR requirements of the Indiana Air Pollution Control Board's CAIR rules that became effective on February 25, 2007. On July 3, 2007, Northern Indiana received an IURC order issuing a CPCN for the CAIR and CAMR Phase I Compliance Plan Projects, estimated to cost approximately $23 million. Northern Indiana will include the CAIR and CAMR Phase I Compliance Plan costs to be recovered in the semi-annual and annual ECRM and EERM filing six months after construction costs begin. On December 19, 2007, the IURC approved Northern Indiana's latest compliance plan with the estimate of $338.5 million. On April 2, 2008, the IURC approved ECR-11 for $252.6 million in capital expenditures (net of accumulated depreciation) and EER-5 for $14.1 million in expenses.

On January 9, 2008, the IURC established a procedural schedule to review the October 27, 2006 Joint Petition of Indiana Gasification, LLC, Vectren Energy Delivery of Indiana and Northern Indiana. The petition seeks IURC approval for a coal gasification facility, the transportation of electricity and SNG produced at the facility and the recovery of the cost incurred by the Joint Petitioners. On March 27, 2008, Joint Petitioners filed a motion seeking to extend the March 31, 2008 deadline for direct testimony. The Joint Petitioners indicated that positive settlement talks were underway regarding a purchase contract between Vectren Energy Delivery of Indiana, Northern Indiana and Indiana Gasification, LLC. Northern Indiana currently anticipates that the hearing will occur in the fourth quarter of 2008.

9. Risk Management and Energy Marketing 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. NiSource is not involved in speculative energy trading activity. 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. Additionally, certain NiSource subsidiaries enter into forward physical contracts with various third parties to procure natural gas or power for its operational

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needs. These forward physical contracts are derivatives which qualify for the normal purchase normal sales exception under SFAS No. 133 and do not require mark-to-market accounting.

NiSource's derivatives on the Condensed Consolidated Balance Sheets at March 31, 2008 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 120.1	$ 30.0	$ 150.1
Other assets	82.6	3.7	86.3
Total price risk management assets	$ 202.7	$ 33.7	$ 236.4
Price risk management liabilities			
Current liabilities	$ 63.8	$ 3.7	$ 67.5
Other liabilities	10.0	-	10.0
Total price risk management liabilities	$ 73.8	$ 3.7	$ 77.5

NiSource's derivatives on the Consolidated Balance Sheets at December 31, 2007 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 88.5	$ 13.7	$ 102.2
Other assets	25.0	0.2	25.2
Total price risk management assets	$ 113.5	$ 13.9	$ 127.[illegible]
Price risk management liabilities			
Current liabilities	$ 53.8	$ 26.1	$ 79.9
Other liabilities	1.5	0.2	1.7
Total price risk management liabilities	$ 55.3	$ 26.3	$ 81.6

The hedging activity for the first quarter of 2008 and 2007 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

Three Months Ended March 31, *(in millions, net of taxes)*	**2008**	2007
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 7.6**	$ 31.4
Unrealized hedging gains arising during the period on derivatives qualifying as cash flow hedges	**26.4**	28.4
Reclassification adjustment for net loss (gain) included in net income	**(9.1)**	(0.2)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 24.9**	$ 59.6

During the first quarter of 2008 and 2007, a loss of $0.1 million and zero, 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 first quarter of 2008 and 2007, NiSource did not reclassify any amounts related to its cash flow hedges from accumulated oth[illegible] comprehensive income to earnings due to the probability that the underlying forecasted transactions would [illegible] 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 accumulated other comprehensive income of approximately $18.5 million of income, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, 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 the companies' 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 the companies 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 purchases associated with these obligations, Northern Indiana has purchased NYMEX futures, NYMEX options and basis contracts that correspond to a fixed or capped price in the associated delivery month and currently enters into forward physical contracts to secure forward gas prices. 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 the companies gas cost. The NYMEX futures and option contracts associated with these programs are designated and 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 has purchased NYMEX futures, NYMEX options and basis contracts that match the anticipated delivery needs of the program and currently enters into forward physical contracts to secure forward gas prices. The NYMEX futures and options contracts associated with this program are generally designated and accounted for as cash flow hedges.

As part of the MISO Day 2 initiative, Northern Indiana was allocated and has purchased FTRs. These rights help Northern Indiana offset congestion costs due to the 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 these derivatives.

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

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These 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 based on the regulatory customer sharing mechanisms in place, with the remaining changes in fair value recognized currently in earnings.

Columbia Energy Services has fixed price gas delivery commitments to two municipalities in the United States which expire in July 2008 and December 2008. 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

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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:

	March 31, 2008		December 31, 2007	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 33.0	$ (1.8)	$ 0.2	$ (22.1)
PPS program derivatives	1.7	-	0.2	(1.8)
DependaBill program derivatives	0.2	-	0.1	(1.1)
Electric energy program derivatives	0.7	(0.8)	13.7	(1.1)
Regulatory incentive program derivatives	-	(1.1)	-	(3.1)
Forward purchase agreements derivatives	39.6	-	41.0	-
Total commodity price risk programs included	$ 75.2	$ (3.7)	$ 55.2	$ (29.2)

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% a 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 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:

	March 31, 2008		December 31, 2007	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$ 60.8	$ -	$ 18.8	$ -

Marketing and Other Activities. The operations of TPC primarily involve commercial and industrial gas sales, whereby TPC utilizes gas derivatives to hedge its expected future gas purchases. These derivatives associated with commercial and industrial gas sales are accounted for as cash flow hedges. In addition, TPC, on behalf of Whiting

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Clean Energy, has also entered into power and gas derivative contracts to manage commodity price risk associated with operating Whiting Clean Energy.

Marketing and power programs included in price risk management assets and liabilities:

	March 31, 2008		December 31, 2007	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing derivatives	$ 100.4	$ (73.8)	$ 53.2	$ (52.4)
Power forward derivatives	-	-	0.2	-
Total marketing and power programs	$ 100.4	$ (73.8)	$ 53.4	$ (52.4)

10. Fair Value of Financial Assets and Liabilities

NiSource adopted the provisions of SFAS No. 157 on January 1, 2008. There was no impact on retained earnings as a result of the adoption.

Recurring Fair Value Measurements. The following table presents assets and liabilities measured and recorded at fair value on NiSource's Condensed Consolidated Balance Sheet on a recurring basis and their level within the fair value hierarchy during the three months ended March 31, 2008:

Recurring Fair Value Measurements *(in millions)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2008
Assets				
Price risk management assets	$ 169.8	$ 65.8	$ 0.8	$ 236.4
Available-for-sale securities	35.9	23.4	-	59.3
Total	$ 205.7	$ 89.2	$ 0.8	$ 295.7
Liabilities				
Price risk management liabilities	$ 71.5	$ 3.1	$ 2.9	$ 77.5
Deferred compensation	-	12.3	-	12.3
Total	$ 71.5	$ 15.4	$ 2.9	$ 89.8

Price risk management assets and liabilities include commodity exchange-traded and non-exchange-based derivative contracts. Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. The company uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

Price risk management assets also include fixed-to-floating interest-rate swaps, which are designated as fair-value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. NiSource uses a

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calculation of future cash inflows and estimated future outflows related to the swap agreements, which are discounted and netted to determine the current fair value. Additional inputs to the present value calculation include the contract terms, as well as market parameters such as current and projected interest rates and volatility. As they are based on observable data and valuations of similar instruments, the interest-rate swaps are categorized in Level 2 in the fair value hierarchy.

Available-for-sale securities include assets in NiSource's deferred compensation trust and investments pledged as collateral for trust accounts related to NiSource's wholly-owned insurance company. Available-for-sale securities are included within Investments and other in the Condensed Consolidated Balance Sheets. Securities classified within Level 1 include U.S. Treasury debt securities which are highly liquid and are actively traded in over-the-counter markets. NiSource values corporate and mortgage-backed debt securities using a matrix pricing model that incorporates market-based information. These securities trade less frequently and are classified within Level 2. Unrealized gains and losses from our available-for-sale securities are included in OCI.

NiSource's deferred compensation plan allows participants to defer certain cash compensation into a notional investment account. NiSource includes the plan in other noncurrent liabilities in the Condensed Consolidated Balance Sheets. The value of the deferred compensation obligation is based on the market value of the participants' notional investment accounts. The notional investments include balances which are credited based upon published interest and bond yield indices and investments in mutual funds. NiSource uses the lowest level of input significant to the valuation to determine the fair value hierarchy classification, and therefore the liability is categorized in Level 2.

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the three months ended March 31, 2008:

(*in millions*)	Financial Transmission Rights	Other Derivatives	Total
Balance as of January 1, 2008	$ 12.6	$ (3.5)	$ 9.1
Total gains or losses (unrealized/realized)			
Included in regulatory assets/liabilities	(0.1)	0.7	0.6
Purchases, issuances and settlements (net)	(11.7)	(0.1)	(11.8)
Balance as of March 31, 2008	$ 0.8	$ (2.9)	$ (2.1)
Change in unrealized gains/(losses) relating to instruments still held as of March 31, 2008	$ (0.1)	$ 0.3	$ 0.2

Realized gains and losses for level 3 recurring items are included in income within Cost of Sales on the Condensed Statements of Consolidated Income. Unrealized gains and losses from Level 3 recurring items are included within regulatory assets and liabilities on the Condensed Consolidated Balance Sheets.

As part of the MISO Day 2 initiative, Northern Indiana was allocated and has purchased FTRs. These rights help Northern Indiana offset congestion costs due to the MISO Day 2 activity. These instruments are considered derivatives and are valued utilizing forecasted congestion source and sink prices in the Day Ahead market. They are classified as Level 3 and reflected in the table above. 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.

11. Income Taxes

NiSource's interim effective tax rates reflect the estimated annual effective tax rate for 2008 and 2007, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter ended March 31, 2008 and March 31, 2007 were 37.2% and 37.1%, 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-to-tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

Both the first quarter of 2008 and first quarter of 2007 include increases to tax expense for discrete items. On March 31, 2008, the governor of West Virginia signed legislation that phases in a reduction in income tax rates from the current rate of 8.75% to 6.5% over the years 2009 through 2014, provided certain state budgetary targets are met. NiSource has West Virginia deferred income tax benefits recorded on its Consolidated Balance Sheets that, because of the rate decrease, were required to be written down in the first quarter of 2008. The impact of the write-down on first quarter of 2008 net income is a reduction of $2.7 million. This reduced benefit was offset by a $0.5 million decrease in income tax expense due primarily to the discontinuance of filing consolidated Kentucky state income tax returns in 2008. The first quarter of 2007 includes an increase in income tax expense of $1.5 million, due mostly to state income tax issues.

NiSource adopted the provisions of FIN 48 on January 1, 2007, recognizing a charge of $0.8 million to the opening balance of retained earnings. As of December 31, 2007, the total liability for unrecognized tax benefits, which is included in "Other noncurrent liabilities" on the Consolidated Balance Sheets, was $3.7 million ($4.0 million including interest). There have been no material changes in NiSource's FIN 48 liabilities from the December 31, 2007 amounts.

Effective January 1, 2007, NiSource records interest and penalties (if any) on prior year tax liabilities as a component of income tax expense.

12. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover its employees. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource. The expected cost of such benefits is accrued during the employees' years of service. Current rates of rate-regulated companies include postretirement benefit costs, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. For most plans, cash contributions are remitted to grantor trusts.

On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 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.

The key assumptions used to measure NiSource's various postretirement benefits plans' funded status at December 31, 2007 were the same as those used for the previous January 1, 2007 measurement date.

NiSource expects to make contributions of $17.1 million to its pension plans and $38.3 million to its other postretirement benefit plans during 2008. Through March 31, 2008, NiSource has contributed $0.9 million to its pension plans and $9.5 million to its other postretirement benefit plans.

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The following tables provide the components of the plans' net periodic benefits cost for the first quarter of 2008 and 2007:

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended March 31, *(in millions)*	**2008**	2007	**2008**	2007
Components of Net Periodic Benefit Cost				
Service cost	**$ 9.3**	$ 10.3	**$ 2.4**	$ 2.4
Interest cost	**33.1**	31.9	**11.9**	10.9
Expected return on assets	**(48.5)**	(46.7)	**(6.3)**	(5.2)
Amortization of transitional obligation	**-**	-	**2.0**	2.0
Amortization of prior service cost	**1.1**	1.4	**0.2**	0.1
Recognized actuarial loss	**0.3**	2.0	**1.0**	1.5
Total Net Periodic Benefits Cost	**$ (4.7)**	$ (1.1)	**$ 11.2**	$ 11.7

13. Long-Term Debt

Whiting Clean Energy. On December 31, 2007, Whiting Clean Energy redeemed $292.1 of its notes due June 20, 2011, having an average interest rate of 8.30%. The associated redemption premium of $40.6 million was charged to loss on early extinguishment of long-term debt. The redemption was financed with NiSource borrowings.

Jasper County Pollution Control Bonds. Northern Indiana has seven series of Jasper County Pollution Control Bonds with a total principal value of $254 million currently outstanding. Prior to March 25, 2008, each of the ser bore interest at rates established through auctions that took place at either 7, 28, or 35 day intervals. Betwe February 13, 2008 and March 5, 2008, Northern Indiana received notice that six separate market auctions of four of the series of the Jasper County Pollution Control Bonds had failed. As a result, those series representing an aggregate principal amount of $112 million of the Jasper County Pollution Control Bonds bore interest at default rates equal to 15% or 18% per annum. Subsequent auctions were successful, but resulted in interest rates between 5.13% and 11.0%, which are in excess of historical rates. Northern Indiana does not believe that these increases in interest rates will have a material impact on its financial results. These auction failures were attributable to the recent lack of liquidity in the auction rate securities market, largely driven by the recent turmoil in the bond insurance market. The Jasper County Pollution Control Bonds are insured by either Ambac Assurance Corporation or MBIA Insurance Corporation.

Northern Indiana converted all seven series of Jasper County Pollution Control Bonds from the auction rate mode to a variable rate demand bond mode between March 25, 2008 and April 11, 2008 and repurchased the bonds as part of the conversion process. As of April 11, 2008, all of the Jasper County Pollution Control Bonds were so purchased and are held in Northern Indiana's treasury. Northern Indiana is currently evaluating its options for converting the debt from variable rate mode into fixed rate mode and subsequently reoffering the debt to the public.

As of March 31, 2008, $199.0 million of this outstanding debt had been converted to the variable rate demand bond format and repurchased by Northern Indiana for its own account. The remaining $55.0 million is classified as current portion of long-term debt in the March 31, 2008 Condensed Consolidated Balance Sheet. Northern Indiana has recorded the repurchased bonds as an offset to long-term debt in the Condensed Consolidated Balance Sheet as the debt is considered extinguished per SFAS No. 140. Unamortized debt expense previously recorded under deferred charges and other qualifies for regulatory treatment and has been reclassified as a regulatory asset. The repurchase of the bonds is included in the financing activities section in the Statement of Consolidated Cash Flow.

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14. Share-Based Compensation

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, restricted stock units, contingent stock units and dividend equivalents payable on grants of options, performance units and contingent stock awards. At March 31, 2008, there were 25,858,317 shares reserved for future awards under the amended and restated 1994 Plan.

NiSource recognized stock-based employee compensation expense of $1.6 million and $1.1 million during the first quarter of 2008 and 2007, respectively, as well as related tax benefits of $0.6 million and $0.4 million, respectively. There were no modifications to awards as a result of the adoption of SFAS No. 123R.

As of March 31, 2008, the total remaining unrecognized compensation cost related to nonvested awards amounted to $17.3 million, which will be amortized over the weighted-average remaining requisite service period of 2.3 years.

Stock Options. As of March 31, 2008, approximately 7.3 million options were outstanding and exercisable with a weighted average option price of $22.67.

Restricted and Contingent Stock Unit Awards. In March 2008, 197,311 restricted stock units subject to service conditions were granted. The grant date fair-value of the restricted units was $3.5 million, based on the average market price of NiSource's common stock at the date of grant of $17.49, which will be expensed net of forfeitures over the vesting period of approximately 3 years. The service conditions lapse on January 31, 2011. If before January 31, 2011, the employee terminates employment (1) due to retirement, having attained age 55 and completed ten years of service, or (2) due to death or disability, the employment conditions will lapse with respect to a pro rata portion of the restricted units on the date of termination. Termination due to any other reason will result in all restricted units awarded being forfeited effective the employee's date of termination. Employees will be entitled to receive dividends upon vesting.

In March 2008, 394,604 contingent stock units subject to performance conditions were granted. The grant date fair-value of the award was $6.9 million, which will be expensed net of forfeitures over the vesting period of approximately 3 years. The average market price of NiSource's common stock at the date of grant was $17.49. The performance conditions are based on achievement of a non-GAAP financial measure, cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items and cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations. Per the agreement, to the extent base performance conditions are exceeded during the 3 year performance period, the award will be increased in increments of 10 percent up to 50 percent. If prior to the lapse of the performance conditions, the employee terminates employment (1) due to retirement, having attained age 55 and completed ten years of service, (2) due to disability, or (3) due to death with less than or equal to 12 months remaining in the performance period, the employee will receive a pro rata portion of the contingent shares if the performance conditions have been met. If prior to the lapse of the performance conditions, the employee terminates employment due to death with more than 12 months remaining in the performance period, the employee will receive a pro rata portion of the contingent shares as if the performance conditions had been met. Termination due to any other reason will result in all contingent shares awarded being forfeited effective the employee's date of termination. Employees will be entitled to receive dividends upon vesting.

In March 2007, 320,330 contingent stock units were granted. The grant date fair-value of the award was $7.5 million, based on the average market price of NiSource's common stock at the date of grant of $23.46, which will be expensed net of forfeitures over the vesting period of approximately 3 years. The shares are subject to both performance and service conditions. The performance conditions were based on achievement of a non-GAAP financial measure (net operating earnings) as described above. Per the agreement, to the extent base performance conditions were exceeded, the award would be increased in increments of 10 percent up to 50 percent. If the performance conditions were not met, the grants would be cancelled and the shares would be forfeited. Subsequent to meeting the performance conditions, an additional two year service period will then be required before the shares vest on December 31, 2009. If after completing the performance conditions but prior to completing the service conditions the employee terminates employment (1) due to retirement, having attained age 55 and completed ten years of service, or (2) due to death or disability, the employment conditions will lapse with respect to a pro rata portion of the contingent shares on the date of termination. Termination due to any other reason will result in all contingent shares awarded being forfeited effective the employee's date of termination. During 2007, base performance conditions were exceeded, resulting in an increase of the number of shares to be issued upon vesting by 20 percent. Accordingly, 62,319 additional shares were granted in January 2008. As of March 31, 2008 373,911 nonvested contingent shares were remaining. Employees will be entitled to receive dividends upon vesting.

Time-accelerated Awards. NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. The total shareholder return measures established were not met; therefore these grants do not have an accelerated vesting period. At March 31, 2008, NiSource had 538,456 awards outstanding which contained the time-accelerated provisions.

Non-employee Director Awards. The Amended and Restated Non-employee Director Stock Incentive Plan provides for awards of restricted stock, stock options and restricted stock units, which vest in 20% increments per year, with full vesting after five years. Effective March 25, 2008, the board approved to amend the vesting provisions of the plan such that all outstanding grants and future grants of restricted stock units will vest immediately. As of March 31, 2008, 62,600 restricted shares and 147,577 restricted stock units had been issued under the Plan.

15. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter int various agreements providing financial or performance assurance to third parties on behalf of certain subsidiarie 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, 2008 and the years in which they expire were:

(in millions)	Total	2008	2009	2010	2011	2012	After
Guarantees of subsidiaries debt	$ 5,119.0	$ 5.0	$ 460.0	$ 1,000.0	$ -	$ 315.0	$ 3,339.0
Guarantees supporting commodity transactions of subsidiaries	526.0	339.7	181.7	-	-	-	4.6
Lines of credit	624.7	624.7	-	-	-	-	-
Letters of credit	102.1	27.9	58.9	-	14.3	-	1.0
Other guarantees	343.7	65.4	4.1	-	-	17.1	257.1
Total commercial commitments	$ 6,715.5	$ 1,062.7	$ 704.7	$ 1,000.0	$ 14.3	$ 332.1	$ 3,601.7

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $5.1 billion of debt for various wholly-owned subsidiaries including NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource's Condensed Consolidated Balance Sheet as of March 31, 2008. The subsidiaries are required to comply with certain financial covenants under the debt instruments 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 $526.0 million of commodity-related payments for its current subsidiaries involved in energy marketing to satisfy requirements under forward gas sales. 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 Condensed Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate

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commitment level to $1.5 billion and extending the termination date by one year to July 2011. At March 31, 2008, NiSource had $624.7 million in short-term borrowings outstanding under the credit facility. Through the five-year revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $102.1 million for the benefit of third parties.

Other Guarantees or Obligations. On April 18, 2008, PEI reached an agreement with BPAE to sell all of the outstanding stock of Whiting Clean Energy to BPAE for $210 million. The agreement with BPAE contains customary representations, warranties, covenants and closing conditions. NiSource anticipates the closing of the transaction to occur in the second or third quarter of 2008. NiSource has executed purchase and sales agreement guarantees totaling $220 million which guarantee performance of PEI's covenants, agreements, obligations, liabilities, representations and warranties under the agreement with BPAE. No amounts related to the purchase and sales agreement guarantees are reflected in the Condensed Consolidated Balance Sheet as of March 31, 2008. NiSource continues to review the terms of the guarantees.

On August 29, 2007, Millennium entered into a bank credit agreement to finance the construction of the Millennium Pipeline project. As a condition precedent to the credit agreement, NiSource issued a guarantee securing payment for 47.5%, its indirect ownership interest percentage, of amounts borrowed under the credit agreement up until such time as the amounts payable under the agreement are paid in full. The permanent financing is expected to be completed in the first quarter of 2009. As of March 31, 2008, Millennium borrowed $193.0 million under the financing agreements, of which NiSource guaranteed $91.7 million. NiSource recorded an accrued liability of approximately $3.7 million related to the fair value of this guarantee.

On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into multiple agreements 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 March 31, 2008, Hardy Storage borrowed $123.4 million under the financing agreement, for which Columbia Transmission recorded an accrued liability of approximately $1.2 million related to the fair value of its guarantee securing payment for $61.7 million, which is 50% of the amount borrowed.

NiSource has purchase and sales agreement guarantees totaling $80.0 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 Condensed Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has issued other guarantees supporting derivative related payments associated with interest rate swap agreements issued by NiSource Finance, operating leases for many of its subsidiaries and for other agreements entered into by its current and former subsidiaries.

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

In the case of Tawney, et al. v. Columbia Natural Resources, Inc., 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. In January 2008, the Defendants filed their petition for appeal, and on March 24, 2008, the Defendants filed their amended petition for appeal with the West Virginia Supreme Court of Appeals, which may or may not accept the appeal. NiSource has not established a reserve for the punitive damages portion of the verdict.

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 $76.0 million and $77.2 million has been recorded as of March 31, 2008 and December 31, 2007, respectively, to cover probable corrective actions at sites where NiSource has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on many factors including currently enacted laws and regulations, existing technology and estimated site-specific costs whereby assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. NiSource's estimated environmental remediation liability will be refined as events in the remediation process occur. Actual remediation costs may differ materially from NiSource's estimates due to the dependence on the factors listed above.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain NiSource affiliates engage in efforts to voluntarily report and redu their greenhouse gas emissions. NiSource is currently a participant in the EPA's Climate Leaders program. April 2, 2007, in Massachusetts v. EPA, the Supreme Court ruled that the EPA does have authority under the Clean Air Act to regulate emissions of greenhouse gases if it is determined that greenhouse gases have a negative impact on human health or the environment. NiSource will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

On March 12, 2008, the EPA announced the tightening of the 8-hour ozone NAAQS from 0.08 parts per million to 0.075 parts per million. The number of areas that do not meet the new standards could significantly increase across the country. Over the next several years, states will be required to develop ozone attainment plans to implement the standards and improve air quality in these areas. This could lead to additional emission reductions of NOx, an ozone precursor, from facilities owned by NiSource. NiSource will closely monitor developments in these matters and cannot at this time accurately estimate the timing or cost of emission controls that may eventually be required.

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

A program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors are the current or former owner. The program has identified up to 86 such sites and initial investigations have been conducted at 54 sites. Additional investigation activities have been completed or are in progress at 50 sites and remedial measures have been implemented or completed at 37 sites. This effort includes the sites contained in the January 2004 agreement entered into with the IDEM, Northern Indiana, Kokomo Gas, other Indiana utilities under the Indiana Voluntary Remediation Program. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5. As costs become probable and reasonably estimable, reserves will be adjusted. As reserves are recorded, regulatory assets are recorded to the extent environmental expenditures are expected to be recovered through rates. NiSource is unable, at this time, to accurately estimate the time frame and

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potential costs of the entire program. Management expects that, as characterization is completed, additional remediation work is performed and more facts become available, NiSource will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with the SEC's SAB No. 92, SFAS No. 5 and SOP No. 96-1.

Gas Transmission and Storage Operations. Columbia Transmission continues to conduct characterization and remediation activities at specific sites under a 1995 EPA Administrative Order by Consent. The program pursuant to the Administrative Order by Consent covers approximately 245 facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. Field characterization has been performed at all sites. Site characterization reports and remediation plans, which must be submitted to the EPA for approval, are in various stages of development and completion. Remediation has been completed at the mercury measurement stations, liquid removal point sites and storage well locations and at all but 7 of the 245 facilities. The AOC was amended in 2007 to facilitate payment of EPA oversight costs and to remove remediated sites from the AOC.

Columbia Transmission and Columbia Gulf are potentially responsible parties at several waste disposal sites under CERCLA and similar state laws. The potential liability is believed to be de minimis. However, the final allocation of cleanup costs has yet to be determined. As site investigations and cleanups proceed and as additional information becomes available reserves will be adjusted.

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 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. The site in question is subject to an existing EPA Administrative Consent Order.

On September 26, 2007, Columbia Transmission received an NOV related to bentonite discharge associated with a horizontal directional drill operation for the Hardy Storage project. On November 29, 2007, Columbia Transmission received an NOV related to the collapse of Swift Run stream bed associated with the same horizontal directional drill operation. Columbia Transmission received the Draft Consent Special Order from the VADEQ on March 3, 2008. NiSource has provided comments to the VADEQ on the Draft Consent Special Order and continues to work with the VADEQ on the content of the Draft Consent Special Order. Stream restoration activities are continuing. Continued monitoring of the stream will occur for the next six months to two years.

Electric Operations.
Air. In December 2001, the EPA approved regulations developed by the State of Indiana to comply with the EPA's NOx SIP call. The NOx SIP call requires certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers, to lower regional transport of ozone. Compliance with the NOx limits contained in these rules was required by May 31, 2004. To comply with the rule, Northern Indiana developed a NOx compliance plan, which included the installation of Selective Catalytic Reduction NOx reduction technology at each of its active generating stations and is currently in compliance with the NOx limits. In implementing the NOx compliance plan, Northern Indiana has expended approximately $290 million as of December 31, 2007. Actual costs may vary depending on a number of factors including market demand and resource constraints, uncertainty of future equipment and construction costs, and the potential need for additional control technology.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern states, including electric utilities in Indiana, 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. On March 25, 2008, the U. S. Court of Appeals for the D. C. Circuit held oral arguments in litigation challenging the CAIR. Northern Indiana, along with other utilities, directly participated in one of the arguments addressing the legality of using the allowance allocations of the Acid

Rain program for the purpose of complying with the CAIR SO2 reduction requirements. A decision on these arguments is expected later this year and such decision could potentially alter CAIR requirements.

On October 3, 2007, the Indiana Air Pollution Control Board adopted, with minor changes from the EPA Clean Air Mercury Rule, the state rule to implement EPA's CAMR. The rule became effective on February 3, 2008, with compliance required in 2010. The EPA FIP rule, published December 22, 2006, has not been finalized and is intended only as a backstop for states such as Indiana that missed the November 17, 2006 submittal deadline but is working diligently to finalize its state rule. The IDEM has indicated it is planning on utilizing an option in the FIP that allows the state to submit a request for partial approval to use the IDEM's allowance allocation methodology until the EPA is able to approve the full state plan. The state's request for partial approval will be due to the EPA upon the effective date of the final FIP, estimated to be in the first half of 2008. The EPA would not record allowance allocations for 2010 until September 2008. The FIP would be rescinded upon EPA acceptance of the Indiana rule. On February 8, 2008, the United States Court of Appeals for the District of Columbia Circuit vacated two EPA rules addressing utility mercury emissions that are the stimulus for the Indiana Air Pollution Control Board's CAMR. The first is the EPA's rule delisting coal and oil-fired electric generating units from the list of sources whose emissions are regulated under section 112 of the Clean Air Act, 42 U.S.C. § 7412. *Revision of December 2000 Regulatory Finding* ("Delisting Rule"), 70 Fed. Reg. 15,994 (March 29, 2005). The second is the EPA's rule that set performance standards for new coal-fired electric generating units and established total mercury emission limits for States along with a cap-and-trade program for new and existing coal-fired electric generating units. *Standards of Performance for New and Existing Stationary Sources: Electric Utility Steam Generating Units* ("CAMR"), 70 Fed. Reg. 28,606 (May 18, 2005). On March 24, 2008, the EPA and industry filed petitions with the court for rehearing of these decisions. The resolution of this legal action and the EPA's response will affect the implementation and timing of the installation of controls to address potential mercury reduction obligations. Northern Indiana will closely monitor developments regarding any further action by the EPA and subseque regulatory developments from the EPA and/or the Indiana Air Pollution Control Board in this matter.

Local air quality has improved in three counties in which Northern Indiana generating assets are located. In recognition of this improvement the IDEM submitted petitions to the EPA seeking redesignation of the Indiana counties of Lake, Porter, and LaPorte to attainment of the eight-hour ozone NAAQS. Final EPA rulemaking approving the LaPorte County redesignation became effective on July 19, 2007. The EPA approval for Lake and Porter counties is undergoing further evaluation and may be delayed until after the 2008 ozone season due to monitored values in 2007 at one site that put the design value just above the NAAQS. On October 3, 2007, the Air Pollution Control Board adopted the redesignation of LaPorte County to attainment as part of a reformatting of the state attainment designation rule. The rule became effective January 28, 2008. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignations to attainment, new source review rules are expected to change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. The March 12, 2008 EPA tightening of the 8-hour ozone NAAQS may preclude the approval of the redesignation requests and may result in these counties remaining and/or again being designated as nonattainment of the ozone NAAQS. As discussed above under "General," the EPA ozone NAAQS revision could lead to additional emission reductions of NOx, an ozone precursor, from facilities owned by Northern Indiana. Northern Indiana will closely monitor developments in these matters and cannot at this time accurately estimate the timing or cost of emission controls that may eventually be required.

In a related matter, the U. S. Court of Appeals for the D. C. Circuit, in late 2006, ruled a requirement to impose CAA §185 fees on emissions sources located in counties that failed to attain the previous (1-hr) ozone standard, which had been rescinded by the EPA in May 2005, remained applicable retroactive to November 2005. The court remanded the issue to the EPA for reconsideration. In January 2008, the U. S. Supreme Court denied a petition to hear an appeal on this matter. The EPA has announced that it intends to propose regulations in fall 2008 to specify how §185 fees will be imposed and calculated. One of Northern Indiana's operating generating assets is located in a county where this fee could potentially be applied. Northern Indiana will closely monitor developments in this matter and cannot estimate the financial impact at this time.

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

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.

The NPDES water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. The permit requires that the facility meet the Great Lakes Initiative discharge limits for copper. The Michigan City Generating Station has a four year compliance schedule to meet these limits, which ends April 1, 2010. Northern Indiana is evaluating alternatives for treating copper in wastewater at the Michigan City Generating Station.

Great Lakes Initiative-based discharge limits for mercury have also been set for both the Michigan City and Bailly Generating Stations. Northern Indiana will collect data, develop and implement pollution reduction program plans, to demonstrate progress in reducing mercury discharge.

The permit for the Bailly Generating Station was issued on June 26, 2006, and became effective on August 1, 2006. Northern Indiana appealed the Bailly Generating Station NPDES permit, due to an unacceptable internal outfall monitoring permit condition. On February 18, 2008, the Bailly NPDES permit was modified to resolve the monitoring issue and to address the 316(b) rule status due to the remand mentioned below. Due to additional pending studies, the cost of complying with the permit requirements cannot be estimated at this time.

On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. On January 25, 2007, the Second Circuit in a court decision on the Phase II 316(b) rule, remanded for EPA reconsideration the options providing flexibility for meeting the requirements of the rule. On March 20, 2007, the EPA issued a guidance memo advising its Regional Administrators that the Agency considers the 316(b), Phase II Rule governing cooling water withdrawals suspended and will be issuing a Federal Register notice to that effect. On July 9, 2007, the EPA published a notice in the Federal Register suspending the Phase II rule. The notice explained that the EPA is not accepting comments on the suspension and notes that "best professional judgment" is to be used in making 316(b) decisions. The EPA will need to propose a revised 316(b) rule and/or provide guidance to address the impact of the court decision. Northern Indiana will closely monitor the EPA rule developments.

On July 5, 2007, the Second Circuit Court of Appeals denied the petitions for rehearing asking the court to reconsider its remand of the Phase II 316(b) ruling. Various parties submitted petitions for a *writ of certiorari* to the U. S. Supreme Court in early November seeking to reverse the Second Circuit Court's decision. Northern Indiana will continue to closely monitor this activity.

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

16. Changes in Common Stockholders' Equity and Comprehensive Income

The following table displays the changes in Common Stockholders' Equity and Comprehensive Income for the three months ended March 31, 2008 and 2007.

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accum Other Comp Income/(Loss)	Total	Comp Income
Balance January 1, 2008	$ 2.7	$ (23.3)	$ 4,011.0	$1,074.5	$ 11.7	$5,076.6	
Comprehensive Income:							
Net Income				99.3		99.3	99.3
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (a)					(1.3)	(1.3)	(1.3)
Net unrealized losses on derivatives qualifying as cash flow hedges (b)					17.3	17.3	17.3
Unrecognized Pension Benefit and OPEB cost (c)					(3.6)	(3.6)	(3.6)
Total comprehensive income							111.7
Dividends:							
Common shares				(126.3)		(126.3)	
Treasury stock acquired							
Issued:							
Employee stock purchase plan			0.2			0.2	
Long-term incentive plan			1.7			1.7	
Amortization of Long-term incentive Plan			0.3			0.3	
Balance March 31, 2008	$ 2.7	$ (23.3)	$ 4,013.2	$1,047.5	$ 24.1	$5,064.2	

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accum Other Comp Income/(Loss)	Total	Cc Income
Balance January 1, 2007	$ 2.7	$ (21.2)	$ 3,998.3	$ 1,012.9	$ 20.9	$ 5,013.6	
Adjustment to initially apply new measurement date pursuant to SFAS No. 158, net of tax				(6.8)		(6.8)	
Adjustment to initially apply FIN 48, net of tax				(0.8)		(0.8)	
Beginning balance, as adjusted	$ 2.7	$ (21.2)	$ 3,998.3	$ 1,005.3	$ 20.9	$ 5,006.0	
Comprehensive Income:							
Net Income				216.7		216.7	216.7
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (a)					(2.1)	(2.1)	(2.1)
Net unrealized gains on derivatives qualifying as cash flow hedges (b)					28.2	28.2	28.2
Unrecognized Pension Benefit and OPEB cost (c)					3.2	3.2	3.2
Dividends:							
Common shares				(126.0)		(126.0)	
Treasury stock acquired		(1.5)				(1.5)	
Issued:							
Common stock issuance							
Employee stock purchase plan			0.2			0.2	
Long-term incentive plan			2.3			2.3	
Amortization of Long-term incentive Plan			0.3			0.3	
Balance March 31, 2007	$ 2.7	$ (22.7)	$ 4,001.1	$ 1,096.0	$ 50.2	$ 5,127.3	

(a) Net unrealized losses on available for sale securities, net of $1.3 million and $2.0 million tax expense in the first three months of 2008 and 2007, respectively.
(b) Net unrealized gains (losses) on derivatives qualifying as cash flow hedges, net of $17.3 million and $28.1 million tax benefit in the first three months of 2008 and 2007, respectively.
(c) Unrecognized pension benefit and OPEB costs, net of $3.6 million tax expense and $3.2 million tax benefit in the first t months of 2008 and 2007, respectively.

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

17. Accumulated Other Comprehensive Income

The following table displays the components of Accumulated Other Comprehensive Income, which is included in "Common Stockholders' Equity," on the Condensed Consolidated Balance Sheets.

(in millions)	**March 31, 2008**	December 31, 2007
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	**$ 5.1**	$ 7.2
Tax (expense) on unrealized gains on securities	**(2.0)**	(2.8)
Unrealized gains on cash flow hedges	**39.4**	10.2
Tax (expense) on unrealized gains on cash flow hedges	**(14.5)**	(2.6)
Unrecognized pension benefit and OPEB costs	**(6.7)**	(0.5)
Tax benefit on unrecognized pension benefit and OPEB costs	**2.8**	0.2
Total Accumulated Other Comprehensive Income, net of taxes	**$ 24.1**	$ 11.7

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

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 and Massachusetts. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana. The Other Operations segment primarily includes gas and power marketing, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

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 March 31, *(in millions)*		**2008**		2007
REVENUES				
Gas Distribution Operations				
Unaffiliated	**$**	**2,440.4**	$	2,048.3
Intersegment		**7.1**		6.8
Total		**2,447.5**		2,055.1
Gas Transmission and Storage Operations				
Unaffiliated		**168.3**		163.5
Intersegment		**63.0**		65.5
Total		**231.3**		229.0
Electric Operations				
Unaffiliated		**332.8**		326.9
Intersegment		**0.2**		0.2
Total		**333.0**		327.1
Other Operations				
Unaffiliated		**346.1**		304.6
Intersegment		**13.2**		17.1
Total		**359.3**		321.7
Adjustments and eliminations		**(81.4)**		(88.2)
Consolidated Revenues	**$**	**3,289.7**	$	2,844.7

Operating Income (Loss)				
Gas Distribution Operations	**$**	**254.9**	$	254.1
Gas Transmission and Storage Operations		**104.8**		106.6
Electric Operations		**38.4**		73.0
Other Operations		**(0.5)**		0.2
Corporate		**(2.8)**		(3.5)
Consolidated Operating Income	**$**	**394.8**	$	430.4

19. Hartsville and Delhi Compressor Stations

On February 5, 2008, tornados struck Columbia Gulf's Hartsville Compressor Station in Macon County, Tennessee. The damage to the facility forced Columbia Gulf to declare force majeure because no gas was flowing through this portion of the pipeline system while a facility assessment was being performed and the current contractual transportation agreements of 2.156 Bcf per day could not be met. Since that time Columbia Gulf restored gas flow to 1.65 Bcf per day; however, full contractual agreements still cannot be met. Although temporary solutions are being investigated to restore system capabilities as soon as possible, a permanent solution for rebuilding the compressor station may take 18 to 24 months. The temporary solutions will begin adding system capacity in the second quarter and will be completed by July 2008. This capacity would remain in place while the permanent solution is implemented. NiSource expects the majority of the reconstruction costs during the 18 to 24 month period for the compressor station and ancillary facilities plus business interruption losses during the twelve month period from the event will be recoverable through insurance.

On December 14, 2007, Columbia Gulf's Line 100 ruptured approximately two miles north of its Delhi Compressor Station in Louisiana. The damage to the pipeline forced Columbia Gulf to declare force majeure because no gas was

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

flowing through this portion of the pipeline system on Lines 100, 200 and 300 while a facility assessment was performed. As a result the current contractual transportation agreements of 2.156 Bcf per day could not be met. By December 15, 2007 Lines 200 and 300 were returned to service and gas flow was restored to 2.0 Bcf per day on December 16, 2007. On December 19, 2007, the U.S. Department of Transportation issued a Corrective Action Order which was applicable to Line 100 from the Rayne, LA Compressor Station to Leach, KY. The Order required Columbia Gulf to develop a remedial work plan, which included assessments on Line 100 using in-line inspection tools. The Order also required a 20% reduction in pressure on Line 100 from the Rayne Compressor Station to the Corinth Compressor Station which resulted in a reduction in gas flow on December 21, 2007 to 1.6 Bcf per day. The next day the capacity was increased to 1.75 Bcf per day. Between December 22, 2007 and February 5, 2008 the capacity varied between 1.6 and 1.75 Bcf per day as a result of remediation work on Line 100. Columbia Gulf is continuing its remediation efforts with the goal of lifting the Corrective Action Order. NiSource expects to recover a portion of the pipeline replacement costs plus business interruption losses through insurance.

Over the course of the next 24 months, firm transportation contracts of approximately 1.2 Bcf per day will expire and there is a risk some of those may not be renewed due to the reduced system capabilities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS 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 Ann Report on Form 10-K for the fiscal year ended December 31, 2007.

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.

For the three months ended March 31, 2008, NiSource reported income from continuing operations of $189.4 million, or $0.69 per basic share, compared to $206.5 million, or $0.75 per basic share in 2007.

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

- Electric Operations net revenues were negatively impacted by $11.4 million in the current quarter primarily due to non-recoverable power purchased and non-recoverable MISO charges.

- Operation and maintenance expenses increased due to higher employee and administrative expenses of $15.8 million and higher electric generation and maintenance costs of $7.4 million. Employee and administrative costs include payroll, benefits and higher corporate services costs, including costs associated with the amended IBM Agreement. Employee and administrative expenses also increased due to adjustments that reduced benefit expense by $7.1 million during 2007. The increased electric generation and maintenance costs resulted from planned turbine and boiler maintenance and a generator overhaul.

Increases impacting income from continuing operations that partially offset the decreases impacting income included:

- Gas Distribution Operations' net revenues increased as a result of higher residential and commercial volumes. Residential volumes increased 2.4% from the comparable period last year while commercial volumes increased 4.8%.
- Gas Transmission and Storage Operations' net revenues have increased due to higher net revenues from firm capacity reservation fees related to new interconnects along the Columbia Gulf pipeline system and deliveries from the Hardy storage field partially offset by insurance proceeds from a business interruption claim that improved last year's results.
- Interest expense decreased due to lower short-term interest rates and the retirement late in 2007 of high cost debt associated with the Whiting Clean Energy facility.

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

Four-Point Platform for Growth

NiSource 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 April 18, 2008, PEI reached an agreement with BPAE to sell all of the outstanding stock of Whiting Clean Energy to BPAE for $210 million. The agreement with BPAE contains customary representations, warranties, covenants and closing conditions. NiSource anticipates the closing of the transaction to occur in the second or third quarter of 2008, depending upon the timing of the satisfaction of closing conditions, including required approvals from the Federal Energy Regulatory Commission and the termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Rate Development and Other Regulatory Matters. NiSource is moving forward on regulatory initiatives across several distribution company markets. Whether through full rate case filings or other approaches, NiSource's goal is to develop strategies that benefit all stakeholders as it addresses changing customer conservation patterns, develops more contemporary pricing structures, and embarks on long-term investment programs to enhance its infrastructure. Rate case planning activities are underway at Northern Indiana with a filing anticipated during 2008.

On January 28, 2008, Columbia of Pennsylvania filed a base rate case with the Pennsylvania Public Utility Commission, seeking an increase of approximately $60 million annually, effective October 28, 2008. Through this filing, Columbia of Pennsylvania is seeking to recover costs associated with its significant infrastructure rehabilitation program, as well as stabilize revenues and cost recovery through modifications to rate design. The case is currently pending, and is expected to be resolved by the fourth quarter of 2008.

Columbia of Ohio filed a base rate case with PUCO on March 3, 2008, requesting an increase in base rates in excess of $80 million annually. Columbia of Ohio is seeking recovery of increased infrastructure rehabilitation costs, as well as the stabilization of revenues and cost recovery through rate design. The case is currently pending, and is expected to be resolved by the fourth quarter of 2008.

Columbia of Ohio and other stakeholders reached an agreement in the fourth quarter of 2007 that establishes the framework for operations under Columbia of Ohio's CHOICE℠ program for the next several years and provides for a wholesale gas supply auction by early 2010. On January 23, 2008, the PUCO approved the agreement. During 2007, Columbia of Ohio also filed with the PUCO a Joint Stipulation that clarifies the company's operational responsibilities for customer-owned service lines and faulty risers. The stipulation establishes a recovery mechanism to collect certain costs associated with repair or replacement of customer-owned service lines and replacement of risers and resolves outstanding issues related to this important customer safety program. On April 9, 2008, the PUCO issued an order in this matter approving the Stipulation in all material respects. On April 23, 2008, Utility Service Partners, Inc. requested that the PUCO stay its order, pending the resolution of any applications on rehearing. Columbia of Ohio filed its response to the motion on April 28, 2008.

On October 17, 2007, Bay State petitioned the Massachusetts Department of Public Utilities to allow the company to collect an additional $7.5 million in annual revenue related to usage reductions occurring since its last rate case. Bay State also requested approval of a steel infrastructure tracker that would allow for recovery of ongoing infrastructure replacement program investments. The Massachusetts Department of Public Utilities held hearings on this matter in the first quarter of 2008 and issued an order denying Bay State's petition on April 30, 2008. NiSource is in the process of reviewing the order and assessing its rehearing or appeal options.

On January 30, 2008, the IURC approved a settlement agreement which was reached in October 2007 with the OUCC, LaPorte County and a group of Northern Indiana industrial customers to resolve questions relating to t costs paid by customers for power purchased by Northern Indiana versus the amount of these costs absorbed Northern Indiana. The terms of the settlement call for Northern Indiana to make a one-time payment to resolve this question as it relates to power purchased from January 1, 2006 through September 30, 2007. The amount of the refund is set at $33.5 million and will be refunded February 2008 through July 2008. A reserve for the entire amount was recorded in the third quarter of 2007. Northern Indiana implemented a new "benchmarking standard" that will govern the allocation of costs for purchased power between customers and Northern Indiana. The benchmark defines the price below which customers will pay for power purchases and above which Northern Indiana must absorb a portion of the costs. The benchmark is based upon the costs of power generated by a hypothetical natural gas fired CCGT using gas purchased and delivered to Northern Indiana. This has resulted in Northern Indiana absorbing some purchased power costs that have reduce net revenues and may reduce net revenues during future periods. The agreement also contemplates Northern Indiana adding generating capacity to its existing portfolio. The benchmark will be adjusted as new capacity is added. The added generating capacity will substantially reduce the amount of purchased power and mitigate the impact of the adjusted benchmark. Further, the settling parties agreed to support Northern Indiana's deferral and future recovery of carrying costs and depreciation associated with the acquisition of new generating facilities. In the approving order, the IURC dictated that, while the parties agreed to support the deferral of costs mentioned above, the IURC would rule on such deferral in CPCN proceedings.

On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed the need to add approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana filed a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN requested approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly-owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. On December 22, 2007, BPAE indicated it would exercise a contractual right of first refusal to purchase the Whiting Clean Energy facility and subsequently signed a purchase agreement on April 18, 2008. As a result, on January 25, 2008, Northern Indiana filed an amended CPCN to address just the Sugar Creek CCGT facility. The estimated cost of the facility is $329 million. The CPCN hearing before the IURC took place on March 25, 2008. North Indiana anticipates an order in May 2008. The FERC approved the purchase on February 27, 2008.

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

Sale of Northern Utilities and Granite State Gas. On February 15, 2008, NiSource reached a definitive agreement under which Unitil Corporation will acquire NiSource subsidiaries Northern Utilities and Granite State Gas for $160 million plus net working capital at the time of closing. Historically, net working capital has averaged approximately $25 million. Under the terms of the transaction, Unitil Corporation will acquire Northern Utilities, a local gas distribution company serving 52 thousand customers in 44 communities in Maine and New Hampshire and Granite State Gas, an 86-mile FERC regulated gas transmission pipeline primarily located in Maine and New Hampshire. The transaction, expected to be completed by the end of 2008, is subject to federal and state regulatory approvals. During the quarter ended March 31, 2008, NiSource recognized an after tax loss of $63.6 million related to the pending sale and accounted for Northern Utilities and Granite State Gas as discontinued operations.

NiSource acquired Northern Utilities and Granite State Gas in 1999 as part of the company's larger acquisition of Bay State. NiSource is retaining its ownership of Bay State as a core component of the company's long-term, investment-driven growth strategy.

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Master Limited Partnership. On December 21, 2007, NiSource Energy Partners, L.P., an MLP and subsidiary of NiSource, filed an S-1 registration statement with the SEC in which it proposed making an initial public offering of common units in the MLP and NiSource proposed contributing its interest in Columbia Gulf to the MLP. NiSource management believes the formation of an MLP is a natural complement to NiSource's gas transmission and storage growth strategy, and should provide NiSource access to competitively priced capital to support future growth investment. Due to the damage sustained at Columbia Gulf's Hartsville, Tennessee, compressor station, following the tornados at the facility as described previously, the expected timing of initial public offering is expected to be delayed until later in 2008.

Millennium Pipeline Project. In June 2007, construction began on the Millennium Pipeline, a 182-mile-long, 30-inch-diameter pipeline across New York's Southern Tier and lower Hudson Valley. The project is expected to be completed in November 2008 and will transport up to 525,400 Dth per day of natural gas to markets along its route, as well as to the New York City markets through its pipeline interconnections. Millennium is jointly owned by affiliates of NiSource, KeySpan Corporation, and DTE Energy.

Hardy Storage Project. Hardy Storage completed its first full year of operations, receiving customer injections and withdrawing natural gas from its new underground natural gas storage facility in West Virginia. Injections this year will allow the field to deliver up to 150,000 Dth of natural gas per day during the 2008-2009 winter heating season. Customers withdrew over 5.44 BCF from the storage field during the 2007-2008 winter heating season. When fully operational in 2009, the field will have a working storage capacity of 12 billion cubic feet, delivering more than 176,000 Dth of natural gas per day. Hardy Storage is a joint venture of subsidiaries of Columbia Transmission and Piedmont.

Columbia Transmission, the operator of Hardy Storage, is expanding its natural gas transmission system by 176,000 Dth per day to provide the capacity needed to deliver Hardy Storage supplies to customer markets. Construction of these transmission facilities is substantially complete and partially in service. The remainder will be placed in-service in the first half of 2008.

Florida Gas Transmission Expansion Project. An open season to solicit interest and contracts for expanded capacity on Columbia Gulf's system for delivery to Florida Gas Transmission was held in late 2007 and contracts for 100,000 Dth per day of capacity were executed. The remaining 80,000 Dth per day of capacity is expected to be sold under firm contracts. This project is expected to be in service during the second quarter of 2008.

Eastern Market Expansion Project. On May 3, 2007, Columbia Transmission filed a certificate application before the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. This Eastern Market Expansion project is projected to add 97,000 Dth per day of storage and transportation deliverability and is fully subscribed on a 15-year contracted firm basis. On January 14, 2008, the

FERC issued a favorable order which granted a certificate to construct the project and the project is expected to be in service by spring 2009.

Ohio Storage Project. Columbia Transmission concluded successful open seasons to gauge customer interest in an expansion of its storage in Ohio. The final scope of the project will be determined based on the outcome of the ongoing customer discussions.

Appalachian Expansion Project. On February 29, 2008, Columbia Transmission filed an application before the FERC for approval to build a new 9,470 horsepower compressor station in West Virginia. The Appalachian Expansion Project will add 100,000 Dth per day of transportation capacity and is fully subscribed on a 15-year contracted firm basis. The project is expected to be in service in the fourth quarter of 2009.

New Penn Transmission Project. NiSource Gas Transmission and Storage Operations concluded a successful open season to gauge customer interest in a new pipeline system to provide 500,000 Dth per day of firm service from storage facilities near Leidy to a new interconnection with Millennium Pipeline in Steuben County, New York in 2010.

Centerville Expansion Project. Columbia Gulf concluded a successful open season to gauge customer interest in an expansion of firm service made available by the addition of compression to the East Lateral. This proposed expansion would add 235,000 Dth per day of additional delivery capability on the East Lateral in late 2009.

Other Growth Projects. Columbia Gulf recently expanded interconnection points to provide incremental delivery capacity of 30,000 Dth per day to Henry Hub and 85,000 Dth per day to Southern Natural Gas near Lafayette, Louisiana. Columbia Gulf entered into firm contracts for this capacity and the facilities were placed into service during the third quarter of 2007. A successful open season was held in the first quarter of 2007 to sell capacity of 380,000 Dth per day to two interconnection points with Transcontinental Gas Pipeline. This capacity provic increased access to downstream pipelines and their customers that access mid-Atlantic and Northeast markets. These interconnection points were placed into service in the fourth quarter of 2007.

Financial Management of the Balance Sheet

NiSource's interest expense decreased $7.3 million from the comparable quarter last year as a result of lower interest rates. On December 31, 2007, Whiting Clean Energy redeemed $292.1 million of its notes due June 20, 2011, having an average interest rate of 8.30%, which was financed with NiSource borrowings at a lower rate. NiSource's short-term borrowings at March 31, 2008 were $624.7 million. On August 31, 2007, NiSource Finance issued $800 million of 6.40%, 10.5-year senior unsecured notes that mature on March 15, 2018. Additionally, NiSource has $450 million of floating rate notes and $ 1,160 million of fixed-to-variable interest rate swaps on its existing long-term debt that contributed to the reduction in interest expense.

NiSource plans to issue additional long-term debt in excess of $500 million during the second quarter of 2008 to fund future capital expenditures. While the current capital markets have been adversely impacted by a variety of negative economic indicators, NiSource believes that it will not impact its continued access to traditional capital markets.

Process and Expense Management

IBM Agreement. In early 2007, a high-level team of NiSource and IBM resources began an overall reassessment of the 2005 outsourcing initiative primarily to focus on operational and transformational improvements and remediation and to develop an integrated plan that enables NiSource to achieve its business objectives going forward. In the first quarter of 2007, NiSource decided to bring certain finance and accounting functions back within the company. These functions included general accounting, fixed asset accounting, and budgeting. In December 2007, NiSource and IBM finalized a restructuring of their business services agreement. Under the restructured agreement, IBM will primarily provide information technology services, with a number of other business service functions to be transitioned back to the NiSource organization. During the first quarter of 2008, certain Meter to Cash support services transitioned back to the company including some Billing & Cash Operation functions. Transition of the remaining business support services returning to NiSource will continue through the third quarter of 2008. In January 2008, NiSource and IBM also agreed to move forward with the Indiana Deployment of a Work Management System and its associated transformation initiatives. The Work Management System project will provide technologies that standardize, integrate and support transformation of processes and eliminate costly and inefficient manual work processes while meeting regulatory/compliance standards. Implementation is planned for late 2008.

Results of Operations
Quarter Ended March 31, 2008

Net Income
NiSource reported net income of $99.3 million, or $0.36 per basic share, for the three months ended March 31, 2008, compared to net income of $216.7 million, or $0.79 per basic share, for the first quarter 2007. Income from continuing operations was $189.4 million, or $0.69 per basic share, for the three months ended March 31, 2008, compared to $206.5 million, or $0.75 per basic share, for the first quarter 2007. Operating income was $394.8 million, a decrease of $35.6 million from the same period in 2007. All per share amounts are basic earnings per share. Basic average shares of common stock outstanding at March 31, 2008 were 273.9 million compared to 273.6 million at March 31, 2007.

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, subject to timing, and have essentially no impact on total operating income results. An increase in operating expenses of $3.8 million was primarily 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 March 31, 2008, were $1,041.2 million, a $1.4 million decrease from the same period last year. Excluding the impact of $3.8 million of trackers discussed above, net revenues decreased by $5.2 million. This decrease in net revenues was primarily due to lower residential and commercial margins and $11.4 million of non-recoverable purchased power costs and non-recoverable MISO charges within Electric Operations resulting from the settlement reached in 2007 by Northern Indiana with regulatory stakeholders and large customers as noted previously. The non-recoverable purchased power costs are due to the settlement, but not the MISO costs. These decreases in net revenues were partially offset by increased Gas Distribution Operations net revenues of $12.6 million primarily attributable to higher residential and commercial volumes sold. Within Gas Transmission and Storage Operations, higher net revenues of $5.1 million from increased subscriptions for firm transportations services were partially offset by the impact of business interruption proceeds that improved last year's results by $2.6 million. Electric Operations net revenues were also impacted by increases associated with higher industrial volumes and margins, and higher bulk power sales.

Expenses
Operating expenses for the first quarter 2008 were $648.4 million, an increase of $34.7 million from the 2007 period. Excluding expenses that are recovered through regulatory trackers, that increase both operating expenses and net revenues (see discussion above), operating expenses increased $30.9 million. This increase was primarily due to higher employee and administrative expenses of $15.8 million across NiSource's business segments due in part to adjustments that reduced benefit expense by $7.1 million during 2007 and increased electric generation and maintenance costs of $7.4 million that resulted from planned turbine and boiler maintenance and a generator overhaul. Employee and administrative costs include payroll, benefits and higher corporate services costs, including costs associated with the amended IBM Agreement. Other increases in operating expenses included modest increases in environmental costs associated with former manufactured gas plant sites within Gas Distribution Operations and higher pipeline integrity management costs within the Gas Transmission and Storage Operations.

Other Income (Deductions)
Interest expense, net was $91.8 million for the quarter, a decrease of $7.3 million compared to the first quarter 2007. This decrease was due primarily to lower short-term interest rates and the retirement late in 2007 of high cost debt

associated with the Whiting Clean Energy facility. Other, net was a loss of $1.5 million for the current quarter compared to a loss of $2.9 million for the comparable 2007 period due to lower costs associated with the sale of accounts receivable.

Income Taxes

Income tax for the first quarter of 2008 was $112.1 million, a decrease of $9.8 million compared to the first quarter of 2007 due primarily to lower pretax income. The effective tax rate for the quarter ended March 31, 2008 was 37.2% compared to 37.1% for the comparable period last year.

Discontinued Operations

In the first quarter of 2008, NiSource began accounting for the operations of Northern Utilities, Granite State Gas and Whiting Clean Energy as discontinued operations. As such, net income of $6.0 million from continuing operations was classified to net income from discontinued operations for the three months ended March 31, 2008, and $2.7 million was reclassified for the three months ended March 31, 2007. In the first quarter of 2008, NiSource recorded an estimated after-tax loss of $96.1 million for the disposition of these operations.

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 storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements plant and expand service into new areas.

Operating Activities

Net cash flows from operating activities for the three months ended March 31, 2008 were $846.0 million, an increase of $67.6 million from the first three months of 2007. The weather and gas prices significantly impact working capital. There were significant sources of cash generated from favorable weather in certain jurisdictions and pricing impacts on inventory and accounts payable. However, these sources of cash were partially offset by uses of cash from changes in accounts receivable. In addition, a pension contribution of $45.8 million was made in the first quarter of 2007 improving cash flows in 2008 compared to 2007.

Investing Activities

Cash capital expenditures of $190.7 million during the first three months of 2008 were $42.9 million higher than the comparable 2007 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 2008 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.

Capital spending, including ongoing infrastructure investments, is projected to be more than $1 billion annually, beginning in 2008 and for the foreseeable future.

Restricted cash was $3.8 million and $57.7 million for the periods ended March 31, 2008 and December 31, 2007, respectively. The decrease in restricted cash was due primarily to volatility in forward gas contracts, which resulted in decreased margin deposits on open derivative contracts at March 31, 2008 as compared to December 31, 2007.

Financing Activities

Long-Term Debt. NiSource plans to issue additional long-term debt in excess of $500 million during the second quarter of 2008 to fund future capital expenditures. While the current capital markets have been adversely impacted by a variety of negative economic indicators, NiSource believes that it will not impact its consolidated access to traditional capital markets.

Whiting Clean Energy. On December 31, 2007, Whiting Clean Energy redeemed $292.1 of its notes due June 20, 2011, having an average interest rate of 8.30%. The associated redemption premium of $40.6 million was charged to loss on early extinguishment of long-term debt. The redemption was financed with NiSource borrowings.

Jasper County Pollution Control Bonds. Northern Indiana has seven series of Jasper County Pollution Control Bonds with a total principal value of $254 million currently outstanding. Prior to March 25, 2008, each of the series bore interest at rates established through auctions that took place at either 7, 28, or 35 day intervals. Between February 13, 2008 and March 5, 2008, Northern Indiana received notice that six separate market auctions of four of the series of the Jasper County Pollution Control Bonds had failed. As a result, those series representing an aggregate principal amount of $112 million of the Jasper County Pollution Control Bonds bore interest at default rates equal to 15% or 18% per annum. Subsequent auctions were successful, but resulted in interest rates between 5.13% and 11.0%, which are in excess of historical rates. Northern Indiana does not believe that these increases in interest rates will have a material impact on its financial results. These auction failures were attributable to the recent lack of liquidity in the auction rate securities market, largely driven by the recent turmoil in the bond insurance market. The Jasper County Pollution Control Bonds are insured by either Ambac Assurance Corporation or MBIA Insurance Corporation.

Northern Indiana converted all seven series of Jasper County Pollution Control Bonds from the auction rate mode to a variable rate demand bond mode between March 25, 2008 and April 11, 2008 and repurchased the bonds as part of the conversion process. As of April 11, 2008, all of the Jasper County Pollution Control Bonds were so purchased and are held in Northern Indiana's treasury. Northern Indiana is currently evaluating its options for converting the debt from variable rate mode into fixed rate mode and subsequently reoffering the debt to the public.

As of March 31, 2008, $199.0 million of this outstanding debt had been converted to the variable rate demand bond format and repurchased by Northern Indiana for its own account. The remaining $55.0 million is classified as current portion of long-term debt in the March 31, 2008 Consolidated Balance Sheet. Northern Indiana has recorded the repurchased bonds as an offset to long-term debt in the Consolidated Balance Sheet as the debt is considered extinguished per SFAS No. 140. Unamortized debt expense previously recorded under deferred charges and other qualifies for regulatory treatment and has been reclassified as a regulatory asset. The repurchase of the bonds will be included in the financing activities section in the Condensed Statements of Consolidated Cash Flow.

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.

NiSource Finance had outstanding credit facility borrowings of $624.7 million at March 31, 2008, at a weighted average interest rate of 3.10%, and borrowings of $1,061.0 million at December 31, 2007, at a weighted average interest rate of 5.43%.

As of March 31, 2008 and December 31, 2007, NiSource Finance had $102.1 million and $110.4 million of stand-by letters of credit outstanding, respectively. At March 31, 2008, $15.8 million of the $102.1 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 $86.3 million of stand-by letters of credit outstanding at March 31, 2008, $83.0 million resided under NiSource Finance's five-year credit facility and $3.3 million resided under an uncommitted arrangement with another financial institution.

As of March 31, 2008, $792.3 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 with Dresdner Bank AG, 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. On July 1, 2006, the agreement was amended to increase the program limit from $300 million to $350 million. The agreement currently expires on June 27, 2008. As of March 31, 2008, $350 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 with Citibank, N.A. under the terms 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 19, 2008, and can be renewed if mutually agreed to by both parties. As of March 31, 2008, 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 or 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.

Contractual Obligations. As of March 31, 2008, NiSource has $4.0 million of estimated federal and state income tax liabilities, including interest, recorded on its books in accordance with FIN 48. If or when such amounts may settled is uncertain and cannot be estimated at this time. NiSource does not anticipate any significant changes to liability for unrecognized tax benefits over the next twelve months.

Market Risk Disclosures

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

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

Commodity Price Risk

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

Commodity price risk resulting from derivative activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process, including gains or losses on these derivative instruments. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk. Some of NiSource's rate-regulated utility subsidiaries offer commodity price risk products to its customers for which derivatives are used to hedge forecasted customer usage under such products. These subsidiaries do not have regulatory recovery orders for these products and are subject to gains and losses recognized in earnings due to hedge ineffectiveness.

TPC, on behalf of Whiting Clean Energy, enters into power and gas derivative contracts to manage commodity price risk associated with operating Whiting Clean Energy. These derivative contracts do not always receive hedge accounting treatment under SFAS No. 133 and variances in earnings could be recognized as a result of marking these derivatives to market.

Interest Rate 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 (or decrease) in short-term interest rates of 100 basis points (1%) would have increased (or decreased) interest expense by $6.3 million and $6.9 million for the first quarter of 2008 and 2007, 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 commercial operations. Credit risk arises with 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 obligations and the market value of forward positions. Current credit exposure is generally measured by the notional or principal value of obligations and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the gas marketing group that utilize a variance/covariance methodology. The daily market exposure for the gas marketing portfolio on an average, high and low basis was $0.1 million, $0.2 million and zero during the first quarter of 2008, 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. 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 Marketing Activities," in the Notes to Condensed Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

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 $526.0 million of commodity-related payments for its current subsidiaries involved in energy marketing to satisfy requirements under forward gas sales. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $80.0 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 Condensed Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees outstanding. Refer to Note 15-A, "Guarantees and Indemnities," in the Notes to Condensed Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Other Information

Recently Adopted Accounting Pronouncements

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. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not change the requirements to apply fair value in existing accounting standards.

Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability.

To increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy disclosed is based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical asset or liabilities that the company has the ability to access as of the reporting date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.
- Level 3 inputs are unobservable inputs, such as internally developed pricing models for the asset or liability due to little or no market activity for the asset or liability.

SFAS No. 157 became effective for NiSource as of January 1, 2008. The provisions of SFAS No. 157 are to be applied prospectively, except for the initial impact on the following three items, which are required to be recorded as an adjustment to the opening balance of retained earnings in the year of adoption: (1) changes in fair value measurements of existing derivative financial instruments measured initially using the transaction price under EITF Issue No. 02-3, (2) existing hybrid financial instruments measured initially at fair value using the transaction price and (3) blockage factor discounts. The adoption of SFAS No. 157 did not have an impact on NiSource's January 1, 2008 balance of retained earnings and is not anticipated to have a material impact prospectively.

In February 2008, the FASB issued FSP FAS 157-2, which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008. NiSource has elected to defer the adoption of the nonrecurring fair value measurement disclosures of non-financial assets and liabilities.

See Note 10, "Fair Value of Financial Assets and Liabilities," in the Notes to Condensed Consolidated Financial Statements for additional information regarding the adoption of SFAS No. 157.

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, among other changes.

In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at September 30, 2006, the pretax impact of adopting SFAS No. 158 decreased intangible assets by $46.5 million, decreased deferred charges and other assets by $1.1 million, increased regulatory assets by $538.8 million, increased accumulated other comprehensive income by $239.8 million and increased accrued liabilities for postretirement and postemployment benefits by $251.4 million. In addition, NiSource recorded a reduction in deferred income taxes of approximately $96 million. With the adoption of SFAS No. 158 NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. These rate-regulated subsidiaries recorded regulatory assets and liabilities that would otherwise have been recorded to accumulated other comprehensive income.

On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations. Refer to Note 12, "Pension and Other Postretirement Benefits," in the Notes to Condensed Consolidated Financial Statements for additional information.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits entities to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment would be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. NiSource has chosen not to elect to measure any applicable financial assets or liabilities at fair value pursuant to this standard when SFAS No. 159 was adopted on January 1, 2008.

FSP FIN 39-1 - FASB Staff Position Amendment of FASB Interpretation No. 39. In April 2007, the FASB posted FSP FIN 39-1 to amend paragraph 3 of FIN 39 to replace the terms *conditional contracts* and *exchange contracts* with the term *derivative instruments* as defined in SFAS No. 133. This FSP also amends paragraph 10 of FIN 39 to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. This FSP became effective for NiSource as of January 1, 2008. NiSource has not elected to net fair value amounts for its derivative instruments or the fair value amounts recognized for its right to receive cash collateral or obligation to pay cash collateral arising from those derivative instruments recognized at fair value, which are executed with the same counterparty under a master netting arrangement. This is consistent with NiSource's current accounting policy prior to the adoption of this amended standard. NiSource discloses amounts recognized for the right to reclaim cash collateral within "Restricted cash" and amounts recognized for the right to return cash collateral within current liabilities on the Consolidated Balance Sheets.

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 greater than 50% likely of being realized upon ultimate settlement. The determination of whether a tax position meets the more-likely-than-not recognition threshold is 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. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 11, "Income Taxes," in the Notes to Condensed Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

SFAS No. 161 – Disclosures about Derivative Instruments and Hedging — an amendment of SFAS No. 133. In March 2008, the FASB issued SFAS No. 161 to amend and expand the disclosure requirements of SFAS No. 133 with the intent to provide users of the financial statement with an enhanced understanding of how and why an entity uses derivative instruments, how these derivatives are accounted for and how the respective reporting entity's financial statements are affected. This Statement is effective for fiscal years and interim periods beginning af November 15, 2008, and earlier application is encouraged. NiSource is currently reviewing the provisions of SFA No. 161 to determine the impact it may have on its disclosures within the Notes to Condensed Consolidated Financial Statements.

SFAS No. 160 - Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51. In December 2007, the FASB issued SFAS No. 160 to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements regarding non-controlling ownership interests in a business and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. NiSource is currently reviewing the provisions of SFAS No. 160 to determine the impact it may have on the Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements.

SFAS No. 141R – Business Combinations. In December 2007, the FASB issued SFAS No. 141R to improve the relevance, representational faithfulness, and comparability of information that a reporting entity provides in its financial reports regarding business combinations and its effects, including recognition of assets and liabilities, the measurement of goodwill and required disclosures. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. NiSource is currently reviewing the provisions of SFAS No. 141R to determine the impact on future business combinations.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

NISOURCE INC.
Gas Distribution Operations

Three Months Ended March 31, *(in millions)*	**2008**	2007
Net Revenues		
Sales Revenues	**$ 2,447.5**	$ 2,055.1
Less: Cost of gas sold (excluding depreciation and amortization)	**1,828.6**	1,448.8
Net Revenues	**618.9**	606.3
Operating Expenses		
Operation and maintenance	**239.8**	230.4
Depreciation and amortization	**56.7**	56.0
Impairment and gain on sale of assets	**(2.1)**	(0.3)
Other taxes	**69.6**	66.1
Total Operating Expenses	**364.0**	352.2
Operating Income	**$ 254.9**	$ 254.1
Revenues ($ in Millions)		
Residential	**1,428.8**	1,283.0
Commercial	**496.6**	439.3
Industrial	**102.3**	95.5
Off System	**334.0**	128.0
Other	**85.8**	109.3
Total	**2,447.5**	2,055.1
Sales and Transportation (MMDth)		
Residential	**137.4**	134.2
Commercial	**78.0**	74.4
Industrial	**103.2**	105.2
Off System	**37.4**	18.6
Other	**0.5**	0.3
Total	**356.5**	332.7
Heating Degree Days	**2,679**	2,623
Normal Heating Degree Days	**2,665**	2,636
% Colder (Warmer) than Normal	**1%**	(0%)
Customers		
Residential	**3,050,085**	3,051,512
Commercial	**280,729**	281,306
Industrial	**8,039**	8,152
Other	**77**	75
Total	**3,338,930**	3,341,045

NiSource's natural gas distribution operations serve approximately 3.3 million customers in seven states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky and Maryland. 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 73% 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.

Regulatory Matters

Significant Rate Developments. Columbia of Ohio filed a base rate case with PUCO on March 3, 2008, requesting an increase in base rates in excess of $80 million annually. Columbia of Ohio is seeking recovery of increased infrastructure rehabilitation costs, as well as the stabilization of revenues and cost recovery through rate design. The case is currently pending, and is expected to be resolved by the fourth quarter of 2008.

On January 28, 2008, Columbia of Pennsylvania filed a base rate case with the Pennsylvania Public Utility Commission, seeking an increase of approximately $60 million annually, effective October 28, 2008. Through this filing, Columbia of Pennsylvania is seeking to recover costs associated with its significant infrastructure rehabilitation program, as well as stabilize revenues and cost recovery through modifications to rate design. The case is currently pending, and is expected to be resolved by the fourth quarter of 2008.

On October 17, 2007, Bay State petitioned the Massachusetts Department of Public Utilities to allow the company to collect an additional $7.5 million in annual revenue related to usage reductions occurring since its last rate case. Bay State also requested approval of a steel infrastructure tracker that would allow for recovery of ongoing infrastructure replacement program investments. The Massachusetts Department of Public Utilities held hearings on this matter in the first quarter of 2008 and issued an order denying Bay State's petition on April 30, 2008. NiSource is in the process of reviewing the order and assessing its rehearing or appeal options.

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

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

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

Certain of the NiSource distribution companies are embarking upon plans to replace significant portions of their operating systems that are nearing the end of their useful lives. Those companies are currently evaluating requests for increases in rates in order to allow recovery of the additional capital expenditures required for such plans. Each LDC's approach to cost recovery may be unique, given the different laws, regulations and precedent that exist in each jurisdiction.

Certain types of natural gas risers, which are owned by customers, on Columbia of Ohio's distribution system have been evaluated under a study required by the PUCO and have been found prone to leak natural gas under certain conditions. On February 1, 2007, Columbia of Ohio announced plans to identify and replace these risers on its distribution system. As of March 31, 2008, Columbia of Ohio deferred $7.5 million of costs associated with the study and identification of these natural gas risers as a regulatory asset and currently has estimated approximately $120 million for the cost to identify and replace the risers. On October 26, 2007, Columbia of Ohio and the PUC Staff filed a Joint Stipulation and Recommendation that provided for Columbia of Ohio's assumption of financi responsibility for the repair or replacement of customer-owned service lines and the replacement of risers prone to leak. In addition, the Stipulation provides for Columbia of Ohio to capitalize its investment in the service lines and risers, as well as the establishment of a tracking mechanism that would provide for the recovery of operating and

NISOURCE INC.
Gas Distribution Operations (continued)

maintenance costs related to Columbia of Ohio's capitalized investment and its expenses incurred in identifying risers prone to leak. On December 28, 2007, Columbia of Ohio entered into a Stipulation with the Ohio Consumers' Counsel and Ohio Partners for Affordable Energy, addressing the issues of Columbia of Ohio's authority to assume responsibility for repair or replacement of hazardous customer owned service lines, the establishment of accounting authority for costs related to such activities, and the establishment of a mechanism to recover such costs. The parties recommended approval of the Stipulation to the PUCO, and on April 9, 2008, the PUCO issued an order in this matter approving the Stipulation in all material respects. On April 23, 2008, Utility Service Partners, Inc. requested that the PUCO stay its order, pending the resolution of any applications on rehearing. Columbia of Ohio filed its response to the motion on April 28, 2008.

On December 28, 2007, Columbia of Ohio entered into a Stipulation with the Ohio Consumers' Counsel and PUCO Staff and other stakeholders resolving litigation concerning a pending Gas Cost Recovery audit of Columbia of Ohio. The Stipulation calls for an accelerated pass back to customers of $36.6 million that will occur from January 31, 2008 through January 31, 2009, generated through off-system sales and capacity release programs, the development of new energy efficiency programs for introduction in 2009, and the development of a wholesale auction process for customer supply to take effect in 2010. Approximately $12.7 million was passed back through March 2008. The Stipulation also resolves issues related to pending and future Gas Cost Recovery Management Performance audits through 2008. The PUCO approved this agreement on January 23, 2008.

Customer Usage. The NiSource distribution companies have experienced declining usage by customers, due in large part to the sensitivity of sales to increases in commodity prices. A significant portion of the LDCs' operating costs are fixed in nature. Historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge. Many of NiSource's LDCs are evaluating mechanisms that would "de-couple" the recovery of fixed costs from throughput, and implement recovery mechanisms that more closely link the recovery of fixed costs with fixed charges. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing such changes.

Environmental Matters

Currently, various environmental matters impact the Gas Distribution Operations segment. As of March 31, 2008, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters," in the Notes to Condensed Consolidated Financial Statements for additional information regarding environmental matters for the Gas Distribution Operations segment.

Restructuring

Payments made for all restructuring initiatives within Gas Distribution Operations amounted to effectively zero for the first quarter of 2008 and the restructuring liability remaining at March 31, 2008 was $0.9 million. Refer to Note 4, "Restructuring Activities," in the Notes to Condensed Consolidated Financial Statements for additional information regarding restructuring initiatives.

Sale of Northern Utilities

On February 15, 2008, NiSource reached a definitive agreement under which Unitil Corporation will acquire NiSource subsidiaries Northern Utilities and Granite State Gas for $160 million plus net working capital at the time of closing. Northern Utilities is a local gas distribution company serving 52 thousand customers in 44 communities in Maine and New Hampshire. In the first quarter of 2008, NiSource began accounting for the operations of Northern Utilities as discontinued operations. As such, net income of $5.7 million from continuing operations for Northern Utilities, which affected the Gas Distribution Operations segment, was classified to net income from discontinued operations for the three months ended March 31, 2008, and $4.6 million was reclassified for the three months ended March 31, 2007. Refer to Note 6, "Discontinued Operations and Assets Held for Sale," in the Notes to Condensed Consolidated Financial Statements for additional information.

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

NiSource Inc.
Gas Distribution Operations (continued)

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 2008 was 1% colder than normal and 2% colder than the comparable quarter in 2007.

Throughput
Total volumes sold and transported of 356.5 MMDth for the first quarter of 2008 increased 23.8 MMDth from the same period last year. This increase in volume was primarily due to higher residential and commercial usage and off-system sales in the current period compared to the same period last year.

Net Revenues
Net revenues for the three months ended March 31, 2008 were $618.9 million, an increase of $12.6 million from the same period in 2007, due primarily to increased net revenues from regulatory and service programs of $8.5 million and increased residential and commercial usage.

Operating Income
For the first quarter of 2008, Gas Distribution Operations reported operating income of $254.9 million compared to operating income of $254.1 million for the same period in 2007. The increase in operating income was primarily attributable to increased net revenues described above. Operating expenses, after adjusting for increased expenses of $3.0 million that are recovered through regulatory and tax trackers and corresponding increases in net revenues, increased by $8.8 million compared to the same period last year. Operating expense increases were primarily due to higher employee and administrative expenses of $3.0 million, increased property and other taxes of $1.6 million, higher environmental expenses of $1.1 million pertaining mostly to former manufactured gas plant sites and higher depreciation. Employee and administrative costs include payroll, benefits and higher corporate services costs including costs associated with the amended IBM Agreement.

NISOURCE INC.
Gas Transmission and Storage Operations

Three Months Ended March 31, *(in millions)*	**2008**	2007
Operating Revenues		
Transportation revenues	**$ 184.8**	$ 182.1
Storage revenues	**45.6**	45.9
Other revenues	**0.9**	1.0
Total Operating Revenues	**231.3**	229.0
Less: Cost of gas sold (excluding depreciation and amortization)	**-**	(0.3)
Net Revenues	**231.3**	229.3
Operating Expenses		
Operation and maintenance	**84.8**	80.4
Depreciation and amortization	**29.3**	28.8
Gain on sale of assets	**(1.0)**	-
Other taxes	**15.4**	15.0
Total Operating Expenses	**128.5**	124.2
Equity Earnings in Unconsolidated Affiliates	**2.0**	1.5
Operating Income	**$ 104.8**	$ 106.6

Throughput (MMDth)		
Columbia Transmission		
Market Area	**386.4**	385.2
Columbia Gulf		
Mainline	**159.7**	147.1
Short-haul	**75.0**	40.5
Columbia Pipeline Deep Water	**0.2**	0.8
Crossroads Gas Pipeline	**10.1**	10.2
Intrasegment eliminations	**(132.0)**	(128.2)
Total	**499.4**	455.6

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline, 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 16 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.

NiSource Energy Partners, L.P.

On December 21, 2007, NiSource Energy Partners, L.P., an MLP and subsidiary of NiSource, filed an S-1 registration statement with the SEC in which it proposed making an initial public offering of common units in the MLP and NiSource proposed contributing its interest in Columbia Gulf to the MLP. NiSource management believes the formation of an MLP is a natural complement to NiSource's gas transmission and storage growth strategy, and should provide NiSource access to competitively priced capital to support future growth investment. Due to the damage sustained at Columbia Gulf's Hartsville, Tennessee, compressor station, following the tornados at the facility as described previously, the expected timing of initial public offering is expected to be delayed until later in 2008.

Millennium Pipeline Project

Millennium received FERC approval for a pipeline project, in which Columbia Transmission is participating, which will provide access to a number of supply and 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,

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

New York. Millennium will extend eastward to an interconnect with Algonquin at Ramapo, New York. The Millennium partnership is currently made up of the following companies: Columbia Transmission (47.5%), DTE Millennium (26.25%), and KeySpan Millennium (26.25%). Columbia Transmission is the operator.

The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, and Iroquois collectively referred to as the "Companion Pipelines." The December 21, 2006 certificate order also granted the necessary project approvals to the Companion Pipelines. Construction began on June 22, 2007 with a projected in-service date of November 1, 2008.

On August 29, 2007, Millennium entered into a bank credit agreement to finance the construction of the Millennium Pipeline project. As a condition precedent to the credit agreement, NiSource issued a guarantee securing payment for its indirect ownership interest percentage of amounts borrowed under the financing agreement up until such time as the amounts payable under the agreement are paid in full. The permanent financing is expected to be completed in the first quarter of 2009. Additional information on this guarantee is provided in Note 15-A, "Guarantees and Indemnities," in the Notes to Condensed Consolidated Financial Statements.

Hardy Storage Project

Hardy Storage completed its full year of operations, receiving customer injections and withdrawing natural gas from its new underground natural gas storage facility in West Virginia. Injections this year will allow the field to deliver up to 150,000 Dth of natural gas per day during the 2008-2009 winter heating season. Customers withdrew over 5.44 BCF from the storage field during the 2007-2008 winter heating season. When fully operational in 2009, the field will have a working storage capacity of 12 billion cubic feet, delivering more than 176,000 Dth of natural gas per day. Hardy Storage is a joint venture of subsidiaries of Columbia Transmission and Piedmont.

Columbia Transmission, the operator of Hardy Storage, is expanding its natural gas transmission system by 176,0 Dth per day to provide the capacity needed to deliver Hardy Storage supplies to customer markets. Construction of these transmission facilities is substantially complete and partially in service.

Florida Gas Transmission Expansion Project

An open season to solicit interest and contracts for expanded capacity on Columbia Gulf's system for delivery to Florida Gas Transmission was held in late 2007 and contracts for 100,000 Dth per day of capacity were executed. The remaining 80,000 Dth per day of capacity is expected to be sold under firm contracts. This project is expected to be in service during the second quarter of 2008.

Eastern Market Expansion Project

On May 3, 2007, Columbia Transmission filed a certificate application before the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. This Eastern Market Expansion project is projected to add 97,000 Dth per day of storage and transportation deliverability and is fully subscribed on a 15-year contracted firm basis. On January 14, 2008, the FERC issued a favorable order which granted a certificate to construct the project and the project is expected to be in service by spring 2009.

Ohio Storage Project

Columbia Transmission concluded successful open seasons to gauge customer interest in an expansion of its storage in Ohio. The final scope of the project will be determined based on the outcome of the ongoing customer discussions.

Appalachian Expansion Project

On February 29, 2008, Columbia Transmission filed an application before the FERC for approval to build a new 9,470 horsepower compressor station in West Virginia. The Appalachian Expansion Project will add 100,000 Dth per day of transportation capacity and is fully subscribed on a 15-year contracted firm basis. The project is expec to be in service in the fourth quarter of 2009.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

New Penn Transmission Project
NiSource Gas Transmission and Storage Operations concluded a successful open season to gauge customer interest in a new pipeline system to provide 500,000 Dth per day of firm service from storage facilities near Leidy to a new interconnection with Millennium Pipeline in Steuben County, New York in 2010.

Centerville Expansion Project
Columbia Gulf concluded a successful open season to gauge customer interest in an expansion of firm service made available by the addition of compression to the East Lateral. This proposed expansion would add 235,000 Dth per day of additional delivery capability on the East Lateral in late 2009.

Other Growth Projects
Columbia Gulf recently expanded interconnection points to provide incremental delivery capacity of 30,000 Dth per day to Henry Hub and 85,000 Dth per day to Southern Natural Gas near Lafayette, Louisiana. Columbia Gulf entered into firm contracts for this capacity and the facilities were placed into service during the third quarter of 2007. A successful open season was held in the first quarter of 2007 to sell capacity of 380,000 Dth per day to two interconnection points with Transcontinental Gas Pipeline. This capacity provides increased access to downstream pipelines and their customers that access mid-Atlantic and Northeast markets. These interconnection points were placed into service in the fourth quarter of 2007.

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

Firm service contracts require pipeline capacity to be reserved for a given customer between certain receipt and delivery points. Firm customers generally pay a "capacity reservation" fee based on the amount of capacity being reserved regardless of whether the capacity is used, plus an incremental usage fee when the capacity is used. Annual capacity reservation revenues derived from firm service contracts generally remain constant over the life of the contract because the revenues are based upon capacity reserved and not whether the capacity is actually used. The high percentage of revenue derived from capacity reservation fees mitigates the risk of revenue fluctuations within the Gas Transmission and Storage Operations segment due to changes in near-term supply and demand conditions. For the three months ended March 31, 2008 approximately 90.7% of the transportation revenues were derived from capacity reservation fees paid under firm contracts and 4.4% of the transportation revenues were derived from usage fees under firm contracts. This is compared to approximately 88.7% of the transportation revenues derived from capacity reservation fees paid under firm contracts and 4.3% of transportation revenues derived from usage fees under firm contracts for the three months ended March 31, 2007.

Interruptible transportation service is typically short term in nature and is generally used by customers that either do not need firm service or have been unable to contract for firm service. These customers pay a usage fee only for the volume of gas actually transported. The ability to provide this service is limited to available capacity not otherwise used by firm customers, and customers receiving services under interruptible contracts are not assured capacity in the pipeline facilities. Gas Transmission and Storage Operations provides interruptible service at competitive prices in order to capture short term market opportunities as they occur and interruptible service is viewed by management as an important strategy to optimize revenues from the gas transmission assets. For the three months ended March 31, 2008 and 2007, approximately 4.9% and 7.0% of the transportation revenues were derived from interruptible contracts, respectively.

Significant FERC Developments
Columbia Gulf and Columbia Transmission are cooperating with the FERC on an informal, non-public investigation of certain operating practices regarding tariff services offered by those companies. Although the companies are continuing to cooperate with the FERC in an effort to reach a consensual settlement, it is likely that any settlement will require the payment of fines or refunds.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Hartsville and Delhi Compressor Stations

On February 5, 2008, tornados struck Columbia Gulf's Hartsville Compressor Station in Macon County, Tennessee. The damage to the facility forced Columbia Gulf to declare force majeure because no gas was flowing through this portion of the pipeline system while a facility assessment was being performed and the current contractual transportation agreements of 2.156 Bcf per day could not be met. Since that time Columbia Gulf restored gas flow to 1.65 Bcf per day; however, full contractual agreements still cannot be met. Although temporary solutions are being investigated to restore system capabilities as soon as possible, a permanent solution for rebuilding the compressor station may take 18 to 24 months. The temporary solutions will begin adding system capacity in the second quarter and will be completed by July 2008. This capacity would remain in place while the permanent solution is implemented. NiSource expects the majority of the reconstruction costs during the 18 to 24 month period for the compressor station and ancillary facilities plus business interruption losses during the twelve month period from the event will be recoverable through insurance.

On December 14, 2007, Columbia Gulf's Line 100 ruptured approximately two miles north of its Delhi Compressor Station in Louisiana. The damage to the pipeline forced Columbia Gulf to declare force majeure because no gas was flowing through this portion of the pipeline system on Lines 100, 200 and 300 while a facility assessment was performed. As a result the current contractual transportation agreements of 2.156 Bcf per day could not be met. By December 15, 2007 Lines 200 and 300 were returned to service and gas flow was restored to 2.0 Bcf per day on December 16, 2007. On December 19, 2007, the U.S. Department of Transportation issued a Corrective Action Order which was applicable to Line 100 from the Rayne, LA Compressor Station to Leach, KY. The Order required Columbia Gulf to develop a remedial work plan, which included assessments on Line 100 using in-line inspection tools. The Order also required a 20% reduction in pressure on Line 100 from the Rayne Compressor Station to the Corinth Compressor Station which resulted in a reduction in gas flow on December 21, 2007 to 1.6 Bcf per day. The next day the capacity was increased to 1.75 Bcf per day. Between December 22, 2007 and February 5, 2008 the capacity varied between 1.6 and 1.75 Bcf per day as a result of remediation work on Line 100. Columbia Gulf continuing its remediation efforts with the goal of lifting the Corrective Action Order. NiSource expects to recover a portion of the pipeline replacement costs plus business interruption losses through insurance.

Over the course of the next 24 months, firm transportation contracts of approximately 1.2 Bcf per day will expire and there is a risk some of those may not be renewed due to the reduced system capabilities.

Sale of Granite State Gas

On February 15, 2008, NiSource reached a definitive agreement under which Unitil Corporation will acquire NiSource subsidiaries Northern Utilities and Granite State Gas for $160 million plus net working capital at the time of closing. Granite State Gas is an 86-mile FERC regulated gas transmission pipeline primarily located in Maine and New Hampshire. In the first quarter of 2008, NiSource began accounting for the operations of Granite State Gas as discontinued operations. As such, net income of $0.3 million from continuing operations for Granite State Gas, which affected the Gas Transmission and Storage Operations segment, was classified to net income from discontinued operations for the three months ended March 31, 2008, and $0.3 million was reclassified for the three months ended March 31, 2007. Refer to Note 6, "Discontinued Operations and Assets Held for Sale," in the Notes to Condensed Consolidated Financial Statements for additional information.

Environmental Matters

Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of March 31, 2008, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters," in the Notes to Condensed Consolidated Financial Statements for additional information regarding environmental matters for the Gas Transmission and Storage Operations segment.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Restructuring
Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.3 million for the first quarter of 2008 and the restructuring liability remaining at March 31, 2008 was $1.0 million. Refer to Note 4, "Restructuring Activities," in the Notes to Condensed Consolidated Financial Statements for additional information regarding restructuring initiatives.

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 499.4 MMDth for the first quarter of 2008, compared to 455.6 MMDth for the same period in 2007. The increase of 43.8 MMDth is due primarily to incremental volumes transported from new interconnects along the Columbia Gulf pipeline system.

Net Revenues
Net revenues were $231.3 million for the first quarter of 2008, an increase of $2.0 million from the same period in 2007, primarily due to increased subscriptions for firm transportation services of $5.1 million related to new interconnects along the Columbia Gulf pipeline system and deliveries from the Hardy storage field as described above, partially offset by insurance proceeds from a business interruption claim that improved last year's results by $2.6 million.

Operating Income
Operating income was $104.8 million for the first quarter of 2008 compared to $106.6 million in the first quarter of 2007. Increases in net revenues described above were more than offset by increased operating expenses of $4.3 million. Operation and maintenance expenses increased as a result of higher pipeline integrity management cost of approximately $2 million and increased employee and administrative costs of $1.9 million. Employee and administrative costs include payroll, benefits and higher corporate services costs, including costs associated with the amended IBM Agreement.

NISOURCE INC.
Electric Operations

Three Months Ended March 31, *(in millions)*	**2008**	2007
Net Revenues		
Sales revenues	**$ 333.0**	$ 327.1
Less: Cost of sales (excluding depreciation and amortization)	**149.6**	128.7
Net Revenues	**183.4**	198.4
Operating Expenses		
Operation and maintenance	**83.0**	61.8
Depreciation and amortization	**47.4**	48.0
Other taxes	**14.6**	15.6
Total Operating Expenses	**145.0**	125.4
Operating Income	**$ 38.4**	$ 73.0
Revenues ($ in millions)		
Residential	**86.9**	93.0
Commercial	**78.4**	89.8
Industrial	**143.0**	129.0
Wholesale	**8.9**	11.3
Other	**15.8**	4.0
Total	**333.0**	327.1
Sales (Gigawatt Hours)		
Residential	**806.8**	845.2
Commercial	**944.0**	928[illegible]
Industrial	**2,514.0**	2,34[illegible]
Wholesale	**144.7**	137.[illegible]
Other	**34.8**	26.7
Total	**4,444.3**	4,279.0
Electric Customers		
Residential	**400,452**	398,493
Commercial	**52,920**	52,199
Industrial	**2,499**	2,512
Wholesale	**4**	4
Other	**756**	757
Total	**456,631**	453,965

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 457 thousand customers in 20 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.

Electric Supply

On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed the need to add approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana filed a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN requested approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly-owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. On December 22, 2007, BPAE indicated it would exercise a contractual right of first refusal to purchase the Whi[illegible] Clean Energy facility and subsequently signed a purchase agreement on April 18, 2008. As a result, on January[illegible] 2008, Northern Indiana filed an amended CPCN to address just the Sugar Creek CCGT facility. The estimated cost of the facility is $329 million. Northern Indiana is requesting the IURC to approve the purchase by the second quarter of 2008. The FERC approved the purchase on February 27, 2008.

NISOURCE INC.
Electric Operations (continued)

Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

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. The credits will continue at approximately the same annual level and per the same methodology, until the IURC enters a base rate order that approves revised Northern Indiana electric rates. 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; therefore, in times of high usage the credit may be more than $55.1 million. Credits amounting to $12.5 million and $13.7 million were recognized for electric customers for the first quarter of 2008 and 2007, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding of the administrative fees and certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first quarter of 2008 non-fuel cost credits of $0.9 million were deferred in accordance with the aforementioned orders. In addition, administrative, FERC and other fees of $1.8 million were deferred. In the first quarter of 2008 and 2007, MISO costs of $0.9 million and $2.5 million, respectively, were deferred.

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 on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to the start of the Day 2 Market. The resettlement began on June 9, 2007 and ended in January 2008. Certain charge types included in the resettlement were originally considered to be non-fuel and were recorded as regulatory assets, in accordance with previous IURC orders allowing deferral of certain non-fuel MISO costs. During the fourth quarter 2007, based on precedent set by an IURC ruling for another Indiana utility, Northern Indiana reclassified these charges, totaling $16.7 million, as fuel and included them in the fuel cost recovery mechanism in its latest FAC filing. Prior to the hearing for FAC-78 on April 17, 2008, several intervenors objected to a portion of the $16.7 million and Northern Indiana agreed to remove $7.6 million from the FAC filing. This amount represents the portion of the resettlement costs related to periods prior to December 9, 2005. The $7.6 million was recorded as a reduction to net revenues in the first quarter of 2008.

On September 14, 2007, MISO filed a tariff with the FERC outlining the development of an ASM. The ASM will allow participants to buy and sell operating reserves and regulation services that are essential to reliability. The pricing of these markets will be optimized with the current energy markets and MISO is targeting the start of the ASM for 2008. Northern Indiana is an active stakeholder in the process used in designing, testing and implementing the ASM and in developing the surrounding business practices. On January 18, 2008, Northern Indiana as part of a joint petition to the IURC, filed a request to participate in ASM and seek approval of cost recovery methodologies for associated costs. At this time, Northern Indiana is unable to determine what impact the ASM will have on its operations or cash flows.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana.

On January 30, 2008, the IURC approved a settlement agreement which was reached in October 2007 with the OUCC, LaPorte County and a group of Northern Indiana industrial customers to resolve questions relating to the costs paid by customers for power purchased by Northern Indiana versus the amount of these costs absorbed by Northern Indiana. The terms of the settlement call for Northern Indiana to make a one-time payment to resolve this question as it relates to power purchased from January 1, 2006 through September 30, 2007. The amount of the

NISOURCE INC.
Electric Operations (continued)

refund is set at $33.5 million and will be refunded February 2008 through July 2008. A reserve for the entire amount was recorded in the third quarter of 2007. Northern Indiana implemented a new "benchmarking standard" that will govern the allocation of costs for purchased power between customers and Northern Indiana. The benchmark defines the price below which customers will pay for power purchases and above which Northern Indiana must absorb a portion of the costs. The benchmark is based upon the costs of power generated by a hypothetical natural gas fired CCGT using gas purchased and delivered to Northern Indiana. Purchased power costs exceeding the benchmark amounted to $3.8 million in the first quarter of 2008. These costs were not passed through to customers, but were absorbed by Northern Indiana. This benchmark will likely result in Northern Indiana absorbing some purchased power costs that will reduce net revenues during future periods. The agreement also contemplates Northern Indiana adding generating capacity to its existing portfolio. The benchmark will be adjusted as new capacity is added. The added generating capacity will substantially reduce the amount of purchased power and mitigate the impact of the adjusted benchmark. Further, the settling parties agreed to support Northern Indiana's deferral and future recovery of carrying costs and depreciation associated with the acquisition of new generating facilities. In the approving order, the IURC dictated that, while the parties agreed to support the deferral of costs mentioned above, the IURC would rule on such deferral in CPCN proceedings.

On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed the need to add approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana filed a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN requested approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly-owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. On December 22, 2007, BPAE indicated it would exercise a contractual right of first refusal to purchase the Whiting Clean Energy facility and subsequently signed a purchase agreement on April 18, 2008. As a result, on January 25, 2008, Northern Indiana filed an amended CPCN to address just the Sugar Creek CCGT facility. The estimated cost of the facility is $329 million. The CPCN hearing before the IURC took place on March 25, 2008. Northern Indiana anticipates an order in May 2008. The FERC approved the purchase on February 27, 2008.

On November 26, 2002, Northern Indiana received approval from the IURC 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. In December 2006, Northern Indiana filed a petition with the IURC for appropriate cost treatment and recovery of emission control construction needed to address the Phase I CAIR requirements of the Indiana Air Pollution Control Board's CAIR rules that became effective on February 25, 2007. On July 3, 2007, Northern Indiana received an IURC order issuing a CPCN for the CAIR and CAMR Phase I Compliance Plan Projects, estimated to cost approximately $23 million. Northern Indiana will include the CAIR and CAMR Phase I Compliance Plan costs to be recovered in the semi-annual and annual ECRM and EERM filing six months after construction costs begin. On December 19, 2007, the IURC approved Northern Indiana's latest compliance plan with the estimate of $338.5 million. On April 2, 2008, IURC approved ECR-11 for $252.6 million in capital expenditures (net of accumulated depreciation) and EER-5 for $14.1 million in expenses.

On January 9, 2008, the IURC established a procedural schedule to review the October 27, 2006 Joint Petition of Indiana Gasification, LLC, Vectren Energy Delivery of Indiana and Northern Indiana. The petition seeks IURC approval for a coal gasification facility, the transportation of electricity and SNG produced at the facility and the recovery of the cost incurred by the Joint Petitioners. On March 27, 2008, Joint Petitioners filed a motion seeking to extend the March 31, 2008 deadline for direct testimony. The Joint Petitioners indicated that positive settlement talks were underway regarding a purchase contract between Vectren Energy Delivery of Indiana, Northern Indiana and Indiana Gasification, LLC. Northern Indiana currently anticipates that the hearing will occur in the fourth quarter of 2008.

Environmental Matters

Currently, various environmental matters impact the Electric Operations segment. As of March 31, 2008, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters,"

NISOURCE INC.
Electric Operations (continued)

in the Notes to Condensed Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Sales
Electric Operations sales quantities for the first quarter of 2008 were 4,444.3 gwh, compared to 4,279.0 gwh in the first quarter of 2007. The increase was primarily due to higher industrial volumes for the first three months of 2008 compared to the same period last year.

Net Revenues
In the first quarter of 2008, electric net revenues of $183.4 million decreased by $15.0 million from the comparable 2007 period. This decrease was due to $11.4 million of non-recoverable purchased power and non-recoverable MISO charges. Lower residential and commercial margins were partially offset by higher industrial volumes and margins and increased wholesale margins.

Operating Income
Operating income for the first quarter of 2008 was $38.4 million, a decrease of $34.6 million from the same period in 2007. The decrease in operating income was due to lower net revenues described above and increased operating expenses of $19.6 million. Operating expenses increased primarily due to higher employee and administrative costs of $13.3 million and higher electric generation and maintenance expenses of $7.4 million. Part of the increase in employee and administrative costs were due to adjustments that reduced benefit expenses by $5.7 million during 2007. Employee and administrative costs include payroll, benefits and higher corporate services costs, including costs associated with the amended IBM Agreement. The higher generation and maintenance expenses were primarily attributable to a planned turbine and boiler maintenance and a generator overhaul.

NISOURCE INC.
Other Operations

Three Months Ended March 31, *(in millions)*	2008	2007
Net Revenues		
Products and services revenue	**$ 359.3**	$ 321.7
Less: Cost of products purchased (excluding depreciation and amortization)	**352.1**	313.5
Net Revenues	**7.2**	8.2
Operating Expenses		
Operation and maintenance	**5.4**	5.9
Depreciation and amortization	**0.7**	0.6
Other taxes	**1.6**	1.5
Total Operating Expenses	**7.7**	8.0
Operating Income (Loss)	**$ (0.5)**	$ 0.2

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.

PEI Holdings, Inc.

Whiting Clean Energy. On July 27, 2007, Whiting Clean Energy submitted a proposal in response to the Northern Indiana-issued RFP "2008 Combined Cycle Request for Proposals". Whiting Clean Energy was notified during October 2007 that its proposal to sell its facility was selected by Northern Indiana based on a purchase price of $2[illegible] million. On December 22, 2007, BPAE offered to purchase the facility under an exercised contractual right of first refusal triggered by Northern Indiana's offer to purchase the facility. The carrying amount of the Whiting Clean Energy facility was approximately $270 million at December 31, 2007. On April 18, 2008, PEI reached an agreement with BPAE to sell all of the outstanding stock of Whiting Clean Energy to BPAE for $210 million. The agreement with BPAE contains customary representations, warranties, covenants and closing conditions. NiSource anticipates the closing of the transaction to occur in the second or third quarter of 2008, depending upon the timing of the satisfaction of closing conditions, including required approvals from the Federal Energy Regulatory Commission and the termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

In the first quarter of 2008, NiSource began accounting for the operations of Whiting Clean Energy as discontinued operations. As such, net income of $0.1 million from continuing operations was classified to net income from discontinued operations for the three months ended March 31, 2008, and a loss of $2.2 million was reclassified for the three months ended March 31, 2007. In the first quarter of 2008, NiSource recorded an estimated after-tax loss of $32.5 million for the disposition of these operations.

Lake Erie Land Company, Inc.
Lake Erie Land, which is wholly-owned by NiSource, is in the process of selling real estate over a 10-year period as a part of an agreement reached in June, 2006 with a private real estate development group. Part of the sale transaction included the assets of the Sand Creek Golf Club, and NiSource began accounting for the operations of the Sand Creek Golf Club as discontinued operations at that time. NiSource estimates the property to be sold to the private developer during the next twelve months and classifies these assets as assets of discontinued operations and held for sale.

NISOURCE INC.
Other Operations (continued)

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 during 2007 and two other investments are expected to be sold or disposed of during 2008. NiSource has accounted for the investments to be sold as assets and liabilities of discontinued operations and held for sale.

Net Revenues
Net revenues of $7.2 million for the first quarter of 2008 decreased by $1.0 million from the first quarter of 2007, as a result of decreased commercial and industrial gas marketing revenues.

Operating Loss
Other Operations reported an operating loss of $0.5 million for the first quarter of 2008, versus operating income of $0.2 million for the comparable 2007 period. The operating loss resulted primarily from decreased net revenues described above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

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

ITEM 4. CONTROLS AND PROCEDURES

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

In the fourth quarter of 2007, Northern Indiana detected an error in its unbilled revenue calculation and revised its estimate for unbilled electric and gas revenues. Over a period of several years, Northern Indiana used incorrect customer usage data to calculate its unbilled revenue and effective controls from both a design and operating effectiveness perspective were not in place to ensure the adequate calculation and recording of unbilled revenues. As a result, this correction reduced net revenues by $25.5 million in the fourth quarter of 2007. The unbilled revenue estimates were never billed to customers. This error resulted in a material weakness and internal controls were determined to be ineffective for the fourth quarter of 2007.

Changes in Internal Controls
During the first quarter of 2008, management has designed and implemented internal controls to ensure the adequate calculation and recording of Northern Indiana's unbilled revenues. Management is still in the process of performing operating effectiveness testing which will be completed in the second quarter of 2008, at which time management is confident that the material weakness will be remediated and internal controls will be effective.

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 period covered by this report that has materially affected, or is reasonably likely to affect, NiSource's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. 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 Columbia companies filed their opposition to this motion in March 2008; this issue has now been fully briefed, and is awaiting a decision by the Court. Discovery continues on the merits.

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

The plaintiff filed a complaint in 1995, 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 by mismeasuring 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. In 1997, the plaintiff 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"). This complaint repeats the mismeasurement claims previously made and adds valuation claims alleging that the defendants undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. This case was transferred, along with most of the other new Grynberg cases, 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.

3. 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. In January 2008, the Defendants filed their petition for appeal, and on March 24, 200(the Defendants filed their amended petition for appeal with the West Virginia Supreme Court of Appeals, which may or may not accept the appeal. NiSource has not established a reserve for the punitive damages portion of the verdict.

4. 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. Columbia has assumed the defense of Chesapeake in this matter pursuant to the provisions of the Stock Purchase Agreement dated July 3, 2003, among Columbia, NiSource, and Triana Energy Holding, Inc., Chesapeake's predecessor in interest. Plaintiffs filed an amended complaint on March 19, 2007, which, among other things, added NiSource and Columbia as defendants. On March 31, 2008, the Court denied the Defendants' Motions to Dismiss; the Defendants filed their answers to the complaint on April 25, 2008.

5. 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.

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

On February 21, 2007, Pennsylvania Department of Environmental Protection provided representatives of Colum(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-E, "Environmental Matters," in the Notes to Condensed Consolidated Financial Statements for additional information regarding the Administrative Order by Consent). Pursuant to that order, Columbia Transmission has submitted a remediation plan to the EPA and the Pennsylvania Department of Environmental Protection. The EPA has approved the remediation plan and discussions are ongoing with the Pennsylvania Department of Environmental Protection regarding the proposed remediation. 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 1A. RISK FACTORS

NISOURCE INC.

There were no material changes from the risk factors disclosed in NiSource's 2007 Form 10-K filed on March 5, 2008.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

NISOURCE INC.

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

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

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

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

* Exhibit filed herewith.

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

SIGNATURE

NISOURCE INC.

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

NiSource Inc.
(Registrant)

Date: May 2, 2008

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

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, 2007

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. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check one):
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: 274,171,749 shares outstanding at October 31, 2007.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2007

Table of Contents

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

Bay State .... Bay State Gas Company
Capital Markets .... NiSource Capital Markets, Inc.
CER .... Columbia Energy Resources, Inc.
CNR .... Columbia Natural Resources, Inc.
Columbia .... Columbia Energy Group
Columbia 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
Algonquin .... Algonquin Gas Transmission Co.
APB No. 25 .... Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
ASM .... Ancillary Services Market
BART .... Best Alternative Retrofit Technology
BBA .... British Banker Association
Bcf .... Billion cubic feet
BP .... BP Amoco p.l.c.
CAIR .... Clean Air Interstate Rule
CAMR .... Clean Air Mercury Rule
CCGT .... Combined Cycle Gas Turbine
CPCN .... Certificate of Public Convenience and Necessity

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 generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DOT	United States Department of Transportation
Dth	dekatherms
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
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 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
FIP	Federal Implementation Plan
FTRs	Financial Transmission Rights
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services
IDEM	Indiana Department of Environmental Management
Iroquois	Iroquois Gas Transmission System LP
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
MISO	Midwest Independent Transmission System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
PBR	Performance Based Regulation
Piedmont	Piedmont Natural Gas Company, Inc.
ppm	parts per million
PPS	Price Protection Service
PUCO	Public Utilities Commission of Ohio
SEC	Securities and Exchange Commission
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"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended

DEFINED TERMS (continued)

SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
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"
SFAS No. 159	Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115"
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VADEQ	Virginia Department of Environmental Quality

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

(in millions, except per share amounts)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net Revenues				
Gas Distribution	$ **461.4**	$ 392.9	$ **3,132.1**	$ 2,996.4
Gas Transportation and Storage	**204.7**	202.7	**778.7**	743.8
Electric	**377.4**	377.4	**1,036.6**	985.0
Other	**197.5**	183.4	**764.4**	715.2
Gross Revenues	**1,241.0**	1,156.4	**5,711.8**	5,440.4
Cost of Sales (excluding depreciation and amortization)	**610.9**	524.9	**3,327.2**	3,187.0
Total Net Revenues	**630.1**	631.5	**2,384.6**	2,253.4
Operating Expenses				
Operation and maintenance	**320.6**	310.6	**1,049.4**	989.8
Depreciation and amortization	**142.2**	136.5	**419.4**	411.3
Impairment and (gain) loss on sale of assets	**0.6**	(0.2)	**9.8**	3.6
Other taxes	**56.4**	49.0	**223.0**	212.7
Total Operating Expenses	**519.8**	495.9	**1,701.6**	1,617.4
Equity Earnings in Unconsolidated Affiliates	**2.6**	0.9	**7.8**	0.8
Operating Income	**112.9**	136.5	**690.8**	636.8
Other Income (Deductions)				
Interest expense, net	**(100.8)**	(96.2)	**(297.5)**	(284.9)
Dividend requirement on preferred stock of subsidiaries	**-**	-	**-**	(1.1)
Other, net	**1.4**	(0.8)	**(1.8)**	(6.9)
Loss on early redemption of preferred stock	**-**	-	**-**	(0.7)
Total Other Income (Deductions)	**(99.4)**	(97.0)	**(299.3)**	(293.6)
Income From Continuing Operations Before Income Taxes and Cumulative Effect of Change in Accounting Principle	**13.5**	39.5	**391.5**	343.2
Income Taxes	**3.7**	13.5	**144.4**	122.1
Income from Continuing Operations Before Cumulative Effect of Change in Accounting Principle	**9.8**	26.0	**247.1**	221.1
Income (Loss) from Discontinued Operations - net of taxes	**0.1**	(0.3)	**0.4**	(2.2)
Gain on Disposition of Discontinued Operations - net of taxes	**1.1**	0.1	**6.9**	0.4
Income Before Change in Accounting Principle	**11.0**	25.8	**254.4**	219.3
Cumulative Effect of Change in Accounting Principle - net of taxes	**-**	-	**-**	0.4
Net Income	$ **11.0**	$ 25.8	$ **254.4**	$ 219.7
Basic Earnings Per Share ($)				
Continuing operations	$ **0.03**	$ 0.10	$ **0.90**	$ 0.81
Discontinued operations	**0.01**	-	**0.03**	-
Basic Earnings Per Share	$ **0.04**	$ 0.10	$ **0.93**	$ 0.81
Diluted Earnings Per Share ($)				
Continuing operations	$ **0.03**	$ 0.10	$ **0.90**	$ 0.81
Discontinued operations	**0.01**	-	**0.03**	-
Diluted Earnings Per Share	$ **0.04**	$ 0.10	$ **0.93**	$ 0.81
Dividends Declared Per Common Share	$ **0.23**	$ 0.23	$ **0.92**	$ 0.92
Basic Average Common Shares Outstanding (millions)	**273.9**	272.5	**273.8**	272.4
Diluted Average Common Shares (millions)	**274.7**	273.3	**274.7**	273.2

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

NISOURCE INC.
Condensed Consolidated Balance Sheets (unaudited)

(in millions)	September 30, 2007	December 31, 2006
ASSETS		
Property, Plant and Equipment		
Utility Plant	$ 17,345.8	$ 17,194.9
Accumulated depreciation and amortization	(7,813.4)	(7,850.0)
Net utility plant	9,532.4	9,344.9
Other property, at cost, less accumulated depreciation	338.7	349.6
Net Property, Plant and Equipment	9,871.1	9,694.5
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	50.2	43.0
Unconsolidated affiliates	59.1	59.6
Other investments	119.8	116.1
Total Investments and Other Assets	229.1	218.7
Current Assets		
Cash and cash equivalents	17.7	33.1
Restricted cash	96.0	142.5
Accounts receivable (less reserve of $31.4 and $42.1, respectively)	571.5	866.3
Gas inventory	679.6	550.5
Underrecovered gas and fuel costs	99.0	163.2
Materials and supplies, at average cost	91.9	89.0
Electric production fuel, at average cost	56.7	63.9
Price risk management assets	114.4	237.7
Exchange gas receivable	223.7	252.3
Regulatory assets	252.1	272.7
Prepayments and other	66.2	111.7
Total Current Assets	2,268.8	2,782.9
Other Assets		
Price risk management assets	10.6	49.9
Regulatory assets	1,014.7	1,127.3
Goodwill	3,677.3	3,677.3
Intangible assets	425.5	435.7
Deferred charges and other	154.3	170.2
Total Other Assets	5,282.4	5,460.4
Total Assets	$ 17,651.4	$ 18,156.5

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

ITEM 1. FINANCIAL STATEMENTS (continued)

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

(in millions, except share amounts)		**September 30, 2007**		December 31, 2006
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common Stockholders' Equity				
Common stock - $0.01 par value, 400,000,000 shares authorized; 274,161,140 and 273,654,180 shares issued and outstanding, respectively	$	**2.7**	$	2.7
Additional paid-in capital		**4,008.9**		3,998.3
Retained earnings		**1,007.4**		1,012.9
Accumulated other comprehensive income		**8.5**		20.9
Treasury stock		**(23.3)**		(21.2)
Total Common Stockholders' Equity		**5,004.2**		5,013.6
Long-term debt, excluding amounts due within one year		**5,923.4**		5,146.2
Total Capitalization		**10,927.6**		10,159.8
Current Liabilities				
Current portion of long-term debt		**60.9**		93.3
Short-term borrowings		**673.0**		1,193.0
Accounts payable		**449.7**		713.1
Dividends declared		**63.1**		-
Customer deposits		**108.6**		108.4
Taxes accrued		**168.1**		196.0
Interest accrued		**106.8**		107.1
Overrecovered gas and fuel costs		**46.1**		126.7
Price risk management liabilities		**91.7**		259.4
Exchange gas payable		**393.9**		396.6
Deferred revenue		**42.4**		55.9
Regulatory liabilities		**79.3**		40.7
Accrued liability for postretirement and postemployment benefits		**4.8**		4.7
Other accruals		**417.8**		526.3
Total Current Liabilities		**2,706.2**		3,821.2
Other Liabilities and Deferred Credits				
Price risk management liabilities		**17.5**		38.2
Deferred income taxes		**1,549.4**		1,553.7
Deferred investment tax credits		**55.5**		61.5
Deferred credits		**119.7**		119.3
Deferred revenue		**2.6**		21.9
Accrued liability for postretirement and postemployment benefits		**619.2**		799.5
Liabilities of discontinued operations and liabilities held for sale		**6.2**		11.9
Regulatory liabilities and other removal costs		**1,319.7**		1,253.8
Asset retirement obligations		**136.9**		131.6
Other noncurrent liabilities		**190.9**		184.1
Total Other Liabilities and Deferred Credits		**4,017.6**		4,175.5
Commitments and Contingencies (Refer to Note 14)		**-**		-
Total Capitalization and Liabilities	$	**17,651.4**	$	18,156.5

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

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Nine Months Ended September 30, *(in millions)*	2007	2006
Operating Activities		
Net income	$ 254.4	$ 219.7
Adjustments to reconcile net income to net cash from continuing operations:		
Loss on early redemption of preferred stock	-	0.7
Depreciation and amortization	419.4	411.3
Net changes in price risk management assets and liabilities	0.1	50.4
Deferred income taxes and investment tax credits	(22.2)	(129.4)
Deferred revenue	(32.6)	(36.0)
Stock compensation expense	2.7	4.4
Gain on sale of assets	(0.3)	(1.1)
Loss on impairment of assets	10.1	4.7
Cumulative effect of change in accounting principle - net of taxes	-	(0.4)
Income from unconsolidated affiliates	(11.6)	(4.2)
Gain on disposition of discontinued operations - net of taxes	(6.9)	(0.4)
Loss (Income) from discontinued operations - net of taxes	(0.4)	2.2
Amortization of discount/premium on debt	5.5	5.8
AFUDC Equity	(3.0)	-
Changes in assets and liabilities:		
Accounts receivable	289.3	785.1
Inventories	(124.8)	(189.7)
Accounts payable	(239.0)	(397.9)
Customer deposits	0.2	3.0
Taxes accrued	(27.9)	(94.3)
Interest accrued	4.9	25.3
(Under) Overrecovered gas and fuel costs	(16.3)	470.4
Exchange gas receivable/payable	(7.6)	(159.7)
Other accruals	(77.3)	(67.9)
Prepayments and other current assets	45.4	38.8
Regulatory assets/liabilities	24.9	(62.0)
Postretirement and postemployment benefits	(87.4)	(1.5)
Deferred credits	0.5	(12.7)
Deferred charges and other noncurrent assets	(0.8)	2.7
Other noncurrent liabilities	(0.7)	(0.2)
Net operating activities provided by continuing operations	398.6	867.1
Net operating activities provided by discontinued operations	0.3	4.7
Net cash flows provided by operating activities	398.9	871.8
Investing Activities		
Capital expenditures	(519.8)	(405.7)
Proceeds from disposition of assets	2.3	17.2
Restricted cash	46.5	(174.7)
Other investing activities	24.5	(3.7)
Net cash flows used in investing activities	(446.5)	(566.9)
Financing Activities		
Issuance of long-term debt	802.7	-
Retirement of long-term debt	(67.2)	(43.8)
Change in short-term debt	(520.0)	(37.0)
Retirement of preferred stock	-	(81.1)
Issuance of common stock	7.9	5.6
Acquisition of treasury stock	(2.1)	(6.0)
Dividends paid - common stock	(189.1)	(189.2)
Net cash flows provided by (used in) financing activities	32.2	(351.5)
Decrease in cash and cash equivalents	(15.4)	(46.6)
Cash and cash equivalents at beginning of year	33.1	69.4
Cash and cash equivalents at end of period	$ 17.7	$ 22.8
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 299.3	$ 261.2
Interest capitalized	12.1	7.4
Cash paid for income taxes	149.7	245.1

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

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

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

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. 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

Recently Adopted 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, among other changes. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 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. On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations.

With the adoption of SFAS No. 158 NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. These rate-regulated subsidiaries recorded regulatory assets and liabilities that would otherwise have been recorded to accumulated other comprehensive income.

Refer to Note 11, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for additional information.

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 greater than 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets the more-likely-than-not recognition 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. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 10, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

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

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.

When it adopted 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 income taxes, which reflected the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. Other than the requirement for expensing stock options, outstanding share-based awards will continue to be accounted for substantially as they are currently. Refer to Note 13, "Share-Based Compensation," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

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.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including a amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits entiti to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment will be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. NiSource is currently reviewing the provisions of SFAS No. 159 to determine whether to elect fair value measurement for any of its financial assets or liabilities when it adopts this standard in 2008.

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. 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)	**2007**	2006	**2007**	2006
Denominator				
Basic average common shares outstanding	**273,881**	272,548	**273,765**	272,431
Dilutive potential common shares				
Nonqualified stock options	**6**	108	**136**	79
Shares contingently issuable under employee stock plans	**626**	548	**626**	548
Shares restricted under employee stock plans	**186**	136	**173**	12
Diluted Average Common Shares	**274,699**	273,340	**274,700**	273,181

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

4. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM was to provide a broad range of business transformation and outsourcing services to NiSource. The IBM Agreement is for ten years with a transition period that ended on December 31, 2006. As of September 30, 2007, 873 employees were terminated as a result of the IBM Agreement. One employee was terminated during the nine months ended September 30, 2007. In the first quarter of 2007, NiSource decided to bring back within the company certain finance and accounting functions that were outsourced as a part of the IBM agreement. In October, 2007, NiSource and IBM reached an agreement-in-principle on modifications to their long-term business services agreement. The agreement-in-principle is not binding and is contingent on finalization of a definitive amendment to the agreement.

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, 2007, 14 employees were terminated as a result of the executive initiative, of which one and two employees were terminated during the quarter and nine months ended September 30, 2007, 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. As of September 30, 2007, 1,567 employees were terminated, of which one employee was terminated during the quarter and nine months ended September 30, 2007. Of the $2.8 million remaining restructuring liability from the Columbia merger and related initiatives, $2.3 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2006	Benefits Paid	Adjustments	Balance at September 30, 2007
Outsourcing initiative	$ 2.1	$ (0.1)	$ -	$ 2.0
Executive initiative	1.2	(0.5)	-	0.7
Columbia merger and related initiatives	3.8	(1.7)	0.7	2.8
Total	$ 7.1	$ (2.3)	$ 0.7	$ 5.5

5. Discontinued Operations and Assets Held for Sale

The assets and liabilities of discontinued operations and held for sale on the Condensed Consolidated Balance Sheet at September 30, 2007 were:

(in millions)	NDC Douglas Properties	NiSource Corporate Services	NiSource Development Company	Lake Erie Land	Columbia Transmission	Columbia Gulf Transmission	Northern Indiana	Total
Assets of discontinued operations and held for sale								
Property, plant and equipment, net	$ 5.3	$ 9.5	$ 1.6	$ 15.5	$ 9.0	$ 8.3	$ 0.2	$ 49.4
Other assets	0.8	-	-	-	-	-	-	0.8
Assets of discontinued operations and held for sale	$ 6.1	$ 9.5	$ 1.6	$ 15.5	$ 9.0	$ 8.3	$ 0.2	$ 50.2
Liabilities of discontinued operations and held for sale								
Debt	$ (4.9)	$ -	$ -	$ -	$ -	$ -	$ -	$ (4.9)
Other liabilities	(1.3)	-	-	-	-	-	-	(1.3)
Liabilities of discontinued operations and held for sale	$ (6.2)	$ -	$ -	$ -	$ -	$ -	$ -	$ (6.2)

NiSource Inc.
Notes to Consolidated Financial Statements (unaudited) (continued)

The assets and liabilities of discontinued operations and held for sale on the Condensed Consolidated Balance Sheet at December 31, 2006 were:

(in millions)	NDC Douglas Properties	NiSource Corporate Services	NiSource Development Company	Lake Erie Land	Columbia Transmission	Total
Assets of discontinued operations and held for sale						
Property, plant and equipment, net	$ 10.4	$ 12.7	$ 1.8	$ 4.3	$ 12.4	$ 41.6
Other assets	1.2	-	-	0.2	-	1.4
Assets of discontinued operations and held for sale	$ 11.6	$ 12.7	$ 1.8	$ 4.5	$ 12.4	$ 43.0
Liabilities of discontinued operations and held for sale						
Accounts payable	$ (0.4)	$ -	$ -	$ -	$ -	$ (0.4)
Debt	(10.0)	-	-	-	-	(10.0)
Other liabilities	(1.5)	-	-	-	-	(1.5)
Liabilities of discontinued operations and held for sale	$ (11.9)	$ -	$ -	$ -	$ -	$ (11.9)

Assets classified as discontinued operations or held for sale are no longer depreciated.

Columbia Gulf is in the process of selling a portion of its offshore facilities. On July 12, 2007, a Memorandum of Understanding was signed between Columbia Gulf and Tennessee Gas Pipeline Company documenting NiSource' commitment to sell a portion of Columbia Gulf's offshore assets to Tennessee Gas Pipeline Company. As contemplated by the Memorandum of Understanding, on October 30, 2007, Columbia Gulf and Tennessee Gas Pipeline Company executed a definitive purchase and sale agreement. Closing of the transaction is dependent upon the receipt of required regulatory approvals which NiSource anticipates receiving in the first half of 2008. Tennessee Gas Pipeline Company currently co-owns and utilizes the offshore assets being sold. In the third quarter of 2007, these assets were classified as assets held for sale.

NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. Two of these investments were disposed of during 2006 and one in 2007. Two other investments are expected to be sold or disposed of by the middle of 2008. NiSource has accounted for the investments to be sold as assets and liabilities of discontinued operations. 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 Corporate Services is in the process of selling its Marble Cliff facility. Impairment losses of $3.2 million and $2.5 million were recognized in the first quarters of 2007 and 2006, respectively, due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility as assets held for sale.

NiSource Development Company has been in the process of selling the former headquarters of Northern Indiana, and therefore, had accounted for this facility as an asset held for sale in 2007. An impairment loss of $0.2 million was recorded in the third quarter of 2007, due to the current book value exceeding the estimated sale price of the facility. On October 9, 2007, NiSource Development Company sold the facility for net book value of $1.6 million.

In March 2005, Lake Erie Land, which is wholly owned by NiSource, began accounting for the operations of the Sand Creek Golf Club as discontinued operations. 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 2006 transaction, property estimated to be sold to the private developer during the next twelve months has been recorded as assets held for sale.

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

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. In the second quarter, management decided to remove certain facilities from this group. This resulted in a $3.0 million decrease to the balance of assets held for sale. Northern Indiana is also in the process of selling a non-core facility. NiSource has accounted for these facilities as assets held for sale.

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

(in millions)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues from Discontinued Operations	**$ 0.8**	$ 1.4	**$ 1.5**	$ 4.7
Income (Loss) from discontinued operations	**0.1**	(0.6)	**1.2**	(3.6)
Income tax expense (benefit)	**-**	(0.3)	**0.8**	(1.4)
Income (Loss) from Discontinued Operations - net of taxes	**$ 0.1**	$ (0.3)	**$ 0.4**	$ (2.2)
Gain on Disposition of Discontinued Operations - net of taxes	**$ 1.1**	$ 0.1	**$ 6.9**	$ 0.4

Results from Discontinued Operations for the first nine months of 2007 includes a $7.5 million reduction, net of taxes, in the liability for unrecognized tax benefits and $0.9 million in related interest, net of taxes, associated with the issuance of additional tax guidance in the first quarter of 2007. Also included is a reduction in interest expense of $0.6 million, net of taxes, related to the completion of a tax audit in the third quarter of 2007.

6. Asset Retirement Obligations

NiSource accounts for its asset retirement obligations in accordance with SFAS No. 143 and FIN 47. Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries are classified as regulatory liabilities and other removal costs on the Condensed Consolidated Balance Sheets.

NiSource activity for asset retirement obligations:

(in millions)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Accretion expense	**$ 0.3**	$ 0.3	**$ 0.7**	$ 0.8
Accretion recorded as a regulatory asset	**1.5**	1.5	**4.6**	4.7
Increase in Asset Retirement Obligation Liability	**$ 1.8**	$ 1.8	**$ 5.3**	$ 5.5

7. Regulatory Matters

Gas Distribution Operations Regulatory Matters

Significant Rate Developments. On August 29, 2007, the Kentucky Public Service Commission approved a stipulation and settlement, authorizing Columbia of Kentucky to increase its base rates by $7.25 million annually. The issue of whether the Kentucky Public Service Commission can authorize utilities to expediently recover costs (such as main replacement costs) via "tracker" mechanisms is now the subject of pending litigation, not involving Columbia of Kentucky.

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

On October 31, 2007, the Massachusetts Department of Public Utilities approved a $5.9 million increase in Bay State base rates, effective November 1, 2007. The increase was pursuant to Bay State's existing PBR mechanism. In a separate filing, Bay State on October 17, 2007 petitioned the Massachusetts Department of Public Utilities to allow the company to collect an additional $7.5 million in annual revenue. Bay State also requested approval of a steel infrastructure tracker that would allow for recovery of ongoing infrastructure replacement program investments.

On May 9, 2007, the IURC approved Northern Indiana's petition to simplify rates, stabilize revenues and provide for energy efficiency funding. The order adopts a new rate structure that enhances Northern Indiana's ability to increase revenues and provides incremental funding for an energy efficiency program.

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

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

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

Certain types of natural gas risers, which are owned by customers, on Columbia of Ohio's distribution system have been evaluated under a study required by the PUCO, and have been found prone to leak natural gas under certain conditions. On February 1, 2007, Columbia of Ohio announced plans to identify and replace these risers on its distribution system. As of September 30, 2007, Columbia of Ohio deferred $4.2 million of costs associated with the study and identification of these natural gas risers as a regulatory asset and currently estimates that the cost to identify and replace the risers will approximate $165 million. On October 26, 2007, Columbia of Ohio and the PUCO Staff filed a Joint Stipulation and Recommendation that provided for Columbia of Ohio's assumption of financial responsibility for the repair or replacement of customer-owned service lines and the replacement of risers prone to leak. In addition, the Stipulation provides for Columbia of Ohio to capitalize its investment in the service lines and risers, as well as the establishment of a tracking mechanism that would provide for the recovery of operating and maintenance costs related to Columbia of Ohio's capitalized investment and its expenses incurred in identifying risers prone to leak. The PUCO is receiving evidence in this matter and is expected to issue an order during the first quarter of 2008.

Customer Usage. The NiSource distribution companies have experienced declining usage by customers, due in large part to the sensitivity of sales to increases in commodity prices. A significant portion of the LDCs' operating costs are fixed in nature. Historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than a fixed charge. Many of NiSource's LDCs are evaluating mechanisms that would "de-couple" the recovery of fixed costs from throughput, and implement recovery mechanisms that more closely link the recovery of fixed costs with fixed charges. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing such changes.

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

Gas Transmission and Storage Operations Regulatory Matters

Significant FERC Developments. 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 for the costs of implementing the DOT's Integrity Management Rule. The effective date of the guidance was January 1, 2006 after which all assessment costs have been recorded as operating expenses. The rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded.

Columbia Gulf and Columbia Transmission are cooperating with the FERC on an informal non-public investigation of certain operating practices regarding tariff services offered by those companies. At this time, the companies cannot predict what the result of that investigation will be, but the FERC has indicated that it may seek to impose fines and possibly seek other remedies as well.

Millennium Pipeline Project. Millennium received FERC approval for a pipeline project, in which Columbia Transmission is participating, which will provide access to a number of supply and 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 at Ramapo, New York. The Millennium partnership is 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.

The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, and Iroquois collectively referred to as the "Companion Pipelines." The December 21, 2006 certificate order also granted the necessary project approvals to the Companion Pipelines. Construction began on June 22, 2007 with a projected in-service date of November 1, 2008.

Hardy Storage Project. Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received favorable orders 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. The certificate amendment was approved by FERC on March 15, 2007. Hardy Storage began injecting gas into storage on April 1, 2007.

Eastern Market Expansion Project. On May 3, 2007, Columbia Transmission filed a certificate application before the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. The expansion will add 97,000 Dth per day of storage and transportation capacity and is fully contracted on a long-term, firm basis. Columbia Transmission requested FERC approval by December 2007 and proposed to place the Eastern Market Expansion in service by spring 2009. On October 1, 2007, the FERC issued a favorable environmental assessment for public comment in this project.

Electric Operations Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

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. The credits will continue 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. The order included a rate moratorium that

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

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 $44.3 million and $37.9 million were recognized for electric customers for the first nine months of 2007 and 2006, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding the administrative fees and certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first nine months of 2007 non-fuel costs were $13.4 million, all of which was deferred in accordance with the aforementioned orders. In addition, administrative, FERC and other fees of $4.9 million were deferred. In total, for the nine months ended September 30, 2007 and 2006, MISO costs of $18.3 million and $4.0 million, respectively, were deferred.

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 on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. This resettlement began on June 9, 2007 and is anticipated to conclude in January 2008. Northern Indiana is estimating that this resettlement will result in a $6 million reduction in purchased power expenses that will positively impact net revenues within the Statements of Consolidated Income. As of September 30, 2007, Northern Indiana has recorded a $3.5 million credit in purchased power costs and a $7.8 million regulatory asset related to this resettlement. In addition, Northern Indiana anticipates recording approximately $13 million in related charges on the balance sheet as a regulatory asset, in accordance with previous IURC orders allowing deferral of certain non-fuel MISO costs. On August 10, 2007, Northern Indiana, along with Ameren Corporation, filed a joint protest at FERC that includes disagreements with MISO's interpretation of the order regarding the financial allocation of revenue sufficiency guarantee payments.

On September 14, 2007, MISO filed a tariff with FERC outlining the development of an ASM. The ASM will allow participants to buy and sell operating reserves and regulation services that are essential to reliability. The pricing of these markets will be co-optimized with the current energy markets and MISO is targeting the start of the ASM for 2008. Northern Indiana is an active stakeholder in the process used in designing, testing and implementing the ASM and in developing the surrounding business practices. At this time, Northern Indiana is unable to determine what impact the ASM will have on its operations or cash flows.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana.

On October 16, 2007, Northern Indiana announced that an agreement was reached with the OUCC, LaPorte County and a group of Northern Indiana industrial customers to resolve questions relating to the costs paid by customers for power purchased by Northern Indiana versus the amount of these costs absorbed by Northern Indiana. This Settlement Agreement is subject to approval by the IURC. Northern Indiana has agreed to pay a one-time refund to customers of $33.5 million to resolve this question as it relates to power purchased from January 1, 2006 through September 30, 2007. A reserve for this amount was recorded in the third quarter of 2007. Effective October 1, 2007, Northern Indiana will implement a new "benchmarking standard" that will govern the allocation of costs for purchased power between customers and Northern Indiana. The benchmark defines the price below which customers will pay for power purchases and above which Northern Indiana must absorb a portion of the costs. The benchmark is based upon the costs of power generated by hypothetical natural gas fired CCGT's using gas purchased and delivered to Northern Indiana. This will most likely result in Northern Indiana absorbing some purchased power costs that will reduce net revenues during future periods. The agreement also contemplates Northern Indiana adding generating capacity to its existing portfolio. The benchmark will be adjusted as new capacity is added. However, the added generating capacity will substantially reduce the amount of purchased power and mitigate the impact of the adjusted benchmark. Further, the settling parties agreed to support Northern Indiana' deferral and future recovery of carrying costs and depreciation associated with the acquisition of new generati facilities.

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On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed a need for adding approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana plans to file a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN will seek approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. The combined cost of these two facilities is estimated to exceed $500 million. Northern Indiana will request the IURC and the FERC to approve these purchases by the second quarter of 2008.

On November 26, 2002, Northern Indiana received approval from the IURC 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. In December 2006, the IURC approved Northern Indiana's emissions compliance plan at that time with an estimated cost of $312.8 million. Northern Indiana also filed a petition with the IURC in December 2006 for appropriate cost treatment and recovery of emission control construction needed to address the Phase I CAIR requirements of the Indiana Air Pollution Control Board's CAIR rules that became effective on February 25, 2007. On July 3, 2007, Northern Indiana received an IURC order issuing a certificate of public convenience and necessity for the CAIR and CAMR Phase I Compliance Plan Projects, estimated to cost approximately $23 million. Northern Indiana will include the CAIR and CAMR Phase I Compliance Plan costs to be recovered in the semi-annual and annual ECRM and EERM filing six months after construction costs begin. On October 10, 2007, Northern Indiana filed for approval a revised cost estimate to meet the NOx, SO2 and Mercury emissions environmental standards. Northern Indiana anticipates a total capital investment of approximately $339 million. On October 10, 2007, the IURC approved ECR-10 for capital expenditures (net of accumulated depreciation) of $237.4 million.

Mitchell Station. 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. 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 including the potential increase in level of environmental controls required. Northern Indiana has received guidance from the IDEM that any reactivation of this facility would require a preconstruction New Source Review Standards permit. The detailed review of approaches to meeting customer's need for power in the future filed in the IRP did not recommend restarting the Mitchell Station.

8. 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. NiSource is not involved in speculative energy trading activity. NiSource accounts for its derivatives in accordance with SFAS No. 133. Under SFAS No. 133, if certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction.

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NiSource's derivatives on the Condensed Consolidated Balance Sheets at September 30, 2007 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 99.6	$ 14.8	$ 114.4
Other assets	10.4	0.2	10.6
Total price risk management assets	$ 110.0	$ 15.0	$ 125.0
Price risk management liabilities			
Current liabilities	$ (57.0)	$ (34.7)	$ (91.7)
Other liabilities	(16.0)	(1.5)	(17.5)
Total price risk management liabilities	$ (73.0)	$ (36.2)	$ (109.2)

NiSource's derivatives on the Condensed Consolidated Balance Sheets at December 31, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 236.6	$ 1.1	$ 237.7
Other assets	49.8	0.1	49.9
Total price risk management assets	$ 286.4	$ 1.2	$ 287.6
Price risk management liabilities			
Current liabilities	$ (202.8)	$ (56.6)	$ (259.4)
Other liabilities	(32.5)	(5.7)	(38.[illegible]
Total price risk management liabilities	$ (235.3)	$ (62.3)	$ (297.6)

The hedging activity for the third quarter and nine months ended September 30, 2007 and 2006 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)	**2007**	2006	**2007**	2006
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 34.5**	$ 85.2	**$ 31.4**	$ 150.7
Unrealized hedging losses arising during the period on derivatives qualifying as cash flow hedges	**(12.3)**	(41.2)	**-**	(106.0)
Reclassification adjustment for net gain included in net income	**(7.2)**	-	**(16.4)**	(0.7)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 15.0**	$ 44.0	**$ 15.0**	$ 44.0

During the third quarter of 2007 and 2006, no amounts 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 2007 and 2006, NiSource reclassified no amounts related to its cash flow hedges from accumulated 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 accumulated other comprehensive income of approximately $29.3 million of income, net of taxes.

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

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases NYMEX futures, NYMEX options and basis contracts that correspond to a fixed or capped price in the associated delivery month. 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, NYMEX options and basis 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 MISO Day 2 initiative, Northern Indiana was allocated and has purchased FTRs. These rights help Northern Indiana offset congestion costs due to the 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 these derivatives.

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

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These 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 based on the regulatory customer sharing mechanisms in place, with the remaining changes in fair value 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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Notes to Consolidated Financial Statements (unaudited) (continued)

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

	September 30, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 0.3	$ (36.1)	$ -	$ (58.9)
PPS program derivatives	-	(1.3)	0.7	(7.3)
DependaBill program derivatives	-	(1.3)	0.3	(2.4)
Electric energy program derivatives	14.7	(0.1)	0.7	(1.6)
Regulatory incentive program derivatives	-	-	0.5	(1.8)
Forward purchase agreements derivatives	60.1	-	110.0	-
Total commodity price risk programs included	$ 75.1	$ (38.8)	$ 112.2	$ (72.0)

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 ter NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amoun 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 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, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$ -	$ (14.0)	$ -	$ (27.3)

Marketing, Trading and Other Activities. The operations of TPC primarily involve commercial and industrial gas sales, whereby TPC utilizes gas derivatives to hedge its expected future gas purchases. These derivatives associated with commercial and industrial gas sales are accounted for as cash flow hedges. In addition, TPC, behalf of Whiting Clean Energy, has also entered into power and gas derivative contracts to manage commodi price risk associated with operating Whiting Clean Energy.

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Notes to Consolidated Financial Statements (unaudited) (continued)

Marketing and power programs included in price risk management assets and liabilities:

	September 30, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing derivatives	$ 49.9	$ (56.4)	$ 174.3	$ (198.3)
Power forward derivatives	-	-	1.1	-
Total marketing and power programs	$ 49.9	$ (56.4)	$ 175.4	$ (198.3)

9. Goodwill Assets

NiSource's goodwill assets at September 30, 2007 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at September 30, 2007 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

In the quarters ended June 30, 2007 and 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, 2007 and June 30, 2006 impairment tests 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.

10. Income Taxes

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.9 million to the opening balance of retained earnings, which includes the adjustment to the liability for unrecognized tax benefits shown below. The total amount of the liability for unrecognized tax benefits as of the date of adoption was $16.0 million, which was included in "Other noncurrent liabilities," on the Condensed Consolidated Balance Sheets. As a result of the implementation of FIN 48, NiSource recognized the following changes in the liability for unrecognized tax benefits:

(in millions)	Total
Reduction in Retained Earnings (cumulative effect)	$ 0.9
Additional Deferred Tax Liabilities	(0.9)
Net increase in liability for unrecognized tax benefits	$ -

Included in the balance of unrecognized tax benefits at January 1, 2007, are $2.9 million of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at January 1, 2007, are $7.5 million of tax benefits that, if recognized, would result in an increase to Gain on Disposition of Discontinued Operations and $5.6 million of tax benefits that, if recognized, would result in adjustments to deferred taxes.

Effective January 1, 2007, NiSource recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. In prior years, NiSource recognized such accrued interest in interest expense and penalties in other expenses. During the years ended December 31, 2006, and December 31, 2005, NiSource recognized approximately $1.3 million and $0.8 million, respectively, of interest in the Statements of Consolidated Income. NiSource also had $3.5 million and $2.2 million accrued on the Condensed Consolidated Balance Sheets for the payment of interest at December 31, 2006, and December 31, 2005. No amounts have been estimated or accrued for penalties. Upon adoption of FIN 48 on January 1, 2007, NiSource decreased its accrual for interest on unrecognized tax benefits to $3.3 million, resulting in a $0.1 million increase (net of tax) to the opening balance of retained earnings.

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

Because NiSource is part of the IRS's Large and Mid-Size Business program, each year's federal income tax return is typically audited by the IRS. Tax years through 2002 have been audited and are settled and closed to further assessment. The two issues from our 1999 and 2000 tax years, that had been petitioned to the Tax Court and subsequently settled with the IRS, received approval of the Tax Court in the third quarter of 2007. The audit of tax years 2003 and 2004 was concluded in the third quarter of 2007 with all issues being agreed to between the IRS and NiSource. The audit of tax years 2005 and 2006 is expected to commence in the fourth quarter of 2007 or first quarter of 2008.

The statute of limitations in each of the state jurisdictions in which NiSource operates remain open until the years are settled for federal income tax purposes, at which time amended state income tax returns reflecting all federal income tax adjustments are filed. There are no state income tax audits currently in progress.

NiSource's interim effective tax rates reflect the estimated annual effective tax rate for 2007 and 2006, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter ended September 30, 2007 and September 30, 2006 were 27.4% and 34.2%, 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-to-tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199. Both the third quarter of 2007 and third quarter of 2006 include approximately $1 million in adjustments to tax expense primarily related to prior year tax accrual versus return adjustments, which had the effect of reducing the effective rates below the expected rate of approximately 37%. The impact of these reductions in tax expense has a more significant impact on the third quarter 2007 effective tax rates because pre-tax earnings are lower in that quarter.

As of September 30, 2007, the Condensed Consolidated Balance Sheet reflects a reduction of $11.8 million in the liability for unrecognized tax benefits from the January 1, 2007 amount. In the first quarter of 2007, the liability was reduced by $1.5 million to reflect negotiations associated with the 1999-2002 Tax Court petition and by $7.5 million as discussed in Note 5, "Discontinued Operations and Assets Held for Sale." In the second quarter of 2007, NiSource reclassified $3.5 million of its liability for unrecognized tax benefits to Taxes Accrued to reflect settlement of the Tax Court petition and the completion of the 2003-2004 IRS audit. With additional accrued liability of $0.4 million and $0.3 million in the second and third quarters of 2007, respectively, NiSource's ending liability for unrecognized tax benefits as of September 30, 2007 was $4.2 million. These reductions did not materially impact the effective tax rate. NiSource does not anticipate any significant changes to its liability for unrecognized tax benefits over the next twelve months.

11. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover its employees. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource.

As of December 31, 2006, NiSource used September 30 as its measurement date for its pension and postretirement benefit plans. On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulate other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement an postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158

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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.

The following table provides NiSource's various postretirement benefit plans' funded status at January 1, 2007, based on a December 31, 2006 measurement date compared to the funded status of NiSource's various postretirement benefit plans at December 31, 2006 based on a September 30, 2006 measurement date:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**Jan. 1, 2007**	Dec. 31, 2006	**Jan. 1, 2007**	Dec. 31, 2006
Benefit obligation	$ **2,278.6**	$ 2,285.7	$ **774.1**	$ 770.4
Fair value of plan assets	$ **2,129.7**	$ 2,052.3	$ **257.3**	$ 255.2
Funded Status	$ **(148.9)**	$ (233.4)	$ **(516.8)**	$ (515.2)

The key assumptions used to measure NiSource's various postretirement benefits plans' funded status at January 1, 2007 were the same as those used for the previous September 30, 2006, measurement date.

NiSource expects to make contributions of $66.7 million to its pension plans and $52.3 million to its other postretirement benefit plans during 2007. Through September 30, 2007, NiSource has contributed $65.8 million to its pension plans and $40.4 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, 2007 and 2006:

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended September 30, *(in millions)*	**2007**	2006	**2007**	2006
Components of Net Periodic Benefit Cost				
Service cost	$ **10.3**	$ 10.6	$ **2.5**	$ 2.3
Interest cost	**32.0**	31.2	**10.9**	10.2
Expected return on assets	**(46.8)**	(43.9)	**(5.2)**	(4.6)
Amortization of transitional obligation	**-**	-	**2.0**	2.0
Amortization of prior service cost	**1.3**	1.5	**0.1**	0.1
Recognized actuarial loss	**2.1**	4.7	**1.4**	1.5
Total Net Periodic Benefits Cost	$ **(1.1)**	$ 4.1	$ **11.7**	$ 11.5

	Pension Benefits		Other Postretirement Benefits	
Nine Months Ended September 30, *(in millions)*	**2007**	2006	**2007**	2006
Components of Net Periodic Benefit Cost				
Service cost	$ **30.9**	$ 31.9	$ **7.4**	$ 7.0
Interest cost	**95.8**	93.7	**32.7**	30.4
Expected return on assets	**(140.2)**	(131.7)	**(15.7)**	(13.8)
Amortization of transitional obligation	**-**	-	**6.0**	6.0
Amortization of prior service cost	**4.1**	4.5	**0.3**	0.3
Recognized actuarial loss	**6.1**	13.9	**4.4**	4.6
Net Periodic Benefit Costs	**(3.3)**	12.3	**35.1**	34.5
Additional loss recognized due to:				
Settlement loss	**-**	0.9	**-**	-
Total Net Periodic Benefits Cost	$ **(3.3)**	$ 13.2	$ **35.1**	$ 34.5

12. Long Term Debt

On August 31, 2007, NiSource Finance issued $800 million of 6.40% 10.5-year senior unsecured notes that mature March 15, 2018. The proceeds were used to repay short-term bank borrowings, to fund the redemption of $24 million of Northern Indiana variable rate pollution control bonds due November 2007 and for capital expenditures and general corporate purposes. The short-term bank borrowings were previously used to fund the redemption of Northern Indiana's preferred stock in 2006, having a total redemption value of $81.6 million, and for the repayment of an aggregate $503.5 million of long-term debt in 2006 and the first nine months of 2007.

Capital Markets $75 million 6.78% senior notes due December 1, 2027 contain a provision which entitles the holders to require Capital Markets to redeem the notes at 100% of the principal amount plus accrued interest on December 1, 2007. As of November 1, 2007, Capital Markets has received notice from holders of $72 million of the notes requesting redemption.

13. Share-Based Compensation

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. At September 30, 2007, there were approximately 26.2 million shares reserved for future awards under the amended and restated 1994 Plan.

NiSource recognized stock-based employee compensation expense of $2.7 million and $4.4 million during the first nine months of 2007 and 2006, respectively, as well as related tax benefits of $1.0 million and $1.6 million respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of September 30, 2007, the total remaining unrecognized compensation cost related to non-vested awards amounted to $8.9 million, which will be amortized over the weighted-average remaining requisite service period of 2.1 years.

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. There were 10,000 restricted shares outstanding at September 30, 2007, 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. The total shareholder return measures established were not met; therefore these grants do not have an accelerated vesting period. At September 30, 2007, NiSource had 571,625 awards outstanding which contained the time-accelerated provisions.

As of September 30, 2007, approximately 7.6 million options were outstanding and exercisable with a weighted average option price of $22.67.

The Amended and Restated Non-employee Director Stock Incentive Plan provides for awards of restricted stock, stock options and restricted stock units, which vest in 20% increments per year, with full vesting after five years. As of September 30, 2007, 89,860 restricted shares and 138,815 restricted stock units had been issued under the Plan.

During 2006, NiSource did not provide incumbent executives additional grants of options, restricted or contingent shares. No options or restricted shares were granted to employees during the nine months ended September 30, 2007.

In March 2007, 320,330 contingent shares were granted. The grant date fair-value of the awards was $7.5 million, based on the market price of NiSource's common stock at the date of grant, which will be expensed net of forfeitures over the vesting period of approximately 3 years. The shares are subject to both performance and service

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conditions. The performance conditions are based on achievement of a non-GAAP financial measure (net operating earnings) that NiSource defines as income from continuing operations adjusted for certain items. If the performance conditions are not met, the grants will be cancelled and the shares will be forfeited. Subsequent to meeting the performance conditions, an additional two year service period will then be required before the shares vest on December 31, 2009. If after completing the performance conditions but prior to completing the service conditions the employee terminates employment (1) due to retirement, having attained age 55 and completed ten years of service, or (2) due to death or disability, the employment conditions will lapse with respect to a pro rata portion of the contingent shares on the date of termination. Termination due to any other reason will result in all contingent shares awarded being forfeited effective the employee's date of termination. Employees will be entitled to receive dividends upon vesting. During the quarter and nine months ended September 30, 2007, $0.6 million and $1.5 million of compensation expense, net of forfeitures, was recorded to Operation and Maintenance Expense on the Consolidated Income Statement related to this contingent stock grant.

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 September 30, 2007 and the years in which they expire were:

(in millions)	Total	2007	2008	2009	2010	2011	After
Guarantees of subsidiaries debt	$ 4,684.8	$ 1.7	$ 8.6	$ 464.0	$ 1,004.3	$ 280.2	$ 2,926.0
Guarantees supporting commodity transactions of subsidiaries	592.5	187.9	373.5	29.2	-	-	1.9
Lines of credit	673.0	673.0	-	-	-	-	-
Letters of credit	60.8	-	55.5	-	-	4.3	1.0
Other guarantees	324.1	65.5	9.9	3.1	25.4	-	220.2
Total commercial commitments	$ 6,335.2	$ 928.1	$ 447.5	$ 496.3	$ 1,029.7	$ 284.5	$ 3,149.1

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $4.7 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource's Condensed Consolidated Balance Sheet as of September 30, 2007. The subsidiaries are required to comply with certain financial covenants under the debt instruments 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 $592.5 million of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate commitment level to $1.5 billion and extending the termination date by one year to July 2011. At September 30, 2007, NiSource had $673.0 million in short-term borrowings outstanding under its credit facility. Through the revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $60.8 million for the benefit of third parties.

Other Guarantees or Obligations. On August 29, 2007, Millennium entered into a bank credit agreement to finance the construction of the Millennium Pipeline Project. As a condition precedent to the credit agreement, NiSource issued a guarantee securing payment for 47.5%, its indirect ownership interest percentage, of amounts borrowed under the credit agreement up until such time as the amounts payable under the agreement are paid in full. The permanent financing is expected to be completed in the first quarter of 2009. As of September 30, 2007, Millennium borrowed $105.0 million under the financing agreements, of which NiSource guaranteed $49.9 million. NiSource recorded an accrued liability of approximately $3.0 million related to the fair value of this guarantee.

On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into multiple agreements to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreements, 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, 2007, Hardy Storage borrowed $130.9 million under the financing agreements, of which Columbia Transmission guaranteed $65.5 million. Columbia Transmission recorded an accrued liability of approximately $1.3 million as of September 30, 2007 and $1.6 million as of December 31, 2006, related to the fair value of this guarantee.

NiSource has purchase and sales agreement guarantees totaling $80.0 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 Condensed Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has issued other guarantees supporting derivative related payments associated with interest rate swap agreements issued by NiSource Finance, operating leases for many of its subsidiaries and for other agreements entered into by its current and former subsidiaries.

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

In the case of Tawney, et al. v. Columbia Natural Resources, Inc., 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. On September 25, 2007, the Court issued an order which appears to also be its final, appealable judgment. The defendants can now perfect their appeal to the West Virginia Supreme Court of Appeals, which may or may not accept the appeal. NiSource has not established a reserve for the punitive damages portion of the verdict.

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 $75.7 million and $72.6 million has been recorded as of September 30, 2007 and December 31, 2006, respectively, to cover probable corrective actions at sites where NiSource has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs

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Notes to Consolidated Financial Statements (unaudited) (continued)

is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on many factors including currently enacted laws and regulations, existing technology and estimated site-specific costs whereby assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. NiSource's estimated environmental remediation liability will be refined as events in the remediation process occur. Actual remediation costs may differ materially from NiSource's estimates due to the dependence on the factors listed above.

Implementation of the fine particulate matter and ozone national ambient air quality standards may require imposition of additional controls on boilers, engines and turbines. On April 15, 2004, the EPA finalized the eight-hour ozone nonattainment area designations. After designation, the Clean Air Act provides for a process for promulgation of rules specifying compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. Resulting state rules could require additional reductions in NOx emissions from facilities owned by electric generation and gas transmission and storage operations. On March 29, 2007, the EPA signed a rule to govern implementation of the NAAQS for particulate matter (PM-2.5) that the EPA promulgated in 1997. The rule addresses a wide range of issues, including state rulemaking requirements as well as attainment demonstration requirements and deadlines. States must evaluate for potential reduction measures for the emission of particulate matter and its precursors such as SO2 and NOx. The rule includes a conditional presumption that, for power plants subject to the CAIR, compliance with CAIR would satisfy Reasonably Available Control Measures and Reasonably Available Control Technology requirements for SO2 and NOx. States must submit their State Implementation Plans to the EPA by April 2008. 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 June 21, 2007, the EPA announced a proposed rule to tighten the NAAQS for ozone. The proposed rule includes a provision to tighten the standard from the current 0.08 ppm to between 0.070 and 0.075 ppm. For the new standard, the EPA is considering a range of options from further tightening the standard to 0.060 ppm to retaining the level at the current standard. Additionally, the EPA is proposing two alternatives for the secondary ozone standard that includes a new cumulative standard even more stringent than the primary one or establishment of the secondary standard at the level of the primary standard. Depending on the stringency and form of any such revision to the standards, the number of areas that fail to attain the standards could significantly increase across the country. If a number of areas do not meet the new standards, resulting rulemakings to implement the standards and improve air quality in these areas over the next several years could lead to additional pressure to reduce emissions of NOx, an ozone precursor, from facilities owned by electric generation and gas transmission and storage operations. NiSource will closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls that may be required at this time.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain NiSource affiliates engage in efforts to voluntarily report and reduce their greenhouse gas emissions. NiSource is currently a participant in the EPA's Climate Leaders program. On April 2, 2007 in Massachusetts v. EPA, the Supreme Court ruled that the EPA does have authority under the Clean Air Act to regulate emissions of greenhouse gases if it is determined that greenhouse gases have a negative impact on human health or the environment. NiSource will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

Gas Distribution Operations.
There were no new environmental matters relating to Gas Distribution Operations during the first nine months of 2007.

Gas Transmission and Storage Operations.
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 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

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Notes to Consolidated Financial Statements (unaudited) (continued)

agency regarding the proposed order, including the rationale for the proposed penalty. The site in question is subject to an existing EPA's Administrative Consent Order.

On May 7, 2007, the Ohio EPA issued a draft rule requiring additional NOx controls in the Cleveland/Akron ozone non-attainment area. This rule potentially impacts four Columbia Transmission compressor stations. Columbia Transmission is working closely with the Ohio EPA on rule development. Compliance costs are dependant on the final outcome.

On September 26, 2007, the VADEQ issued a Notice of Violation related to compliance requirements under the State Water Control Law and Regulations to Columbia Transmission with regard to its pipeline expansion project that connects to Hardy Storage. The VADEQ alleges impact to an aquatic ecosystem related to drill line discharge of bentonite. A preliminary conference has been scheduled with VADEQ to discuss this matter.

Electric Operations.
Air.
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 CAIR adopted by the Indiana Air Pollution Control Board became effective in late January 2007. On July 3, 2007, the IURC approved Northern Indiana's Phase I compliance plan for meeting the initial requirements of the CAIR and this is further discussed in Electric Operations and Regulatory Matters, Cost Recovery and Trackers. Northern Indiana will continue to closely monitor developments in this area and expects to install additional emission controls for the second phase of CAIR, but cannot accurately estimate the timing or cost of the emission controls at this time.

On March 14, 2007, Indiana proposed a draft rule to implement the EPA BART requirements for reduction of regional haze. On October 3, 2007, the Indiana Air Pollution Control Board adopted the rule with some minor modifications. The rule is in the process of undergoing Executive Branch approvals. The effective date is anticipated to be late in the first quarter of 2008 with compliance with any required BART controls within five years (2013). The language of the final rule relies upon the provisions of the Indiana CAIR to meet requirements for NOx and SO2 and does not impose any additional control requirements on coal-fired generation, including Northern Indiana, to control these emissions. As part of the BART analysis process the IDEM is still evaluating the potential impact of particulate matter from electric generating units to determine if there are impacts on Class I areas. Northern Indiana will work closely with IDEM regarding the particulate matter analysis requirements of the BART analysis. Northern Indiana will closely monitor developments in this area and at this time cannot accurately estimate the timing or cost of any emission controls that may be required.

In September 2004, the EPA issued a Notice of Violation 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. On April 2, 2007, in Environmental Defense v. Duke Energy Corp, the US Supreme Court overturned a Fourth Circuit Court decision related to the determination of a 'modification' under the Clean Air Act's new source review program. The Supreme Court ruled that under the new source review program an 'annual emission increase' test must be applied and rejected Duke Energy Corp's arguments and a Fourth Circuit Court decision that a 'maximum hourly' test was appropriate. The case will now go back to the trial court to address whether or not a 'modification' occurred and whether Duke Energy Corp is required to install pollution control devices and pay any penalties.

Local air quality has improved in three counties in which Northern Indiana generating assets are located. In recognition of this improvement, the IDEM submitted petitions to the EPA seeking redesignation of the Indiana counties of Lake, Porter and LaPorte to attainment of the eight-hour ozone NAAQS. Final rulemaking was published in the Federal Register, and became effective on July 19, 2007 for LaPorte County. The EPA approval is pending for Lake and Porter counties. On October 3, 2007, the Indiana Air Pollution Control Board preliminarily adopted the redesignation of LaPorte County to attainment as part of a reformatting of the state attainment designation rule and is expected to final adopt the rule in the first quarter of 2008 and become effective by mid-2008. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignations to

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Notes to Consolidated Financial Statements (unaudited) (continued)

attainment, new source review rules are expected to change from nonattainment new source review rules to the less onerous prevention of significant deterioration rules 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 petitions.

Indiana is in the process of promulgating a mercury rule to implement the EPA CAMR. On October 3, 2007, the Indiana Air Pollution Control Board held a second public hearing and adopted the EPA CAMR with minor changes. The rule is in the process of obtaining Executive Branch approvals and is expected to become effective late in the fourth quarter 2007 or early 2008 with compliance required in 2010. The EPA FIP rule, published December 22, 2006, has not been finalized and is intended only as a backstop for states such as Indiana that missed the November 17, 2006 submittal deadline. The IDEM has indicated it is planning on utilizing an option in the FIP that will let the state submit a request for partial approval to use the IDEM's allowance allocation methodology until the EPA is able to approve the full state plan. The state's request for partial approval would be due to the EPA upon the effective date of the final FIP, estimated to be early March 2008. The EPA would not record allowance allocations for 2010 until September 2008. The FIP would be rescinded upon EPA acceptance of the Indiana rule. Northern Indiana will closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

Water.
On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. On January 25, 2007, the Second Circuit in a court decision on the Phase II 316(b) rule remanded for EPA reconsideration the options providing flexibility for meeting the requirements of the rule. On March 20, 2007, the EPA issued a guidance memo advising its Regional Administrators that the Agency considers the 316(b), Phase II Rule governing cooling water withdrawals suspended and will be issuing a Federal Register notice to that effect. On July 9, 2007, the EPA published a notice in the Federal Register suspending the Phase II rule. The notice explained that the EPA is not accepting comments on the suspension and notes that "best professional judgment" is to be used in making 316(b) decisions. The EPA will need to propose a revised 316(b) rule to address the areas remanded by the court decision. Northern Indiana will closely monitor the EPA rule developments.

On July 5, 2007, the Second Circuit Court of Appeals denied the petitions for rehearing asking the court to reconsider its remand of the Phase II 316(b) ruling. More than one entity is expected to submit a request for *certiorari* to the U. S. Supreme Court by the early November submittal deadline seeking to reverse the Second Circuit Court's decision. Northern Indiana will continue to closely monitor this activity.

IDEM recently issued a renewed National Pollution Discharge Elimination System Permit for the Northern Indiana's Michigan City Generating Station. The permit requires that the facility meet the Great Lakes Initiative discharge limits for copper. The Michigan City Generating Station has a four year compliance schedule to meet these limits, which ends April 1, 2011. Northern Indiana is evaluating alternatives for treating copper in wastewater at the Michigan City Generating Station; estimated capital costs are between \$7 million and \$23 million.

Great Lakes Initiative-based discharge limits for mercury have also been set for both the Bailly Generating Station and the Michigan City Generating Station. Northern Indiana will collect data, develop and implement pollution minimization program plans, to demonstrate progress in minimizing the discharge of mercury.

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Notes to Consolidated Financial Statements (unaudited) (continued)

15. Changes in Common Stockholders' Equity and Comprehensive Income

The following table displays the changes in Common Stockholders' Equity and Comprehensive Income for the nine months ended September 30, 2007 and 2006.

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accum Other Comp Income/(Loss)	Total	Comp Income
Balance January 1, 2007	$ 2.7	$ (21.2)	$ 3,998.3	$1,012.9	$ 20.9	$5,013.6	
Adjustment to initially apply new measurement date pursuant to SFAS No. 158, net of tax				(6.9)		(6.9)	
Adjustment to initially apply FIN 48, net of tax				(0.8)		(0.8)	
Beginning balance, as adjusted	$ 2.7	$ (21.2)	$ 3,998.3	$1,005.2	$ 20.9	$5,005.9	
Comprehensive Income:							
Net Income				254.4		254.4	254.4
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (a)					0.4	0.4	0.4
Net unrealized losses on derivatives qualifying as cash flow hedges (b)					(16.4)	(16.4)	(16.4)
Unrecognized Pension Benefit and OPEB cost (c)					3.6	3.6	3.6
Total comprehensive income							242.0
Dividends:							
Common shares				(252.2)		(252.2)	
Treasury stock acquired		(2.1)				(2.1)	
Issued:							
Employee stock purchase plan			0.6			0.6	
Long-term incentive plan			9.2			9.2	
Amortization of Long-term incentive Plan			0.8			0.8	
Balance September 30, 2007	$ 2.7	$ (23.3)	$ 4,008.9	$1,007.4	$ 8.5	$5,004.2	

(in millions)	Common Shares	Treasury Shares	Additional Paid-In Capital	Retained Earnings	Accum Other Comp Income/(Loss)	Total	Comp Income
Balance January 1, 2006	$ 2.7	$ (15.1)	$ 3,969.4	$ 981.6	$ (5.6)	$ 4,933.0	
Comprehensive Income:							
Net Income				219.7		219.7	219.7
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (a)					1.7	1.7	1.7
Net unrealized lossess on derivatives qualifying as cash flow hedges (b)					(106.7)	(106.7)	(106.7)
Unrecognized Pension Benefit and OPEB cost (c)					4.4	4.4	4.4
Total comprehensive income							119.1
Dividends:							
Common shares				(250.9)		(250.9)	
Treasury stock acquired		(6.0)				(6.0)	
Issued:							
Employee stock purchase plan			0.6			0.6	
Long-term incentive plan			6.5			6.5	
Tax benefits of options			2.3			2.3	
Amortization of Long-Term Incentive Plan			0.8			0.8	
Balance September 30, 2006	$ 2.7	$ (21.1)	$ 3,979.6	$ 950.4	$ (106.2)	$ 4,805.4	

(a) Net unrealized losses on available for sale securities, net of $0.5 million and $1.1 million tax expense in the first nine months of 2007 and 2006, respectively.

(b) Net unrealized gains (losses) on derivatives qualifying as cash flow hedges, net of $6.6 million tax expense and $60.0 millio tax benefit in the first nine months of 2007 and 2006, respectively.

(c) Unrecognized pension benefit and OPEB costs, net of $2.1 million and $3.0 million tax expense in the first nine months of 2007 and 2006, respectively.

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

16. Accumulated Other Comprehensive Income

The following table displays the components of Accumulated Other Comprehensive Income, which is included in "Common Stockholders' Equity," on the Condensed Consolidated Balance Sheets.

(in millions)	**September 30, 2007**	December 31, 2006
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	**$ 4.8**	$ 3.9
Tax (expense) on unrealized gains on securities	**(2.2)**	(1.7)
Unrealized gains on cash flow hedges	**20.8**	43.8
Tax (expense) on unrealized gains on cash flow hedges	**(5.8)**	(12.4)
Unrecognized pension benefit and OPEB costs	**(14.5)**	(20.2)
Tax benefit on unrecognized pension benefit and OPEB costs	**5.4**	7.5
Total Accumulated Other Comprehensive Income, net of taxes	**$ 8.5**	$ 20.9

17. Business Segment Information

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

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

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

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)	**2007**	2006	**2007**	2006
REVENUES				
Gas Distribution Operations				
Unaffiliated	**$ 528.0**	$ 463.8	**$ 3,506.3**	$ 3,338.2
Intersegment	**7.7**	4.2	**25.0**	11.6
Total	**535.7**	468.0	**3,531.3**	3,349.8
Gas Transmission and Storage Operations				
Unaffiliated	**152.5**	145.7	**457.9**	451.1
Intersegment	**47.8**	52.3	**162.9**	177.7
Total	**200.3**	198.0	**620.8**	628.8
Electric Operations				
Unaffiliated	**378.4**	378.2	**1,039.2**	987.2
Intersegment	**0.3**	0.5	**1.1**	1.3
Total	**378.7**	378.7	**1,040.3**	988.5
Other Operations				
Unaffiliated	**182.5**	168.6	**707.6**	663.8
Intersegment	**13.3**	7.6	**39.9**	30.2
Total	**195.8**	176.2	**747.5**	694.0
Adjustments and eliminations	**(69.5)**	(64.5)	**(228.1)**	(220.7)
Consolidated Revenues	**$ 1,241.0**	$ 1,156.4	**$ 5,711.8**	$ 5,440.4

Operating Income (Loss)				
Gas Distribution Operations	**$ (43.5)**	$ (31.6)	**$ 231.2**	$ 168.4
Gas Transmission and Storage Operations	**74.9**	68.9	**249.5**	258.2
Electric Operations	**85.4**	108.3	**223.2**	239.7
Other Operations	**4.7**	(0.2)	**0.7**	(13.8)
Corporate	**(8.6)**	(8.9)	**(13.8)**	(15.7)
Consolidated Operating Income	**$ 112.9**	$ 136.5	**$ 690.8**	$ 636.8

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

NISOURCE INC.

Note regarding forward-looking statements

The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource'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, 2006.

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.

For the nine months ended September 30, 2007, NiSource reported income from continuing operations before cumulative effect of change in accounting principle of $247.1 million, or $0.90 per basic share, compared to $221.1 million, or $0.81 per basic share in 2006.

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

- Gas Distribution Operations net revenues increased from favorable weather compared to last year, customer growth and regulatory initiatives. NiSource's gas markets experienced 13% warmer than normal weather during the first nine months of 2006 compared to weather that was, on average, normal this year.

- Gas Transmission and Storage Operations' net revenues have increased as higher net revenues from firm capacity reservation fees more than offset lower revenues from shorter term transportation and storage services. While stabilization in the natural gas market has moderated optimization revenues this year, firm capacity and commodity revenues have been strong compared to last year. One of the drivers behind this improvement is that the Columbia Gulf mainline pipeline has been fully subscribed throughout 2007.
- Electric Operations net revenue has increased even after the impact of the settlement relating to power purchased by Northern Indiana discussed below. Increased wholesale margins, residential volumes, favorable weather versus last year, lower unrecoverable MISO costs and customer growth more than offset the settlement, lower industrial sales and the timing of revenue credits.
- Other Operations is now about breakeven compared to an operating loss last year. This improvement is driven by Whiting Clean Energy. See the discussion below under the heading "Whiting Clean Energy".

These increases were partially offset by the following items:

- Electric Operations net revenues were negatively impacted by a $33.5 million accrual that was recorded in the third quarter of 2007 for a settlement relating to power purchased by Northern Indiana during 2006 and 2007. On October 16, 2007, Northern Indiana settled a dispute regarding the cost of electric power the company was required to purchase to meet growing market demands. The settlement requires approval by the IURC.
- Operation and maintenance expenses increased due to higher employee and administrative expenses, electric generation and maintenance costs including the impact of the severe storms, and the reversal of a restructuring reserve in 2006 that favorably impacted that year. The employee and administrative costs include payroll, benefits and corporate services. Within corporate services, the cost increases were primarily related to NiSource's business services arrangement with IBM.
- The effective tax rate was higher for the first nine months of 2007 as compared to comparable period last year. The effective tax rate for 2007 is 36.9%. Last year's effective tax rate of 35.6% was favorably impacted b state deferred income tax adjustments recorded during the first quarter of 2006.
- Interest expense increased due to higher short-term interest rates and credit facility fees.
- Increases in property taxes and higher depreciation cost from last year.

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."

Master Limited Partnership

NiSource intends to proceed with the formation of a Master Limited Partnership for certain gas transmission and storage assets. NiSource intends to file a registration statement with the SEC, following board approval, later this year for the offer and sale of limited partnership interests in a new subsidiary. The formation of a Master Limited Partnership is a natural complement to the Gas Transmission and Storage Operations growth strategy and should provide access to competitively priced capital to support future growth investment.

Earnings Outlook

NiSource currently expects income from continuing operations for 2007 to be approximately $1.21 per basic share. This expectation takes into account the purchased power settlement by Northern Indiana and restructuring charges and asset impairments recorded to date, plus expected charges which will be recorded in the fourth quarter relating to the agreement-in-principle reached with IBM and the early redemption of PEI long-term debt related to the proposed sale of the Whiting Clean Energy facility to Northern Indiana. Additionally, this outlook includes the favorable weather impact of 3 cents per share that occurred during the first nine months of 2007.

Assuming normal weather, income from continuing operations for the 2008-2010 period are expected to fall within a range of $1.25 to $1.35 per basic share. Thereafter, NiSource expects its ongoing capital investment program of more than $1 billion per year to produce meaningful annual growth in earnings per share.

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Electric Supply

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 in 2006. These bids are to provide power in the long term. Northern Indiana has also issued a request for proposals in order to identify and negotiate contracts for acquiring combined-cycle generation assets and/or purchase power agreements by no later than May 31, 2008. Proposals were received by July 27, 2007. All proposals were evaluated and compared to other options including building different types of power plants, entering into a natural gas purchase contract to provide low cost gas for power production and restarting the Mitchell Station.

On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed a need for adding approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana plans to file a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN will seek approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. The combined cost of these two facilities is estimated to exceed $500 million. Northern Indiana will request the IURC and the FERC to approve these purchases by the second quarter of 2008.

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. Following are updates to the four-point platform for growth:

Commercial and Regulatory Initiatives

Whiting Clean Energy. On December 18, 2006, Whiting Clean Energy and BP executed an amendment which materially changed the terms of the ESA under which Whiting Clean Energy provides steam to BP. The improved results from this agreement, reflected in the first nine months of 2007 results, are expected to continue through the remainder of 2007. This improvement is reflected in the results from the Other Operations segment, which has been producing negative results for a number of years. Other Operations reported operating income of $0.7 million for the first nine months of 2007, versus an operating loss of $13.8 million for the comparable 2006 period. 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.

On July 27, 2007, Whiting Clean Energy submitted a proposal in response to the Northern Indiana-issued RFP "2008 Combined Cycle Request for Proposals." Whiting Clean Energy was notified during October 2007 that its proposal was selected by Northern Indiana. The pending sale of the Whiting Clean Energy facility to Northern Indiana would require Northern Indiana to assume commercial contracts of Whiting Clean Energy, including the agreement with BP. In addition, PEI would be required to redeem its long term debt and incur early redemption fees of approximately $31 million, based upon current interest rates and net of accrued interest and principal already payable. PEI's long-term debt outstanding as of September 30, 2007 was $293.8 million.

Customer Conservation. The first nine months of 2007 results were generally in line with management's belief that declines in customer demand experienced during 2006 were a response to higher market prices for natural gas, particularly in the aftermath of the 2005 hurricane season. As prices decreased during the later part of 2006 and have stabilized during the first nine months of 2007, both usage erosion and customer attrition levels continue to moderate. However, 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 is moving forward on regulatory initiatives across several distribution company markets. Whether through full rate case filings or other approaches, NiSource's goal is to develop strategies that benefit all stakeholders as it addresses changing customer conservation patterns, develops more contemporary pricing structures, and embarks on long-term investment programs to enhance our infrastructure. Rate case planning activities are underway at Columbia of Ohio, Columbia of Pennsylvania and Northern Indiana, with filings anticipated during 2008. Also, at Columbia of Ohio, stakeholder meetings have been initiated in an effort to meet the respective needs of all parties in shaping the future regulatory, commercial and investment model for Columbia of Ohio.

On October 31, 2007, the Massachusetts Department of Public Utilities approved a $5.9 million increase in Bay State base rates, effective November 1, 2007. The increase was pursuant to Bay State's existing PBR mechanism. In a separate filing, Bay State on October 17, 2007 petitioned the Massachusetts Department of Public Utilities to allow the company to collect an additional $7.5 million in annual revenue. Bay State also requested approval of a steel infrastructure tracker that would allow for recovery of ongoing infrastructure replacement program investments.

On May 9, 2007, Northern Indiana received approval from the IURC for its Rate Simplification program, which will simplify residential natural gas rates and implement an energy conservation program.

On August 29, 2007, the Kentucky Public Service Commission approved a stipulation and settlement, authorizing Columbia of Kentucky to increase its base rates by $7.25 million annually. The issue of whether the Kentucky Public Service Commission can authorize utilities to expediently recover costs (such as main replacement costs) via "tracker" mechanisms is now the subject of pending litigation, not involving Columbia of Kentucky.

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

Millennium Pipeline Project. In June 2007, construction began on the Millennium Pipeline, a 182-mile-long, 30-inch-diameter pipeline across New York's Southern Tier and lower Hudson Valley. The project is expected to be completed in November 2008 and will transport up to 525,400 Dth per day of natural gas to markets along its route, as well as to the New York City markets through its pipeline interconnections. Millennium is jointly owned by affiliates of NiSource, KeySpan Corporation, and DTE Energy.

Hardy Storage Project. Hardy Storage completed its second full quarter of operations, receiving customer injections into its new underground natural gas storage facility in West Virginia. Injections this year will allow the field to deliver up to 100,000 Dth of natural gas per day during the 2007-2008 winter heating season. When fully operational in 2009, the field will have a working storage capacity of 12 billion cubic feet, delivering more than 176,000 Dth of natural gas per day. Hardy Storage is a joint venture of subsidiaries of Columbia Transmission and Piedmont.

Columbia Transmission, the operator of Hardy Storage, is expanding its natural gas transmission system by 176,000 Dth per day to provide the capacity needed to deliver Hardy Storage supplies to customer markets. Construction of the expansion will be completed and placed in-service in the fourth quarter of 2007.

Eastern Market Expansion Project. On May 3, 2007, Columbia Transmission filed a certificate application before the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. The expansion will add 97,000 Dth per day of storage and transportation capacity and is fully contracted on a long-term, firm basis. Columbia Transmission requested FERC approval by December 2007 and proposed to place the Eastern Market Expansion in service by spring 2009. On October 1, 2007, the FERC issued a favorable environmental assessment for public comment in this project.

Crawford Storage Field Project. NiSource concluded successful open seasons to gauge customer interest in an expansion of its Crawford Storage Field in central Ohio. The final scope of the project will be determined based on the outcome of the ongoing customer discussions.

Other Growth Projects. Columbia Gulf recently expanded two interconnection points providing incremental delivery capacity of 30,000 Dth per day to Henry Hub and 85,000 Dth per day to Southern Natural Gas near Lafayette, Louisiana. This capacity was sold via auction and placed into service in the third quarter of 2007. A successful open season was held in the first quarter of 2007 to auction capacity of 380,000 Dth per day relating to two interconnection points being constructed in southern Louisiana with Transcontinental Gas Pipeline that will provide increased access to downstream mid-Atlantic and Northeast markets. These interconnection points are expected to be placed into service in the fourth quarter of 2007.

A binding open season for expanded capacity on Columbia Gulf's system for delivery to Florida Gas Transmission ends on November 2, 2007.

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. Columbia Transmission entered into contracts that represented revenues in excess of $45 million of shorter-term business for 2006. Stabilization in the natural gas market moderated these shorter-term optimization revenues during the first nine months of 2007 to approximately $18 million. 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.

Process and Expense Management

IBM Agreement. During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM was to provide a broad range of business transformation and outsourcing services to NiSource. As a part of the transformation initiatives, many new information technology systems and process changes had an accelerated time-line for completion, which created the risk of operational delays, potential errors and control failures which could impact NiSource and its financial condition. In August 2006, further implementation of certain information technology systems was delayed due to difficulties encountered with the first wave of new system implementations. In the first quarter of 2007, NiSource decided to bring certain finance and accounting functions back within the company. These functions include general accounting, fixed assets, and budgeting. The transition back to NiSource of these functions commenced on June 1, 2007 and is expected to continue through the end of 2007. In early 2007, a high-level team of NiSource and IBM resources began an overall reassessment of the outsourcing initiative primarily to focus on operational and transformational improvements and remediation and develop an integrated plan that enables NiSource to achieve its business objectives going forward. In mid-October 2007, NiSource and IBM reached an agreement-in-principle on modifications to their long-term business services agreement. These modifications will put NiSource in a position to more effectively manage its employee and administrative expenses, while ensuring delivery of services needed to meet the company's needs. The delay in the transformation projects and proposed restructuring of the relationship will result in a reduction in the projected cost savings. The agreement-in-principle is not binding and is contingent on finalization of a definitive amendment to the agreement.

Financial Management of the Balance Sheet

Refinancing of Debt. On August 31, 2007, NiSource Finance issued $800 million of 6.40% 10.5-year senior unsecured notes that mature March 15, 2018. The proceeds were used to repay short-term bank borrowings, to fund the redemption of $24 million of Northern Indiana variable rate pollution control bonds due November 2007 and for capital expenditures and general corporate purposes. The short-term bank borrowings were previously used to fund the redemption of Northern Indiana's preferred stock in 2006, having a total redemption value of $81.6 million, and for the repayment of an aggregate $503.5 million of long-term debt in 2006 and the first nine months of 2007.

Results of Operations
Quarter Ended September 30, 2007

Net Income
NiSource reported net income of $11.0 million, or $0.04 per basic share, for the three months ended September 30, 2007, compared to net income of $25.8 million, or $0.10 per basic share, for the third quarter of 2006. Operating income was $112.9 million, a decrease of $23.6 million from the same period in 2006.

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 $3.9 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, 2007 were $630.1 million, a $1.4 million decrease from the same period last year, which includes the impact of $3. million of trackers discussed above. Increased net revenues from Gas Transmission and Storage Operation of $6.6 million, Other Operations of $6.7 million and Gas Distribution Operations of $2.8 million were offset by lower net revenue from Electric Operations of $17.4 million. Electric Operations net revenues decreased due to a $33.5 million settlement related to the cost of power purchased by Northern Indiana in 2006 and 2007 and lower residential and industrial margins of $6.2 million, partially offset by increased wholesale revenues amounting to $8.0 million, favorable weather of approximately $5 million, higher commercial margins of approximately $5 million and other factors. Net revenues increased within Gas Transmission Operations as a result of increased firm capacity reservation revenues of $7.7 million due in large part to due to the Columbia Gulf mainline pipeline being fully subscribed in 2007. Increased net revenues from the Whiting Clean Energy facility of $8.5 million drove the increase in net revenues within Other Operations. Net revenue increases from Gas Distribution Operations were a result of higher net revenues from regulatory initiatives and other service programs of $3.7 million.

Expenses
Operating expenses for the third quarter of 2007 were $519.8 million, an increase of $23.9 million from the comparable 2006 period. Excluding expenses that are recovered through regulatory trackers that increase both operating expenses and net revenues (see discussion above), operating expenses were up $20.6 million. This increase was primarily due to higher employee and administrative expenses of $13.8 million, increased other taxes of $7.4 million and increased storm damage expenses within Electric Operations of $3.8 million. The employee and administrative costs include payroll, benefits and higher corporate services costs primarily related to NiSource's business services arrangement with IBM.

Other Income (Deductions)
Interest expense, net was $100.8 million for the quarter, an increase of $4.6 million compared to third quarter of 2006. This increase was due primarily to higher short-term interest rates. Other, net was $1.4 million for the current quarter compared to a loss of $0.8 million for the comparable 2006 period due to higher interest income in the third quarter 2007 compared to the third quarter 2006.

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Income Taxes
Income tax for the third quarter of 2007 was $3.7 million, a decrease of $9.8 million compared to the third quarter of 2006 due primarily to lower pretax income and a lower effective tax rate. The effective tax rate for the quarter ended September 30, 2007 was 27.4% compared to 34.2% for the comparable period last year. Both the third quarter of 2007 and third quarter of 2006 include approximately $1 million in adjustments to tax expense primarily related to prior year tax accrual versus return adjustments which had the effect of reducing the effective rates below the expected rate of approximately 37%. These reductions in tax expense have a more significant impact on the third quarter 2007 effective tax rate because pre-tax earnings are lower in that quarter.

Results of Operations
Nine Months Ended September 30, 2007

Net Income
NiSource reported net income of $254.4 million, or $0.93 per basic share, for the nine months ended September 30, 2007, compared to $219.7 million, or $0.81 per basic share, for the first nine months of 2006. Operating income was $690.8 million, an increase of $54 million from the same period in 2006.

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 $19.8 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, 2007, were $2,384.6 million, a $131.2 million increase from the same period last year, which includes the impact of $19.8 million of increased trackers discussed above. This increase in net revenues was primarily due to favorable weather in the first nine months of 2007 compared to the first nine months of 2006 favorably impacting Gas Distribution Operations by approximately $62 million and Electric Operations by approximately $14 million. Gas Distribution Operations net revenues also increased from regulatory initiatives and other service programs of $11.6 million, customer growth contributing approximately $7 million and increased commercial sales and usage of $4.4 million. Whiting Clean Energy had increased net revenues of $17.9 million compared to the same period last year impacting Other Operations. In addition to the weather impact mentioned above, Electric Operations net revenues increased due to higher wholesale revenues amounting to $16.7 million, increased residential usage of $7.4 million, lower unrecoverable MISO costs of $5.6 million and customer growth amounting to $4.6 million. These increases in Electric Operations net revenues were partially offset by a $33.5 million settlement related to the cost of power purchased by Northern Indiana in 2006 and 2007, lower industrial usage and margin amounting to $12.4 million and timing of revenue credits. Within Gas Transmission Operations, net revenues increased $5.5 million due to higher firm capacity reservation revenues of $15.2 million and increased commodity revenues of $3.4 million, partially offset by a decrease in shorter-term transportation services and storage optimization revenues of $14.0 million.

Expenses
Operating expenses for the first nine months of 2007 were $1,701.6 million, an increase of $84.2 million from the comparable 2006 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses increased $64.4 million. This increase was primarily due to higher employee and administrative expenses of $48.3 million, increased other taxes of $10.3 million, a $6.6 million impairment charge related to base gas at a storage field and increased storm damage within Electric Operations of $4.2 million. The employee and administrative costs include payroll, benefits and higher corporate services costs primarily related to NiSource's business services arrangement with IBM. These increases in expenses were partially offset by the impact of $14.5 million of IBM transition costs incurred in the first nine months of 2006.

Other Income (Deductions)
Interest expense, net was $297.5 million for the first nine months of 2007 compared to $284.9 million for the first nine months of last year. This increase of $12.6 million was mainly due to higher short-term interest rates and credit

facility fees. Other, net was a loss of $1.8 million for the first nine months of 2007 compared to a loss of $6.9 million for the comparable 2006 period due primarily to higher interest income in the first nine months of 2007 compared to the first nine months of 2006.

Income Taxes
Income tax for the first nine months of 2007 was $144.4 million, an increase of $22.3 million compared to the first nine months of 2006 due primarily to higher pretax income and a higher effective tax rate. The effective tax rate for the first nine months of 2007 was 36.9% compared to 35.6% for the comparable period last year, which benefited from favorable state deferred income tax adjustments recorded in the first quarter of 2006.

Discontinued Operations
Results from Discontinued Operations for the first nine months of 2007 includes a $7.5 million reduction, net of taxes, in the liability for unrecognized tax benefits and $0.9 million in related interest, net of taxes, associated with the issuance of additional tax guidance in the first quarter of 2007. Also included is a reduction in interest expense of $0.6 million, net of taxes, related to the completion of the NiSource consolidated 2003 and 2004 tax audit.

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 (plant and expand service into new areas.

Operating Activities
Net cash flows from operating activities for the nine months ended September 30, 2007 were $398.9 million, a decrease of $472.9 million from the first nine months of 2006. Changes in assets and liabilities reduced net cash flows from operating activities by $556.0 million. The impacts of gas prices and weather significantly impact working capital changes. High gas prices and 5% colder than normal weather in the fourth quarter of 2005 drove significantly higher than normal accounts receivable and unrecovered gas costs balances that were subsequently collected in 2006. Conversely, the fourth quarter of 2006 was 18% warmer than normal, leading to relatively lower accounts receivable and unrecovered gas cost balances at December 31, 2006 and less cash to be collected in 2007. Increases in net income and changes in deferred taxes totaling $141.9 million reduced the impact from the changes in assets and liabilities.

Investing Activities
Capital expenditures of $519.8 million during the first nine months of 2007 were $114.1 million higher than the comparable 2006 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 2007 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.

Capital spending, including ongoing infrastructure investments, is projected to be more than $1 billion annually, beginning in 2008 and for the foreseeable future.

Restricted cash was $96.0 million and $142.5 million for the periods ended September 30, 2007 and December 31, 2006, respectively. The decrease in restricted cash was due primarily to volatility in forward gas contracts, whic resulted in decreased margin deposits on open derivative contracts at September 30, 2007 as compared to Decemb 31, 2006.

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, 2007, NiSource's remaining shelf capacity was $50 million.

Long-term Debt. On August 31, 2007, NiSource Finance issued $800 million of 6.40% 10.5-year senior unsecured notes that mature March 15, 2018. The proceeds were used to repay short-term bank borrowings, to fund the redemption of $24 million of Northern Indiana variable rate pollution control bonds due November 2007 and for capital expenditures and general corporate purposes. The short-term bank borrowings were previously used to fund the redemption of Northern Indiana's preferred stock in 2006, having a total redemption value of $81.6 million, and for the repayment of an aggregate $503.5 million of long-term debt in 2006 and the first nine months of 2007.

Capital Markets $75 million 6.78% senior notes due December 1, 2027 contain a provision which entitles the holders to require Capital Markets to redeem the notes at 100% of the principal amount plus accrued interest on December 1, 2007. As of November 1, 2007, Capital Markets has received notice from holders of $72 million of the notes requesting redemption.

During August 2007, Northern Indiana redeemed $20 million of its medium-term notes with an average interest rate of 6.77%.

During June 2007, Northern Indiana redeemed $12 million of its medium-term notes with an interest rate of 7.25%.

During April 2007, NiSource redeemed $27 million of Capital Markets medium-term notes, with an average interest rate of 7.49%.

During May 2006, NiSource redeemed $25 million of Capital Markets medium-term notes, with an average interest rate of 7.50%.

During April 2006, NiSource redeemed $15 million of Capital Markets medium-term notes, with an average interest rate of 7.75%.

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. 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.

NiSource Finance had outstanding credit facility borrowings of $673.0 million at September 30, 2007, at a weighted average interest rate of 5.53%, and borrowings of $1,193.0 million at December 31, 2006, at a weighted average interest rate of 5.68%. As of September 30, 2007 and December 31, 2006, NiSource Finance had $60.8 million and $81.9 million of stand-by letters of credit outstanding, respectively. At September 30, 2007, $31.9 million of the $60.8 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 $28.8 million of stand-by letters of credit outstanding at September 30, 2007, $25.5 million resided under NiSource Finance's five-year credit facility and $3.3 million resided under an uncommitted arrangement with another financial institution. As of September 30, 2007, $801.5 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 was recently extended for another year to June 27, 2008. As of September 30, 2007, $77.1 million of accounts receivable had been sold by CORC.

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

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement 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 September 30, 2007, NRC had sold $163.1 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.

Contractual Obligations. On January 1, 2007, NiSource adopted the provisions of FIN 48. The adoption of FIN 48 did not have a significant impact on NiSource's liability for unrecognized tax benefits. The total amount of the liability for unrecognized tax benefits was $16.0 million as of the date of adoption, and $4.2 million at September 30, 2007. NiSource does not anticipate any significant changes to its liability for unrecognized tax benefits over the next twelve months. Refer to Note 10, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

Market Risk Disclosures

Risk is an inherent part of NiSource's energy businesses. The extent to which NiSource properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its businesses is critical to its profitability. NiSource seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks that are involved in NiSource's energy businesses: commodity market risk, interest rate risk and credit risk.

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

Commodity Price Risk

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

Commodity price risk resulting from derivative activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process, including gains or losses on these derivative instruments. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk. Some of NiSource's rate-regulated utility subsidiaries offer commodity price risk products to its customers for which derivatives are used to hedge forecasted customer usage under such products. These subsidiaries do not have regulatory recovery orders for these products and are subject gains and losses recognized in earnings due to hedge ineffectiveness.

TPC, on behalf of Whiting Clean Energy, enters into power and gas derivative contracts to manage commodity price risk associated with operating Whiting Clean Energy. These derivative contracts do not always receive hedge accounting treatment under SFAS No. 133 and variances in earnings could be recognized as a result of marking these derivatives to market.

Interest Rate 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 $7.2 million and $20.6 million for the quarter and nine months ended September 30, 2007, 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 operations. Credit risk arises with 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 obligations and the market value of forward positions. Current credit exposure is generally measured by the notional or principal value of obligations and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for the gas marketing and derivative portfolios on an average, high and low basis was $0.1 million, $0.2 million and zero during the third quarter of 2007, 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. 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 8, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $592.5 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 provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $80.0 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 Condensed Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 8, "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. 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, among other changes. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 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. On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations.

With the adoption of SFAS No. 158 NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. These rate-regulated subsidiaries recorded regulatory assets and liabilities that would otherwise have been recorded to accumulated other comprehensive income.

Refer to Note 11, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for additional information.

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 greater than 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. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 10, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

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.

When it adopted 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 income taxes, which reflected the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. Other than the requirement for expensing stock options, outstanding share-based awards will continue to be accounted for substantially as they are currently. As of September 30, 2007, the total remaining unrecognized compensation cost related to non-vested awards amounted to $8.9 million, which will be amortized over the weighted-average remaining requisite service period of 2.1 years.

Recently Issued Accounting Pronouncements

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.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits entities to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment will be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. NiSource is currently reviewing the provisions of SFAS No. 159 to determine whether to elect fair value measurement for any of its financial assets or liabilities when it adopts this standard in 2008.

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.

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, **2007**	2006	Nine Months Ended September 30, **2007**	2006
Net Revenues				
Sales Revenues	**$ 535.7**	$ 468.0	**$ 3,531.3**	$ 3,349.8
Less: Cost of gas sold (excluding depreciation and amortization)	**341.8**	276.9	**2,430.5**	2,353.3
Net Revenues	**193.9**	191.1	**1,100.8**	996.5
Operating Expenses				
Operation and maintenance	**152.0**	142.4	**569.1**	534.2
Depreciation and amortization	**59.2**	57.7	**175.8**	173.3
Impairment and gain on sale of assets	**0.1**	(0.3)	**(0.4)**	(0.3)
Other taxes	**26.1**	22.9	**125.1**	120.9
Total Operating Expenses	**237.4**	222.7	**869.6**	828.1
Operating Income (Loss)	**$ (43.5)**	$ (31.6)	**$ 231.2**	$ 168.4
Revenues ($ in Millions)				
Residential	**223.0**	211.2	**1,969.7**	2,067.0
Commercial	**87.5**	86.3	**726.5**	773.2
Industrial	**49.7**	53.7	**216.7**	232.4
Off System	**161.1**	77.6	**468.3**	315.7
Other	**14.4**	39.2	**150.1**	(38.5)
Total	**535.7**	468.0	**3,531.3**	3,349.8
Sales and Transportation (MMDth)				
Residential	**16.2**	15.6	**191.5**	162.[illegible]
Commercial	**19.4**	20.0	**128.1**	114.3
Industrial	**89.7**	91.1	**279.2**	272.5
Off System	**24.3**	11.3	**65.4**	41.2
Other	**0.1**	0.1	**0.6**	0.6
Total	**149.7**	138.1	**664.8**	591.1
Heating Degree Days	**33**	69	**3,157**	2,752
Normal Heating Degree Days	**52**	58	**3,163**	3,165
% Colder (Warmer) than Normal	**(37%)**	19%	**0%**	(13%)
Customers				
Residential			**3,016,242**	2,983,908
Commercial			**287,230**	276,058
Industrial			**8,126**	7,849
Other			**79**	73
Total			**3,311,677**	3,267,888

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 72% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

NISOURCE INC.
Gas Distribution Operations (continued)

Regulatory Matters

Significant Rate Developments. On August 29, 2007, the Kentucky Public Service Commission approved a stipulation and settlement, authorizing Columbia of Kentucky to increase its base rates by $7.25 million annually. The issue of whether the Kentucky Public Service Commission can authorize utilities to expediently recover costs (such as main replacement costs) via "tracker" mechanisms is now the subject of pending litigation, not involving Columbia of Kentucky.

On October 31, 2007, the Massachusetts Department of Public Utilities approved a $5.9 million increase in Bay State base rates, effective November 1, 2007. The increase was pursuant to Bay State's existing PBR mechanism. In a separate filing, Bay State on October 17, 2007 petitioned the Massachusetts Department of Public Utilities to allow the company to collect an additional $7.5 million in annual revenue. Bay State also requested approval of a steel infrastructure tracker that would allow for recovery of ongoing infrastructure replacement program investments.

On May 9, 2007, the IURC approved Northern Indiana's petition to simplify rates, stabilize revenues and provide for energy efficiency funding. The order adopts a new rate structure that enhances Northern Indiana's ability to increase revenues and provides incremental funding for an energy efficiency program.

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

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

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

Certain of the NiSource distribution companies are embarking upon plans to replace significant portions of their operating systems that are nearing the end of their useful lives. Those companies are currently evaluating requests for increases in rates in order to allow recovery of the additional capital expenditures required for such plans. Each LDC's approach to cost recovery may be unique, given the different laws, regulations and precedent that exist in each jurisdiction. Currently, Columbia of Pennsylvania and Columbia of Ohio are embarking upon such plans.

Certain types of natural gas risers, which are owned by customers, on Columbia of Ohio's distribution system have been evaluated under a study required by the PUCO, and have been found prone to leak natural gas under certain conditions. On February 1, 2007, Columbia of Ohio announced plans to identify and replace these risers on its distribution system. As of September 30, 2007, Columbia of Ohio deferred $4.2 million of costs associated with the study and identification of these natural gas risers as a regulatory asset and currently estimates that the cost to identify and replace the risers will approximate $165 million. On October 26, 2007, Columbia of Ohio and the PUCO Staff filed a Joint Stipulation and Recommendation that provided for Columbia of Ohio's assumption of financial responsibility for the repair or replacement of customer-owned service lines and the replacement of risers prone to leak. In addition, the Stipulation provides for Columbia of Ohio to capitalize its investment in the service lines and risers, as well as the establishment of a tracking mechanism that would provide for the recovery of

NISOURCE INC.
Gas Distribution Operations (continued)

operating and maintenance costs related to Columbia of Ohio's capitalized investment and its expenses incurred in identifying risers prone to leak. The PUCO is receiving evidence in this matter and is expected to issue an order during the first quarter of 2008.

Customer Usage. The NiSource distribution companies have experienced declining usage by customers, due in large part to the sensitivity of sales to volatile commodity prices. A significant portion of the LDC's operating costs are fixed in nature. Historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge. Many of NiSource's LDCs are evaluating mechanisms that would "de-couple" the recovery of fixed costs from throughput, and implement recovery mechanisms that more closely link the recovery of fixed costs with fixed charges. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing such changes.

Environmental Matters

Currently, various environmental matters impact the Gas Distribution Operations segment. As of September 30, 2007, 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 Gas Distribution Operations segment.

Restructuring

Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $0.2 million and $0.6 million for the third quarter and first nine months of 2007, respectively, and the restructuring liability remaining at September 30, 2007 was $1.0 million. Refer to Note 4, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives.

Weather

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

Weather in the Gas Distribution Operation's territories for the third quarter of 2007 was 37% warmer than normal and 52% warmer than the comparable quarter in 2006.

For the first nine months of 2007, weather was comparable to normal and 15% colder than the comparable 2006 period.

Throughput

Total volumes sold and transported were 149.7 MMDth for the third quarter of 2007, an increase of 11.6 MMDth from the same period last year. This increase was primarily due to increased off-system sales in the current period compared to the same period last year. Changes in market opportunities lead to an increase in off-system sales transactions and increased off system sales volumes.

For the nine month period ended September 30, 2007, total volumes sold and transported were 664.8 MMDth, an increase of 73.7 MMDth from the same period in 2006. This increase primarily reflects higher residential, commercial and industrial sales attributable mainly to cooler weather compared to the previous year and increased off-system sales. Changes in market opportunities lead to an increase in off system sales transactions and increased off-system sales volumes.

NISOURCE INC.
Gas Distribution Operations (continued)

Net Revenues
Net revenues for the three months ended September 30, 2007 were $193.9 million, an increase of $2.8 million from the same period in 2006. This increase was primarily due to higher revenues from regulatory initiatives and other service programs of $3.7 million, partially offset by an unfavorable weather impact of approximately $2 million.

For the nine month period ended September 30, 2007, net revenues were $1,100.8 million, a $104.3 million increase from the same period in 2006. This increase in net revenues was due primarily to the impact of cooler weather amounting to approximately $62 million, a $14.1 million increase in revenues from regulatory trackers, which are primarily offset in operating expense, increased revenues from regulatory initiatives and other service programs of $11.6 million, customer growth contributing approximately $7 million and increased commercial sales and usage of $4.4 million.

Operating Income (Loss)
For the third quarter of 2007, Gas Distribution Operations reported an operating loss of $43.5 million compared to an operating loss of $31.6 million for the same period in 2006. The increase in operating loss was attributable to $9.6 million in higher operation and maintenance expenses, increased other taxes of $3.2 million and higher depreciation, partially offset by $2.8 million in increased net revenues described above. Operation and maintenance expense increased primarily due to higher employee and administrative expenses of $6.6 million and the impact of a $5.1 million reversal of a restructuring reserve in 2006 related to a certain facility. The employee and administrative costs include payroll, benefits and higher corporate services costs primarily related to NiSource's business services arrangement with IBM.

Operating income for the first nine months of 2007 totaled $231.2 million, a $62.8 million increase compared to the same period in 2006, attributable to higher net revenues described above, partially offset by increased operation and maintenance expense of $34.9 million, higher other taxes of $4.2 million and higher depreciation expense. After adjusting for increased expenses of $15.4 million that are recovered through regulatory trackers and corresponding increases in net revenues, operation and maintenance expenses increased $19.5 million compared to the same period last year. Operation and maintenance expense increased primarily due to higher employee and administrative expenses of $23.9 million, the impact of a $5.1 million reversal of a restructuring reserve in 2006 related to a certain facility, and higher outside services expense of $3.7 million. The employee and administrative costs include payroll, benefits and higher corporate services costs primarily related to NiSource's business services arrangement with IBM. The comparable period last year was also impacted by transition costs associated with the IBM Agreement amounting to $10.0 million.

NISOURCE INC.
Gas Transmission and Storage Operations

(in millions)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating Revenues				
Transportation revenues	$ **155.1**	$ 154.6	$ **482.9**	$ 491.6
Storage revenues	**44.4**	44.2	**134.8**	132.4
Other revenues	**0.8**	(0.8)	**3.1**	4.8
Total Operating Revenues	**200.3**	198.0	**620.8**	628.8
Less: Cost of gas sold (excluding depreciation and amortization)	**-**	4.3	**0.1**	13.6
Net Revenues	**200.3**	193.7	**620.7**	615.2
Operating Expenses				
Operation and maintenance	**85.5**	84.6	**242.4**	230.6
Depreciation and amortization	**29.6**	28.3	**88.0**	85.6
Impairment and gain on sale of assets	**-**	-	**6.4**	0.5
Other taxes	**12.9**	12.8	**42.2**	41.1
Total Operating Expenses	**128.0**	125.7	**379.0**	357.8
Equity Earnings in Unconsolidated Affiliates	**2.6**	0.9	**7.8**	0.8
Operating Income	$ **74.9**	$ 68.9	$ **249.5**	$ 258.2

	2007	2006	2007	2006
Throughput (MMDth)				
Columbia Transmission				
Market Area	**170.1**	170.5	**742.1**	669.0
Columbia Gulf				
Mainline	**163.9**	108.1	**489.8**	397.7
Short-haul	**68.4**	36.4	**159.6**	83.8
Columbia Pipeline Deep Water	**0.6**	1.6	**2.1**	6.7
Crossroads Gas Pipeline	**8.2**	8.4	**27.6**	28.4
Granite State Pipeline	**6.2**	3.0	**22.6**	19.1
Intrasegment eliminations	**(129.9)**	(90.7)	**(419.9)**	(369.4)
Total	**287.5**	237.3	**1,023.9**	835.3

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.

Millennium Pipeline Project

Millennium received FERC approval for a pipeline project, in which Columbia Transmission is participating, which will provide access to a number of supply and 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 at Ramapo, New York. The Millennium partnership is 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.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, and Iroquois collectively referred to as the "Companion Pipelines." The December 21, 2006 certificate order also granted the necessary project approvals to the Companion Pipelines. Construction began on June 22, 2007 with a projected in-service date of November 1, 2008.

On August 29, 2007, Millennium entered into a bank credit agreement to finance the construction of the Millennium Pipeline Project. As a condition precedent to the credit agreement, NiSource issued a guarantee securing payment for its indirect ownership interest percentage of amounts borrowed under the financing agreement up until such time as the amounts payable under the agreement are paid in full. The permanent financing is expected to be completed in the first quarter of 2009. Additional information on this guarantee is provided in Note 14-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements.

Hardy Storage Project
Hardy Storage completed its second full quarter of operations, receiving customer injections into its new underground natural gas storage facility in West Virginia. Injections this year will allow the field to deliver up to 100,000 Dth of natural gas per day during the 2007-2008 winter heating season. When fully operational in 2009, the field will have a working storage capacity of 12 billion cubic feet, delivering more than 176,000 Dth of natural gas per day. Hardy Storage is a joint venture of subsidiaries of Columbia Transmission and Piedmont.

Columbia Transmission, the operator of Hardy Storage, is expanding its natural gas transmission system by 176,000 Dth per day to provide the capacity needed to deliver Hardy Storage supplies to customer markets. Construction of the expansion will be completed and placed in-service in the fourth quarter of 2007.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received favorable orders 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. The certificate amendment was approved by FERC on March 15, 2007.

On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into multiple agreements to finance the construction of Hardy Storage. Under the financing agreements, 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.

Crawford Storage Field Project
NiSource concluded successful open seasons to gauge customer interest in an expansion of its Crawford Storage Field in central Ohio. The final scope of the project will be determined based on the outcome of the ongoing customer discussions.

Eastern Market Expansion Project
On May 3, 2007, Columbia Transmission filed a certificate application before the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. The expansion will add 97,000 Dth per day of storage and transportation capacity and is fully contracted on a long-term, firm basis. Columbia Transmission requested FERC approval by December 2007 and proposed to place the Eastern Market Expansion in service by spring 2009. On October 1, 2007, the FERC issued a favorable environmental assessment for public comment in this project.

Other Growth Projects
Columbia Gulf recently expanded two interconnection points providing incremental delivery capacity of 30,000 Dth per day to Henry Hub and 85,000 Dth per day to Southern Natural Gas near Lafayette, Louisiana. This capacity was sold via auction and placed into service in the third quarter of 2007. A successful open season was held in the first quarter of 2007 to auction capacity of 380,000 Dth per day relating to two interconnection points being constructed in southern Louisiana with Transcontinental Gas Pipeline that will provide increased access to

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

downstream mid-Atlantic and Northeast markets. These interconnection points are expected to be placed into service in the fourth quarter of 2007.

A binding open season for expanded capacity on Columbia Gulf's system for delivery to Florida Gas Transmission ends on November 2, 2007.

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. Columbia Transmission entered into contracts that represented revenues in excess of $45 million of shorter-term business for 2006. Stabilization in the natural gas market moderated these shorter-term optimization revenues during the first nine months of 2007 to approximately $18 million. 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.

Regulatory Matters

Significant FERC Developments. 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 for the costs of implementing the DOT's Integrity Management Rule. The effective date of the guidance was January 1, 2006 after which all assessment costs have been recorded as operating expenses. The rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded.

Columbia Gulf and Columbia Transmission are cooperating with the FERC on an informal non-public investigation of certain operating practices regarding tariff services offered by those companies. At this time, the companies cannot predict what the result of that investigation will be, but the FERC has indicated that it may seek to impose fines and possibly seek other remedies as well.

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, which heard oral arguments on May 2, 2007. Columbia Transmission has also made constitutional arguments in this case. The Ohio Supreme Court is expected to issue a ruling by late 2007 to mid 2008. The final outcome of the case and its impact on the financial statements are uncertain at this time.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of September 30, 2007, 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 Gas Transmission and Storage Operations segment.

Restructuring
Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.3 million and $1.2 million for the third quarter and first nine months of 2007, respectively, and the restructuring liability remaining at September 30, 2007 was $1.7 million. Refer to Note 4, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Throughput

Throughput for the Gas Transmission and Storage Operations segment totaled 287.5 MMDth for the third quarter of 2007 compared to 237.3 MMDth for the same period in 2006. The increase of 50.2 MMDth is due primarily to strong market area storage injections, higher transport usage by natural gas fired electric power generators, enhanced market access through new pipeline interconnects and the addition of new natural gas supply attached to the system at Perryville, Louisiana.

Throughput for the nine months ended September 30, 2007 was 1,023.9 MMDth, an increase of 188.6 MMDth from the same period in 2006, is due primarily to strong market area storage injections, higher transport usage by natural gas fired electric power generators, enhanced market access through new pipeline interconnects and the addition of new natural gas supply attached to the system at Perryville, Louisiana.

Net Revenues

Net revenues were $200.3 million for the third quarter of 2007, an increase of $6.6 million from the same period in 2006, primarily due to increased firm capacity reservation revenues of $7.7 million and a $3.1 million increase in revenues from regulatory trackers, which are partially offset in operating expense. These increases in net revenues were partially offset by a decrease in shorter-term transportation services and storage optimization revenues of $2.6 million. The increase in firm capacity reservation revenues was primarily due to the Columbia Gulf mainline pipeline being fully subscribed in 2007.

Net revenues were $620.7 million for the first nine months of 2007, an increase of $5.5 million from the same period in 2006. Net revenues increased as a result of higher firm capacity reservation revenues of $15.2 million, a $4.4 million increase in revenues from regulatory trackers, which are partially offset in operating expense, and increased commodity revenues of $3.4 million. These increases in net revenues were partially offset by a decrease in shorter-term transportation services and storage optimization revenues of $14.0 million.

Operating Income

Operating income was $74.9 million for the third quarter of 2007, an increase of $6.0 million compared to the third quarter of 2006. The increase in operating income was primarily attributable to the increase in net revenues described above. Operating expenses increased slightly due to increased tracker expenses of $3.1 million, which are offset by a corresponding increase in revenues, higher employee and administrative costs of $1.8 million and higher depreciation and amortization expense of $1.3 million, partially offset by the impact of a $4.6 million expense related to the settlement of a legal matter in 2006. Equity earnings increased $1.7 million due primarily to Hardy Storage being placed in service in April 2007, and higher AFUDC earnings from Millennium.

For the first nine months of 2007, operating income of $249.5 million decreased $8.7 million compared to the first nine months of 2006 primarily due to increased operation and maintenance expenses of $11.8 million and a $6.6 million impairment charge related to base gas at a storage field. Operation and maintenance expenses increased primarily as a result of higher employee and administrative costs of $8.7 million, increased tracker expenses of $4.4 million, which are offset by a corresponding increase in revenues, increased property insurance costs of $2.7 million attributable to insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico, and increased maintenance costs. The employee and administrative costs include payroll, benefits and higher corporate services costs primarily related to NiSource's business services arrangement with IBM. These increases in operation and maintenance expenses were partially offset by a $2.8 million reduction of a reserve for a legal matter and the impact of a $4.6 million expense recognized in 2006 related to the settlement of a certain legal matter. Equity earnings increased $7.0 million due to Hardy Storage being placed in service in April 2007, and higher AFUDC earnings from Millennium.

NISOURCE INC.
Electric Operations

(in millions)	Three Months Ended September 30, **2007**	Three Months Ended September 30, 2006	Nine Months Ended September 30, **2007**	Nine Months Ended September 30, 2006
Net Revenues				
Sales revenues	$ **378.7**	$ 378.7	$ **1,040.3**	$ 988.5
Less: Cost of sales (excluding depreciation and amortization)	**160.9**	143.5	**419.4**	372.1
Net Revenues	**217.8**	235.2	**620.9**	616.4
Operating Expenses				
Operation and maintenance	**68.5**	66.5	**208.2**	193.4
Depreciation and amortization	**49.2**	47.3	**143.8**	140.3
Gain on sale of assets	**(0.2)**	-	**(0.2)**	-
Other taxes	**14.9**	13.1	**45.9**	43.0
Total Operating Expenses	**132.4**	126.9	**397.7**	376.7
Operating Income	$ **85.4**	$ 108.3	$ **223.2**	$ 239.7
Revenues ($ in millions)				
Residential	**123.0**	116.1	**302.8**	276.1
Commercial	**108.4**	103.0	**292.5**	276.0
Industrial	**133.4**	132.2	**389.8**	387.6
Wholesale	**23.3**	17.5	**47.6**	32.6
Other	**(9.4)**	9.9	**7.6**	16.2
Total	**378.7**	378.7	**1,040.3**	988.5
Sales (Gigawatt Hours)				
Residential	**1,129.2**	1,058.0	**2,768.2**	2,541.1
Commercial	**1,109.3**	1,077.5	**3,043.0**	2,921.0
Industrial	**2,409.8**	2,359.8	**7,083.2**	7,180.7
Wholesale	**437.1**	260.4	**782.2**	608.4
Other	**44.4**	38.5	**103.4**	78.9
Total	**5,129.8**	4,794.2	**13,780.0**	13.330.1
Cooling Degree Days	**606**	524	**919**	714
Normal Cooling Degree Days	**580**	576	**812**	803
% Warmer (Colder) than Normal	**4%**	(9%)	**13%**	(11%)
Electric Customers				
Residential			**398,772**	396,072
Commercial			**52,378**	51,791
Industrial			**2,513**	2,520
Wholesale			**6**	7
Other			**755**	760
Total			**454,424**	451.150

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 454 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

NISOURCE INC.
Electric Operations (continued)

Electric Supply
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 in 2006. These bids are to provide power in the long term. Northern Indiana has also issued a request for proposals in order to identify and negotiate contracts for acquiring combined-cycle generation assets and/or purchase power agreements by no later than May 31, 2008. Proposals were received by July 27, 2007. All proposals were evaluated and compared to other options in the IRP, including building different types of power plants, entering into a natural gas purchase contract to provide low cost gas for power production and restarting the Mitchell Station.

On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed a need for adding approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana plans to file a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN will seek approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. The combined cost of these two facilities is estimated to exceed $500 million. Northern Indiana will request the IURC and the FERC to approve these purchases by the second quarter of 2008.

Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

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. The credits will continue 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. 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 $44.3 million and $37.9 million were recognized for electric customers for the first nine months of 2007 and 2006, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding the administrative fees and certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first nine months of 2007 non-fuel costs were $13.4 million, all of which was deferred in accordance with the aforementioned orders. In addition, administrative, FERC and other fees of $4.9 million were deferred. In total, for the nine months ended September 30, 2007 and 2006, MISO costs of $18.3 million and $4.0 million, respectively, were deferred.

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 on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. This resettlement began on June 9, 2007 and is anticipated to conclude in January 2008. Northern Indiana is estimating that this resettlement will result in a $6 million reduction in purchased power expenses that will positively impact net revenues within the Statements of Consolidated Income. As of September 30, 2007, Northern Indiana has recorded a $3.5 million credit in purchased power costs and a $7.8 million regulatory asset related to this resettlement. In addition, Northern Indiana anticipates recording approximately $13 million in related charges on the balance sheet as a regulatory asset, in accordance with previous IURC orders allowing deferral of certain non-fuel MISO costs. On August 10, 2007, Northern Indiana, along with Ameren Corporation, filed a joint protest at FERC that includes disagreements with MISO's interpretation of the order regarding the financial allocation of revenue sufficiency guarantee payments.

On September 14, 2007, MISO filed a tariff with FERC outlining the development of an ASM. The ASM will allow participants to buy and sell operating reserves and regulation services that are essential to reliability. The pricing of these markets will be co-optimized with the current energy markets and MISO is targeting the start of the ASM for 2008. Northern Indiana is an active stakeholder in the process used in designing, testing and implementing the ASM and in developing the surrounding business practices. At this time, Northern Indiana is unable to determine what impact the ASM will have on its operations or cash flows.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana.

On October 16, 2007, Northern Indiana announced that an agreement was reached with the OUCC, LaPorte County and a group of Northern Indiana industrial customers to resolve questions relating to the costs paid by customers for power purchased by Northern Indiana versus the amount of these costs absorbed by Northern Indiana. This Settlement Agreement is subject to approval by the IURC. Northern Indiana has agreed to pay a one-time refund to customers of $33.5 million to resolve this question as it relates to power purchased from January 1, 2006 through September 30, 2007. A reserve for this amount was recorded in the third quarter of 2007. Effective October 1, 2007, Northern Indiana will implement a new "benchmarking standard" that will govern the allocation of costs for purchased power between customers and Northern Indiana. The benchmark defines the price below which customers will pay for power purchases and above which Northern Indiana must absorb a portion of the costs. The benchmark is based upon the costs of power generated by hypothetical natural gas fired CCGT's using gas purchased and delivered to Northern Indiana. This will most likely result in Northern Indiana absorbing some purchased power costs that will reduce net revenues during future periods. The agreement also contemplates Northern Indiana adding generating capacity to its existing portfolio. The benchmark will be adjusted as new capacity is added. However, the added generating capacity will substantially reduce the amount of purchased power and mitigate the impact of the adjusted benchmark. Further, the settling parties agreed to support Northern Indiana's deferral and future recovery of carrying costs and depreciation associated with the acquisition of new generating facilities.

On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed a need for adding approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana plans to file a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN will seek approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. The combined cost of these two facilities is estimated to exceed $500 million. Northern Indiana will request the IURC and the FERC to approve these purchases by the second quarter of 2008.

On November 26, 2002, Northern Indiana received approval from the IURC 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. In December 2006, the IURC approved Northern Indiana's emissions compliance plan at that time with an estimated cost of $312.8 million. Northern Indiana also filed a petition with the IURC in December 2006 for appropriate cost treatment and recovery of emission control construction needed to address the Phase I CAIR requirements of the Indiana Air Pollution Control Board's CAIR rules that became effective on February 25, 2007. On July 3, 2007, Northern Indiana received an IURC order issuing a certificate of public convenience and necessity for the CAIR and CAMR Phase I Compliance Plan Projects, estimated to cost approximately $23 million. Northern Indiana will include the CAIR and CAMR Phase I Compliance Plan costs to be recovered in the semi-annual and annual ECRM and EERM filing six months after construction costs begin. On October 10, 2007, Northern Indiana filed for approval a revised cost estimate to meet the NOx, SO2 and Mercury emissions environmental standards. Northern Indiana anticipates a total capital investment of approximately $33 million. On October 10, 2007, the IURC approved ECR-10 for capital expenditures (net of accumulated depreciation) of $237.4 million.

NISOURCE INC.
Electric Operations (continued)

Mitchell Station. 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. 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 including the potential increase in level of environmental controls required. Northern Indiana has received guidance from the IDEM that any reactivation of this facility would require a preconstruction New Source Review Standards permit. The detailed review of approaches to meeting customer's need for power in the future filed in the IRP did not recommend restarting the Mitchell Station.

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of September 30, 2007, 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 third quarter of 2007 were 5,129.8 gwh, an increase of 335.6 gwh compared to the 2006 period, due to increased usage partly due to weather as compared to the same period a year ago and increased wholesale activity.

Electric sales for the first nine months of 2007 was 13,780.0 gwh, an increase of 449.9 gwh compared to the 2006 period. This increase was a result of higher residential and commercial sales due in large part to warmer weather as compared to the same period a year ago, increased usage and customers, and increased wholesale activity, partially offset by decreased industrial sales due to lower usage.

Net Revenues
In the third quarter of 2007, electric net revenues of $217.8 million decreased by $17.4 million from the comparable 2006 period. This decrease was primarily a result of a $33.5 million settlement related to the cost of power purchased by Northern Indiana in 2006 and 2007, lower residential and industrial margins of $6.2 million and decreased environmental expense tracker revenues of $1.0 million, which are offset in operating expenses. This decrease in net revenues was partially offset by increased wholesale revenues amounting to $8 million, favorable weather of approximately $5 million, higher commercial margins of approximately $5 million and lower unrecoverable MISO costs of $3.9 million.

In the first nine months of 2007, electric net revenues were $620.9 million, an increase of $4.5 million from the comparable 2006 period. This increase in net revenues is primarily due to warmer weather improving net revenues by approximately $14 million, increased wholesale revenues amounting to $16.7 million, increased residential usage of $7.4 million, lower unrecoverable MISO costs of $5.6 million and customer growth amounting to $4.6 million. These increases in net revenues were partially offset by a $33.5 million settlement related to the cost of power purchased by Northern Indiana in 2006 and 2007, lower industrial usage and margin amounting to $12.4 million and the timing of revenue credits.

Operating Income
Operating income for the third quarter of 2007 was $85.4 million, a decrease of $22.9 million from the same period in 2006. The decrease in operating income was due to decreased net revenues described above and increased operating expenses of $5.5 million. Operation and maintenance expenses increased primarily due to higher employee and administrative expense of $6.5 million and higher storm damage restoration amounting to $3.8 million incurred in the quarter, partially offset by lower electric generation expense of $2.7 million, reduced environmental tracker operations cost of $1.5 million, which are offset in revenues, lower MISO administrative expenses of $0.4 million, and reduced legal and regulatory fees of $1.3 million. Depreciation expense also increased by $1.9 million and other taxes increased $1.8 million.

NISOURCE INC.
Electric Operations (continued)

Operating income for the first nine months of 2007 was $223.2 million, a decrease of $16.5 million from the same period in 2006. The decrease in operating income was due to increased operating expenses of $21.0 million, partially offset by increased net revenues described above. Operation and maintenance expense increased $14.8 million primarily due to higher employee and administrative expense of $14.8 million, higher storm damage restoration incurred in the year of $4.2 million and increased electric generation and maintenance expense of $2.7 million, partially offset by lower MISO administrative costs of $3.0 million and reduced legal and regulatory fees of $1.3 million. The employee and administrative costs include payroll, benefits and higher corporate services costs primarily related to NiSource's business services arrangement with IBM. Depreciation expense also increased by $3.5 million, while other taxes increased by $2.9 million.

NISOURCE INC.
Other Operations

(in millions)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Net Revenues				
Products and services revenue	**$ 195.8**	$ 176.2	**$ 747.5**	$ 694.0
Less: Cost of products purchased (excluding depreciation and amortization)	**175.7**	162.8	**701.2**	664.5
Net Revenues	**20.1**	13.4	**46.3**	29.5
Operating Expenses				
Operation and maintenance	**10.6**	12.4	**32.1**	34.3
Depreciation and amortization	**2.7**	1.8	**7.9**	7.4
Impairment and gain on sale of assets	**0.7**	0.1	**0.8**	(1.2)
Other taxes	**1.4**	(0.7)	**4.8**	2.8
Total Operating Expenses	**15.4**	13.6	**45.6**	43.3
Operating Income (Loss)	**$ 4.7**	$ (0.2)	**$ 0.7**	$ (13.8)

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.

PEI Holdings, Inc.

Whiting Clean Energy. On December 18, 2006, Whiting Clean Energy and BP executed an amendment which materially changed 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 December, 2006, for costs associated with contract termination terms under the agreement.

On July 27, 2007, Whiting Clean Energy submitted a proposal in response to the Northern Indiana-issued RFP "2008 Combined Cycle Request for Proposals." Whiting Clean Energy was notified during October 2007 that its proposal was selected by Northern Indiana. The pending sale of the Whiting Clean Energy facility to Northern Indiana would require Northern Indiana to assume commercial contracts of Whiting Clean Energy, including the agreement with BP. In addition, PEI would be required to redeem its long term debt and incur early redemption fees of approximately $31 million, based upon current interest rates and net of accrued interest and principal already payable. PEI's long-term debt outstanding as of September 30, 2007 was $293.8 million.

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. Two of these investments were disposed of during 2006 and one in 2007. Two other investments are expected to be sold or disposed of by the middle of 2008. NiSource has accounted for the investments to be sold as assets and liabilities of discontinued operations. 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.

Net Revenues
Net revenues of $20.1 million for the third quarter of 2007 increased by $6.7 million from the third quarter of 2006, as a result of higher revenues from the Whiting Clean Energy facility of $8.5 million, partially offset by decreased commercial and industrial gas marketing revenues of $1.3 million.

NISOURCE INC.
Other Operations (continued)

For the first nine months of 2007, net revenues were $46.3 million, a $16.8 million increase compared to the same period in 2006. This increase was due to higher revenues from the Whiting Clean Energy facility of $17.9 million.

Operating Income (Loss)
Other Operations reported an operating income of $4.7 million for the third quarter of 2007, versus an operating loss of $0.2 million for the comparable 2006 period. The increase in the operating income primarily resulted from increased net revenues described above, partially offset by a $2.1 million increase in other taxes and higher depreciation expense.

For the first nine months of 2007, operating income was $0.7 million compared to an operating loss of $13.8 million for the comparable 2006 period. The decrease in the operating loss primarily resulted from increased net revenues described above. Operating expenses increased by $2.3 million due an increase in uncollectible accounts of $3.5 million and increased other taxes of $2.0 million, partially offset by a decrease in outside service expenses of $2.0 million, lower employee and administrative expenses of $1.4 million and lower maintenance expenses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

On July 1, 2006, NiSource began a multi-year process of transforming its 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.

As a part of the transformation initiatives, many new information technology systems and process changes had an accelerated time-line for completion, which created the risk of operational delays, potential errors and control failures which could impact NiSource and its financial condition. In August 2006, further implementation of certain information technology systems was delayed due to difficulties encountered with the first wave of new system implementations. In the first quarter of 2007, NiSource decided to bring certain finance and accounting functions back within the company. These functions include general accounting, fixed assets, and budgeting. The transition back to NiSource of these functions commenced on June 1, 2007 and is expected to continue through the end of 2007. In early 2007, a high-level team of NiSource and IBM resources began an overall reassessment of the outsourcing initiative primarily to focus on operational and transformational improvements and remediation and develop an integrated plan that enables NiSource to achieve its business objectives going forward. In mid-October 2007, NiSource and IBM reached an agreement-in-principle on modifications to their long-term business services agreement. These modifications will put NiSource in a position to more effectively manage its employee and administrative expenses, while ensuring delivery of services needed to meet the company's needs. The delay in the transformation projects and proposed restructuring of the relationship will result in a reduction in the projected cost savings. The agreement-in-principle is not binding and is contingent on finalization of a definitive amendment to the agreement.

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

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. 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. On September 25, 2007, the Court issued an order which appears to also be its final, appealable judgment. The defendants can now perfect their appeal to the West Virginia Supreme Court of Appeals, which may or may not accept the appeal. NiSource has not established a reserve for the punitive damages portion of the verdict.

2. 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. Columbia has assumed the defense of Chesapeake in this matter pursuant to the provisions of the Stock Purchase Agreement dated July 3, 2003, among Columbia, NiSource, and Triana, Chesapeake's predecessor in interest. Plaintiffs filed an amended complaint on March 19, 2007, which, among other things, added NiSource and Columbia as defendants. All of the Defendants' Motions to Dismiss have been fully briefed and await a ruling by the court.

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

Plaintiffs filed a complaint in 2000 against CNR, a former subsidiary, Columbia Transmission, Columbia and CER. The complaint alleges that plaintiffs own an interest in oil and gas leases in New York and that the defendants have underpaid royalties on those leases by, among other things, failing to base royalties on the price at which natural gas is sold to the end-user and by improperly deducting post-production costs. Plaintiffs seek the alleged royalty underpayment and punitive damages. The complaint also seeks class action status on behalf of all royalty owners in oil and gas leases owned by the defendants. The parties filed a settlement agreement with the court which the court approved. The time for appeal expires on November 2, 2007.

ITEM 1A. RISK FACTORS

NISOURCE INC.

NiSource's business process outsourcing initiative with IBM will not achieve the level of savings that was originally anticipated. Additionally, many associated changes in systems and personnel have been made, increasing the potential for operational and control risk, which may have an impact on the business and its financial condition

NiSource's original expectation of the 10-year IBM Agreement was that it could deliver as much as $530 million in gross savings in operating and capital costs. As a part of the transformation initiatives, many new information technology systems and process changes had an accelerated time-line for completion. In August 2006, further implementation of certain technology systems was delayed due to difficulties encountered with the first wave of new system implementations. In the first quarter of 2007, NiSource decided to bring certain finance and accounting functions back within the company. These functions include general accounting, fixed assets, and budgeting. The transition back to NiSource of these functions commenced on June 1, 2007 and is expected to continue through the end of 2007. In early 2007, a high-level team of NiSource and IBM resources began an overall reassessment of the outsourcing initiative primarily to focus on operational and transformational improvements and remediation and develop an integrated plan that enables NiSource to achieve its business objectives going forward. In mid-October 2007, NiSource and IBM reached an agreement-in-principle on modifications to their long-term business services agreement. These modifications will put NiSource in a position to more effectively manage its employee and administrative expenses, while ensuring delivery of services needed to meet the company's needs. The delay in the transformation projects and proposed restructuring of the relationship will result in a reduction in the projected cost savings. The agreement-in-principle is not binding and is contingent on finalization of a definitive amendment to the agreement.

Other than the risk factor disclosed above, there were no other material changes from the risk factors disclosed in NiSource's 2006 Form 10-K filed on March 1, 2007.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

NISOURCE INC.

(10.1) Guaranty of NiSource Inc. in favor of JPMorgan Chase Bank, N.A., as administrative agen (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on August 30, 2007).

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

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

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

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

* Exhibit filed herewith.

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

SIGNATURE

NISOURCE INC.

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

NiSource Inc.
(Registrant)

Date: November 2, 2007

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

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, 2007

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: 274,161,140 shares outstanding at July 31, 2007.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED JUNE 30, 2007

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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 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"
BBA	British Banker Association
Bcf	Billion cubic feet
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DOT	United States Department of Transportation
Dth	dekatherms
ECRM	Environmental Cost Recovery Mechanism

DEFINED TERMS (continued)

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
ESA	Energy Sales Agreement
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
FIP	federal implementation plan
FTRs	Financial Transmission Rights
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services
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
MISO	Midwest Independent Transmission System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
ppm	parts per million
PPS	Price Protection Service
PUCO	Public Utilities Commission of Ohio
SEC	Securities and Exchange Commission
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"
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. 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"
SFAS No. 159	Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115"

DEFINED TERMS (continued)

SO_2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

(in millions, except per share amounts)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net Revenues				
Gas Distribution	$ **771.4**	$ 605.3	$ **2,670.7**	$ 2,603.5
Gas Transportation and Storage	**226.2**	220.5	**574.0**	541.1
Electric	**333.3**	301.9	**659.2**	607.6
Other	**246.2**	183.8	**566.9**	531.8
Gross Revenues	**1,577.1**	1,311.5	**4,470.8**	4,284.0
Cost of Sales (excluding depreciation and amortization)	**885.1**	670.4	**2,716.3**	2,662.1
Total Net Revenues	**692.0**	641.1	**1,754.5**	1,621.9
Operating Expenses				
Operation and maintenance	**342.9**	306.9	**728.8**	679.2
Depreciation and amortization	**138.2**	138.0	**277.2**	274.8
Impairment and gain on sale of assets	**6.3**	2.9	**9.2**	3.8
Other taxes	**65.0**	60.7	**166.6**	163.7
Total Operating Expenses	**552.4**	508.5	**1,181.8**	1,121.5
Equity Earnings (Loss) in Unconsolidated Affiliates	**3.7**	0.1	**5.2**	(0.1)
Operating Income	**143.3**	132.7	**577.9**	500.3
Other Income (Deductions)				
Interest expense, net	**(98.1)**	(93.4)	**(196.7)**	(188.7)
Dividend requirement on preferred stock of subsidiaries	**-**	-	**-**	(1.1)
Other, net	**(0.4)**	(2.7)	**(3.2)**	(6.1)
Loss on early redemption of preferred stock	**-**	(0.7)	**-**	(0.7)
Total Other Income (Deductions)	**(98.5)**	(96.8)	**(199.9)**	(196.6)
Income From Continuing Operations Before Income Taxes and Cumulative Effect of Change in Accounting Principle	**44.8**	35.9	**378.0**	303.7
Income Taxes	**16.6**	13.8	**140.7**	108.6
Income from Continuing Operations Before Cumulative Effect of Change in Accounting Principle	**28.2**	22.1	**237.3**	195.1
Income (Loss) from Discontinued Operations - net of taxes	**(0.7)**	(1.4)	**0.3**	(1.9)
Gain (Loss) on Disposition of Discontinued Operations - net of taxes	**(0.8)**	0.3	**5.8**	0.3
Income Before Change in Accounting Principle	**26.7**	21.0	**243.4**	193.5
Cumulative Effect of Change in Accounting Principle - net of taxes	**-**	-	**-**	0.4
Net Income	$ **26.7**	$ 21.0	$ **243.4**	$ 193.9
Basic Earnings Per Share ($)				
Continuing operations	$ **0.11**	$ 0.08	$ **0.87**	$ 0.71
Discontinued operations	**(0.01)**	-	**0.02**	-
Basic Earnings Per Share	$ **0.10**	$ 0.08	$ **0.89**	$ 0.71
Diluted Earnings Per Share ($)				
Continuing operations	$ **0.11**	$ 0.08	$ **0.87**	$ 0.71
Discontinued operations	**(0.01)**	-	**0.02**	-
Diluted Earnings Per Share	$ **0.10**	$ 0.08	$ **0.89**	$ 0.71
Dividends Declared Per Common Share	$ **0.23**	$ 0.23	$ **0.69**	$ 0.69
Basic Average Common Shares Outstanding (millions)	**273.8**	272.4	**273.7**	272.4
Diluted Average Common Shares (millions)	**274.9**	273.2	**274.8**	273.1

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

NISOURCE INC.
Condensed Consolidated Balance Sheets (unaudited)

(in millions)		**June 30, 2007**		December 31, 2006
ASSETS				
Property, Plant and Equipment				
Utility Plant	$	**17,462.9**	$	17,194.9
Accumulated depreciation and amortization		**(8,000.0)**		(7,850.0)
Net utility plant		**9,462.9**		9,344.9
Other property, at cost, less accumulated depreciation		**342.0**		349.6
Net Property, Plant and Equipment		**9,804.9**		9,694.5
Investments and Other Assets				
Assets of discontinued operations and assets held for sale		**45.2**		43.0
Unconsolidated affiliates		**94.5**		59.6
Other investments		**106.7**		116.1
Total Investments and Other Assets		**246.4**		218.7
Current Assets				
Cash and cash equivalents		**23.0**		33.1
Restricted cash		**66.9**		142.5
Accounts receivable (less reserve of $58.6 and $42.1, respectively)		**681.9**		866.3
Gas inventory		**283.8**		550.5
Underrecovered gas and fuel costs		**134.1**		163.2
Materials and supplies, at average cost		**87.6**		89.0
Electric production fuel, at average cost		**57.3**		63.9
Price risk management assets		**136.1**		237.7
Exchange gas receivable		**385.2**		252.3
Regulatory assets		**232.0**		272.7
Prepayments and other		**61.7**		111.7
Total Current Assets		**2,149.6**		2,782.9
Other Assets				
Price risk management assets		**21.5**		49.9
Regulatory assets		**1,012.4**		1,127.3
Goodwill		**3,677.3**		3,677.3
Intangible assets		**428.9**		435.7
Deferred charges and other		**163.6**		170.2
Total Other Assets		**5,303.7**		5,460.4
Total Assets	$	**17,504.6**	$	18,156.5

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

ITEM 1. FINANCIAL STATEMENTS (continued)

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

(in millions, except share amounts)	**June 30, 2007**	December 31, 2006
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders' Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 274,149,933 and 273,654,180 shares issued and outstanding, respectively	**$ 2.7**	$ 2.7
Additional paid-in capital	**4,007.6**	3,998.3
Retained earnings	**1,059.6**	1,012.9
Accumulated other comprehensive income	**27.9**	20.9
Treasury stock	**(23.3)**	(21.2)
Total Common Stockholders' Equity	**5,074.5**	5,013.6
Long-term debt, excluding amounts due within one year	**5,124.3**	5,146.2
Total Capitalization	**10,198.8**	10,159.8
Current Liabilities		
Current portion of long-term debt	**56.7**	93.3
Short-term borrowings	**1,021.5**	1,193.0
Accounts payable	**546.3**	713.1
Dividends declared	**63.1**	-
Customer deposits	**108.4**	108.4
Taxes accrued	**241.3**	196.0
Interest accrued	**84.5**	107.1
Overrecovered gas and fuel costs	**48.1**	126.7
Price risk management liabilities	**75.3**	259.4
Exchange gas payable	**500.5**	396.6
Deferred revenue	**48.7**	55.9
Regulatory liabilities	**41.5**	40.7
Accrued liability for postretirement and postemployment benefits	**4.7**	4.7
Other accruals	**405.9**	526.3
Total Current Liabilities	**3,246.5**	3,821.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**45.0**	38.2
Deferred income taxes	**1,537.6**	1,553.7
Deferred investment tax credits	**57.5**	61.5
Deferred credits	**117.8**	119.3
Deferred revenue	**6.6**	21.9
Accrued liability for postretirement and postemployment benefits	**649.6**	799.5
Liabilities of discontinued operations and liabilities held for sale	**9.9**	11.9
Regulatory liabilities and other removal costs	**1,313.5**	1,253.8
Asset retirement obligations	**135.1**	131.6
Other noncurrent liabilities	**186.7**	184.1
Total Other Liabilities and Deferred Credits	**4,059.3**	4,175.5
Commitments and Contingencies	**-**	-
Total Capitalization and Liabilities	**$ 17,504.6**	$ 18,156.5

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Six Months Ended June 30, *(in millions)*	2007	2006
Operating Activities		
Net income	$ 243.4	$ 193.9
Adjustments to reconcile net income to net cash from continuing operations:		
Loss on early redemption of preferred stock	-	0.7
Depreciation and amortization	277.2	274.8
Net changes in price risk management assets and liabilities	(1.5)	16.7
Deferred income taxes and investment tax credits	(14.1)	(108.3)
Deferred revenue	(22.4)	(32.5)
Stock compensation expense	1.3	3.1
Gain on sale of assets	(0.5)	(0.9)
Loss on impairment of assets	9.7	4.7
Cumulative effect of change in accounting principle, net of taxes	-	(0.4)
Income from unconsolidated affiliates	(7.7)	(2.3)
Gain on disposition of discontinued operations - net of taxes	(5.8)	(0.3)
Loss (Income) from discontinued operations - net of taxes	(0.3)	1.9
Amortization of discount/premium on debt	3.6	3.9
AFUDC Equity	(1.9)	-
Changes in assets and liabilities:		
Accounts receivable	168.2	793.8
Inventories	286.4	259.6
Accounts payable	(146.1)	(547.2)
Customer deposits	-	2.5
Taxes accrued	34.2	13.4
Interest accrued	(17.4)	3.9
(Under) Overrecovered gas and fuel costs	(49.5)	458.1
Exchange gas receivable/payable	(43.5)	(172.8)
Other accruals	(141.2)	(155.5)
Prepayments and other current assets	50.0	37.5
Regulatory assets/liabilities	16.6	(25.5)
Postretirement and postemployment benefits	(51.7)	1.1
Deferred credits	(3.6)	(7.7)
Deferred charges and other noncurrent assets	5.1	(8.4)
Other noncurrent liabilities	(1.1)	16.5
Net Operating Activities from Continuing Operations	587.4	1,024.3
Net Operating Activities from Discontinued Operations	0.5	0.7
Net Cash Flows from Operating Activities	587.9	1,025.0
Investing Activities		
Capital expenditures	(331.7)	(271.8)
Proceeds from disposition of assets	2.3	7.6
Restricted cash	75.6	(43.5)
Other investing activities	(9.0)	3.0
Net Cash Flows used for Investing Activities	(262.8)	(304.7)
Financing Activities		
Issuance of long-term debt	2.3	-
Retirement of long-term debt	(45.6)	(42.5)
Change in short-term debt	(171.5)	(478.0)
Retirement of preferred stock	-	(81.1)
Issuance of common stock	7.7	2.1
Acquisition of treasury stock	(2.1)	(5.9)
Dividends paid - common stock	(126.0)	(126.4)
Net Cash Flows used for Financing Activities	(335.2)	(731.8)
Decrease in cash and cash equivalents	(10.1)	(11.5)
Cash and cash equivalents at beginning of year	33.1	69.4
Cash and cash equivalents at end of period	$ 23.0	$ 57.9
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 218.3	$ 185.1
Interest capitalized	7.8	4.2
Cash paid for income taxes	86.8	166.0

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

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

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

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. 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

Recently Adopted 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, among other changes. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 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. On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations.

With the adoption of SFAS No. 158 NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. These rate-regulated subsidiaries recorded regulatory assets and liabilities that would otherwise have been recorded to accumulated other comprehensive income.

Refer to Note 11, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for additional information.

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 greater than 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets the more-likely-than-not recognition 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. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 10, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

ITEM 1. FINANCIAL STATEMENTS (continued)

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

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.

When it adopted 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 income taxes, which reflected the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. Other than the requirement for expensing stock options, outstanding share-based awards will continue to be accounted for substantially as they are currently. Refer to Note 13, "Share-Based Compensation," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

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.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits entit[illegible] to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment will be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. NiSource is currently reviewing the provisions of SFAS No. 159 to determine whether to elect fair value measurement for any of its financial assets or liabilities when it adopts this standard in 2008.

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. 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)	**2007**	2006	**2007**	2006
Denominator				
Basic average common shares outstanding	**273,817**	272,399	**273,706**	272,371
Dilutive potential common shares				
Nonqualified stock options	**301**	81	**337**	63
Shares contingently issuable under employee stock plans	**626**	560	**626**	5[illegible]
Shares restricted under employee stock plans	**174**	126	**168**	1[illegible]
Diluted Average Common Shares	**274,918**	273,166	**274,837**	273,108

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

4. 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 IBM Agreement is for ten years with a transition period that ended on December 31, 2006. As of June 30, 2007, 873 employees were terminated as a result of the IBM Agreement, of which 1 employee was terminated during the quarter and six months ended June 30, 2007.

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, 2007, 13 employees were terminated as a result of the executive initiative, of which 1 employee was terminated during the six months ended June 30, 2007. 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. As of June 30, 2007, 1,566 employees were terminated, of which no employees were terminated during the quarter and six months ended June 30, 2007. Of the $3.0 million remaining restructuring liability from the Columbia merger and related initiatives, $2.7 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2006	Benefits Paid	Adjustments	Balance at June 30, 2007
Outsourcing initiative	$ 2.1	$ (0.1)	$ -	$ 2.0
Executive initiative	1.2	(0.4)	-	0.8
Columbia merger and related initiatives	3.8	(1.2)	0.4	3.0
Total	$ 7.1	$ (1.7)	$ 0.4	$ 5.8

5. Discontinued Operations and Assets Held for Sale

The assets and liabilities of discontinued operations and held for sale on the Condensed Consolidated Balance Sheet at June 30, 2007 were:

(in millions)	NDC Douglas Properties	NiSource Corporate Services	NiSource Development Company	Lake Erie Land	Columbia Transmission	Total
Assets of discontinued operations and held for sale						
Property, plant and equipment, net	$ 8.5	$ 9.5	$ 1.8	$ 15.3	$ 9.0	$ 44.1
Other assets	1.1	-	-	-	-	1.1
Assets of discontinued operations and held for sale	$ 9.6	$ 9.5	$ 1.8	$ 15.3	$ 9.0	$ 45.2
Liabilities of discontinued operations and held for sale						
Debt	$ (8.4)	$ -	$ -	$ -	$ -	$ (8.4)
Other liabilities	(1.5)	-	-	-	-	(1.5)
Liabilities of discontinued operations and held for sale	$ (9.9)	$ -	$ -	$ -	$ -	$ (9.9)

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

The assets and liabilities of discontinued operations and held for sale on the Condensed Consolidated Balance Sheet at December 31, 2006 were:

(in millions)	NDC Douglas Properties	NiSource Corporate Services	NiSource Development Company	Lake Erie Land	Columbia Transmission	Total
Assets of discontinued operations and held for sale						
Property, plant and equipment, net	$ 10.4	$ 12.7	$ 1.8	$ 4.3	$ 12.4	$ 41.6
Other assets	1.2	-	-	0.2	-	1.4
Assets of discontinued operations and held for sale	$ 11.6	$ 12.7	$ 1.8	$ 4.5	$ 12.4	$ 43.0
Liabilities of discontinued operations and held for sale						
Accounts payable	$ (0.4)	$ -	$ -	$ -	$ -	$ (0.4)
Debt	(10.0)	-	-	-	-	(10.0)
Other liabilities	(1.5)	-	-	-	-	(1.5)
Liabilities of discontinued operations and held for sale	$ (11.9)	$ -	$ -	$ -	$ -	$ (11.9)

Assets classified as discontinued operations or 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. Two of these investments were disposed of during 2006 and three of investments are expected to be sold or disposed of during 2007 and mid 2008. NiSource has accounted for the investments to be sold as assets and liabilities of discontinued operations. 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 Corporate Services is in the process of selling its Marble Cliff facility. Impairment losses of $3.2 million and $2.5 million were recognized in the first quarters of 2007 and 2006, respectively, due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility as assets held for sale.

NiSource Development Company is in the process of selling the former headquarters of Northern Indiana. NiSource has accounted for this facility as assets held for sale.

In March 2005, Lake Erie Land, which is wholly owned by NiSource began accounting for the operations of the Sand Creek Golf Club as discontinued operations. 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 2006 transaction, property estimated to be sold to the private developer during the next twelve months has been recorded 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 as assets held for sale.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006
Revenues from Discontinued Operations	**$ 0.5**	$ 1.9	**$ 1.1**	$ 3.3
Income (Loss) from discontinued operations	**(0.3)**	(2.3)	**1.1**	(3.1)
Income tax expense (benefit)	**0.4**	(0.9)	**0.8**	(1.2)
Income (Loss) from Discontinued Operations - net of taxes	**$ (0.7)**	$ (1.4)	**$ 0.3**	$ (1.9)
Gain (Loss) on Disposition of Discontinued Operations - net of taxes	**$ (0.8)**	$ 0.3	**$ 5.8**	$ 0.3

Results from Discontinued Operations for the first six months of 2007 includes a $7.5 million reduction, net of taxes, in the liability for unrecognized tax benefits and $0.9 million in related interest, net of taxes, associated with the issuance of additional tax guidance in the first quarter of 2007.

6. Asset Retirement Obligations

NiSource accounts for its asset retirement obligations in accordance with SFAS No. 143 and FIN 47. Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries are classified as regulatory liabilities and other removal costs on the Condensed Consolidated Balance Sheets.

NiSource activity for asset retirement obligations:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006
Accretion expense	**$ 0.2**	$ 0.2	**$ 0.4**	$ 0.5
Accretion recorded as a regulatory asset	**1.6**	1.7	**3.1**	3.2
Increase in Asset Retirement Obligation Liability	**$ 1.8**	$ 1.9	**$ 3.5**	$ 3.7

7. Regulatory Matters

Gas Distribution Operations Regulatory Matters

Significant Rate Developments. 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 third quarter of 2007, with new rates expected to be in effect by the fourth quarter.

On May 9, 2007, the IURC approved Northern Indiana's petition to simplify rates, stabilize revenues and provide for energy efficiency funding. The Order adopts a new rate structure that enhances Northern Indiana's ability to increase revenues and provides incremental funding for an energy efficiency program.

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

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

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

Certain types of natural gas risers, which are owned by customers, on Columbia of Ohio's distribution system have been evaluated under a study required by the PUCO, and have been found to be prone to leak natural gas under certain conditions. On February 1, 2007, Columbia of Ohio announced plans to identify and replace these certain types of risers on its distribution system. Columbia of Ohio estimates that the cost to identify and replace the risers will approximate $200 million. On March 2, 2007, Columbia of Ohio filed a request with the PUCO seeking authority to defer the expenses from its investigation of risers on its system. On April 25, 2007, Columbia of Oh filed an application with the PUCO seeking authority to recover the expenses for which it is seeking defer authorization, and all other riser replacement-related costs, through an automatic adjustment mechanism for the infrastructure replacement program. On July 11, 2007, the PUCO issued an Order in this matter, directing Columbia of Ohio to assume responsibility for future repair and replacement of certain service lines and risers, and the removal and replacement of all risers prone to failure. The PUCO also granted Columbia of Ohio authority for the deferral of certain costs related to the implementation of the PUCO's Order. Subsequent proceedings will determine the appropriateness of and, methodology for, recovery of deferred costs from customers.

Customer Usage. The NiSource distribution companies have experienced declining usage by customers, due in large part to the sensitivity of sales to volatile commodity prices. A significant portion of the LDC's operating costs are fixed in nature. Historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge. Many of NiSource's LDCs are evaluating mechanisms that would "de-couple" the recovery of fixed costs from throughput, and implement recovery mechanisms that more closely link the recovery of fixed costs with fixed charges. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing such changes.

Gas Transmission and Storage Operations Regulatory Matters

Significant FERC Developments. 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 was January 1, 2006 after which all assessment costs have been recorded as operating expenses. The rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. In November, 2005, the INGAA sought review of the matter before the U. S. Court of Appeals for the D.C. Circuit (INGAA V. FERC, No. 05-1426). On July 24, 2007, the Court denied the INGAA's petition for review, effectively affirming the FERC's Order.

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. The interconnection was placed in service on October 1, 2006.

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

On December 29, 2006, Columbia Gulf filed in the D.C. Circuit Court of Appeals a Petition for Review of the FERC's July 20, 2006 order and a subsequent order denying Columbia Gulf's Request for Rehearing. In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if any action should be taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. To resolve this matter, Columbia Gulf entered into a Stipulation and Consent Agreement dated May 21, 2007 as a voluntary agreement between Columbia Gulf and the Office of Enforcement of the FERC. Under the terms of the agreement, Columbia Gulf agreed to pay a penalty of $2 million to the United States Treasury. Columbia Gulf's acceptance of the terms of the Stipulation and Consent Agreement is not an acknowledgement that any of its actions related to this dispute constitute a violation of law or of the FERC's statutes, regulations, orders or policies. Columbia Gulf has asserted, and continues to believe, that it did not deliberately violate any FERC order. The December 29, 2006 D.C. Circuit Court of Appeals Petition for Review was withdrawn pursuant to the terms of the agreement with the FERC.

Columbia Gulf and Columbia Transmission are also cooperating with the FERC on an informal non-public investigation of certain operating practices regarding tariff services offered by those companies. At this time, the companies cannot predict what the result of that investigation will be, but the FERC has indicated that it may seek to impose fines and possibly seek other remedies as well.

Millennium Pipeline Project. Millennium received FERC approval for a pipeline project, in which Columbia Transmission is participating, which will provide access to a number of supply and 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. The Millennium partnership is 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.

The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, and Iroquois collectively referred to as the "Companion Pipelines." The December 21, 2006 certificate order also granted the necessary project approvals to the Companion Pipelines. Construction began on June 22, 2007 with a projected in-service date of November 1, 2008.

Hardy Storage Project. Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received favorable orders 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. The certificate amendment was approved by FERC on March 15, 2007. Hardy Storage began injecting gas into storage on April 1, 2007.

Eastern Market Expansion Project. On May 3, 2007, Columbia Transmission filed a certificate application before the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. The expansion will add 97,000 Dth per day of storage and transportation capacity and is fully contracted on a long-term, firm basis. Columbia Transmission requested FERC approval by December 2007 and proposed to place the Eastern Market Expansion in service by spring 2009.

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

Electric Operations Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

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. The credits will continue 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. 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 $27.7 million and $22.9 million were recognized for electric customers for the first half of 2007 and 2006, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding the administrative fees and certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first half of 2007 non-fuel costs were $3.1 million. Of that amount, $3.0 million was deferred and $0.1 million was expensed. In addition, administrative fees of $2.8 million were deferred. Total MISO costs deferred were $10.3 million as of June 30, 2007 and $ 4.0 million as of December 31, 2006.

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 on several issues including not assessing revenue sufficiency guarantee charges virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. This resettlement began on June 9, 2007. Northern Indiana is currently evaluating the impact of the resettlement.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana. Northern Indiana has historically been found prudent in the procurement of fuel and purchased power.

On November 30, 2006, Northern Indiana, Indianapolis Power & Light, Vectren Energy and the OUCC filed a petition with the IURC requesting continuation of a benchmark mechanism for determining recovery of purchase power costs through the FAC. Vectren Energy and Indianapolis Power & Light requests were approved March 22, 2007. Northern Indiana's request is still pending.

In July 2006, the IURC issued an order creating a sub-docket in FAC 71 based upon a motion by interveners, the Industrial Group and LaPorte County. The motion requested an investigation into Northern Indiana's generation and purchases practices that could not be fully considered in a summary proceeding. The sub-docket will also address concerns raised by the OUCC related to the reasonableness of recovering financial hedging transactions within the FAC. Subsequently, the IURC has approved FAC 72, 73, 74 and 75 subject to the sub-docket in FAC 71. Amounts collected pursuant to FAC 71, 72, 73, 74 and 75 are subject to refund based upon the final order in the sub-docket. A hearing in the FAC 71 sub-docket is scheduled for the fourth quarter of 2007 and an order anticipated before the end of 2007. Northern Indiana and the interveners are in settlement discussions covering these issues and the related case establishing a benchmark mechanism for the recovery of purchased power costs. The resolution of these issues could involve a refund obligation as well as ongoing costs.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implem. 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

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on an annual basis for the EERM. On December 13, 2006, the IURC approved Northern Indiana's latest compliance plan with the estimate of $312.8 million. On April 11, 2007, the IURC approved ECR-9 and EER-4 for capital expenditures (net of accumulated depreciation) and operating expenses of $222.2 million and $14.1 million, through December 31, 2006, respectively. ECR-10 is scheduled to be filed in the third quarter of 2007.

On July 3, 2007, Northern Indiana received an IURC order issuing a certificate of public convenience and necessity for the CAIR and CAMR Phase I Compliance Plan Projects. The order approved $23 million of cost estimates for the projects and the proposed accounting, rate-making treatment and cost recovery relief relating to the Phase I Compliance Plan Projects. Northern Indiana will include costs to be recovered in the semi annual and annual ECRM and EERM filing six months after construction costs begin.

Mitchell Station. 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. 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 including the potential increase in level of environmental controls required. Northern Indiana has received guidance from the IDEM that any reactivation of this facility would require a preconstruction New Source Review Standards permit. Northern Indiana is reviewing the guidance and considering the next steps for generation options.

8. 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. NiSource is not involved in speculative energy trading activity. 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.

NiSource's derivatives on the Condensed Consolidated Balance Sheets at June 30, 2007 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 118.9	$ 17.2	$ 136.1
Other assets	19.3	2.2	21.5
Total price risk management assets	$ 138.2	$ 19.4	$ 157.6
Price risk management liabilities			
Current liabilities	$ (53.7)	$ (21.6)	$ (75.3)
Other liabilities	(45.0)	-	(45.0)
Total price risk management liabilities	$ (98.7)	$ (21.6)	$ (120.3)

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Notes to Consolidated Financial Statements (unaudited) (continued)

NiSource's derivatives on the Condensed Consolidated Balance Sheets at December 31, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 236.6	$ 1.1	$ 237.7
Other assets	49.8	0.1	49.9
Total price risk management assets	$ 286.4	$ 1.2	$ 287.6
Price risk management liabilities			
Current liabilities	$ (202.8)	$ (56.6)	$ (259.4)
Other liabilities	(32.5)	(5.7)	(38.2)
Total price risk management liabilities	$ (235.3)	$ (62.3)	$ (297.6)

The hedging activity for the second quarter and six months ended June 30, 2007 and 2006 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, net of taxes)	**2007**	2006	**2007**	2006
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 59.6**	$ 99.7	**$ 31.4**	$ 150.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(12.6)**	(13.1)	**15.8**	(6[illegible]
Reclassification adjustment for net gain included in net income	**(12.4)**	(1.4)	**(12.6)**	(0.7)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 34.6**	$ 85.2	**$ 34.6**	$ 85.2

During the second quarter of 2007 and 2006, no amounts 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 second quarter of 2007 and 2006, NiSource reclassified no amounts related to its cash flow hedges from accumulated 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 accumulated other comprehensive income of approximately $43.1 million of income, 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 purch[illegible] associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts [illegible] 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

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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 MISO Day 2 initiative, Northern Indiana was allocated and has purchased FTRs. These rights help Northern Indiana offset congestion costs due to the 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 these derivatives.

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

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These 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 based on the regulatory customer sharing mechanisms in place, with the remaining changes in fair value 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.

NiSource Inc.
Notes to Consolidated Financial Statements (unaudited) (continued)

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

	June 30, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 2.2	$ (16.7)	$ -	$ (58.9)
PPS program derivatives	-	(0.7)	0.7	(7.3)
DependaBill program derivatives	-	(0.7)	0.3	(2.4)
Electric energy program derivatives	17.2	(3.6)	0.7	(1.6)
Regulatory incentive program derivatives	-	(1.3)	0.5	(1.8)
Forward purchase agreements derivatives	82.8	-	110.0	-
Total commodity price risk programs included	$ 102.2	$ (23.0)	$ 112.2	$ (72.0)

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 ter NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amo 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 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, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$ -	$ (43.7)	$ -	$ (27.3)

Marketing, Trading and Other Activities. The operations of TPC primarily involve commercial and industrial gas sales, whereby TPC utilizes gas derivatives to hedge its expected future gas purchases. TPC, on behalf of Whiting Clean Energy, has also entered into power and gas derivative contracts to manage commodity price risk associated with operating Whiting Clean Energy.

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

Marketing and power programs included in price risk management assets and liabilities:

	June 30, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing derivatives	$ 54.0	$ (53.6)	$ 174.3	$ (198.3)
Power forward derivatives	1.4	-	1.1	-
Total marketing and power programs	$ 55.4	$ (53.6)	$ 175.4	$ (198.3)

9. Goodwill Assets

NiSource's goodwill assets at June 30, 2007 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at June 30, 2007 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

In the quarters ended June 30, 2007 and 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, 2007 and June 30, 2006 impairment tests 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.

10. Income Taxes

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.9 million to the opening balance of retained earnings, which includes the adjustment to the liability for unrecognized tax benefits shown below. The total amount of the liability for unrecognized tax benefits as of the date of adoption was $16.0 million, which was included in "Other noncurrent liabilities," on the Condensed Consolidated Balance Sheets. As a result of the implementation of FIN 48, NiSource recognized the following changes in the liability for unrecognized tax benefits:

(in millions)	Total
Reduction in Retained Earnings (cumulative effect)	$ 0.9
Additional Deferred Tax Liabilities	(0.9)
Net increase in liability for unrecognized tax benefits	$ -

Included in the balance of unrecognized tax benefits at January 1, 2007, are $2.9 million of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at January 1, 2007, are $7.5 million of tax benefits that, if recognized, would result in an increase to Gain on Disposition of Discontinued Operations and $5.6 million of tax benefits that, if recognized, would result in adjustments to deferred taxes.

Effective January 1, 2007, NiSource recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. In prior years, NiSource recognized such accrued interest in interest expense and penalties in other expenses. During the years ended December 31, 2006, and December 31, 2005, NiSource recognized approximately $1.3 million and $0.8 million, respectively, of interest in the Statements of Consolidated Income. NiSource also had $3.5 million and $2.2 million accrued on the Condensed Consolidated Balance Sheets for the payment of interest at December 31, 2006, and December 31, 2005. No amounts have been estimated or accrued for penalties. Upon adoption of FIN 48 on January 1, 2007, NiSource decreased its accrual for interest on unrecognized tax benefits to $3.3 million, resulting in a $0.1 million increase (net of tax) to the opening balance of retained earnings.

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

Because NiSource is part of the IRS's Large and Mid-Size Business program, each year's federal income tax return is typically audited by the IRS. Tax years through 1998 have been audited and are settled and closed to further assessment. Years 1999 through 2002 have been audited and all issues have been settled with the IRS. Two issues that had been petitioned to the Tax Court and subsequently settled require Tax Court approval, which is expected shortly. The audit of tax years 2003 and 2004 was concluded in the second quarter of 2007 with all issues being agreed to between the IRS and NiSource. The audit of tax years 2005 and 2006 is expected to commence in the fourth quarter of 2007.

The statute of limitations in each of the state jurisdictions in which NiSource operates remain open until the years are settled for federal income tax purposes, at which time amended state income tax returns reflecting all federal income tax adjustments are filed. There are no state income tax audits currently in progress.

NiSource's interim effective tax rates reflect the estimated annual effective tax rate for 2007 and 2006, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter ended June 30, 2007 and June 30, 2006 were 37.1% and 38.4%, 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-to-tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

The six months ended June 30, 2007 Condensed Consolidated Balance Sheet reflects a reduction of $12.1 million in the liability for unrecognized tax benefits from the January 1, 2007 amount. In the first quarter of 2007, the liability was reduced by $1.5 million to reflect negotiations associated with the 1999-2002 Tax Court petition and by $7.5 million as discussed in Note 5, "Discontinued Operations and Assets Held for Sale." In the second quarter of 20 NiSource reclassified $3.5 million of its liability for unrecognized tax benefits to Taxes Accrued to reflect the pending settlement of the Tax Court petition and the completion of the 2003-2004 IRS audit. With additional accrued liability of $0.4 million in the second quarter of 2007, NiSource's ending liability for unrecognized tax benefits as of June 30, 2007 was $3.9 million. These reductions did not materially impact the effective tax rate. NiSource does not anticipate any significant changes to its liability for unrecognized tax benefits over the next twelve months.

11. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover its employees. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource.

As of December 31, 2006, NiSource used September 30 as its measurement date for its pension and postretirement benefit plans. On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 requiring employers to recognize in the statement of financial position the overfunded or underfunded status of defined benefit postretirement plan, measured as the difference between the fair value of the plan assets and the benefit obligation.

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The following table provides NiSource's various postretirement benefit plans' funded status at January 1, 2007, based on a December 31, 2006 measurement date compared to the funded status of NiSource's various postretirement benefit plans at December 31, 2006 based on a September 30, 2006 measurement date:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**Jan. 1, 2007**	Dec. 31, 2006	**Jan. 1, 2007**	Dec. 31, 2006
Benefit obligation	$ **2,278.6**	$ 2,285.7	$ **774.1**	$ 770.4
Fair value of plan assets	$ **2,129.7**	$ 2,052.3	$ **257.3**	$ 255.2
Funded Status	$ **(148.9)**	$ (233.4)	$ **(516.8)**	$ (515.2)

The key assumptions used to measure NiSource's various postretirement benefits plans' funded status at January 1, 2007 were the same as those used for the previous September 30, 2006, measurement date.

NiSource expects to make contributions of $50.4 million to its pension plans and $52.3 million to its other postretirement benefit plans during 2007. Through June 30, 2007, NiSource has contributed $48.0 million to its pension plans and $21.9 million to its other postretirement benefit plans.

The following tables provide the components of the plans' net periodic benefits cost for the second quarter and six months ended June 30, 2007 and 2006:

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended June 30, *(in millions)*	**2007**	2006	**2007**	2006
Components of Net Periodic Benefit Cost				
Service cost	$ **10.3**	$ 10.6	$ **2.5**	$ 2.4
Interest cost	**31.9**	31.3	**10.9**	10.1
Expected return on assets	**(46.7)**	(43.9)	**(5.3)**	(4.6)
Amortization of transitional obligation	**-**	-	**2.0**	2.0
Amortization of prior service cost	**1.4**	1.5	**0.1**	0.1
Recognized actuarial loss	**2.0**	4.6	**1.5**	1.5
Total Net Periodic Benefits Cost	$ **(1.1)**	$ 4.1	$ **11.7**	$ 11.5

	Pension Benefits		Other Postretirement Benefits	
Six Months Ended June 30, *(in millions)*	**2007**	2006	**2007**	2006
Components of Net Periodic Benefit Cost				
Service cost	$ **20.6**	$ 21.3	$ **4.9**	$ 4.7
Interest cost	**63.8**	62.5	**21.8**	20.2
Expected return on assets	**(93.4)**	(87.8)	**(10.5)**	(9.2)
Amortization of transitional obligation	**-**	-	**4.0**	4.0
Amortization of prior service cost	**2.8**	3.0	**0.2**	0.2
Recognized actuarial loss	**4.0**	9.2	**3.0**	3.1
Total Net Periodic Benefits Cost	$ **(2.2)**	$ 8.2	$ **23.4**	$ 23.0

12. 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.

13. Share-Based Compensation

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. At June 30, 2007, there were approximately 26.7 million shares reserved for future awards under the amended and restated 1994 Plan.

NiSource recognized stock-based employee compensation expense of $1.3 million and $3.1 million during the first six months of 2007 and 2006, respectively, as well as related tax benefits of $0.5 million and $1.2 million, respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of June 30, 2007, the total remaining unrecognized compensation cost related to non-vested awards amounted to $9.9 million, which will be amortized over the weighted-average remaining requisite service period of 2.4 years.

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. There were 10,000 restricted shares outstanding at June 30, 2007, 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. The total shareholder return measures established were not met; therefore these grants do not have an accelerated vesting period. At June 30, 2007, NiSource had 571,625 awards outstanding which contained the time-accelerated provisions.

As of June 30, 2007, approximately 7.7 million options were outstanding and exercisable with a weighted average option price of $22.65.

The Amended and Restated Non-employee Director Stock Incentive Plan provides for awards of restricted stock, stock options and restricted stock units, which vest in 20% increments per year, with full vesting after five years. As of June 30, 2007, 89,860 restricted shares and 128,761 restricted stock units had been issued under the Plan.

During 2006, NiSource did not provide incumbent executives additional grants of options, restricted or contingent shares. No options or restricted shares were granted to employees during the six months ended June 30, 2007.

In March 2007, 320,330 contingent shares were granted. The grant date fair-value of the awards was $7.5 million, based on the market price of NiSource's common stock at the date of grant, which will be expensed net of forfeitures over the vesting period of approximately 3 years. The shares are subject to both performance and service conditions. The performance conditions are based on achievement of a non-GAAP financial measure (net operating earnings) that NiSource defines as income from continuing operations adjusted for certain items. If the performance conditions are not met, the grants will be cancelled and the shares will be forfeited. Subsequent to meeting the performance conditions, an additional two year service period will then be required before the shares vest on December 31, 2009. If after completing the performance conditions but prior to completing the service conditions the employee terminates employment (1) due to retirement, having attained age 55 and completed ten years of service, or (2) due to death or disability, the employment conditions will lapse with respect to a pro rata portion of the contingent shares on the date of termination. Termination due to any other reason will result in all contingent shares awarded being forfeited effective the employee's date of termination. Employees will be entitled to receive dividends upon vesting. During the quarter and six months ended June 30, 2007, $0.6 million and $0.9 million of compensation expense, net of forfeitures, was recorded to Operation and Maintenance Expense on the Consolidated Income Statement related to this contingent stock grant.

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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, 2007 and the years in which they expire were:

(in millions)	Total	2007	2008	2009	2010	2011	After
Guarantees of subsidiaries debt	$ 4,684.8	$ 1.7	$ 8.6	$ 464.0	$ 1,004.3	$ 280.2	$ 2,926.0
Guarantees supporting commodity transactions of subsidiaries	611.2	308.8	269.4	31.8	-	-	1.2
Lines of credit	1,021.5	1,021.5	-	-	-	-	-
Letters of credit	74.0	16.6	52.1	-	-	4.3	1.0
Other guarantees	300.6	73.1	8.5	3.2	38.3	-	177.5
Total commercial commitments	$ 6,692.1	$ 1,421.7	$ 338.6	$ 499.0	$ 1,042.6	$ 284.5	$ 3,105.7

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $4.7 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource's Condensed Consolidated Balance Sheet as of June 30, 2007. The subsidiaries are required to comply with certain financial covenants under the debt instruments 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 $611.2 million of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate commitment level to $1.5 billion and extending the termination date by one year to July 2011. At June 30, 2007, NiSource had $1,021.5 million in short-term borrowings outstanding under its credit facility. Through the revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $74.0 million for the benefit of third parties.

Other Guarantees or Obligations. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into multiple agreements to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreements, 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 June 30, 2007, Hardy Storage borrowed $126.2 million under the financing agreements, of which Columbia Transmission guaranteed $63.1 million. Columbia Transmission recorded an accrued liability of approximately $1.2 million related to the fair value of this guarantee.

NiSource has purchase and sales agreement guarantees totaling $80.0 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 Condensed Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has issued other guarantees supporting derivative related payments associated with interest rate swap agreements issued by NiSource Finance, operating leases for many of its subsidiaries and for other agreements entered into by its current and former subsidiaries.

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

In the case of Tawney, et al. v. Columbia Natural Resources, Inc., 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 filed motions with the trial court challenging the punitive damages award, and the trial court held a hearing in March on these motions. On June 28, 2007 the trial court issued an order upholding the punitive damages award. Several post-trial procedural steps remain before the defendants can perfect their appeal to the West Virginia Supreme Court of Appeals, which may or may not accept the appeal. NiSource anticipates that the trial court will issue its final, appealable judgment late in the third quarter of 2007. NiSource has not established a reserve for the punitive damages portion of the verdict.

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 $76.3 million and $72.6 million has been recorded as of June 30, 2007 and December 31, 2006, 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.

Implementation of the fine particulate matter and ozone national ambient air quality standards may require imposition of additional controls on boilers, engines and turbines. On April 15, 2004, the EPA finalized the eight-hour ozone nonattainment area designations. After designation, the Clean Air Act provides for a process for promulgation of rules specifying compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. Resulting state rules could require additional reductions in NOx emissions from natural gas compressor stations. On March 29, 2007, the EPA signed a rule to govern implementation of the NAAQS for particulate matter (PM-2.5) that the EPA promulgated in 1997. The rule addresses a wide range of issues, including state rulemaking requirements as well as attainment demonstration requirements and deadlines. States must evaluate for potential reduction measures for the emission of particulate matter and its precursors such as SO2 and NOx. The rule includes a conditional presumption that, for power plants subject to the CAIR, compliance with CAIR would satisfy Reasonably Available Control Measures and Reasonably Available Control Technology requirements for SO2 and NOx. States must submit their State Implementation P to the EPA by April 2008. NiSource will continue to closely monitor developments in this area and ca accurately estimate the timing or cost of emission controls at this time.

On June 21, 2007, the EPA announced a proposed rule to tighten the NAAQS for ozone. The proposed rule includes a provision to tighten the standard from the current 0.08 ppm to between 0.070 and 0.075 ppm. For the new standard, the EPA is considering a range of options from further tightening the standard to 0.060 ppm to retaining the level at the current standard. Additionally, the EPA is proposing two alternatives for the secondary ozone standard that includes a new cumulative standard even more stringent than the primary one or establishment of the secondary standard at the level of the primary standard. Depending on the stringency and form of any such revision to the standards, the number of areas that fail to attain the standards could significantly increase across the country. If a number of areas do not meet the new standards, resulting rulemakings to implement the standards and improve air quality in these areas over the next several years could lead to additional pressure to reduce emissions of NOx, an ozone precursor, from electric generating stations, and compressor station engines and turbines. NiSource will closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls that may be required at this time.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain NiSource affiliates engage in efforts to voluntarily report and reduce their greenhouse gas emissions. NiSource is currently a participant in the EPA's Climate Leaders program. On April 2, 2007 in Massachusetts v. EPA, the Supreme Court ruled that the EPA does have authority under the Clean Air Act to regulate emissions of greenhouse gases if it is determined that greenhouse gases have a negative impact on human health or the environment. NiSource will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

Gas Distribution Operations.
There were no new environmental matters relating to Gas Distribution Operations during the first half of 2007.

Gas Transmission and Storage Operations.
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 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. The site in question is subject to an existing EPA's Administrative Consent Order.

On May 7, 2007, the Ohio EPA, issued a draft rule requiring additional NOx controls in the Cleveland/Akron ozone non-attainment area. This rule potentially impacts four Columbia Transmission compressor stations. Columbia Transmission is working closely with the Ohio EPA on rule development, and the rule is expected to be finalized in August, 2007. Compliance costs are dependant on the final outcome.

Electric Operations.
Air.
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 CAIR adopted by the Indiana Air Pollution Control Board became effective in late January 2007. On July 3, 2007, the IURC approved Northern Indiana's Phase I compliance plan for meeting the initial requirements of the CAIR and this is further discussed in Electric Operations and Regulatory Matters, Cost Recovery and Trackers. Northern Indiana will continue to closely monitor developments in this area and expects to install additional emission controls for the second phase of CAIR, but cannot accurately estimate the timing or cost of the emission controls at this time.

On March 14, 2007, Indiana proposed a draft rule to implement the EPA Best Alternative Retrofit Technology requirements for reduction of regional haze. On June 6, 2007, the Indiana Air Pollution Control Board preliminarily adopted the rule as proposed. The language of the preliminarily adopted rule relies upon the provisions of the Indiana CAIR to meet requirements for NOx and SO2 and does not impose any additional control requirements on coal-fired generation, including Northern Indiana, to control these emissions. The rule is scheduled for final adoption in the fourth quarter of 2007, an effective date of early 2008, and compliance is required within five years (2013). Northern Indiana will closely monitor developments in this area and at this time cannot accurately estimate the timing or cost of any emission controls that may be required.

In September 2004, the EPA issued a Notice of Violation 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. On April 2, 2007, in Environmental Defense v. Duke Energy Corp, the US Supreme Court overturned a Fourth Circuit Court decision related to the determination of a 'modification' under the Clean Air Act's new source review program. The Supreme Court ruled that under the new source review program an 'annual emission increase' test must be applied and rejected Duke Energy Corp's arguments and a Fourth Circuit Court decision that a 'maximum hourly' test was appropriate. The case will now go back to the trial court to address whether or not a 'modification' occurred and whether Duke Energy Corp is required to install pollution control devices and pay any penalties.

Local air quality has improved in three counties in which Northern Indiana generating assets are located. In recognition of this improvement, the IDEM submitted petitions to the EPA seeking redesignation of the Indiana counties of Lake, Porter and LaPorte to attainment of the eight-hour ozone NAAQS. The IDEM met technical and procedural requirements for the EPA approval of these petitions. On July 6, 2007, the IDEM announced the EPA regional administrator had signed the approval for the redesignation request for LaPorte County. Final rulemaking was published in the Federal Register, and became effective on July 19, 2007. The EPA approval is pending for Lake and Porter counties. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignations to attainment, new source review rules are expected to change from nonattainment new source review rules to the less onerous prevention of significant deterioration rules 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 petitions.

Indiana is in the process of developing a rule to implement the EPA CAMR. On May 2, 2007, the Indiana Air Pollution Control Board held a lengthy public hearing and preliminarily adopted the EPA CAMR with minor changes. An additional public hearing and final adoption are scheduled for early October 2007. The IDEM has indicated emergency rulemaking is also scheduled in order to allocate 2010 emission allowances under the proposed Indiana CAMR allocation methodology and avoid initial allocations under the EPA FIP provisions. The EPA FIP rule, published December 22, 2006, is intended only as a backstop for states such as Indiana that missed the November 17, 2006 submittal deadline but is working diligently to finalize the state rule. The FIP would be rescinded upon EPA acceptance of the Indiana rule. Northern Indiana will closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

Water.
On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. On January 25, 2007, the Second Circuit in a court decision on the Phase II 316(b) rule, remanded for EPA reconsideration the options providing flexibility for meeting the requirements of the rule. On March 20, 2007, the EPA issued a guidance memo advising its Regional Administrators that the Agency considers the 316(b), Phase II Rule governing cooling water withdrawals suspended and will be issuing a Federal Register notice to that effect. On July 9, 2007, the EPA Administrator signed a final rule suspending the Phase II rule. The notice explained why the EPA is not accepting comments on the suspension and notes that "best professional judgment" is to be used in making 316(b) decisions. The EPA will need to propose a revised 316(b) rule to address the areas remanded by the court decision. Northern Indiana will closely monitor the EPA rule developments.

On July 5, 2007, the Second Circuit Court of Appeals denied the petitions for rehearing asking the court to reconsider its remand of the Phase II 316(b) ruling. A request for certiorari to the U. S. Supreme Court has been

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submitted, asking that the Supreme Court reverse the Second Circuit Court's decision. The Supreme Court will decide whether to accept certiorari within 90 days.

IDEM recently issued a renewed National Pollution Discharge Elimination System Permit for the Northern Indiana's Michigan City Generating Station. The permit requires that the facility meet the Great Lakes Initiative discharge limits for, among other things, copper. The Michigan City Generating Station has a four year compliance schedule to meet these limits, which ends April 1, 2011. Northern Indiana is evaluating alternatives for treating copper in wastewater at the Michigan City Generating Station; estimated capital costs are between $7 million and $23 million.

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15. Changes in Common Stockholders' Equity and Comprehensive Income

The following table displays the changes in Common Stockholders' Equity and Comprehensive Income for the first six months of 2007 and 2006.

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accum Other Comp Income/(Loss)	Total	Comp Income
Balance January 1, 2007	$ 2.7	$ (21.2)	$ 3,998.3	$1,012.9	$ 20.9	$5,013.6	
Adjustment to initially apply new measurement date pursuant to SFAS No. 158, net of tax				(6.8)		(6.8)	
Adjustment to initially apply FIN 48, net of tax				(0.8)		(0.8)	
Beginning balance, as adjusted	$ 2.7	$ (21.2)	$ 3,998.3	$1,005.3	$ 20.9	$5,006.0	
Comprehensive Income:							
Net Income				243.4		243.4	243.4
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (a)					0.3	0.3	0.3
Net unrealized gains on derivatives qualifying as cash flow hedges (b)					3.2	3.2	3.2
Unrecognized Pension Benefit and OPEB cost (c)					3.5	3.5	3.5
Total comprehensive income							250.4
Dividends:							
Common shares				(189.1)		(189.1)	
Treasury stock acquired		(2.1)				(2.1)	
Issued:							
Employee stock purchase plan			0.4			0.4	
Long-term incentive plan			8.4			8.4	
Amortization of Long-term incentive Plan			0.5			0.5	
Balance June 30, 2007	$ 2.7	$ (23.3)	$ 4,007.6	$1,059.6	$ 27.9	$5,074.5	

(in millions)	Common Shares	Treasury Shares	Additional Paid-In Capital	Retained Earnings	Accum Other Comp Income/(Loss)	Total	Comp Income
Balance January 1, 2006	$ 2.7	$ (15.1)	$ 3,969.4	$ 981.6	$ (5.6)	$ 4,933.0	
Comprehensive Income:							
Net Income				193.9		193.9	193.9
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (a)					0.9	0.9	0.9
Net unrealized lossess on derivatives qualifying as cash flow hedges (b)					(65.5)	(65.5)	(65.5)
Total comprehensive income							129.3
Dividends:							
Common shares				(188.1)		(188.1)	
Treasury stock acquired		(5.9)				(5.9)	
Issued:							
Employee stock purchase plan			0.4			0.4	
Long-term incentive plan			2.5			2.5	
Amortization of Long-Term Incentive Plan			0.5			0.5	
Balance June 30, 2006	$ 2.7	$ (21.0)	$ 3,972.8	$ 987.4	$ (70.2)	$ 4,871.7	

(a) Net unrealized losses on available for sale securities, net of $0.5 million and $0.7 million tax expense in the first half of 2007 and 2006, respectively.
(b) Net unrealized gains (losses) on derivatives qualifying as cash flow hedges, net of $4.7 million tax expense and $36.2 million tax benefit in the first half of 2007 and 2006, respectively.
(c) Unrecognized pension benefit and OPEB costs, net of $2.1 million tax expense in the first half of 2007.

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

16. Accumulated Other Comprehensive Income

The following table displays the components of Accumulated Other Comprehensive Income, which is included in "Common Stockholders' Equity," on the Condensed Consolidated Balance Sheets.

(in millions)	**June 30, 2007**	December 31, 2006
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	**$ 4.7**	$ 3.9
Tax (expense) on unrealized gains on securities	**(2.2)**	(1.7)
Unrealized gains on cash flow hedges	**51.6**	43.8
Tax (expense) on unrealized gains on cash flow hedges	**(17.1)**	(12.4)
Unrecognized pension benefit and OPEB costs	**(14.6)**	(20.2)
Tax benefit on unrecognized pension benefit and OPEB costs	**5.5**	7.5
Total Accumulated Other Comprehensive Income, net of taxes	**$ 27.9**	$ 20.9

17. Business Segment Information

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

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

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

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 June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006
REVENUES				
Gas Distribution Operations				
Unaffiliated	**$ 871.4**	$ 694.1	**$ 2,978.3**	$ 2,874.4
Intersegment	**9.1**	3.0	**17.3**	7.4
Total	**880.5**	697.1	**2,995.6**	2,881.8
Gas Transmission and Storage Operations				
Unaffiliated	**141.7**	146.7	**305.4**	305.4
Intersegment	**49.0**	52.3	**115.1**	125.4
Total	**190.7**	199.0	**420.5**	430.8
Electric Operations				
Unaffiliated	**334.1**	302.5	**660.8**	609.0
Intersegment	**0.4**	0.4	**0.8**	0.8
Total	**334.5**	302.9	**661.6**	609.8
Other Operations				
Unaffiliated	**228.6**	168.0	**525.1**	495.2
Intersegment	**9.5**	7.4	**26.6**	22.6
Total	**238.1**	175.4	**551.7**	517.8
Adjustments and eliminations	**(66.7)**	(62.9)	**(158.6)**	(156.2)
Consolidated Revenues	**$ 1,577.1**	$ 1,311.5	**$ 4,470.8**	$ 4,284.0

Operating Income (Loss)				
Gas Distribution Operations	**$ 13.3**	$ (6.0)	**$ 274.7**	$ 200.0
Gas Transmission and Storage Operations	**67.6**	79.0	**174.6**	189.3
Electric Operations	**64.8**	63.3	**137.8**	131.4
Other Operations	**(0.7)**	(3.5)	**(4.0)**	(13.6)
Corporate	**(1.7)**	(0.1)	**(5.2)**	(6.8)
Consolidated Operating Income	**$ 143.3**	$ 132.7	**$ 577.9**	$ 500.3

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, 2006.

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.

For the six months ended June 30, 2007, NiSource reported income from continuing operations before cumulative effect of change in accounting principle of $237.3 million, or $0.87 per basic share, compared to $195.1 million, or $0.71 per basic share in 2006.

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

- Gas Distribution Operations net revenues increased from favorable weather compared to last year, higher commercial and off-system sales, customer growth, and regulatory initiatives and trackers. NiSource's gas markets experienced 14% warmer than normal weather during the first six months of 2006 compared to weather that was on average normal this year.

NISOURCE INC.

- Electric Operations net revenue increased due to increased wholesale margins, increased residential volumes, favorable weather versus last year and customer growth partially offset by lower industrial sales and the timing of revenue credits.
- Operating losses in Other Operations decreased, driven primarily by Whiting Clean Energy. See the discussion below under the heading "Whiting Clean Energy".

These increases were partially offset by the following items:

- Operation and maintenance expenses increased due to higher employee, administrative and outside service expenses, generation and maintenance costs, uncollectible accounts and property insurance premiums. Costs associated with NiSource's IBM Agreement were a key driver of the increased employee and administrative expenses during the quarter. NiSource and IBM are conducting a joint assessment of the services arrangement to determine what adjustments can be made to enable NiSource to achieve its business objectives going forward.
- The effective tax rate was higher for the first six months of 2007 as compared to comparable period last year. The effective tax rate for 2007 is 37.2%. Last year's effective tax rate of 35.8% was favorably impacted by state deferred income tax adjustments recorded during the first quarter of 2006.
- Interest expense increased due to higher short-term interest rates and credit facility fees.

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

On May 30, 2007, NiSource provided a report on its strategic and financial review, a comprehensive process undertaken by executive leadership, the board of directors and advisors to explore a broad range of options unlocking the underlying value of NiSource's asset base and strengthening the company's position for long-term growth. NiSource also provided guidance for the fiscal year ending December 31, 2007. NiSource's press release, dated May 30, 2007, was filed with the SEC on Form 8-K on that date.

NiSource cited that two primary conclusions were reached from the review:

First, the review confirmed that NiSource's core asset base as currently structured and four-point business strategy are fundamentally strong, with an array of long-term organic growth prospects in each segment of its business. Even without significant structural changes, the company has a portfolio of businesses and a balanced platform for long-term growth that can deliver value to shareholders.

The assessment also evaluated a number of strategic and structural alternatives to unlock value for the company, the largest and most transformational of which would be the potential separation and sale of the NiSource's electric assets. Although NiSource's electric business is strong and well-aligned with the company's overall business portfolio, the study concluded that the potential separation and sale of the electric assets, if properly structured, could provide added financial flexibility and sharpen NiSource's strategic focus as a pure-play gas company. NiSource defined certain criteria and commitments to stakeholders necessary to proceed with such a transaction, with the understanding that this option only would be pursued if these guiding principles could be met.

Although it was clear from very advanced stages of discussions that the overall financial value to NiSource from a potential transaction could fall within an acceptable range, NiSource concluded that no transaction adequately met all the requirements necessary to proceed. Accordingly, NiSource terminated this phase of the process without a transaction taking place.

NiSource will continue to evaluate and pursue means to enhance its financial profile and provide value for stakeholders. As such, NiSource acknowledges that a separation of its gas and electric business, if properly structured, may still represent an attractive option for significantly repositioning the company. However, NiSource is not currently in discussions with any counterparties, nor is it actively pursuing the sale of its electric business. There have been no changes in NiSource's ongoing operational plans, investment strategy, strategic approach or fundamental commitments to stakeholders regarding its electric operations.

Master Limited Partnership
NiSource continues to analyze the potential formation of a Master Limited Partnership in connection with a portion of its gas transmission and storage assets and prospective growth projects. While NiSource's analysis is ongoing and no definitive conclusions have been reached at this point, such a structure has the potential to provide additional financial flexibility and access to low cost capital, which would complement our gas transmission and storage strategy.

2007 Earnings Outlook
NiSource's press release, dated May 30, 2007, indicated that, based on year to date experience and current and projected market conditions, net income from continuing operations for 2007 is expected to be approximately $1.36 per share. This outlook reflects improved financial performance from NiSource's Whiting Clean Energy unit and stable margins in the company's core utility operations, offset by the effects of increased depreciation and operating expenses, as well as reduced shorter-term optimization opportunities due to less volatile market conditions during 2007. The outlook also reflects continued moderation of residential customer usage declines in NiSource's residential local gas distribution business and favorable weather to date.

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. Following are updates to the four-point plan for growth:

Commercial and Regulatory Initiatives

Whiting Clean Energy. On December 18, 2006, Whiting Clean Energy and BP executed an amendment which materially changed the terms of the ESA under which Whiting Clean Energy provides steam to BP. The improved results from this agreement, reflected in the first six months of 2007 results, are expected to continue through the remainder of 2007. This improvement is reflected in the results from the Other Operations segment, which has been producing negative results for a number of years. Other Operations reported an operating loss of $4.0 million for the first six months of 2007, versus an operating loss of $13.6 million for the comparable 2006 period. 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. First half of 2007 results were generally in line with management's belief that declines in customer demand experienced during 2006 were a response to higher market prices for natural gas, particularly in the aftermath of the 2005 hurricane season. As prices decreased during the later part of 2006 and have stabilized during the first half of 2007, both usage erosion and customer attrition levels continue to moderate. However, 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 is moving forward on regulatory initiatives across several distribution company markets. Whether through full rate case filings or other approaches, NiSource's goal is to develop strategies that benefit all stakeholders as it addresses changing customer conservation patterns, develops more contemporary pricing structures, and embarks on long-term investment programs to enhance our infrastructure. Rate case planning activities are underway at Bay State and Columbia of Pennsylvania, with filings anticipated later this year or in early 2008. Also, at Columbia of Ohio, stakeholder meetings have been initiated in an effort to meet the respective needs of all parties in shaping the future regulatory, commercial and investment model for Columbia of Ohio.

On May 9, 2007, Northern Indiana received approval from the IURC for its Rate Simplification program, which will simplify residential natural gas rates and implement an energy conservation program.

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 third quarter of 2007, with new rates expected to be in effect by the fourth quarter of 2007.

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

Millennium Pipeline Project. In June 2007, construction began on the Millennium Pipeline, a 182-mile-long, 30-inch-diameter pipeline across New York's Southern Tier and lower Hudson Valley. The project is expected to be completed in November 2008 and will transport up to 525,400 Dth per day of natural gas to markets along its route, as well as to the New York City markets through its pipeline interconnections. Millennium is jointly owned by affiliates of NiSource, KeySpan Corporation, and DTE Energy.

Hardy Storage Project. Hardy Storage completed its first full quarter of operations, receiving initial customer injections into its new underground natural gas storage facility in West Virginia. Injections this year will allow the field to deliver up to 100,000 Dth of natural gas per day during the 2007 winter heating season. When fully operational in 2009, the field will have a working storage capacity of 12 billion cubic feet, delivering more than 176,000 Dth of natural gas per day. NiSource's Columbia Transmission, the operator of Hardy Storage, is expanding its natural gas transmission system to provide the capacity needed to deliver Hardy Storage supplies to customer markets. Hardy Storage is a joint venture of subsidiaries of Columbia Transmission and Piedmont.

Eastern Market Expansion Project. On May 3, 2007, Columbia Transmission filed a certificate application be. the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. The expansion will add 97,000 Dth per day of storage and transportation capacity and is fully contracted on a long-term, firm basis. Columbia Transmission requested FERC approval by December 2007 and proposed to place the Eastern Market Expansion in service by spring 2009.

Crawford Storage Field Project. NiSource concluded successful open seasons to gauge customer interest in an expansion of its Crawford Storage Field in central Ohio by up to 10 to 15 Billion cubic feet of working gas and 175,000 to 250,000 Dth of daily deliverability. NiSource anticipates converting the strong customer response into binding contractual commitments over the next several months and placing facilities in service to enable storage injections beginning in the second quarter of 2009. The final scope of the project will be determined based on the outcome of the ongoing customer discussions.

Other Growth Projects. Columbia Gulf held a successful open season in March of 2007 to provide increased access to southern Louisiana markets. With planned in-service dates in the third and fourth quarters of 2007, Columbia Gulf entered into contracts for 375,000 Dth per day of firm capacity for delivery to the Henry Hub and to Transcontinental Gas Pipeline at two expanded points of interconnection.

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. Columbia Transmission entered into contracts that represented revenues in excess of $45 million of shorter-term business for 2006. Stabilization in the natural gas market moderated these shorter-term optimization revenues during the first half of 2007. 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.

Process and Expense Management

IBM Agreement. During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM is providing a broad range of business transformation and outsourcing services to NiSource. As a part of the transformation initiatives, many new information technology systems and process changes had an accelerated time-line for completion, which created the risk of operational delays, potential errors and control failures which could impact NiSource and its financial condition. In August 2006, further implementation of certain information technology systems was delayed due to difficulties encountered with the first wave of new system implementations. In the first quarter of 2007, NiSource decided to bring certain finance and accounting functions back within the company. These functions include general accounting, fixed assets, and budgeting. The transition back to NiSource of these functions commenced on June 1, 2007 and is expected to continue through the end of 2007. In early 2007, a high-level team of NiSource and IBM resources began an overall reassessment of the outsourcing initiative primarily to focus on operational and transformational improvements and remediation and develop an integrated plan that enables NiSource to achieve its business objectives going forward. The joint team is continuing to review other areas of focus targeted for improvement and remediation. The delay in the transformation projects and the ongoing reassessment of the relationship is likely to result in a reduction in the projected cost savings.

Results of Operations
Quarter Ended June 30, 2007

Net Income
NiSource reported net income of $26.7 million, or $0.10 per basic share, for the three months ended June 30, 2007, compared to net income of $21.0 million, or $0.08 per basic share, for the second quarter of 2006. Operating income was $143.3 million, an increase of $10.6 million from the same period in 2006.

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 $8.5 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 June 30, 2007, were $692.0 million, a $50.9 million increase from the same period last year, which includes the impact of $8.5 million of trackers discussed above. This increase in net revenues was primarily due to favorable weather in the second quarter of 2007 compared to the second quarter of 2006 impacting Gas Distribution Operations by approximately $21 million and Electric Operations by approximately $7 million. Increased residential and commercial customer growth and increases attributable to regulatory initiatives and other service programs within Gas Distribution Operations increased net revenues by approximately $4 million. Electric Operations also increased as a result of higher wholesale revenues amounting to $5.8 million and increased residential customers and usage of $3.4 million. Whiting Clean Energy had increased net revenues of $4.9 million compared to the same period last year impacting Other Operations net revenues. Within Gas Transmission Operations, increased subscriptions for firm transportation services of $7.0 million were more than offset by a decrease in shorter-term transportation services and storage optimization of $11.6 million.

Expenses
Operating expenses for the second quarter of 2007 were $552.4 million, an increase of $43.9 million from the comparable 2006 period. Excluding expenses that are recovered through regulatory trackers, that increase both operating expenses and net revenues (see discussion above), operating expenses were up $36.6 million. This increase was primarily due to higher employee and administrative expenses of $18.7 million, largely due to increased service costs associated with the IBM Agreement, a $6.6 million impairment charge related to base gas at a storage field and increased outside services costs of $5.4 million.

Other Income (Deductions)
Interest expense, net was $98.1 million for the quarter, an increase of $4.7 million compared to the second quarter of 2006. This increase was due primarily to higher short-term interest rates and credit facility fees. Other, net was a loss of $0.4 million for the current quarter compared to a loss of $2.7 million for the comparable 2006 period due to higher interest income in the second quarter 2007 compared to the second quarter 2006.

Income Taxes
Income tax for the second quarter of 2007 was $16.6 million, an increase of $2.8 million compared to the second quarter of 2006 due primarily to higher pretax income. The effective tax rate for the quarter ended June 30, 2007 was 37.1% compared to 38.4% for the comparable period last year.

Results of Operations
Six Months Ended June 30, 2007

Net Income
NiSource reported net income of $243.4 million, or $0.89 per basic share, for the six months ended June 30, 2007, compared to $193.9 million, or $0.71 per basic share, for the first six months of 2006. Operating income was $577.9 million, an increase of $77.6 million from the same period in 2006.

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 $14.6 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 six months ended June 30, 2007, were $1,754.5 million, a $132.6 million increase from the same period last year, which includes the impact of $14.6 million of trackers discussed above. This increase in net revenues was primarily due to favorable weather in the first six months of 2007 compared to the period in 2006 impacting Gas Distribution Operations by approximately $64 million and Electric Operations by approximately $8 million. Gas Distribution Operations net revenues also increased due to customer growth by $6.0 million, increased commercial sales and usage amounting to $4.5 million and regulatory initiatives and other service programs of approximately $7 million. Increase in net revenues from Electric Operations also included increased residential customers and usage of $9.3 million and $8.7 million of higher wholesale revenues. These increases in Electric Operations net revenues were partially offset by lower industrial volumes amounting to $7.6 million and the timing of revenue credits. Whiting Clean Energy had increased net revenues of $9.4 million compared to the same period last year impacting Other Operations net revenues. Within Gas Transmission Operations, increased subscriptions for firm transportation services of $10.6 million were more than offset by a decrease in shorter-term transportation services and storage optimization of $11.4 million.

Expenses
Operating expenses for the first six months of 2007 were $1,181.8 million, an increase of $60.3 million from the comparable 2006 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses increased $46.2 million. This increase was primarily due to higher employee and administrative expenses of $31.4 million, largely due to increased service costs associated with the IBM Agreement, a $6.6 million impairment charge related to base gas at a storage field, higher electric generation expenses of $4.7 million, increased expense for uncollectible accounts of $3.9 million, increased outside services costs of $3.8 million and higher insurance premiums of $3.0 million. These increases in expenses were partially offset by the impact of $8.8 million of IBM transition costs incurred in the first six months of 2006.

Other Income (Deductions)
Interest expense, net was $196.7 million for the first six months of 2007 compared to $188.7 million for the first six months of last year. This increase of $8.0 million was mainly due to higher short-term interest rates and credit

facility fees. Other, net was a loss of $3.2 million for the first half of 2007 compared to a loss of $6.1 million for the comparable 2006 period due to higher interest income in the first half of 2007 compared to the first half of 2006.

Income Taxes
Income tax for the first six months of 2007 was $140.7 million, an increase of $32.1 million compared to the first six months of 2006 due primarily to higher pretax income and a higher effective tax rate. The effective tax rate for the first six months of 2007 was 37.2% compared to 35.8% for the comparable period last year.

Discontinued Operations
Results from Discontinued Operations for the first six months of 2007 includes a $7.5 million reduction, net of taxes, in the liability for unrecognized tax benefits and $0.9 million in related interest, net of taxes, associated with the issuance of additional tax guidance in the first quarter of 2007.

Liquidity and Capital Resources

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

Operating Activities
Net cash flows from operating activities for the six months ended June 30, 2007 were $587.9 million, a decrease of $437.1 million from the first six months of 2006. Changes in assets and liabilities reduced net cash flows from operating activities by $562.9 million. The impacts of gas prices and weather significantly impact working capital changes. High gas prices and 5% colder than normal weather in the fourth quarter of 2005 drove significantly higher than normal accounts receivable and unrecovered gas costs balances that were subsequently collected in 2006. Conversely, the fourth quarter of 2006 was 18% warmer than normal, leading to relatively lower accounts receivable and unrecovered gas cost balances at December 31, 2006 and less cash to be collected in 2007. Increases in net income and changes in deferred taxes totaling $143.7 million reduced the impact from the changes in assets and liabilities.

Investing Activities
Capital expenditures of $331.7 million during the first six months of 2007 were $59.9 million higher than the comparable 2006 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 2007 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.

Restricted cash was $66.9 million and $142.5 million for the periods ended June 30, 2007 and December 31, 2006, respectively. The decrease in restricted cash was due primarily to volatility in forward gas contracts, which resulted in decreased margin deposits on open derivative contracts at June 30, 2007 as compared to December 31, 2006.

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, 2007, 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 expects to refinance the 2006 and 2007 debt maturities in the debt capital markets during the second half of 2007.

During June 2007, Northern Indiana redeemed $12.0 million of its medium-term notes with an interest rate of 7.25%.

During April 2007, NiSource redeemed $27.0 million of Capital Markets medium-term notes, with an average interest rate of 7.49%.

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%.

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. 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.

NiSource Finance had outstanding credit facility borrowings of $1,021.5 million at June 30, 2007, at a weighted average interest rate of 5.82%, and borrowings of $1,193.0 million at December 31, 2006, at a weighted average interest rate of 5.68%. As of June 30, 2007 and December 31, 2006, NiSource Finance had $74.0 million and $81.9 million of stand-by letters of credit outstanding, respectively. At June 30, 2007, $38.9 million of the $74.0 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 $35.1 million of stand-by letters of credit outstanding at June 30, 2007, $31.7 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, 2007, $446.8 million of credit was available under the credit facility.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, under the terms of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The agreement was recently extended for another year to June 27, 2008. As of June 30, 2007, $100.0 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 21, 2007, and can be renewed if mutually agreed to by both parties. As of June 30, 2007, NRC had sold $176.1 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.

Contractual Obligations. On January 1, 2007, NiSource adopted the provisions of FIN 48. The adoption of FIN 48 did not have a significant impact on NiSource's liability for unrecognized tax benefits. The total amount of the liability for unrecognized tax benefits was $16.0 million as of the date of adoption, and $3.9 million at June 30, 2007. NiSource does not anticipate any significant changes to its liability for unrecognized tax benefits over the next twelve months. Refer to Note 10, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

Market Risk Disclosures

Risk is an inherent part of NiSource's energy businesses. The extent to which NiSource properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its businesses is critical to its profitability. NiSource seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks that are involved in NiSource's energy businesses: commodity market risk, interest rate risk and credit risk.

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

Commodity Price Risk

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

Commodity price risk resulting from derivative activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process, including gains or losses on these derivative instruments. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk. Some of NiSource's rate-regulated utility subsidiaries offer commodity price risk products to its customers for which derivatives are used to hedge forecasted customer usage under such products. These subsidiaries do not have regulatory recovery orders for these products and are subject to gains and losses recognized in earnings due to hedge ineffectiveness.

TPC, on behalf of Whiting Clean Energy, enters into power and gas derivative contracts to manage commodity price risk associated with operating Whiting Clean Energy. These derivative contracts do not always receive hedge accounting treatment under SFAS No. 133 and variances in earnings could be recognized as a result of marking these derivatives to market.

Interest Rate 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 $6.6 million and $13.4 million for the quarter and six months ended June 30, 2007, 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 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 obligations and the market value of forward positions. Current credit exposure is generally measured by the notional or principal value of obligations and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for the gas marketing and derivative portfolios on an average, high and low basis was $0.1 million, $0.2 million and zero during the second quarter of 2007, 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. 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 8, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $611.2 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 provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $80.0 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 Condensed Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 8, "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. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretiren plans by requiring employers to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan, among other changes. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 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. On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations.

With the adoption of SFAS No. 158 NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. These rate-regulated subsidiaries recorded regulatory assets and liabilities that would otherwise have been recorded to accumulated other comprehensive income.

Refer to Note 11, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for additional information.

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 greater than 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. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 10, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

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.

When it adopted 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 income taxes, which reflected the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. Other than the requirement for expensing stock options, outstanding share-based awards will continue to be accounted for substantially as they are currently. As of June 30, 2007, the total remaining unrecognized compensation cost related to non-vested awards amounted to $9.9 million, which will be amortized over the weighted-average remaining requisite service period of 2.4 years.

Recently Issued Accounting Pronouncements

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.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits entities to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment will be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. NiSource is currently reviewing the provisions of SFAS No. 159 to determine whether to elect fair value measurement for any of its financial assets or liabilities when it adopts this standard in 2008.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

NiSource Inc.
Gas Distribution Operations

(in millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net Revenues				
Sales Revenues	**$ 880.5**	$ 697.1	**$ 2,995.6**	$ 2,881.8
Less: Cost of gas sold	**597.0**	452.2	**2,088.7**	2,076.4
Net Revenues	**283.5**	244.9	**906.9**	805.4
Operating Expenses				
Operation and maintenance	**180.0**	163.3	**417.1**	391.8
Depreciation and amortization	**58.2**	58.3	**116.6**	115.6
Impairment and gain on sale of assets	**(0.2)**	-	**(0.5)**	-
Other taxes	**32.2**	29.3	**99.0**	98.0
Total Operating Expenses	**270.2**	250.9	**632.2**	605.4
Operating Income (Loss)	**$ 13.3**	$ (6.0)	**$ 274.7**	$ 200.0
Revenues ($ in Millions)				
Residential	**441.5**	373.4	**1,746.7**	1,855.8
Commercial	**166.3**	134.3	**639.0**	686.9
Industrial	**67.4**	63.3	**167.0**	178.7
Off System	**179.2**	142.8	**307.2**	238.1
Other	**26.1**	(16.7)	**135.7**	(77.7)
Total	**880.5**	697.1	**2,995.6**	2,881.8
Sales and Transportation (MMDth)				
Residential	**39.8**	30.3	**175.3**	146.9
Commercial	**30.8**	25.3	**108.7**	94.3
Industrial	**83.0**	83.3	**189.5**	181.4
Off System	**22.5**	19.1	**41.1**	29.9
Other	**0.2**	0.2	**0.5**	0.5
Total	**176.3**	158.2	**515.1**	453.0
Heating Degree Days	**501**	410	**3,124**	2,683
Normal Heating Degree Days	**475**	482	**3,111**	3,107
% Colder (Warmer) than Normal	**5%**	(15%)	**0%**	(14%)
Customers				
Residential			**3,038,316**	3,019,568
Commercial			**289,157**	285,138
Industrial			**8,153**	8,262
Other			**73**	72
Total			**3,335,699**	3,313,040

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 72% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

NISOURCE INC.
Gas Distribution Operations (continued)

Regulatory Matters

Significant Rate Developments. 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 third quarter of 2007, with new rates expected to be in effect by the fourth quarter.

On May 9, 2007, the IURC approved Northern Indiana's petition to simplify rates, stabilize revenues and provide for energy efficiency funding. The Order adopts a new rate structure that enhances Northern Indiana's ability to increase revenues and provides incremental funding for an energy efficiency program.

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

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

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

Certain of the NiSource distribution companies are embarking upon plans to replace significant portions of their operating systems that are nearing the end of their useful lives. Those companies are currently evaluating requests for increases in rates in order to allow recovery of the additional capital expenditures required for such plans. Each LDCs approach to cost recovery may be unique, given the different laws, regulations and precedent that exist in each jurisdiction. Currently, Columbia of Pennsylvania and Columbia of Ohio are evaluating such plans and filings.

Certain types of natural gas risers, which are owned by customers, on Columbia of Ohio's distribution system have been evaluated under a study required by the PUCO, and have been found to be prone to leak natural gas under certain conditions. On February 1, 2007, Columbia of Ohio announced plans to identify and replace these certain types of risers on its distribution system. Columbia of Ohio estimates that the cost to identify and replace the risers will approximate $200 million. On March 2, 2007, Columbia of Ohio filed a request with the PUCO seeking authority to defer the expenses from its investigation of risers on its system. On April 25, 2007, Columbia of Ohio filed an application with the PUCO seeking authority to recover the expenses for which it is seeking deferral authorization, and all other riser replacement-related costs, through an automatic adjustment mechanism for the infrastructure replacement program. On July 11, 2007, the PUCO issued an Order in this matter, directing Columbia of Ohio to assume responsibility for future repair and replacement of certain service lines and risers, and the removal and replacement of all risers prone to failure. The PUCO also granted Columbia of Ohio authority for the deferral of certain costs related to the implementation of the PUCO's Order. Subsequent proceedings will determine appropriateness of and, methodology for, recovery of deferred costs from customers.

Customer Usage. The NiSource distribution companies have experienced declining usage by customers, due in large part to the sensitivity of sales to volatile commodity prices. A significant portion of the LDC's operating costs

NISOURCE INC.
Gas Distribution Operations (continued)

are fixed in nature. Historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge. Many of NiSource's LDCs are evaluating mechanisms that would "de-couple" the recovery of fixed costs from throughput, and implement recovery mechanisms that more closely link the recovery of fixed costs with fixed charges. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing such changes.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of June 30, 2007, 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 Gas Distribution Operations segment.

Restructuring
Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $0.2 million and $0.4 million for the second quarter and first six months of 2007, respectively, and the restructuring liability remaining at June 30, 2007 was $1.2 million. Refer to Note 4, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives.

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

Weather in the Gas Distribution Operation's territories for the second quarter of 2007 was 5% colder than normal and 22% colder than the comparable quarter in 2006.

For the first six months of 2007, weather was comparable to normal and the 16% colder than the comparable 2006 period.

Throughput
Total volumes sold and transported were 176.3 MMDth for the second quarter of 2007, an increase of 18.1 MMDth from the same period last year. This increase was primarily due to higher residential and commercial sales, due primarily to cooler weather, and increased off-system sales in the current period compared to the same period last year.

For the six month period ended June 30, 2007, total volumes sold and transported were 515.1 MMDth, an increase of 62.1 MMDth from the same period in 2006. This increase primarily reflects higher residential, commercial and industrial sales attributable mainly to cooler weather and customer growth, and increased off-system sales for the six month period ended June 30, 2007 compared to the same period last year.

Net Revenues
Net revenues for the three months ended June 30, 2007 were $283.5 million, an increase of $38.6 million from the same period in 2006. This increase was primarily due to the impact of cooler weather amounting to approximately $21 million, an increase from regulatory trackers of $7.8 million, which are primarily offset in operating expenses, increased residential and commercial customer growth of $1.6 million and increases attributable to regulatory initiatives and other service programs of approximately $4 million.

For the six month period ended June 30, 2007, net revenues were $906.9 million, a $101.5 million increase from the same period in 2006. This increase in net revenues was due primarily to the impact of cooler weather amounting to approximately $64 million, a $13.3 million increase in revenues from regulatory trackers, which are primarily offset in operating expense, increased commercial sales and usage of $4.5 million, customer growth contributing $6.0 million and increased revenues from regulatory initiatives and other service programs of approximately $7 million.

NISOURCE INC.
Gas Distribution Operations (continued)

Operating Income

For the second quarter of 2007, Gas Distribution Operations reported operating income of $13.3 million compared to an operating loss of $6.0 million for the same period in 2006. The increase in operating income was attributable to increased net revenues described above, partially offset by higher operation and maintenance expenses. Operation and maintenance expenses, after adjusting for increased expenses of $7.3 million that are recovered through regulatory trackers and corresponding increases in net revenues, increased by $9.4 million compared to the second quarter of last year. Operation and maintenance increased primarily due to higher employee and administrative expenses of $5.6 million, which include higher cost associated with the IBM Agreement, higher expenses incurred for outside services of $2.5 million and increased environmental expense of $1.8 million.

Operating income for the first six months of 2007 totaled $274.7 million, a $74.7 million increase compared to the same period in 2006, attributable to higher net revenues described above, partially offset by increased operation and maintenance expense. After adjusting for increased expenses of $13.0 million that are recovered through regulatory trackers and corresponding increases in net revenues, operation and maintenance expenses increased $12.3 million compared to the same period last year. Operation and maintenance increased primarily due to higher employee and administrative expenses of $15.6 million, which include higher cost associated with the IBM Agreement, higher expenses incurred for outside services of $3.7 million and increased environmental expense of $1.4 million. The comparable period last year was impacted by transition costs associated with the IBM Agreement amounting to $8.6 million.

NISOURCE INC.
Gas Transmission and Storage Operations

(in millions)	Three Months Ended June 30, **2007**	Three Months Ended June 30, 2006	Six Months Ended June, 30 **2007**	Six Months Ended June, 30 2006
Operating Revenues				
Transportation revenues	$ **144.9**	$ 152.8	$ **327.8**	$ 337.0
Storage revenues	**44.5**	43.8	**90.4**	88.2
Other revenues	**1.3**	2.4	**2.3**	5.6
Total Operating Revenues	**190.7**	199.0	**420.5**	430.8
Less: Cost of gas sold	**0.6**	3.9	**0.1**	9.3
Net Revenues	**190.1**	195.1	**420.4**	421.5
Operating Expenses				
Operation and maintenance	**76.2**	73.7	**156.9**	146.0
Depreciation and amortization	**29.4**	28.6	**58.4**	57.3
Impairment and gain on sale of assets	**6.4**	0.5	**6.4**	0.5
Other taxes	**14.2**	13.4	**29.3**	28.3
Total Operating Expenses	**126.2**	116.2	**251.0**	232.1
Equity Earnings (Loss) in Unconsolidated Affiliates	**3.7**	0.1	**5.2**	(0.1)
Operating Income	$ **67.6**	$ 79.0	$ **174.6**	$ 189.3
Throughput (MMDth)				
Columbia Transmission				
Market Area	**186.8**	170.0	**572.0**	498.5
Columbia Gulf				
Mainline	**178.6**	128.0	**325.9**	289.6
Short-haul	**50.7**	30.8	**91.2**	47.4
Columbia Pipeline Deep Water	**0.7**	2.2	**1.5**	5.1
Crossroads Gas Pipeline	**9.2**	9.0	**19.4**	20.0
Granite State Pipeline	**4.8**	4.5	**16.4**	16.1
Intrasegment eliminations	**(161.8)**	(122.4)	**(290.0)**	(278.7)
Total	**269.0**	222.1	**736.4**	598.0

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.

Millennium Pipeline Project

Millennium received FERC approval for a pipeline project, in which Columbia Transmission is participating, which will provide access to a number of supply and 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. The Millennium partnership is 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.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, and Iroquois collectively referred to as the "Companion Pipelines." The December 21, 2006 certificate order also granted the necessary project approvals to the Companion Pipelines. Construction began on June 22, 2007 with a projected in-service date of November 1, 2008.

Hardy Storage Project
Hardy Storage is a jointly developed new underground natural gas storage field in West Virginia formed by Columbia Transmission and Piedmont. 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, with Columbia Transmission serving 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 favorable orders 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. The certificate amendment was approved by FERC on March 15, 2007. Hardy Storage began injecting gas into storage on April 1, 2007.

On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into multiple agreements to finance the construction of Hardy Storage. Under the financing agreements, 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.

Crawford Storage Field Project
NiSource concluded successful open seasons to gauge customer interest in an expansion of its Crawford Storage Field in central Ohio by up to 10 to 15 Billion cubic feet of working gas and 175,000 to 250,000 Dth of daily deliverability. NiSource anticipates converting the strong customer response into binding contractual commitments over the next several months and placing facilities in service to enable storage injections beginning in the second quarter of 2009. The final scope of the project will be determined based on the outcome of the ongoing customer discussions.

Eastern Market Expansion Project
On May 3, 2007, Columbia Transmission filed a certificate application before the FERC for approval to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities. The expansion will add 97,000 Dth per day of storage and transportation capacity and is fully contracted on a long-term, firm basis. Columbia Transmission requested FERC approval by December 2007 and proposed to place the Eastern Market Expansion in service by spring 2009.

Other Growth Projects
Columbia Gulf held a successful open season in March of 2007 to provide increased access to southern Louisiana markets. With planned in-service dates in the third and fourth quarters of 2007, Columbia Gulf entered into contracts for 375,000 Dth per day of firm capacity for delivery to the Henry Hub and to Transcontinental Gas Pipeline at two expanded points of interconnection.

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. Columbia Transmission entered into contracts that represented revenues in excess of $45 million of shorter-term business for 2006. Stabilization in the natural gas market moderated these shorter-term optimization revenues during the first half of 2007. Columbia Transmission and Columbia Gulf plan to continue offering these shor term transportation and storage services. Customer requirements for these services will vary according to mark conditions which include such factors as commodity price volatility, geographic price differentials and the physical capacity and capabilities of the pipeline network.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Regulatory Matters

Significant FERC Developments. 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 was January 1, 2006 after which all assessment costs have been recorded as operating expenses. The rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. In November, 2005, the INGAA sought review of the matter before the U. S. Court of Appeals for the D.C. Circuit (INGAA V. FERC, No. 05-1426). On July 24, 2007, the Court denied the INGAA's petition for review, effectively affirming the FERC's Order.

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. The interconnection was placed in service on October 1, 2006. On December 29, 2006, Columbia Gulf filed in the D.C. Circuit Court of Appeals a Petition for Review of the FERC's July 20, 2006 order and a subsequent order denying Columbia Gulf's Request for Rehearing. In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if any action should be taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. To resolve this matter, Columbia Gulf entered into a Stipulation and Consent Agreement dated May 21, 2007 as a voluntary agreement between Columbia Gulf and the Office of Enforcement of the FERC. Under the terms of the agreement, Columbia Gulf agreed to pay a penalty of $2 million to the United States Treasury. Columbia Gulf's acceptance of the terms of the Stipulation and Consent Agreement is not an acknowledgement that any of its actions related to this dispute constitute a violation of law or of the FERC's statutes, regulations, orders or policies. Columbia Gulf has asserted, and continues to believe, that it did not deliberately violate any FERC order. The December 29, 2006 D.C. Circuit Court of Appeals Petition for Review was withdrawn pursuant to the terms of the agreement with the FERC.

Columbia Gulf and Columbia Transmission are also cooperating with the FERC on an informal non-public investigation of certain operating practices regarding tariff services offered by those companies. At this time, the companies cannot predict what the result of that investigation will be, but the FERC has indicated that it may seek to impose fines and possibly seek other remedies as well.

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, which heard oral arguments on May 2, 2007. Columbia Transmission has also made constitutional arguments in this case. The Ohio Supreme Court is expected to issue a ruling by late 2007 to mid 2008. The final outcome of the case and its impact on the financial statements are uncertain at this time.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of June 30, 2007, 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 Gas Transmission and Storage Operations segment.

Restructuring
Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.4 million and $0.9 million for the second quarter and first six months of 2007, respectively, and the restructuring liability remaining at June 30, 2007 was $1.8 million. Refer to Note 4, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 269.0 MMDth for the second quarter of 2007, compared to 222.1 MMDth for the same period in 2006. The increase of 46.9 MMDth is due primarily to cooler weather in 2007 versus 2006 in the Columbia Gas Market Area.

Throughput for the six months ended June 30, 2007 was 736.4 MMDth, an increase of 138.4 MMDth from the same period in 2006, due to cooler weather in the Columbia Gas Market Area for the first six months of 2007 than for the comparable period in 2006.

Net Revenues
Net revenues were $190.1 million for the second quarter of 2007, a decrease of $5.0 million from the same period in 2006, primarily due to a decrease in shorter-term transportation services and storage optimization revenues of $11.6 million partially offset by increased subscriptions and usage of firm transportation services of $7.0 million.

Net revenues were $420.4 million for the first six months of 2007 compared to $421.5 million for the first six months of 2006. A decrease in shorter-term transportation services and storage optimization revenues of $11.4 million was offset by increased subscriptions and usage of firm transportation services of $10.6 million and insurance proceeds from a business interruption claim.

Operating Income
Operating income was $67.6 million for the second quarter of 2007 compared to $79.0 million in the second quarter of 2006. The decrease in operating income was primarily attributable to the decrease in net revenues described above, a $6.6 million impairment charge related to base gas at a storage field, and increased operation and maintenance expenses of $2.6 million. Operation and maintenance expenses increased primarily as a result of higher employee and administrative costs of $2.9 million and increased property insurance costs of $1.9 million attributable to insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico, partially offset by a $2.8 million reduction of a reserve for a legal matter. Equity earnings increased $3.7 million due primarily to Hardy Storage being placed in service in April 2007, and higher AFUDC earnings from Millennium pipeline.

For the first six months of 2007, operating income of $174.6 million decreased $14.7 million compared to the first six months of 2006 primarily due to increased operation and maintenance expenses of $11.0 million and a $6.6 million impairment charge related to base gas at a storage field. Operation and maintenance expenses increased primarily as a result of higher employee and administrative costs of $6.3 million, increased property insurance costs of $3.9 million attributable to insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico, and increased maintenance and outside service costs. These increases in operation and maintenance expenses were partially offset by a $2.8 million reduction of a reserve for a legal matter. Equity earnings increased $5.4 million due to Hardy Storage being placed in service in April 2007, and higher AFUDC earnings from Millennium.

NISOURCE INC.
Electric Operations

(in millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net Revenues				
Sales revenues	$ **334.5**	$ 302.9	$ **661.6**	$ 609.8
Less: Cost of sales	**129.8**	111.3	**258.5**	228.6
Net Revenues	**204.7**	191.6	**403.1**	381.2
Operating Expenses				
Operation and maintenance	**77.9**	66.4	**139.7**	126.9
Depreciation and amortization	**46.6**	46.9	**94.6**	93.0
Other taxes	**15.4**	15.0	**31.0**	29.9
Total Operating Expenses	**139.9**	128.3	**265.3**	249.8
Operating Income	$ **64.8**	$ 63.3	$ **137.8**	$ 131.4
Revenues ($ in millions)				
Residential	**86.8**	79.1	**179.8**	160.0
Commercial	**94.3**	90.6	**184.1**	173.0
Industrial	**127.4**	129.9	**256.4**	255.4
Wholesale	**13.0**	9.6	**24.3**	15.1
Other	**13.0**	(6.3)	**17.0**	6.3
Total	**334.5**	302.9	**661.6**	609.8
Sales (Gigawatt Hours)				
Residential	**793.8**	722.0	**1,639.0**	1,483.1
Commercial	**1,005.7**	949.5	**1,933.7**	1,843.5
Industrial	**2,331.6**	2,383.5	**4,673.4**	4,820.9
Wholesale	**207.8**	195.9	**345.1**	348.0
Other	**32.3**	11.8	**59.0**	40.4
Total	**4,371.2**	4,262.7	**8,650.2**	8,535.9
Cooling Degree Days	**313**	190	**313**	190
Normal Cooling Degree Days	**232**	227	**232**	227
% Warmer (Colder) than Normal	**35%**	(16%)	**35%**	(16%)
Electric Customers				
Residential			**398,073**	395,005
Commercial			**52,299**	51,522
Industrial			**2,516**	2,505
Wholesale			**4**	11
Other			**757**	762
Total			**453,649**	449,805

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 454 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.

Electric Supply

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 in 2006. These bids are to provide power in the long term.

NISOURCE INC.
Electric Operations (continued)

Northern Indiana has also issued a request for proposals in order to identify and negotiate contracts for acquiring combined-cycle generation assets and/or purchase power agreements by no later than May 31, 2008. Proposals were received by July 27, 2007. All proposals are being evaluated and compared to other options including building different types of power plants, entering into a natural gas purchase contract to provide low cost gas for power production and restarting 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 through 2007, and plans to file a certificate of public convenience and necessity in the third quarter of 2007.

Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

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. The credits will continue 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. 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 $27.7 million and $22.9 million were recognized for electric customers for the first half of 2007 and 2006, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy mar certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding the administrative fees and certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first half of 2007 non-fuel costs were $3.1 million. Of that amount, $3.0 million was deferred and $0.1 million was expensed. In addition, administrative fees of $2.8 million were deferred. Total MISO costs deferred were $10.3 million as of June 30, 2007 and $ 4.0 million as of December 31, 2006.

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 on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. This resettlement began on June 9, 2007. Northern Indiana is currently evaluating the impact of the resettlement.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana. Northern Indiana has historically been found prudent in the procurement of fuel and purchased power.

On November 30, 2006, Northern Indiana, Indianapolis Power & Light, Vectren Energy and the OUCC filed a petition with the IURC requesting continuation of a benchmark mechanism for determining recovery of purchase power costs through the FAC. Vectren Energy and Indianapolis Power & Light requests were approved March 22, 2007. Northern Indiana's request is still pending.

In July 2006, the IURC issued an order creating a sub-docket in FAC 71 based upon a motion by interveners, the Industrial Group and LaPorte County. The motion requested an investigation into Northern Indiana's generation and purchases practices that could not be fully considered in a summary proceeding. The sub-docket will address concerns raised by the OUCC related to the reasonableness of recovering financial hedging transactions within the FAC. Subsequently, the IURC has approved FAC 72, 73, 74 and 75 subject to the sub-docket in FAC 71. Amounts collected pursuant to FAC 71, 72, 73, 74 and 75 are subject to refund based upon the final order in the sub-docket. A hearing in the FAC 71 sub-docket is scheduled for the fourth quarter of 2007 and an order anticipated before the end of 2007. Northern Indiana and the interveners are in settlement discussions covering these issues and the related case establishing a benchmark mechanism for the recovery of purchased power costs. The resolution of these issues could involve a refund obligation as well as ongoing 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 13, 2006, the IURC approved Northern Indiana's latest compliance plan with the estimate of $312.8 million. On April 11, 2007, the IURC approved ECR-9 and EER-4 for capital expenditures (net of accumulated depreciation) and operating expenses of $222.2 million and $14.1 million, through December 31, 2006, respectively. ECR-10 is scheduled to be filed in the third quarter of 2007.

On July 3, 2007, Northern Indiana received an IURC order issuing a certificate of public convenience and necessity for the CAIR and CAMR Phase I Compliance Plan Projects. The order approved $23 million of cost estimates for the projects and the proposed accounting, rate-making treatment and cost recovery relief relating to the Phase I Compliance Plan Projects. Northern Indiana will include costs to be recovered in the semi annual and annual ECRM and EERM filing six months after construction costs begin.

Mitchell Station. 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. 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 including the potential increase in level of environmental controls required. Northern Indiana has received guidance from the IDEM that any reactivation of this facility would require a preconstruction New Source Review Standards permit. Northern Indiana is reviewing the guidance and considering the next steps for generation options.

Environmental Matters

Currently, various environmental matters impact the Electric Operations segment. As of June 30, 2007, 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 2007 were 4,371.2 gwh, compared to 4,262.7 gwh in the second quarter of 2006. Increases in residential and commercial sales primarily due to warmer weather and increased residential customers and usage were partially offset by decreased industrial sales due to lower usage for the second quarter of 2007 compared to the same period last year.

Electric sales for the first six months of 2007 was 8,650.2 gwh, an increase of 114.3 gwh compared to the 2006 period. This increase was a result of higher residential and commercial sales primarily due to warmer weather, partially offset by decreased industrial sales due to lower usage.

Net Revenues

In the second quarter of 2007, electric net revenues of $204.7 million increased by $13.1 million from the comparable 2006 period. This improvement was primarily a result of warmer weather improving net revenues by approximately $7 million, increased wholesale revenues amounting to $5.8 million and increased residential customers and usage of $3.4 million. These increases in net revenues were partially offset by lower industrial volumes amounting to $1.8 million and the timing of revenue credits.

NISOURCE INC.
Electric Operations (continued)

In the first six months of 2007, electric net revenues were $403.1 million, an increase of $21.9 million from the comparable 2006 period. This increase in net revenues is primarily due to warmer weather improving net revenues by approximately $8 million, increased wholesale revenues amounting to $8.7 million, increased residential usage of $8.3 million and customer growth amounting to $3.2 million. These increases in net revenues were partially offset by lower industrial volumes amounting to $7.6 million and the timing of revenue credits.

Operating Income
Operating income for the second quarter of 2007 was $64.8 million, an increase of $1.5 million from the same period in 2006. The increase in operating income was due to increased net revenues described above partially offset by increased operation and maintenance expense of $11.5 million. Operation and maintenance expenses increased primarily due to higher employee and administrative expense of $10.7 million.

Operating income for the first six months of 2007 was $137.8 million, an increase of $6.4 million from the same period in 2006. The increase in operating income was due to increased net revenues described above partially offset by increased operating expenses of $15.5 million. Operation and maintenance expense increased $12.8 million primarily due to higher employee and administrative expense of $9.5 million and higher electric generation and maintenance expense of $4.7 million. Depreciation expense also increased by $1.6 million.

NISOURCE INC.
Other Operations

(in millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net Revenues				
Products and services revenue	$ **238.1**	$ 175.4	$ **551.7**	$ 517.8
Less: Cost of products purchased	**223.8**	164.9	**525.5**	501.7
Net Revenues	**14.3**	10.5	**26.2**	16.1
Operating Expenses				
Operation and maintenance	**10.9**	9.5	**21.5**	21.9
Depreciation and amortization	**2.6**	2.8	**5.2**	5.6
Impairment and gain on sale of assets	**0.1**	0.3	**0.1**	(1.3)
Other taxes	**1.4**	1.4	**3.4**	3.5
Total Operating Expenses	**15.0**	14.0	**30.2**	29.7
Operating Loss	$ **(0.7)**	$ (3.5)	$ **(4.0)**	$ (13.6)

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.

PEI Holdings, Inc.

Whiting Clean Energy. On December 18, 2006, Whiting Clean Energy and BP executed an amendment which materially changed 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.

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. Two of these investments were disposed of during 2006 and three other investments are expected to be sold or disposed of during 2007 and mid 2008. NiSource has accounted for the investments to be sold as assets and liabilities of discontinued operations.

Net Revenues

Net revenues of $14.3 million for the second quarter of 2007 increased by $3.8 million from the second quarter of 2006, as a result of higher revenues from the Whiting Clean Energy facility of $4.9 million partially offset by decreased commercial and industrial gas marketing revenues of $1.1 million.

For the first six months of 2007, net revenues were $26.2 million, a $10.1 million increase compared to the same period in 2006. The increase was due to higher revenues from the Whiting Clean Energy facility of $9.4 million and increased commercial and industrial gas marketing revenues.

Operating Loss

Other Operations reported an operating loss of $0.7 million for the second quarter of 2007, versus an operating loss of $3.5 million for the comparable 2006 period. The decrease in the operating loss primarily resulted from increased net revenues described above, partially offset by increased planned turbine maintenance costs at the Whiting Clean Energy facility.

For the first six months of 2007, the operating loss was $4.0 million compared to an operating loss of $13.6 million for the comparable 2006 period. The decrease in the operating loss primarily resulted from increased net revenues described above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

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

ITEM 4. CONTROLS AND PROCEDURES

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

Changes in Internal Controls
On July 1, 2006, NiSource began a multi-year process of transforming its 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.

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. In the first quarter of 2007, NiSource decided to bring certain finance and accounting functions back within the company. These functions include gener accounting, fixed assets, and budgeting. The transition back to NiSource of these functions commenced on June . 2007 and is expected to continue through the end of 2007. A high-level team of NiSource and IBM resources has been assigned to reassess some of the systems and processes and develop an integrated plan that enables NiSource to achieve its business objectives going forward. The joint team is continuing to review other areas of focus targeted for improvement.

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

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. 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 filed motions with the trial court challenging the punitive damages award, and the trial court held a hearing in March on these motions. On June 28, 2007 the trial court issued an order upholding the punitive damages award. Several post-trial procedural steps remain before the defendants can perfect their appeal to the West Virginia Supreme Court of Appeals, which may or may not accept the appeal. NiSource anticipates that the trial court will issue its final, appealable judgment late in the third quarter of 2007. NiSource has not established a reserve for the punitive damages portion of the verdict.

2. 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. Columbia has assumed the defense of Chesapeake in this matter pursuant to the provisions of the Stock Purchase Agreement dated July 3, 2003, among Columbia, NiSource, and Triana, Chesapeake's predecessor in interest. Plaintiffs filed an amended complaint on March 19, 2007, which, among other things, added NiSource and Columbia as defendants. All of the Defendants' Motions to Dismiss have been fully briefed and await a ruling by the court.

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

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

ITEM 1A. RISK FACTORS

NISOURCE INC.

NiSource's recent IBM Agreement 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 IBM Agreement was that it could deliver as much as $530 million in gross savings in operating and capital costs. As part of the proposed transformation initiatives under that agreement, many new information technology systems and process changes had an accelerated time-line for completion. In August 2006, NiSource and IBM decided to delay further implementation of certain technology systems beyond January 1, 2007 due to difficulties encountered with the first wave of new system implementations. In the first quarter of 2007, NiSource decided to bring certain finance and accounting functions back within the company. These functions include general accounting, fixed assets, and budgeting. The transition back to NiSource of these functions commenced on June 1, 2007 and is expected to continue through the end of 2007. At the beginning of 2007, a high-level team of NiSource and IBM resources began a joint reassessment of the relationship, including the transformation projects that were part of the original agreement. The joint team is continuing to review other areas of focus targeted for improvement. The delay in the transformation projects and the ongoing reassessment of the relationship is likely to result in a reduction in the projected cost savings.

Other than the risk factor disclosed above, there were no other material changes from the risk factors disclosed in NiSource's 2006 Form 10-K filed on March 1, 2007.

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

NISOURCE INC.

On May 8, 2007, NiSource held its annual meeting of stockholders. On March 13, 2007, there were 273,900,357 shares of common stock outstanding and entitled to vote in person or by proxy at the meeting.

The number and percentage of votes received for, and the number of votes withheld, from each nominee for director are set forth below:

Nominee	Number of Votes FOR	Votes FOR as a percentage of Votes Cast	Number of Votes AGAINST	Votes AGAINST as a percentage of Votes Cast
Steven C. Beering	221,418,066	97.78	5,015,992	2.22
Dennis E. Foster	224,281,481	99.05	2,152,507	.95
Marty R. Kittrell	224,194,304	99.01	2,239,684	.99
Peter McCausland	224,202,719	99.01	2,231,269	.99
Steven R. McCracken	224,194,492	99.01	2,239,496	.99
W. Lee Nutter	224,020,625	98.93	2,413,363	1.07
Ian M. Rolland	221,516,586	97.83	4,917,402	2.17
Robert C. Skaggs, Jr.	224,266,022	99.04	2,167,966	.96
Richard L. Thompson	224,337,161	99.07	2,096,827	.93
Carolyn Y. Woo	223,902,159	98.88	2,531,829	1.12
Roger A. Young	223,802,161	98.84	2,631,827	1.16

The number and percentage of votes received for, the number of votes against, the number of votes abstained in conjunction with the ratification of Deloitte & Touche LLP as the Corporation's independent public accountants for the year 2007 are set forth below:

Number of Votes FOR	Votes For as a percentage of votes present at the meeting	Number of votes AGAINST	Number of votes ABSTAINED
225,038,819	99.38	787,276	607,893

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

NISOURCE INC.

(10.1) NiSource Inc. Nonemployee Director Stock Incentive Plan (As Amended and Restated Effecti April 1, 2007)* **

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

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

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

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

* Exhibit filed herewith.
** Management contract or compensatory plan or arrangement of NiSource Inc.

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

SIGNATURE

NiSource Inc.

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

NiSource Inc.
(Registrant)

Date: August 3, 2007

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

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

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

FORM 10-Q

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

For the quarterly period ended March 31, 2007

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: 274,066,018 shares outstanding at April 30, 2007.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2007

Table of Contents

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia 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"
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
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DOT	United States Department of Transportation
Dth	dekatherms
ECRM	Environmental Cost Recovery Mechanism

DEFINED TERMS (continued)

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
ESA	Energy Sales Agreement
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
FIP	federal implementation plan
FTRs	Financial Transmission Rights
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
MISO	Midwest Independent Transmission System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PPS	Price Protection Service
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. 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. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
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"
SFAS No. 159	Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement 115"
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

Three Months Ended March 31, *(in millions, except per share amounts)*		2007		2006
Net Revenues				
Gas Distribution	$	1,899.3	$	1,998.2
Gas Transportation and Storage		347.8		320.6
Electric		325.9		305.7
Other		320.7		348.0
Gross Revenues		2,893.7		2,972.5
Cost of Sales (excluding depreciation and amortization)		1,831.2		1,991.7
Total Net Revenues		1,062.5		980.8
Operating Expenses				
Operation and maintenance		385.9		372.3
Depreciation and amortization		139.0		136.8
Impairment and gain on sale of assets		2.9		0.9
Other taxes		101.6		103.0
Total Operating Expenses		629.4		613.0
Equity Earnings (Loss) in Unconsolidated Affiliates		1.5		(0.2)
Operating Income		434.6		367.6
Other Income (Deductions)				
Interest expense, net		(98.6)		(95.3)
Dividend requirement on preferred stock of subsidiaries		-		(1.1)
Other, net		(2.8)		(3.4)
Total Other Income (Deductions)		(101.4)		(99.8)
Income From Continuing Operations Before Income Taxes and Cumulative Effect of Change in Accounting Principle		333.2		267.8
Income Taxes		124.1		94.8
Income from Continuing Operations Before Cumulative Effect of Change in Accounting Principle		209.1		173.0
Income (Loss) from Discontinued Operations - net of taxes		1.0		(0.5)
Gain on Disposition of Discontinued Operations - net of taxes		6.6		-
Income Before Change in Accounting Principle		216.7		172.5
Cumulative Effect of Change in Accounting Principle - net of taxes		-		0.4
Net Income	$	216.7	$	172.9
Basic Earnings Per Share ($)				
Continuing operations	$	0.76	$	0.63
Discontinued operations		0.03		-
Basic Earnings Per Share	$	0.79	$	0.63
Diluted Earnings Per Share ($)				
Continuing operations	$	0.76	$	0.63
Discontinued operations		0.03		-
Diluted Earnings Per Share	$	0.79	$	0.63
Dividends Declared Per Common Share	$	0.46	$	0.46
Basic Average Common Shares Outstanding (millions)		273.6		272.3
Diluted Average Common Shares (millions)		274.8		273.1

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Condensed Consolidated Balance Sheets (unaudited)

(in millions)	**March 31, 2007**	December 31, 2006
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$ 17,333.8**	$ 17,194.9
Accumulated depreciation and amortization	**(7,939.8)**	(7,850.0)
Net utility plant	**9,394.0**	9,344.9
Other property, at cost, less accumulated depreciation	**346.9**	349.6
Net Property, Plant and Equipment	**9,740.9**	9,694.5
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**36.5**	43.0
Unconsolidated affiliates	**66.1**	59.6
Other investments	**112.3**	116.1
Total Investments and Other Assets	**214.9**	218.7
Current Assets		
Cash and cash equivalents	**102.2**	33.1
Restricted cash	**61.2**	142.5
Accounts receivable (less reserve of $64.8 and $42.1, respectively)	**954.0**	866.3
Gas inventory	**96.5**	550.5
Underrecovered gas and fuel costs	**195.6**	163.2
Materials and supplies, at average cost	**89.7**	89.0
Electric production fuel, at average cost	**62.3**	63.9
Price risk management assets	**128.6**	237.7
Exchange gas receivable	**274.0**	252.3
Regulatory assets	**210.0**	272.7
Prepayments and other	**87.2**	111.7
Total Current Assets	**2,261.3**	2,782.9
Other Assets		
Price risk management assets	**36.4**	49.9
Regulatory assets	**1,030.0**	1,127.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**432.3**	435.7
Deferred charges and other	**162.1**	170.2
Total Other Assets	**5,338.1**	5,460.4
Total Assets	**$ 17,555.2**	$ 18,156.5

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

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

(in millions, except share amounts)	**March 31, 2007**	December 31, 2006
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders' Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 273,919,093 and 273,654,180 shares issued and outstanding, respectively	**$ 2.7**	$ 2.7
Additional paid-in capital	**4,001.1**	3,998.3
Retained earnings	**1,096.0**	1,012.9
Accumulated other comprehensive income	**50.2**	20.9
Treasury stock	**(22.7)**	(21.2)
Total Common Stockholders' Equity	**5,127.3**	5,013.6
Long-term debt, excluding amounts due within one year	**5,153.1**	5,146.2
Total Capitalization	**10,280.4**	10,159.8
Current Liabilities		
Current portion of long-term debt	**90.1**	93.3
Short-term borrowings	**620.0**	1,193.0
Accounts payable	**659.5**	713.1
Dividends declared	**63.1**	-
Customer deposits	**110.4**	108.4
Taxes accrued	**335.0**	196.0
Interest accrued	**101.2**	107.1
Overrecovered gas and fuel costs	**63.3**	126.7
Price risk management liabilities	**35.4**	259.4
Exchange gas payable	**361.7**	396.6
Deferred revenue	**39.3**	55.9
Regulatory liabilities	**42.6**	40.7
Accrued liability for postretirement and postemployment benefits	**4.7**	4.7
Other accruals	**696.1**	526.3
Total Current Liabilities	**3,222.4**	3,821.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**22.5**	38.2
Deferred income taxes	**1,544.9**	1,553.7
Deferred investment tax credits	**59.5**	61.5
Deferred credits	**117.0**	119.3
Deferred revenue	**22.0**	21.9
Accrued liability for postretirement and postemployment benefits	**654.9**	799.5
Liabilities of discontinued operations and liabilities held for sale	**9.8**	11.9
Regulatory liabilities and other removal costs	**1,293.4**	1,253.8
Asset retirement obligations	**133.3**	131.6
Other noncurrent liabilities	**195.1**	184.1
Total Other Liabilities and Deferred Credits	**4,052.4**	4,175.5
Commitments and Contingencies	**-**	-
Total Capitalization and Liabilities	**$ 17,555.2**	$ 18,156.5

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Three Months Ended March 31, *(in millions)*	2007	2006
Operating Activities		
Net income	$ 216.7	$ 172.9
Adjustments to reconcile net income to net cash from continuing operations:		
Depreciation and amortization	139.0	136.8
Net changes in price risk management assets and liabilities	5.5	10.2
Deferred income taxes and investment tax credits	1.6	(40.5)
Deferred revenue	(16.5)	(26.0)
Stock compensation expense	1.1	1.3
Gain on sale of assets	(0.3)	(1.6)
Loss on impairment of assets	3.2	2.5
Cumulative effect of change in accounting principle, net of taxes	-	(0.4)
Income from unconsolidated affiliates	(3.3)	(1.0)
Gain on disposition of discontinued operations - net of taxes	(6.6)	-
Loss (Income) from discontinued operations - net of taxes	(1.0)	0.5
Amortization of discount/premium on debt	1.8	2.0
AFUDC Equity	(0.8)	-
Changes in assets and liabilities:		
Accounts receivable	(103.2)	110.2
Inventories	707.2	442.1
Accounts payable	(34.3)	(340.6)
Customer deposits	2.0	2.7
Taxes accrued	129.8	151.6
Interest accrued	(0.7)	19.1
(Under) Overrecovered gas and fuel costs	(95.8)	319.7
Exchange gas receivable/payable	(60.3)	(126.0)
Other accruals	(97.2)	(81.2)
Prepayments and other current assets	24.5	9.9
Regulatory assets/liabilities	18.7	(19.1)
Postretirement and postemployment benefits	(57.7)	(6.0)
Deferred credits	(3.0)	2.3
Deferred charges and other noncurrent assets	2.0	(5.2)
Other noncurrent liabilities	7.2	(7.3)
Net Operating Activities from Continuing Operations	779.6	728.9
Net Operating Activities from Discontinued Operations	0.4	0.1
Net Cash Flows from Operating Activities	780.0	729.0
Investing Activities		
Capital expenditures	(152.1)	(123.2)
Proceeds from disposition of assets	1.5	3.9
Restricted cash	81.3	(21.8)
Other investing activities	(2.9)	12.9
Net Cash Flows used for Investing Activities	(72.2)	(128.2)
Financing Activities		
Retirement of long-term debt	(4.1)	(0.5)
Change in short-term debt	(572.2)	(518.7)
Issuance of common stock	2.1	1.0
Acquisition of treasury stock	(1.5)	(5.9)
Dividends paid - common stock	(63.0)	(62.7)
Net Cash Flows used for Financing Activities	(638.7)	(586.8)
Increase in cash and cash equivalents	69.1	14.0
Cash and cash equivalents at beginning of year	33.1	69.4
Cash and cash equivalents at end of period	$ 102.2	$ 83.4
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 100.6	$ 75.9
Interest capitalized	3.1	1.6
Cash paid for income taxes	3.4	4.2

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

NISOURCE INC.
Notes to Consolidated Financial Statements

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, 2006. 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

Recently Adopted 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, among other changes. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 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. On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits will reflect the updated measurement date valuations.

With the adoption of SFAS No. 158 NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. These rate-regulated subsidiaries recorded regulatory assets and liabilities that would otherwise have been recorded to accumulated other comprehensive income.

Refer to Note 10, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for additional information.

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 greater than 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets the more-likely-than-not recognition 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. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 9, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

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.

When it adopted 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 income taxes, which reflected the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. Other than the requirement for expensing stock options, outstanding share-based awards will continue to be accounted for substantially as they are currently. Refer to Note 12, "Stock Options and Awards," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

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.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits ent. to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment will be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. NiSource is currently reviewing the provisions of SFAS No. 159 to determine whether to elect fair value measurement for any of its financial assets or liabilities when it adopts this standard in 2008.

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. 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)*	**2007**	2006
Denominator		
Basic average common shares outstanding	**273,594**	272,342
Dilutive potential common shares		
Nonqualified stock options	**376**	50
Shares contingently issuable under employee stock plans	**636**	572
Shares restricted under employee stock plans	**163**	119
Diluted Average Common Shares	**274,769**	273,08[illegible]

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

4. 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 that ended on December 31, 2006. As of March 31, 2007, 872 employees were terminated as a result of the agreement with IBM. During the first quarter of 2007, no employees were terminated as a result of the agreement with IBM.

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 March 31, 2007, the employment of 13 employees was terminated as a result of the executive initiative, of whom 1 employee was terminated during the first quarter of 2007. 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. As of March 31, 2007, 1,566 employees were terminated, of whom no employees were terminated during the first quarter of 2007. Of the $3.3 million remaining restructuring liability from the Columbia merger and related initiatives, $3.0 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2006	Benefits Paid	Adjustments	Balance at March 31, 2007
Outsourcing initiative	$ 2.1	$ -	$ -	$ 2.1
Executive initiative	1.2	(0.3)	-	0.9
Columbia merger and related initiatives	3.8	(0.7)	0.2	3.3
Total	$ 7.1	$ (1.0)	$ 0.2	$ 6.3

5. Discontinued Operations and Assets Held for Sale

The assets and liabilities of discontinued operations and held for sale on the Condensed Consolidated Balance Sheet at March 31, 2007 were:

(in millions)	NDC Douglas Properties	NiSource Corporate Services	NiSource Development Company	Lake Erie Land	Columbia Transmission	Total
Assets of discontinued operations and held for sale						
Property, plant and equipment, net	$ 8.8	$ 9.5	$ 1.8	$ 2.9	$ 12.4	$ 35.4
Other assets	1.1	-	-	-	-	1.1
Assets of discontinued operations and held for sale	9.9	9.5	1.8	2.9	12.4	36.5
Liabilities of discontinued operations and held for sale						
Debt	(8.0)	-	-	-	-	(8.0)
Other liabilities	(1.8)	-	-	-	-	(1.8)
Liabilities of discontinued operations and held for sale	$ (9.8)	$ -	$ -	$ -	$ -	$ (9.8)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

The assets and liabilities of discontinued operations and held for sale on the Condensed Consolidated Balance Sheet at December 31, 2006 were:

(in millions)	NDC Douglas Properties	NiSource Corporate Services	NiSource Development Company	Lake Erie Land	Columbia Transmission	Total
Assets of discontinued operations and held for sale						
Property, plant and equipment, net	$ 10.4	$ 12.7	$ 1.8	$ 4.3	$ 12.4	$ 41.6
Other assets	1.2	-	-	0.2	-	1.4
Assets of discontinued operations and held for sale	11.6	12.7	1.8	4.5	12.4	43.0
Liabilities of discontinued operations and held for sale						
Accounts payable	(0.4)	-	-	-	-	(0.4)
Debt	(10.0)	-	-	-	-	(10.0)
Other liabilities	(1.5)	-	-	-	-	(1.5)
Liabilities of discontinued operations and held for sale	$ (11.9)	$ -	$ -	$ -	$ -	$ (11.9)

Assets classified as discontinued operations or 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. Two of these investments were disposed of during 2006 and three o investments are expected to be sold or disposed of during 2007. NiSource has accounted for the investments to sold as assets and liabilities of discontinued operations.

NiSource Corporate Services is in the process of selling its Marble Cliff facility. Impairment losses of $3.2 million and $2.5 million were recognized in the first quarters of 2007 and 2006, respectively, due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility as assets held for sale.

NiSource Development Company is in the process of selling the former headquarters of Northern Indiana. NiSource has accounted for this facility as assets held for sale.

In March 2005, Lake Erie Land, wholly owned by NiSource began accounting for the operations of the Sand Creek Golf Club as discontinued operations. 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 2006 transaction, property estimated to be sold to the private developer during the next twelve months has been recorded 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 as assets held for sale.

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

Three Months Ended March 31, *(in millions)*	2007	2006
Revenues from Discontinued Operations	$ 0.6	$ 1.4
Loss from discontinued operations	1.5	(0.8)
Income tax expense (benefit)	0.5	(0.3)
Income (Loss) from Discontinued Operations - net of taxes	$ 1.0	$ (0.5)
Gain on Disposition of Discontinued Operations - net of taxes	$ 6.6	$ -

Results from Discontinued Operations for the first quarter of 2007 includes a $7.5 million reduction, net of taxes, in the liability for unrecognized tax benefits and $0.9 million in related interest, net of taxes, associated with the issuance of additional income tax guidance in the first quarter of 2007.

6. Asset Retirement Obligations

NiSource accounts for its asset retirement obligations in accordance with SFAS No. 143 and FIN 47. Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries are classified as regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the three months ended March 31, 2007, NiSource accrued $1.7 million of accretion, of which $0.2 million was expensed and $1.5 million was recorded as a regulatory asset. 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.

7. Regulatory Matters

Gas Distribution Operations Regulatory Matters

Significant Rate Developments. 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 third quarter of 2007, with new rates expected to be in effect by the fourth quarter.

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. Following a February 27, 2007 evidentiary hearing, Northern Indiana filed an unopposed Form of Order, with the IURC on March 9, 2007. Northern Indiana expects a final order in the second quarter of 2007.

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

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

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

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

Certain types of natural gas risers, which are owned by customers, on Columbia of Ohio's distribution system have been evaluated under a study required by the PUCO, and have been found to be prone to leak natural gas under certain conditions. On February 1, 2007, Columbia of Ohio announced plans to identify and replace these certain types of risers on its distribution system. Columbia of Ohio estimates that the cost to identify and replace the risers will approximate $200 million. On March 2, 2007, Columbia of Ohio filed a request with the PUCO seeking authority to defer the expenses from its investigation of risers on its system. On April 25, 2007, Columbia of Ohio filed an application with the PUCO seeking authority to recover the expenses for which it is seeking deferral authorization, and all other riser replacement-related costs, through an automatic adjustment mechanism for the infrastructure replacement program.

Customer Usage. The NiSource distribution companies continue to experience declining usage by customers, due in large part to the sensitivity of sales to volatile commodity prices. A significant portion of the LDC's opera costs are fixed in nature. Historically, rate design at the distribution level has been structured such that a l portion of cost recovery is based upon throughput, rather than in a fixed charge. Many of NiSource's LDCs are evaluating mechanisms that would "de-couple" the recovery of fixed costs from throughput, and implement recovery mechanisms that more closely link the recovery of fixed costs with fixed charges. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing such changes.

Gas Transmission and Storage Operations Regulatory Matters

Significant FERC Developments. 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 was January 1, 2006 after which all assessment costs have been recorded as operating expenses. The rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. In November, 2005, the INGAA sought review of the matter before the U. S. Court of Appeals for the D.C. Circuit (INGAA V. FERC, No. 05-1426). Oral argument was presented before the Court on January 16, 2007 and a ruling is currently pending.

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. On December 29, 2006, Columbia Gulf filed in the D.C. Circuit Court of Appeals a Petitio Review of the Commission's July 20, 2006 order and a subsequent order denying Columbia Gulf's Reques r Rehearing.

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Notes to Consolidated Financial Statements (continued)

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. While disappointed with the FERC's referral of this matter to the Office of Enforcement, Columbia Gulf has cooperated with the Office of Enforcement's investigation. Columbia Gulf believes that an acceptable resolution of this matter can be reached during the second quarter 2007, which may include the payment of a fine by Columbia Gulf, the amount of which cannot be predicted at this time.

Columbia Gulf and Columbia Transmission are also cooperating with FERC on an informal non-public investigation of certain operating practices regarding tariff services offered by those companies. At this time, the companies cannot predict what the result of that investigation will be, but the FERC has indicated that it may seek to impose fines and possibly seek other remedies as well.

Proposed Millennium Pipeline Project

Millennium 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 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. The Millennium partnership is 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.

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 December 21, 2006 certificate order also granted the necessary project approvals to the Companion Pipelines. In addition, Millennium has received requested tax relief in New York. Millennium is in the process of bidding and analyzing the project costs for both 2007 and 2008. If the cost review determines the Millennium Project is still economically viable, construction will start in the spring of 2007 with a projected in-service date of November 1, 2008.

Hardy Storage Project. Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received favorable orders 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. The certificate amendment was approved by FERC on March 15, 2007. Hardy Storage was approved to go in-service on March 29, 2007 and began injecting gas into storage on April 1, 2007.

Electric Operations Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

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Notes to Consolidated Financial Statements (continued)

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. The credits will continue 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. 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 $13.7 million and $10.7 million were recognized for electric customers for the first quarter of 2007 and 2006, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding the administrative fees and non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first quarter of 2007 administrative fees of $1.3 million and non-fuel costs of $0.9 million were deferred. Total MISO costs deferred through March 31, 2007 were $6.5 million.

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 on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. This resettlement is scheduled to commence in July 2007. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered throug standard, quarterly, "summary" regulatory proceeding in Indiana (FAC). Northern Indiana has historically been found prudent in the procurement of fuel and purchased power.

In July 2006, the IURC issued an order creating a sub-docket in FAC 71 based upon a motion by interveners, the Industrial Group and La Porte County. The motion requested an investigation into Northern Indiana's generation and purchases practices that could not be fully considered in a summary proceeding. The sub-docket will also address concerns raised by the OUCC related to the reasonableness of recovering financial hedging transactions within the FAC. Subsequently, the IURC has approved FAC 72, 73 and 74 subject to the sub-docket in FAC 71. Amounts collected pursuant to FAC 71, 72, 73 and 74 are subject to refund based upon the final order in the sub-docket. A hearing in the FAC 71 sub-docket is scheduled for the second quarter of 2007 and an order anticipated before the end of 2007.

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 13, 2006, the IURC approved Northern Indiana's latest compliance plan with the estimate of $312.8 million. On April 11, 2007, the IURC approved EER-9 and EER-4 for capital expenditures (net of accumulated depreciation) and operating expenses of $222.2 million and $14.1 million, through December 31, 2006, respectively.

On December 8, 2006, Northern Indiana filed a petition requesting a certificate of public convenience and necessity for clean coal technology projects, to address the first phase of CAIR and CAMR. The request included initiating ongoing review of the construction of the projects; finding that the projects constitute "qualified pollution control property" and are eligible for the rate-making treatment; finding that the projects constitute "clean coal and energy projects" and finding that the projects are reasonable and necessary and therefore eligible for the final incentives; approving accounting, rate-making treatment, cost recovery and other relief in connection with Northern Indiana's clean coal technology, qualified pollution control property and clean coal and energy projects. Testimony

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Notes to Consolidated Financial Statements (continued)

was filed in February 2007 requesting approval of $23 million of cost estimates for the projects. The hearing is scheduled for May 22, 2007.

Mitchell Station. 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. 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 including the potential increase in level of environmental controls required.

8. 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. NiSource is not involved in speculative energy trading activity. 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.

NiSource's derivatives on the Condensed Consolidated Balance Sheets at March 31, 2007 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 121.4	$ 7.2	$ 128.6
Other assets	33.8	2.6	36.4
Total price risk management assets	$ 155.2	$ 9.8	$ 165.0
Price risk management liabilities			
Current liabilities	$ (31.7)	$ (3.7)	$ (35.4)
Other liabilities	(22.5)	-	(22.5)
Total price risk management liabilities	$ (54.2)	$ (3.7)	$ (57.9)

NiSource's derivatives on the Condensed Consolidated Balance Sheets at December 31, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 236.6	$ 1.1	$ 237.7
Other assets	49.8	0.1	49.9
Total price risk management assets	$ 286.4	$ 1.2	$ 287.6
Price risk management liabilities			
Current liabilities	$ (202.8)	$ (56.6)	$ (259.4)
Other liabilities	(32.5)	(5.7)	(38.2)
Total price risk management liabilities	$ (235.3)	$ (62.3)	$ (297.6)

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Notes to Consolidated Financial Statements (continued)

The hedging activity for the first quarter of 2007 and 2006 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

Three Months Ended March 31, *(in millions, net of taxes)*	2007	2006
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 31.4**	$ 150.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**28.4**	(51.7)
Reclassification adjustment for net loss (gain) included in net income	**(0.2)**	0.7
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 59.6**	$ 99.7

During the first quarter of 2007 and 2006, no amounts 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 first quarter of 2007 and 2006, NiSource reclassified no amounts related to its cash flow hedges from accumulated 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 accumulated other comprehensive income of approximately $59.2 million of income, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, North Utilities, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia 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 MISO Day 2 initiative, Northern Indiana was allocated and has purchased FTRs. These rights help Northern Indiana offset congestion costs due to the 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 r[illegible] associated with power price volatility. These derivative programs must be marked to fair value, but because t[illegible] 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.

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Notes to Consolidated Financial Statements (continued)

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") have the opportunity to 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. Certain of the 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. Remaining changes for those Columbia LDCs and changes in fair value associated with the other Columbia LDCs are recognized currently in earnings or other current assets or liabilities based on the regulatory customer sharing mechanisms in place.

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:

	March 31, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 7.3	$ (2.3)	$ -	$ (58.9)
PPS program derivatives	0.4	(0.2)	0.7	(7.3)
DependaBill program derivatives	-	(0.1)	0.3	(2.4)
Electric energy program derivitives	2.5	-	0.7	(1.6)
Regulatory incentive program derivatives	-	(1.4)	0.5	(1.8)
Forward purchase agreements derivatives	114.1	-	110.0	-
Total commodity price risk programs included	$ 124.3	$ (4.0)	$ 112.2	$ (72.0)

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.

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

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:

	March 31, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$ -	$ (21.0)	$ -	$ (27.3)

Marketing, Trading and Other Activities. The operations of TPC primarily involve commercial and industrial gas sales, whereby TPC utilizes gas derivatives to hedge its expected future gas purchases. TPC, on behalf of Whiting Clean Energy, has also entered into power and gas derivative contracts to manage commodity price risk associated with operating Whiting Clean Energy.

Marketing and power programs included in price risk management assets and liabilities:

	March 31, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing derivatives	$ 40.7	$ (31.8)	$ 174.3	$ (198.3)
Power forward derivatives	-	(1.1)	1.1	-
Total marketing and power programs	$ 40.7	$ (32.9)	$ 175.4	$ (198.3)

9. Income Taxes

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.9 million to the opening balance of retained earnings, which includes the adjustment to the liability for unrecognized tax benefits shown below. The total amount of the liability for unrecognized tax benefits as of the date of adoption was $16.0 million, which is included in "Other noncurrent liabilities," on the Condensed Consolidated Balance Sheets. As a result of the implementation of FIN 48, NiSource recognized the following changes in the liability for unrecognized tax benefits:

(in millions)	Total
Reduction in Retained Earnings (cumulative effect)	$ 0.9
Additional Deferred Tax Liabilities	(0.9)
Net increase in liability for unrecognized tax benefits	$ -

Included in the balance of unrecognized tax benefits at January 1, 2007, are $2.9 million of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at January 1, 2007, are $7.5 million of tax benefits that, if recognized, would result in an increase to Gain on Disposition of Discontinued Operations and $5.6 million of tax benefits that, if recognized, would result in adjustments to deferred taxes.

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Notes to Consolidated Financial Statements (continued)

Effective January 1, 2007, NiSource recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. In prior years, NiSource recognized such accrued interest in interest expense and penalties in other expenses. During the years ended December 31, 2006, and December 31, 2005, NiSource recognized approximately $1.3 million and $0.8 million, respectively, of interest in the Statements of Consolidated Income. NiSource also had $3.5 million and $2.2 million accrued on the Condensed Consolidated Balance Sheets for the payment of interest at December 31, 2006, and December 31, 2005. No amounts have been estimated or accrued for penalties. Upon adoption of FIN 48 on January 1, 2007, NiSource decreased its accrual for interest on unrecognized tax benefits to $3.3 million, resulting in a $0.1 million increase (net of tax) to the opening balance of retained earnings.

NiSource is subject to income taxation in the U.S. and various state jurisdictions, primarily Indiana, West Virginia, Virginia, Pennsylvania, Kentucky, Massachusetts, New Hampshire, Maine, Louisiana, Mississippi, Maryland, Illinois, New Jersey and New York.

Because NiSource is part of the IRS's Large and Mid-Size Business program, each year's federal income tax return is typically audited by the IRS. Tax years through 1998 have been audited and are settled and closed to further assessment. Years 1999 through 2002 have been audited and are settled with the exception of two issues that have been petitioned to the Tax Court. Tax years 2003 and 2004 are currently under examination. The audit is expected to be concluded in the second quarter of 2007.

The statute of limitations in each of the state jurisdictions in which NiSource operates remain open until the years are settled for federal income tax purposes, at which time amended state income tax returns reflecting all federal income tax adjustments are filed. There are no state income tax audits currently in progress.

NiSource's interim effective tax rates reflect the estimated annual effective tax rate for 2007 and 2006, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter ended March 31, 2007 and March 31, 2006 were 37.2% and 35.4%, 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-to-tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199. The 1.8% increase from the comparable period last year is primarily the result of reductions in deferred state income liabilities that were recorded in the first quarter of 2006.

The quarter ended March 31, 2007 Condensed Consolidated Balance Sheet includes a reduction of $1.5 million in the liability for unrecognized tax benefits as a result of re-evaluation of those liabilities in the first quarter of 2007 to reflect negotiations associated with the 1999-2002 Tax Court petition. This reduction did not materially impact the effective tax rate because of required offsets recorded in deferred income taxes. Together with the $7.5 million reduction discussed in Note 5, "Discontinued Operations and Assets Held for Sale," NiSource's ending liability for unrecognized tax benefits as of March 31, 2007 is $7.0 million. NiSource does not anticipate any significant changes in its liability for unrecognized tax benefits over the next twelve months.

10. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover its employees. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource.

As of December 31, 2006, NiSource used September 30 as its measurement date for its pension and postretirement benefit plans. On January 1, 2007, NiSource adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits will reflect the updated measurement date valuations. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 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.

The following table provides NiSource's various postretirement benefit plans' funded status at January 1, 2007, based on a December 31, 2006 measurement date compared to the funded status of NiSource's various postretirement benefit plans' at December 31, 2006 based on a September 30, 2006 measurement date:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**Jan. 1, 2007**	Dec. 31, 2006	**Jan. 1, 2007**	Dec. 31, 2006
Benefit obligation	$ **2,278.6**	$ 2,285.7	$ **774.1**	$ 770.4
Fair value of plan assets	$ **2,129.7**	$ 2,052.3	$ **257.3**	$ 255.2
Funded Status	$ **(148.9)**	$ (233.4)	$ **(516.8)**	$ (515.2)

The key assumptions used to measure NiSource's various postretirement benefits plans' funded status at January 1, 2007 were the same as those used for the previous September 30, 2006, measurement date.

NiSource expects to make contributions of $50.4 million to its pension plans and $52.3 million to its other postretirement benefit plans during 2007. Through March 31, 2007, NiSource has contributed $47.1 million to its pension plans and $12.4 million to its other postretirement benefit plans.

The following tables provide the components of the plans' net periodic benefits cost for the first quarter of 2007 and 2006:

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended March 31, *(in millions)*	**2007**	2006	**2007**	2006
Components of Net Periodic Benefit Cost				
Service cost	$ **10.3**	$ 10.7	$ **2.4**	$ 2.3
Interest cost	**31.9**	31.2	**10.9**	10.1
Expected return on assets	**(46.7)**	(43.9)	**(5.2)**	(4.6)
Amortization of transitional obligation	**-**	-	**2.0**	2.0
Amortization of prior service cost	**1.4**	1.5	**0.1**	0.1
Recognized actuarial loss	**2.0**	4.6	**1.5**	1.6
Total Net Periodic Benefits Cost	$ **(1.1)**	$ 4.1	$ **11.7**	$ 11.5

11. 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.

12. Share-Based Compensation

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. At March 31, 2007, there were approximately 26.7 million shares reserved for future awards under the amended and restated 1994 Plan.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

NiSource recognized stock-based employee compensation expense of $1.1 million and $1.3 million during the first quarter of 2007 and 2006, respectively, as well as related tax benefits of $0.4 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, 2007, the total remaining unrecognized compensation cost related to non-vested awards amounted to $11.1 million, which will be amortized over the weighted-average remaining requisite service period of 2.6 years.

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. There were 10,000 restricted shares outstanding at March 31, 2007, 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. The total shareholder return measures established were not met; therefore these grants do not have an accelerated vesting period. At March 31, 2007, NiSource had 581,689 awards outstanding which contained the time-accelerated provisions.

As of March 31, 2007, approximately 8 million options were outstanding and exercisable with a weighted average option price of $22.63.

The Amended and Restated Non-employee Director Stock Incentive Plan provides for awards of restricted stock, stock options and restricted stock units, which vest in 20% increments per year, with full vesting after five years. As of March 31, 2007, 89,860 restricted shares and 112,802 restricted stock units had been issued under the Plan.

During 2006, NiSource did not provide incumbent executives additional grants of options, restricted or contingent shares. No options or restricted shares were granted during the three months ended March 31, 2007.

In March 2007, 320,330 contingent shares were granted. The grant date fair-value of the awards was $7.5 million, based on the market price of NiSource's common stock at the date of grant, which will be expensed net of forfeitures over the vesting period of approximately 3 years. The shares are subject to both performance and service conditions. The performance conditions are based on achievement of a non-GAAP financial measure (net operating earnings) that NiSource defines as income from continuing operations adjusted for certain items. If the performance conditions are not met, the grants will be cancelled and the shares will be forfeited. Subsequent to meeting the performance conditions, an additional two year service period will then be required before the shares vest on December 31, 2009. If after completing the performance conditions but prior to completing the service conditions the employee terminates employment (1) due to retirement, having attained age 55 and completed ten years of service, or (2) due to death or disability, the employment conditions will lapse with respect to a pro rata portion of the contingent shares on the date of termination. Termination due to any other reason will result in all contingent shares awarded being forfeited effective the employee's date of termination. Employees will be entitled to receive dividends upon vesting. During the quarter ended March 31, 2007, $0.2 million of compensation expense, net of forfeitures, was recorded to Operation and Maintenance Expense on the Consolidated Income Statement related to this contingent stock grant.

NiSource Inc.
Notes to Consolidated Financial Statements (continued)

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, 2007 and the years in which they expire were:

(in millions)	Total	2007	2008	2009	2010	2011	After
Guarantees of subsidaries debt	$ 4,713.5	$ 30.4	$ 8.6	$ 464.0	$ 1,004.3	$ 280.2	$ 2,926.0
Guarantees supporting commodity transactions of subsidiaries	617.3	348.0	233.9	34.2	-	-	1.2
Lines of credit	620.0	620.0	-	-	-	-	-
Letters of credit	77.5	17.4	59.1	-	-	-	1.0
Other guarantees	253.5	64.6	9.0	3.4	6.1	-	170.4
Total commercial commitments	$ 6,281.8	$ 1,080.4	$ 310.6	$ 501.6	$ 1,010.4	$ 280.2	$ 3,098.6

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $4.7 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 Sheet as of March 31, 2007. The subsidiaries are required to comply with certain financial covenants under the debt instruments 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, w[illegible] support up to approximately $617.3 million of commodity-related payments for its current subsidiaries involveu [illegible] energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate commitment level to $1.5 billion and extending the termination date by one year to July 2011. During November 2006, NiSource Finance entered into a $300 million three-month revolving credit agreement with Dresdner Kleinwort that expired February 15, 2007. At March 31, 2007, NiSource had $620.0 million in short-term borrowings outstanding under its credit facility. Through the revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $77.5 million for the benefit of third parties.

Other Guarantees or Obligations. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into multiple agreements to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreements, 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 March 31, 2007, Hardy Storage borrowed $109.2 million under the financing agreements, for which Columbia Transmission recorded an accrued liability of approximately $1.6 million related to the fair value of its guarantee securing payment for 50% of the $109.2 million borrowed.

On December 18, 2006, Whiting Clean Energy and BP executed an amendment which materially changed the ter[illegible] of the ESA under which Whiting Clean Energy provides steam to BP. The agreement specifies a pla[illegible] 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, the amendment 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. Management believes it is unlikely that BP will exercise this option. The carrying amount of the Whiting Clean Energy facility is approximately $275 million.

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 issued other guarantees supporting derivative related payments associated with interest rate swap agreements issued by NiSource Finance, operating leases for many of its subsidiaries and for other agreements entered into by its current and former subsidiaries.

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

In the case of Tawney, et al. v. Columbia Natural Resources, Inc., 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 filed motions with the trial court challenging the award and the trial court held a hearing in March on these motions. 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. NiSource has not established a reserve for the punitive damages portion of the verdict.

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 $76.6 million and $72.6 million has been recorded as of March 31, 2007 and December 31, 2006, 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.

Implementation of the fine particulate matter and ozone national ambient air quality standards may require imposition of additional controls on boilers, engines and turbines. On April 15, 2004, the EPA finalized the eight-hour ozone nonattainment area designations. After designation, the Clean Air Act provides for a process for promulgation of rules specifying compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. Resulting state rules could require additional reductions in NOx emissions from natural gas compressor stations. On March 29, 2007, the EPA signed a rule to govern implementation of the NAAQS for particulate matter (PM-2.5) that the EPA promulgated in 1997. The rule addresses a wide range of issues, including state rulemaking requirements as well as attainment demonstration requirements and deadlines. States must evaluate for potential reduction measures for the emission of particulate matter and its precursors such as SO2 and NOx. The rule includes a conditional presumption that for power plants subject to the CAIR, compliance with CAIR would satisfy Reasonably Available Control Measures and Reasonably Available Control Technology requirements for SO2 and NOx. States must submit their SIPs to the EPA by April 2008. NiSource will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain NiSource affiliates engage in efforts to voluntarily report and reduce their greenhouse gas emissions. NiSource is currently a participant in the EPA's Climate Leaders program. On April 2, 2007 in Massachusetts v. EPA, the Supreme Court ruled that the EPA does have authority under the Clean Air Act to regulate emissions of greenhouse gases if it is determined that greenhouse gases have a negative impact on human health or the environment. NiSource will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

Gas Distribution Operations.
There were no new environmental matters relating to Gas Distribution Operation during the first quarter of 2007.

Gas Transmission and Storage Operations.
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 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 agency regarding the proposed order, including the rationale for the proposed penalty. The site in question is subject to an existing EPA's Administrative Consent Order.

Electric Operations.
Air.
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 CAIR adopted by the Indiana Air Pollution Control Board became effective in late January 2007. Northern Indiana will continue to closely monitor developments in this area and expects to install additional emission controls for the second phase of CAIR, but cannot accurately estimate the timing or cost of the emission controls at this time.

On March 14, 2007, Indiana proposed a draft rule to implement the EPA Best Alternative Retrofit Technology requirements for reduction of regional haze. The proposed rule language would rely upon the provisions of the Indiana CAIR to meet requirements for NOx and SO2 and not impose any additional control requirements on coal-fired generation, including Northern Indiana, to control these emissions. However, no decision has been made nor any draft language crafted to address particulate matter emissions. The rule is scheduled for final adoption in the fourth quarter of 2007, an effective date of early 2008, and compliance is required within five years (2013). Northern Indiana will closely monitor developments in this area and at this time cannot accurately estimate the timing or cost of any emission controls that may be required.

In September 2004, the EPA issued a Notice of Violation 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. On April 2, 2007, in Environmental Defense v. Duke Energy Corp, the US Supreme Court overturned Fourth Circuit Court decision related to the determination of a 'modification' under the Clean Air Act's new source review program. The Supreme Court ruled that under the new source review program that an 'annual emission increase' test must be applied and rejected Duke Energy Corp's arguments and a Fourth Circuit Court decision that a 'maximum hourly' test was appropriate. The case will now go back to the trial court to address whether or not a 'modification' occurred and whether Duke Energy Corp is required to install pollution control devices and pay any penalties.

Local air quality has improved in three counties in which Northern Indiana generating assets are located. In recognition of this improvement, the IDEM submitted petitions to the EPA seeking redesignation of the Indiana counties of Lake, Porter and LaPorte to attainment of the eight-hour ozone NAAQS. The IDEM met technical and procedural requirements for the EPA approval of these petitions. On April 9, 2007, the EPA announced it is proposing to approve the redesignation request for LaPorte County. Formal EPA rulemaking will begin upon publication of the EPA notice in an upcoming Federal Register. The EPA approval is pending for Lake and Porter counties. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignations to attainment, new source review rules are expected to change from nonattainment new source review rules to the less onerous prevention of significant deterioration rules 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 petitions.

Indiana is in the process of developing a rule to implement the EPA CAMR. Preliminary adoption is anticipated in May with final adoption expected in the fourth quarter of 2007. The IDEM has indicated emergency rulemaking is also scheduled in order to allocate 2010 emission allowances under the proposed Indiana CAMR allocation methodology and avoid initial allocations under the EPA FIP provisions. The EPA FIP rule, published December 22, 2006, is intended only as a backstop for states such as Indiana that missed the November 17, 2006 submittal deadline but is working diligently to finalize the state rule. The FIP would be rescinded upon EPA acceptance of the Indiana rule. Northern Indiana will closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

Water.
On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. On January 25, 2007, the Second Circuit in a court decision on the Phase II 316(b) rule, remanded for EPA reconsideration the options providing flexibility for meeting the requirements of the rule. On March 20, 2007, the EPA issued a guidance memo advising its Regional Administrators that the Agency considers the 316(b), Phase II Rule governing cooling water withdrawals suspended and will be issuing a Federal Register notice to that effect. The guidance tells Regional Administrators that permits should include 316(b) provisions based on the permit writer's "best professional judgment." The EPA will need to propose a revised 316(b) rule to address the areas remanded by the court decision. Northern Indiana will closely monitor the EPA rule developments.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

14. Changes in Common Stockholders' Equity and Comprehensive Income

The following table displays the changes in Common Stockholders' Equity and Comprehensive Income for the first quarter of 2007 and 2006.

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accum Other Comp Income/(Loss)	Total	Comp Income
Balance January 1, 2007	$ 2.7	$ (21.2)	$ 3,998.3	$1,012.9	$ 20.9	$5,013.6	
Adjustment to initially apply new measurement date pursuant to SFAS No. 158, net of tax				(6.8)		(6.8)	
Adjustment to initially apply FIN 48, net of tax				(0.8)		(0.8)	
Beginning balance, as adjusted	$ 2.7	$ (21.2)	$ 3,998.3	$1,005.3	$ 20.9	$5,006.0	
Comprehensive Income:							
Net Income				216.7		216.7	216.7
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (a)					(2.1)	(2.1)	(2.1)
Net unrealized gains on derivatives qualifying as cash flow hedges (b)					28.2	28.2	28.2
Unrecognized Pension Benefit and OPEB cost (c)					3.2	3.2	3.2
Total comprehensive income							246.0
Dividends:							
Common shares				(126.0)		(126.0)	
Treasury stock acquired		(1.5)				(1.5)	
Issued:							
Common stock issuance							
Employee stock purchase plan			0.2			0.2	
Long-term incentive plan			2.3			2.3	
Amortization of Long-term incentive Plan			0.3			0.3	
Balance March 31, 2007	$ 2.7	$ (22.7)	$ 4,001.1	$1,096.0	$ 50.2	$5,127.3	

(in millions)	Common Shares	Treasury Shares	Additional Paid-In Capital	Retained Earnings	Accum Other Comp Income/(Loss)	Total	Comp Income
Balance January 1, 2006	$ 2.7	$ (15.1)	$ 3,969.4	$ 981.6	$ (5.6)	$ 4,933.0	
Comprehensive Income:							
Net Income				172.9		172.9	172.9
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (a)					(0.3)	(0.3)	(0.3)
Net unrealized gains on derivatives qualifying as cash flow hedges (b)					(51.0)	(51.0)	(51.0)
Total comprehensive income							121.6
Dividends:							
Common shares				(125.4)		(125.4)	
Treasury stock acquired		(5.9)				(5.9)	
Issued:							
Common stock issuance							
Employee stock purchase plan			0.2			0.2	
Long-term incentive plan			0.7			0.7	
Amortization of Long-Term Incentive Plan			0.3			0.3	
Balance March 31, 2006	$ 2.7	$ (21.0)	$ 3,970.6	$ 1,029.1	$ (56.9)	$ 4,924.5	

(a) Net unrealized losses on available for sale securities, net of $1.1 million and $0.2 million tax benefit in the first quarter 2007 and 2006, respectively

(b) Net unrealized gains (losses) on derivatives qualifying as cash flow hedges, net of $18.8 million tax expense and $28.9 million tax benefit in the first quarter of 2007 and 2006, respectively.

(c) Unrecognized pension benefit and OPEB costs, net of $1.8 million in the first quarter of 2007

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

15. Accumulated Other Comprehensive Income

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

(in millions)	March 31, 2007	December 31, 2006
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	$ **0.7**	$ 3.9
Tax (expense) on unrealized gains on securities	**(0.6)**	(1.7)
Unrealized gains on cash flow hedges	**90.8**	43.8
Tax (expense) on unrealized gains on cash flow hedges	**(31.2)**	(12.4)
Unrecognized pension benefit and OPEB costs	**(15.2)**	(20.2)
Tax benefit on unrecognized pension benefit and OPEB costs	**5.7**	7.5
Total Accumulated Other Comprehensive Income, net of taxes	$ **50.2**	$ 20.9

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.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

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 March 31, *(in millions)*	**2007**	2006
REVENUES		
Gas Distribution Operations		
Unaffiliated	**2,106.9**	2,180.3
Intersegment	**8.2**	4.4
Total	**2,115.1**	2,184.7
Gas Transmission and Storage Operations		
Unaffiliated	**163.7**	158.7
Intersegment	**66.1**	73.1
Total	**229.8**	231.8
Electric Operations		
Unaffiliated	**326.7**	306.5
Intersegment	**0.4**	0.4
Total	**327.1**	306.9
Other Operations		
Unaffiliated	**296.5**	32[illegible]
Intersegment	**17.1**	15.[illegible]
Total	**313.6**	342.4
Adjustments and eliminations	**(91.9)**	(93.3)
Consolidated Revenues	**$ 2,893.7**	$ 2,972.5

Operating Income (Loss)		
Gas Distribution Operations	**261.4**	206.0
Gas Transmission and Storage Operations	**107.0**	110.3
Electric Operations	**73.0**	68.1
Other Operations	**(3.3)**	(10.1)
Corporate	**(3.5)**	(6.7)
Consolidated Operating Income	**$ 434.6**	$ 367.6

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, 2006.

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.

For the three months ended March 31, 2007, NiSource reported income from continuing operations before cumulative effect of change in accounting principle of $209.1 million, or $0.76 per basic share, compared to $173.0 million, or $0.63 per basic share in 2006.

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

- Unfavorable weather during the first quarter of 2006 significantly decreased Gas Distribution Operations net revenues last year. NiSource's gas markets experienced 13% warmer weather compared to normal weather during the first quarter of 2006.
- Gas Distribution Operations net revenues also increased from higher commercial and industrial sales and margins, residential and commercial customer growth, and regulatory initiatives.

- Electric Operations net revenue increased due to lower unrecoverable MISO costs, increased wholesale margins, and customer growth partially offset by the timing of revenue credits.
- Decreased operating losses in Other Operations driven primarily by Whiting Clean Energy. See the discussion below under the heading "Whiting Clean Energy".

These increases were partially offset by the following items:

- Operation and maintenance expenses increases due to higher employee and administrative expenses, generation and maintenance costs, and depreciation charges.
- Higher effective tax rate for the first quarter of 2007 as compared to comparable period last year. The effective tax rate for 2007 is 37.2%. Last year's effective tax rate of 35.4% was favorably impacted by state deferred income tax adjustments recorded during the first quarter of 2006.

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 intends to provide an update on results of the review process by the end of May 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. Following are updates to the four-p plan for growth:

Commercial and Regulatory Initiatives

Whiting Clean Energy. On December 18, 2006, Whiting Clean Energy and BP executed an amendment which materially changed the terms of the ESA under which Whiting Clean Energy provides steam to BP. The improved results from this agreement, reflected in the first quarter results, are expected to continue through the remainder of 2007. This improvement is reflected in the results from the Other Operations segment, which has been producing negative results for a number of years. Other Operations reported an operating loss of $3.3 million for the first quarter of 2007, versus an operating loss of $10.1 million for the comparable 2006 period. 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. First quarter 2007 results were generally in line with management's belief that declines in customer demand experienced during 2006 were a response to higher market prices for natural gas, particularly in the aftermath of the 2005 hurricane season. As prices decreased during the later part of 2006, both usage erosion and customer attrition levels began to moderate. However, 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 is moving forward on regulatory initiatives across several distribution company markets. Whether through full rate case filings or other approaches, NiSource's goal is to develop strategies that benefit all stakeholders as it addresses changing customer conservation patterns, develops more contemporary pricing structures, and embarks on long-term investment programs to enhance our infrastructure. Rate case plan activities are underway at Bay State and Columbia of Pennsylvania, with filings anticipated later this year or in early 2008. Also, at Columbia of Ohio, stakeholder meetings have been initiated in an effort to meet the respective needs of all parties in shaping the future regulatory, commercial and investment model for Columbia of Ohio.

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 third quarter of 2007, with new rates expected to be in effect by the fourth 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. Following a February 27, 2007 evidentiary hearing, Northern Indiana filed an unopposed Form of Order, with the IURC on March 9, 2007. Northern Indiana expects a final order in the cause in the second quarter of 2007.

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. Columbia Transmission entered into contracts that represented revenues in excess of $45 million of shorter-term business for 2006. Stabilization in the natural gas market did moderate optimization revenues somewhat during the first quarter of 2007. 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. 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. The certificate amendment was approved by FERC on March 15, 2007. Hardy Storage was approved to go in-service on March 29, 2007 and began injecting gas into storage on April 1, 2007. This project will ultimately deliver 176,000 Dth per day of new firm storage services. Those services are fully subscribed under 15-year contracts with four mid-Atlantic utilities. Columbia Gas Transmission is expanding its transmission system to accommodate the new Hardy Storage Project volumes.

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 binding customer agreements, continues with NEPA pre-filing activities. Columbia Transmission expects to make its certificate application for the 2009 project with the FERC in the second quarter of 2007.

Columbia Gulf held a successful open season in March of 2007 to provide increased access to southern Louisiana markets. With planned in-service dates in the third and fourth quarters of 2007, Columbia Gulf will make firm deliveries in excess of 300,000 Dth per day to the Henry Hub and to Transcontinental Gas Pipeline at two expanded points of interconnection.

Process and Expense Management

IBM Agreement. During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM is providing a broad range of business transformation and outsourcing services to NiSource. As a part of the transformation initiatives, many new information technology systems and process changes had an accelerated time-line for completion, which created the risk of operational delays, potential errors and control failures which could impact 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. In early 2007, a high-level team of NiSource and IBM resources began an overall reassessment 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. In the first quarter of 2007, this assessment resulted in NiSource deciding to bring certain finance and accounting functions back within the company. These functions include general accounting, fixed assets, and budgeting. The joint team is continuing to review other areas of focus targeted for improvement. The delay in the transformation projects and the ongoing reassessment of the relationship is likely to result in a reduction in the projected cost savings.

Results of Operations
Quarter Ended March 31, 2007

Net Income

NiSource reported net income of $216.7 million, or $0.79 per basic share, for the three months ended March 31, 2007, compared to net income of $172.9 million, or $0.63 per basic share, for the first quarter 2006. Operating income was $434.6 million, an increase of $67.0 million from the same period in 2006. All per share amounts are basic earnings per share. Basic average shares of common stock outstanding at March 31, 2007 were 273.6 million compared to 272.3 million at March 31, 2006.

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 $7.9 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 March 31, 2007, [illegible] $1,062.5 million, an $81.7 million increase from the same period last year. Excluding the impact of $7.9 million [illegible] trackers discussed above, net revenues increased by $73.8 million. This increase in net revenues was primarily due to favorable weather in the first quarter of 2007 compared to the first quarter of 2006 impacting Gas Distribution Operations by approximately $42 million and increased commercial and industrial sales and customer growth within Gas Distribution Operations amounting to $7.5 million. Net revenues from Electric Operations also increased $8.8 million primarily as a result of increased residential and commercial customers and usage of approximately $8 million, increased wholesaler margins amounting to $2.9 million and lower unrecoverable MISO costs included in cost of sales of $2.1 million. These increases in Electric Operations net revenues were partially offset by lower industrial volumes amounting to $4.1 million and the timing of revenue credits of $3.0 million. Whiting Clean Energy had reduced losses of $4.5 million compared to the same period last year impacting Other Operations net revenues.

Expenses

Operating expenses for the first quarter 2007 were $629.4 million, an increase of $16.4 million from the 2006 period. Excluding expenses that are recovered through regulatory trackers, that increase both operating expenses and net revenues (see discussion above), operating expenses were up $8.5 million. This increase was primarily due to higher employee and administrative expenses of $14.4 million, largely due to increased service costs associated with the IBM agreement, and increased electric generation and maintenance costs of $4.0 million. These increases were mainly offset by the impact of higher expenses incurred in the same period last year for transition costs totaling $8.3 million associated with the IBM agreement.

Other Income (Deductions)

Interest expense, net was $98.6 million for the quarter, an increase of $3.3 million compared to the first quarter 2006. This increase was due primarily to higher short-term interest rates. Other, net was a loss of $2.8 million for the current quarter compared to a loss of $3.4 million for the comparable 2006 period due to costs associated with the sale of accounts receivable.

Income Taxes
Income tax for the first quarter of 2007 was $124.1 million, an increase of $29.3 million compared to the first quarter of 2006 due primarily to higher pretax income and a higher effective tax rate. The effective tax rate for the quarter ended March 31, 2007 was 37.2% compared to 35.4% for the comparable period last year. The 1.8% increase is primarily the result of reductions in deferred state income tax liabilities that were recorded in the first quarter of 2006.

Discontinued Operations
Results from Discontinued Operations for the first quarter of 2007 includes a $7.5 million reduction, net of taxes, in the liability for unrecognized tax benefits and $0.9 million in related interest, net of taxes, associated with the issuance of additional tax guidance in the first quarter of 2007.

Liquidity and Capital Resources

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

Operating Activities
Net cash from operating activities for the three months ended March 31, 2007 was $780.0 million, an increase of $51.0 million from the three months ended March 31, 2006. There were significant sources of cash generated from weather and pricing impacts on inventory, accounts payable, and exchange gas. However, these sources of cash were largely offset by uses of cash from changes in accounts receivable and underrecovered gas and fuel costs. These gas related activities, when combined with their impact on deferred taxes, generated most of the increase in working capital quarter over quarter.

Investing Activities
Capital expenditures of $152.1 million in the first three months of 2007 were $28.9 million higher than the comparable 2006 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 2007 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.

Restricted cash was $61.2 million and $142.5 million for the periods ended March 31, 2007 and December 31, 2006, respectively. The decrease in restricted cash was due primarily to volatility in forward gas prices during the first quarter of 2007 which resulted in decreased margin deposits on open derivative contracts.

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, 2007, 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. NiSource intends to provide an update on results of the review process by the end of May 2007.

NISOURCE INC.

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%.

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. 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 $300 million three-month revolving credit agreement with Dresdner Kleinwort that expired February 15, 2007.

NiSource Finance had outstanding credit facility borrowings of $620.0 million at March 31, 2007, at a weighted average interest rate of 5.67%, and borrowings of $1,193.0 million at December 31, 2006, at a weighted average interest rate of 5.68%. As of March 31, 2007 and December 31, 2006, NiSource Finance had $77.5 million and $81.9 million of stand-by letters of credit outstanding, respectively. At March 31, 2007, $46.1 million of the $77.5 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 $31.4 million of stand-by letters of credit outstanding at March 31, 2007, $28.0 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, 2007, $852.0 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 was 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 March 31, 2007, $350 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 21, 2007, and can be renewed if mutually agreed to by both parties. As of March 31, 2007, 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.

NISOURCE INC.

Contractual Obligations. On January 1, 2007, NiSource adopted the provisions of FIN 48. The adoption of FIN 48 did not have a significant impact on NiSource's liability for unrecognized tax benefits. The total amount of the liability for unrecognized tax benefits was $16.0 million as of the date of adoption, and $7.0 million at March 31, 2007. Refer to Note 9, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

Market Risk Disclosures

Risk is an inherent part of NiSource's energy businesses. The extent to which NiSource properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its businesses is critical to its profitability. NiSource seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks that are involved in NiSource's energy businesses: commodity market risk, interest rate risk and credit risk.

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

Commodity Price Risk

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

Commodity price risk resulting from derivative activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process, including gains or losses on these derivative instruments. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk. Some of NiSource's rate-regulated utility subsidiaries offer commodity price risk products to its customers for which derivatives are used to hedge forecasted customer usage under such products. These subsidiaries do not have regulatory recovery orders for these products and are subject to gains and losses recognized in earnings due to hedge ineffectiveness.

TPC, on behalf of Whiting Clean Energy, enters into power and gas derivative contracts to manage commodity price risk associated with operating Whiting Clean Energy. These derivative contracts do not always receive hedge accounting treatment under SFAS No. 133 and variances in earnings could be recognized as a result of marking these derivatives to market.

Interest Rate 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 $6.9 million for the three months ended March 31, 2007, 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 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 obligations and the market value of forward positions. Current credit exposure is generally measured by the notional or principal value of obligations and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for the gas marketing and derivative portfolios on an average, high and low basis was $0.1 million, $0.2 million and zero during the first quarter of 2007, 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. 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 8, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $617.3 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 provided to counterparties in ord facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities e under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

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

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 8, "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. 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, among other changes. In the fourth quarter of 2006, NiSource adopted the provisions of SFAS No. 158 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. On January 1, 2007, NiSource adopted the SFAS No. measurement date provisions requiring employers to measure plan assets and benefit obligations as of the year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions increased deferred charges and other assets by $9.4 million, decreased regulatory assets by $89.6 million, decreased retained earnings by $11.3 million, increased accumulated other comprehensive income by $5.3 million and decreased accrued liabilities for postretirement and postemployment benefits by $74.2 million. NiSource also recorded a reduction in deferred income taxes of approximately $2.6 million. In addition, 2007 expense for pension and postretirement benefits will reflect the updated measurement date valuations.

With the adoption of SFAS No. 158 NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. These rate-regulated subsidiaries recorded regulatory assets and liabilities that would otherwise have been recorded to accumulated other comprehensive income.

Refer to Note 10, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for additional information.

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 greater than 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. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, NiSource adopted the provisions of FIN 48. As a result of the implementation of FIN 48, NiSource recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 9, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

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.

When it adopted 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 income taxes, which reflected the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. Other than the requirement for expensing stock options, outstanding share-based awards will continue to be accounted for substantially as they are currently. As of March 31, 2007, the total remaining unrecognized compensation cost related to non-vested awards amounted to $11.1 million, which will be amortized over the weighted-average remaining requisite service period of 2.6 years.

Recently Issued Accounting Pronouncements

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.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits entities to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment will be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. NiSource is currently reviewing the provisions of SFAS No. 159 to determine whether to elect fair value measurement for any of its financial assets or liabilities when it adopts this standard in 2008.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

NISOURCE INC.
Gas Distribution Operations

Three Months Ended March 31, *(in millions)*	**2007**	2006
Net Revenues		
Sales Revenues	**$ 2,115.1**	$ 2,184.7
Less: Cost of gas sold	**1,491.7**	1.624.2
Net Revenues	**623.4**	560.5
Operating Expenses		
Operation and maintenance	**237.1**	228.5
Depreciation and amortization	**58.4**	57.3
Impairment and gain on sale of assets	**(0.3)**	-
Other taxes	**66.8**	68.7
Total Operating Expenses	**362.0**	354.5
Operating Income	**$ 261.4**	$ 206.0
Revenues ($ in Millions)		
Residential	**1,305.2**	1,482.4
Commercial	**472.7**	552.6
Industrial	**99.6**	115.4
Off System	**128.0**	95.3
Other	**109.6**	(61.0)
Total	**2,115.1**	2,184.7
Sales and Transportation (MMDth)		
Residential	**135.5**	116.6
Commercial	**77.9**	69.0
Industrial	**106.5**	98.1
Off System	**18.6**	10.8
Other	**0.3**	0.3
Total	**338.8**	294.8
Heating Degree Days	**2,623**	2,273
Normal Heating Degree Days	**2,636**	2,625
% Colder (Warmer) than Normal	**(0%)**	(13%)
Customers		
Residential	**3,090,502**	3,065,814
Commercial	**295,151**	291,922
Industrial	**8,253**	8,403
Other	**75**	59
Total	**3,393,981**	3,366,198

NiSource's natural gas distribution operations serve approximately 3.4 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with over 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.

Gas Distribution Operations (continued)

Regulatory Matters

Significant Rate Developments. 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 third quarter of 2007, with new rates expected to be in effect by the fourth quarter.

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. Following a February 27, 2007 evidentiary hearing, Northern Indiana filed an unopposed Form of Order, with the IURC on March 9, 2007. Northern Indiana expects a final order in the second quarter of 2007.

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

Certain operating costs of the NiSource distribution companies are significant, recurring in nature, and generally outside the control of the distribution companies. Some states allow the recovery of such costs via cost tracking mechanisms. Such tracking mechanisms allow for abbreviated regulatory proceedings in order for the distribution companies to implement charges and recover appropriate costs. Tracking mechanisms allow for more ti recovery of such costs as compared with more traditional cost recovery mechanisms. Examples of such mechanisms include gas cost recovery adjustment mechanisms, tax riders, and bad debt recovery mechanisms. Gas Distribution Operations revenue is increased by the implementation and recovery of costs via such tracking mechanisms. Comparability of Gas Distribution Operations line item operating results is impacted by these regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Increases in the expenses that are the subject of trackers result in a corresponding increase in net revenues and therefore have essentially no impact on total operating income results.

Certain of the NiSource distribution companies are embarking upon plans to replace significant portions of their operating systems that are nearing the end of their useful life. Those companies are currently evaluating requests for increases in rates in order to allow recovery of the additional capital expenditures required for such plans. Each LDC's approach to cost recovery may be unique, given the different laws, regulations and precedent that exist in each jurisdiction. Currently, Columbia of Pennsylvania and Columbia of Ohio are evaluating such plans and filings.

Certain types of natural gas risers, which are owned by customers, on Columbia of Ohio's distribution system have been evaluated under a study required by the PUCO, and have been found to be prone to leak natural gas under certain conditions. On February 1, 2007, Columbia of Ohio announced plans to identify and replace these certain types of risers on its distribution system. Columbia of Ohio estimates that the cost to identify and replace the risers will approximate $200 million. On March 2, 2007, Columbia of Ohio filed a request with the PUCO seeking authority to defer the expenses from its investigation of risers on its system. On April 25, 2007, Columbia of Ohio filed an application with the PUCO seeking authority to recover the expenses for which it is seeking deferral authorization, and all other riser replacement-related costs, through an automatic adjustment mechanism for the infrastructure replacement program.

Customer Usage. The NiSource distribution companies continue to experience declining usage by customers, in large part to the sensitivity of sales to volatile commodity prices. A significant portion of the LDC's oper costs are fixed in nature. Historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge. Many of NiSource's LDCs are evaluating mechanisms that would "de-couple" the recovery of fixed costs from throughput, and implement

NISOURCE INC.
Gas Distribution Operations (continued)

recovery mechanisms that more closely link the recovery of fixed costs with fixed charges. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing such changes.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of March 31, 2007, 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 Gas Distribution Operations segment.

Restructuring
Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $0.2 million for the first quarter of 2007 and the restructuring liability remaining at March 31, 2007 was $1.4 million. Refer to Note 4, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

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 2007 was comparable to normal and 15% colder than the comparable quarter in 2006.

Throughput
Total volumes sold and transported of 338.8 MMDth for the first quarter of 2007 increased 44.0 MMDth from the same period last year. This increase in volume was due to cooler weather and increased off-system sales in the current period compared to the same period last year.

Net Revenues
Net revenues for the three months ended March 31, 2007 were $623.4 million, an increase of $62.9 million from the same period in 2006, due to the impact of cooler weather amounting to approximately $42 million, increased commercial and industrial sales and customer growth of $7.5 million and an increase from regulatory trackers of $5.5 million, which are primarily offset in operating expenses.

Operating Income
For the first quarter of 2007, Gas Distribution Operations reported operating income of $261.4 million compared to operating income of $206.0 million for the same period in 2006. The increase in operating income was primarily attributable to increased net revenues described above. Operation and maintenance expenses, after adjusting for increased expenses of $5.5 million that are recovered through regulatory trackers and corresponding increases in net revenues, increased by $3.1 million compared to the same period last year. Increases in employee and administrative expenses of $11.2 million, which include higher cost associated with the IBM agreement, were mainly offset by the impact of higher expenses incurred in the same period last year for transition and new system development costs totaling $6.1 million associated with the IBM agreement.

NISOURCE INC.
Gas Transmission and Storage Operations

Three Months Ended March 31, *(in millions)*	**2007**	2006
Operating Revenues		
Transportation revenues	**$ 182.9**	$ 184.2
Storage revenues	**45.9**	44.4
Other revenues	**1.0**	3.2
Total Operating Revenues	**229.8**	231.8
Less: Cost of gas sold	**(0.5)**	5.4
Net Revenues	**230.3**	226.4
Operating Expenses		
Operation and maintenance	**80.7**	72.3
Depreciation and amortization	**29.0**	28.7
Other taxes	**15.1**	14.9
Total Operating Expenses	**124.8**	115.9
Equity Earnings (Loss) in Unconsolidated Affiliates	**1.5**	(0.2)
Operating Income	**$ 107.0**	$ 110.3

Throughput (MMDth)		
Columbia Transmission		
Market Area	**385.2**	328.5
Columbia Gulf		
Mainline	**147.1**	161.6
Short-haul	**40.5**	16.6
Columbia Pipeline Deep Water	**0.8**	[illegible]
Crossroads Gas Pipeline	**10.2**	11[illegible]
Granite State Pipeline	**11.6**	11.6
Intrasegment eliminations	**(128.2)**	(156.3)
Total	**467.2**	375.9

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.

Proposed Millennium Pipeline Project

Millennium 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 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. The Millennium partnership is 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.

The reconfigured Millennium project relies on completion of some or all of several other related pipeline pro[illegible] proposed by Empire, Algonquin, Iroquois, and Islander East collectively referred to as the "Companion Pipeli[illegible] The December 21, 2006 certificate order also granted the necessary project approvals to the Companion Pipelines. In addition, Millennium has received requested tax relief in New York. Millennium is in the process of bidding and analyzing the project costs for both 2007 and 2008. If the cost review determines the Millennium Project is still

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

economically viable, construction will start in the spring of 2007 with a projected in-service date of November 1, 2008.

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 favorable orders 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. The certificate amendment was approved by FERC on March 15, 2007. Hardy Storage was approved to go in-service on March 29, 2007 and began injecting gas into storage on April 1, 2007.

On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into multiple agreements to finance the construction of Hardy Storage. Under the financing agreements, 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 13-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements.

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 binding customer agreements, continues with NEPA pre-filing activities. Columbia Transmission expects to make its certificate application for the 2009 project with the FERC in the second quarter of 2007.

Columbia Gulf held a successful open season in March of 2007 to provide increased access to southern Louisiana markets. With planned in-service dates in the third and fourth quarters of 2007, Columbia Gulf will make firm deliveries in excess of 300,000 Dth per day to the Henry Hub and to Transcontinental Gas Pipeline at two expanded points of interconnection.

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. Columbia Transmission entered into contracts that represented revenues in excess of $45 million of shorter-term business for 2006. Stabilization in the natural gas market did moderate optimization revenues somewhat during the first quarter of 2007. 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.

Regulatory Matters

Significant FERC Developments. 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 was January 1, 2006 after which all assessment costs have been recorded as operating expenses. The rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. In November, 2005, the INGAA sought review of the matter before the U. S. Court of Appeals for the D.C. Circuit (INGAA V. FERC, No. 05-1426). Oral argument was presented before the Court on January 16, 2007 and a ruling is currently pending.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

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. On December 29, 2006, Columbia Gulf filed in the D.C. Circuit Court of Appeals a Petition for Review of the Commission's July 20, 2006 order and a subsequent order denying Columbia Gulf's Request for Rehearing.

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. While disappointed with the FERC's referral of this matter to the Office of Enforcement, Columbia Gulf has cooperated with the Office of Enforcement's investigation. Columbia Gulf believes that an acceptable resolution of this matter can be reached during the second quarter 2007, which may include the payment of a fine by Columbia Gulf, the amount of which cannot be predicted at this time.

Columbia Gulf and Columbia Transmission are also cooperating with FERC on an informal non-public investigation of certain operating practices regarding tariff services offered by those companies. At this time, the companies cannot predict what the result of that investigation will be, but the FERC has indicated that it may seek to impose fines and possibly seek other remedies as well.

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, which is scheduled to hear the issue during the second quarter of 2007. The final outcome of the case and its impact on the financial statements are uncertain at this time.

Environmental Matters

Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of March 31, 2007, 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 Gas Transmission and Storage Operations segment.

Restructuring

Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.5 million for the first quarter of 2007 and the restructuring liability remaining at March 31, 2007 was $1.9 million. Refer to Note 4, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Throughput

Throughput for the Gas Transmission and Storage Operations segment totaled 467.2 MMDth for the first quarter of 2007, compared to 375.9 MMDth for the same period in 2006. The increase of 91.3 MMDth is due primarily to cooler weather in 2007 versus 2006.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Net Revenues

Net revenues were $230.3 million for the first quarter of 2007, an increase of $3.9 million from the same period in 2006, primarily due to increased subscriptions for firm transportation services and insurance proceeds from a business interruption claim.

Operating Income

Operating income was $107.0 million for the first quarter of 2007 compared to $110.3 million in the first quarter of 2006. Increases in net revenues described above were more than offset by increased operation and maintenance expenses of $8.4 million. Operation and maintenance expenses increased as a result of higher employee and administrative costs of $3.8 million, increased property insurance costs of $2.0 million and increases in other maintenance and outside service costs. The increased property insurance costs were mainly attributable to insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico.

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

NISOURCE INC.
Electric Operations

Three Months Ended March 31, *(in millions)*	**2007**	2006
Net Revenues		
Sales revenues	**$ 327.1**	$ 306.9
Less: Cost of sales	**128.7**	117.3
Net Revenues	**198.4**	189.6
Operating Expenses		
Operation and maintenance	**61.8**	60.5
Depreciation and amortization	**48.0**	46.1
Other taxes	**15.6**	14.9
Total Operating Expenses	**125.4**	121.5
Operating Income	**$ 73.0**	$ 68.1
Revenues ($ in millions)		
Residential	**93.0**	80.9
Commercial	**89.8**	82.4
Industrial	**129.0**	125.5
Wholesale	**11.3**	5.5
Other	**4.0**	12.6
Total	**327.1**	306.9
Sales (Gigawatt Hours)		
Residential	**845.2**	761.1
Commercial	**928.0**	894 [illegible]
Industrial	**2,341.8**	2,43[illegible]
Wholesale	**137.3**	152.1
Other	**26.7**	28.6
Total	**4,279.0**	4,273.2
Electric Customers		
Residential	**398,493**	395,653
Commercial	**52,199**	51,313
Industrial	**2,512**	2,521
Wholesale	**4**	8
Other	**757**	762
Total	**453,965**	450,257

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 454 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.

Electric Supply

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 long term. These bids are being evaluated and compared to other options including building different types of power plants, entering into a natural gas purchase contract to provide low cost gas for power production and restarting the Mitchell Station. No commitment to pursue any specific option or group of options has been made. Management anticipates the evaluation of options will continue through 2007.

NISOURCE INC.
Electric Operations (continued)

Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

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. The credits will continue 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. 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 $13.7 million and $10.7 million were recognized for electric customers for the first quarter of 2007 and 2006, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding the administrative fees and non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first quarter of 2007 administrative fees of $1.3 million and non-fuel costs of $0.9 million were deferred. Total MISO costs deferred through March 31, 2007 were $6.5 million.

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 on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. This resettlement is scheduled to commence in July 2007. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a standard, quarterly, "summary" regulatory proceeding in Indiana (FAC). Northern Indiana has historically been found prudent in the procurement of fuel and purchased power.

In July 2006, the IURC issued an order creating a sub-docket in FAC 71 based upon a motion by interveners, the Industrial Group and La Porte County. The motion requested an investigation into Northern Indiana's generation and purchases practices that could not be fully considered in a summary proceeding. The sub-docket will also address concerns raised by the OUCC related to the reasonableness of recovering financial hedging transactions within the FAC. Subsequently, the IURC has approved FAC 72, 73 and 74 subject to the sub-docket in FAC 71. Amounts collected pursuant to FAC 71, 72, 73 and 74 are subject to refund based upon the final order in the sub-docket. A hearing in the FAC 71 sub-docket is scheduled for the second quarter of 2007 and an order anticipated before the end of 2007.

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 13, 2006, the IURC approved Northern Indiana's latest compliance plan with the estimate of $312.8 million. On April 11, 2007, the IURC approved EER-9 and EER-4 for capital expenditures (net of accumulated depreciation) and operating expenses of $222.2 million and $14.1 million, through December 31, 2006, respectively.

NISOURCE INC.
Electric Operations (continued)

On December 8, 2006, Northern Indiana filed a petition requesting a certificate of public convenience and necessity for clean coal technology projects, to address the first phase of CAIR and CAMR. The request included initiating ongoing review of the construction of the projects; finding that the projects constitute "qualified pollution control property" and are eligible for the rate-making treatment; finding that the projects constitute "clean coal and energy projects" and finding that the projects are reasonable and necessary and therefore eligible for the financial incentives; approving accounting, rate-making treatment, cost recovery and other relief in connection with Northern Indiana's clean coal technology, qualified pollution control property and clean coal and energy projects. Testimony was filed in February 2007 requesting approval of $23 million of cost estimates for the projects. The hearing is scheduled for May 22, 2007.

Mitchell Station. 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. 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 including the potential increase in level of environmental controls required.

Environmental Matters

Currently, various environmental matters impact the Electric Operations segment. As of March 31, 2007, 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 2007 were 4,279.0 gwh, compared to 4,273.2 gwh i first quarter of 2006. Increases in residential and commercial sales were mostly offset by decreased industrial sales due to lower usage for the first three months of 2007 compared to the same period last year.

Net Revenues

In the first quarter of 2007, electric net revenues of $198.4 million increased by $8.8 million from the comparable 2006 period. This improvement was primarily a result of increased residential and commercial customers and usage of approximately $8 million, increased wholesale margins amounting to $2.9 million and lower unrecoverable MISO costs of $2.1 million included in cost of sales. These increases in net revenues were partially offset by lower industrial volumes amounting to $4.1 million and the timing of revenue credits.

Operating Income

Operating income for the first quarter of 2007 was $73.0 million, an increase of $4.9 million from the same period in 2006. The increase in operating income was due to increased net revenues described above partially offset by increased operating expenses of $3.9 million. Operating expenses increased primarily due to higher electric generation and maintenance expenses of $4.0 million.

NISOURCE INC.
Other Operations

Three Months Ended March 31, *(in millions)*	**2007**	2006
Net Revenues		
Products and services revenue	**$ 313.6**	$ 342.4
Less: Cost of products purchased	**301.7**	336.8
Net Revenues	**11.9**	5.6
Operating Expenses		
Operation and maintenance	**10.6**	12.4
Depreciation and amortization	**2.6**	2.8
Impairment and gain on loss of assets	**-**	(1.6)
Other taxes	**2.0**	2.1
Total Operating Expenses	**15.2**	15.7
Operating Loss	**$ (3.3)**	$ (10.1)

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.

PEI Holdings, Inc.

Whiting Clean Energy. On December 18, 2006, Whiting Clean Energy and BP executed an amendment which materially changed 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, the amendment 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. Management believes it is unlikely that BP will exercise this option. The carrying amount of the Whiting Clean Energy facility is approximately $275 million.

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. Two of these investments were disposed of during 2006 and three other investments are expected to be sold or disposed of during 2007. NiSource has accounted for the investments to be sold as assets and liabilities of discontinued operations.

Net Revenues

Net revenues of $11.9 million for the first quarter of 2007 increased by $6.3 million from the first quarter of 2006, as a result of higher revenues from the Whiting Clean Energy facility of $4.5 and increased commercial and industrial gas marketing revenues of $2.0 million.

Operating Loss

Other Operations reported an operating loss of $3.3 million for the first quarter of 2007, versus an operating loss of $10.1 million for the comparable 2006 period. The decrease in the operating loss primarily resulted from increased net revenues described above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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. 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 implementat-- In the first quarter of 2007, this assessment resulted in NiSource deciding to bring certain finance and accou functions back within the company. These functions include general accounting, fixed assets, and budgeting. The joint team is continuing to review other areas of focus targeted for improvement.

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

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. 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 filed motions with the trial court challenging the award and the trial court held a hearing in March on these motions. 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. NiSource has not established a reserve for the punitive damages portion of the verdict.

2. 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. Columbia has assumed the defense of Chesapeake in this matter pursuant to the provisions of the Stock Purchase Agreement dated July 3, 2003, among Columbia, NiSource, and Triana, Chesapeake's predecessor in interest. Plaintiffs filed an amended complaint on March 19, 2007, which, among other things, added NiSource and Columbia as defendants.

ITEM 1A. RISK FACTORS

NISOURCE INC.

NiSource's recent outsourcing initiative and service agreement with IBM may not achieve the level of sa 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 that it could deliver as much as $530 million in gross savings in operating and capital costs. As part of the proposed transformation initiatives under that agreement, many new information technology systems and process changes had an accelerated time-line for completion. In August 2006, NiSource and IBM decided to delay further implementation of certain technology systems beyond January 1, 2007 due to difficulties encountered with the first wave of new system implementations. At the beginning of 2007, a high-level team of NiSource and IBM resources began a joint reassessment of the relationship, including the transformation projects that were part of the original agreement. In the first quarter of 2007, this assessment resulted in NiSource deciding to bring certain finance and accounting functions back within the company. These functions include general accounting, fixed assets, and budgeting. The joint team is continuing to review other areas of focus targeted for improvement. The delay in the transformation projects and the ongoing reassessment of the relationship is likely to result in a reduction in the projected cost savings.

Other than the risk factor disclosed above, there were no other material changes from the risk factors disclosed in NiSource's 2006 Form 10-K filed on March 1, 2007.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

NISOURCE INC.

(10.1) NiSource Corporate Incentive Plan (Restated, with administrative changes only, effective January 1, 2007). * **

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

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

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

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

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

** Exhibit filed herewith.

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

SIGNATURE

NISOURCE INC.

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

NiSource Inc.
(Registrant)

Date: May 4, 2007

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

NiSource Inc.
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Merrillville, Indiana 46410-6272