

NISOURCE INC/DE
Form 10-K
February 24, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware 35-2108964

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

801 East 86th Avenue

Merrillville, Indiana 46410

(Address of principal executive (Zip Code)

offices)

(877) 647-5990

(Registrant's telephone number, including area code)

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

Title of each class	Name of each exchange on which registered
Common Stock	New York

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of Common Stock (based upon the June 30, 2011, closing price of \$20.25 on the New York Stock Exchange) held by non-affiliates was approximately \$5,661,012,618.

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

Documents Incorporated by Reference

Part III of this report incorporates by reference specific portions of the Registrant's Notice of Annual Meeting and Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 15, 2012.

Table of Contents**CONTENTS**

	Page
<u>Defined Terms</u>	No. 3
Part I	
Item 1. <u>Business</u>	6
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	14
Item 2. <u>Properties</u>	15
Item 3. <u>Legal Proceedings</u>	16
Item 4. <u>Mine Safety Disclosures</u>	17
<u>Supplemental Item. Executive Officers of the Registrant</u>	18
Part II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	19
Item 6. <u>Selected Financial Data</u>	20
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	63
Item 8. <u>Financial Statements and Supplementary Data</u>	64
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	161
Item 9A. <u>Controls and Procedures</u>	161
Item 9B. <u>Other Information</u>	161
Part III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	162
Item 11. <u>Executive Compensation</u>	162
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	162
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	162
Item 14. <u>Principal Accounting Fees and Services</u>	162
Part IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	163
<u>Signatures</u>	164
<u>Exhibit Index</u>	165

Table of Contents

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission L.L.C.
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company Inc.
NiSource Midstream	NiSource Midstream Services, L.L.C.
PEI	PEI Holdings, Inc.
Whiting Clean Energy	Whiting Clean Energy, Inc.

Abbreviations

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

CAMR
Ccf
CARE
CCGT

Clean Air Mercury Rule
Hundred cubic feet
Conservation and Ratemaking Efficiency
Combined Cycle Gas Turbine

3

Table of Contents**DEFINED TERMS**

CCRs	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
Chesapeake	Chesapeake Appalachia, L.L.C.
CO ₂	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services
IDEM	Indiana Department of Environmental Management
IFA	Indiana Finance Authority
IFRS	International Financial Reporting Standards
IIG	Indiana Industrial Group
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
MACT	Maximum Achievable Control Technology
Mcf	Million cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
mw	Megawatts
mwh	Megawatts hours
NAAQS	National Ambient Air Quality Standards
NLMK	Novolipetsk Steel

Edgar Filing: NISOURCE INC/DE - Form 10-K

NOV
NO₂
NO_x
NSR
NYMEX

Notice of Violation
Nitrogen dioxide
Nitrogen oxides
New Source Review
New York Mercantile Exchange

4

Table of Contents

DEFINED TERMS

OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUCC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PJM	PJM Interconnection is a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.
	particulate matter
PM	Price Protection Service
PPS	Public Service Commission
PSC	Public Utility Commission
PUC	Public Utilities Commission of Ohio
PUCO	Royal Bank of Scotland PLC
RBS	Resource Conservation and Recovery Act
RCRA	Regional Transmission Organization
RTO	Securities and Exchange Commission
SEC	State Implementation Plan
SIP	Sulfur dioxide
SO ₂	Sugar Creek electric generating plant
Sugar Creek	Value-at-risk and instrument sensitivity to market factors
VaR	Variable Interest Entity
VIE	Virginia State Corporation Commission
VSCC	Weighted Average Cost of Gas
WACOG	

Table of Contents

ITEM 1. BUSINESS

NiSOURCE INC.

NiSource (the Company) is an energy holding company whose subsidiaries provide natural gas, electricity and other products and services to approximately 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. NiSource is the successor to an Indiana corporation organized in 1987 under the name of NIPSCO Industries, Inc., which changed its name to NiSource on April 14, 1999.

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

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

Gas Distribution Operations

NiSource's natural gas distribution operations serve more than 3.3 million customers in seven states and operate approximately 58 thousand miles of pipeline. Through its wholly-owned subsidiary, Columbia, NiSource owns five distribution subsidiaries that provide natural gas to approximately 2.2 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, and Maryland. NiSource also distributes natural gas to approximately 795 thousand customers in northern Indiana. Additionally, NiSource's subsidiary, Columbia Gas of Massachusetts, distributes natural gas to approximately 298 thousand customers in Massachusetts.

Gas Transmission and Storage Operations

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

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

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

Electric Operations

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

Table of Contents

ITEM 1. BUSINESS

NiSOURCE INC.

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

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

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

Corporate and Other Operations

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

Divestiture of Non-Core Assets

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

Business Strategy

NiSource focuses its business strategy on its core, rate-regulated asset-based businesses with most of its operating income generated from the rate-regulated businesses. With one of the nation's largest natural gas pipelines, one of the largest natural gas distribution networks east of the Rocky Mountains and one of the nation's largest natural gas storage networks, NiSource operates throughout the energy-intensive corridor that extends from the supply areas in the Gulf Coast through the consumption centers in the Midwest, Mid-Atlantic, New England and Northeast. This corridor includes over 40% of the nation's population and close to 50% of its natural gas consumption. NiSource continues to position its assets to meet the corridor's growing energy needs.

Competition and Changes in the Regulatory Environment

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

Natural Gas Competition. Open access to natural gas supplies over interstate pipelines and the deregulation of the commodity price of gas has led to tremendous change in the energy markets. LDC customers and marketers purchase gas directly from producers and marketers as an open, competitive market for gas supplies has emerged. This separation or unbundling of the transportation and other services offered by pipelines and LDCs allows customers to purchase the commodity independent of services provided by the pipelines and LDCs. The LDCs continue to purchase gas and recover the associated costs from their customers. NiSource's Gas Distribution Operations subsidiaries are involved in programs that provide customers the opportunity to purchase their natural gas requirements from third parties and use the NiSource Gas Distribution Operations subsidiaries for transportation services. The Gas Transmission and Storage Operations compete for transportation customers based on the type of service a customer needs, operating flexibility, available capacity and price under tariff provisions.

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents

ITEM 1. BUSINESS

NiSOURCE INC.

Financing Subsidiary

NiSource Finance is a 100% owned, consolidated finance subsidiary of NiSource that engages in financing activities to raise funds for the business operations of NiSource and its subsidiaries. NiSource Finance was incorporated in February 2000 under the laws of the state of Indiana. Prior to 2000, the function of NiSource Finance was performed by Capital Markets. NiSource Finance obligations are fully and unconditionally guaranteed by NiSource.

Other Relevant Business Information

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

As of December 31, 2011, NiSource had 7,957 employees of whom 3,295 were subject to collective bargaining agreements.

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

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

Table of Contents

ITEM 1A. RISK FACTORS

NiSOURCE INC.

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

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

NiSource had total consolidated indebtedness of \$7,953.8 million outstanding as of December 31, 2011. The substantial indebtedness could have important consequences to investors. For example, it could:

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

Some of NiSource's debt obligations contain financial covenants related to debt-to-capital ratios and cross-default provisions. NiSource's failure to comply with any of these covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of outstanding debt obligations. Additionally, a drop in NiSource's credit rating could adversely impact the cost for NiSource to issue new debt securities.

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

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

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

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

Table of Contents

ITEM 1A. RISK FACTORS

NiSOURCE INC.

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

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

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

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

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

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

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

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

Most of NiSource's net revenues are subject to economic regulation at either the federal or state level. As such, the net revenues generated by those regulated companies are subject to regulatory review by the applicable federal or state authority. These rate reviews determine the energy rates charged to customers and directly impact revenues. NiSource's financial results are dependent on frequent regulatory proceedings in order to ensure timely recovery of costs. Additionally, the costs of complying with future changes in environmental laws and regulations are expected to be significant, and their recovery through rates will be contingent on regulatory approval.

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

Table of Contents

ITEM 1A. RISK FACTORS

NiSOURCE INC.

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

NiSource's subsidiaries are subject to extensive federal, state and local environmental requirements that, among other things, regulate air emissions, water usage and discharges, remediation and the management of chemicals, hazardous waste, solid waste, and coal combustion residuals. Compliance with these legal obligations requires NiSource to make expenditures for installation of pollution control equipment, remediation, environmental monitoring, emissions fees and permits at many of NiSource's facilities. These expenditures are significant, and NiSource expects that they will continue to be significant in the future. Furthermore, if NiSource's subsidiaries fail to comply with environmental laws and regulations or cause harm to the environment or persons, even if caused by factors beyond NiSource's control, that failure or harm may result in the assessment of civil or criminal penalties and damages against NiSource and its subsidiaries.

Existing environmental laws and regulations may be revised and new laws and regulations seeking to protect the environment may be adopted or become applicable to NiSource's subsidiaries. Revised or additional laws and regulations could result in significant additional expense and operating restrictions on NiSource's facilities or increased compliance costs, which may not be fully recoverable from customers and would, therefore, reduce net income. Moreover, such costs could materially affect the continued economic viability of one or more of NiSource's facilities.

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

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

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

Energy sales are sensitive to variations in weather. Forecasts of energy sales are based on normal weather, which represents a long-term historical average. Significant variations from normal weather could have, and have had, a material impact on energy sales. Additionally, residential usage, and to some degree commercial usage, have shown to be sensitive to fluctuations in commodity costs for gas and electricity, whereby usage declines with increased costs, thus affecting NiSource's financial results. Lastly, residential and commercial customers' usage has shown to be sensitive to economic conditions and the impact of macro-economic drivers such as unemployment, consumption and consumer confidence, which could also affect NiSource's financial results.

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

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

Table of Contents

ITEM 1A. RISK FACTORS

NiSOURCE INC.

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

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

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

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

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

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

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

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

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

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

Table of Contents

ITEM 1A. RISK FACTORS

NiSOURCE INC.

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

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

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

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

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

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

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

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

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

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

business opportunities.

Table of Contents

ITEM 1A. RISK FACTORS

NiSOURCE INC.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

NiSOURCE INC.

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

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

Gas Transmission and Storage Operations. NiSource Gas Transmission and Storage subsidiaries own and operate 15,060 miles of natural gas transmission pipeline. Columbia Transmission owns and leases approximately 775 thousand acres of underground storage, 3,491 storage wells, 11,453 miles of pipeline and 91 compressor stations with 624,179 hp of installed capacity. Columbia Transmission's operations are located in Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia, and West Virginia. Columbia Gulf has 3,405 miles of transmission pipeline and 11 compressor stations with 470,238 hp of installed capacity. Columbia Gulf's operations are located in Kentucky, Louisiana, Mississippi, Tennessee, Texas and Wyoming. Crossroads Pipeline has 202 miles of transmission pipeline and one compressor station with 3,000 hp of installed capacity. Crossroads Pipeline's operations are located in Indiana and Ohio. NiSource Gas Transmission and Storage Operations' offices are headquartered in Houston, Texas.

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

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

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

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

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

NiSOURCE INC.

Majorsville Operations Center PADEP Notice of Violation

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

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

Table of Contents

ITEM 4. Mine Safety Disclosures

NiSOURCE INC.

Not applicable.

Table of Contents

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

NiSOURCE INC.

The following is a list of the Executive Officers of the Registrant, including their names, ages and offices held, as of February 1, 2012.

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

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****NiSOURCE INC.**

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

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

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

Holders of shares of NiSource's common stock are entitled to receive dividends when, as and if declared by NiSource's Board out of funds legally available. The policy of the Board has been to declare cash dividends on a quarterly basis payable on or about the 20th day of February, May, August and November. NiSource paid quarterly common dividends totaling \$0.92 per share for the years ended December 31, 2011, 2010, and 2009. At its January 27, 2012 meeting, the Board declared a quarterly common dividend of \$0.23 per share, payable on February 20, 2012 to holders of record on February 6, 2012.

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

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****NiSOURCE INC.**

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

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

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

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

NiSOURCE INC.

For 2009, Gas Distribution and Other gross revenues decreased due to a decline in natural gas commodity prices.

For 2009, operating income decreased \$25.3 million due to pre-tax restructuring charges, net of adjustments.

For 2008, the Results from Discontinued Operations net of taxes includes the after tax loss on disposition related to the sales of Whiting Clean Energy, Northern Utilities and Granite State Gas of \$32.3 million, \$63.3 million and \$12.5 million, respectively, and an adjustment of \$188.0 million for the Tawney litigation. Refer to the Liquidity and Capital Resources section of Item 7 for additional information.

In the third quarter of 2008, NiSource Development Company sold its interest in JOF Transportation Company to Lehigh Service Corporation for a pre-tax gain of \$16.7 million included within Other, net on the Statements of Consolidated Income.

During the second quarter 2008, Northern Indiana purchased Sugar Creek for \$329.7 million, which is included in the above capital expenditures amount for 2008.

During the fourth quarter of 2007, Whiting Clean Energy redeemed its outstanding long-term notes. The associated redemption premium of \$40.6 million was recorded as a loss on early extinguishment of long-term debt.

In 2007, NiSource adopted the new measurement date provisions of the amended ASC topic for retirement benefits which decreased Total Assets by approximately \$80.2 million, decreased Total Liabilities by approximately \$76.8 million and decreased total Common stockholders equity by approximately \$3.4 million, net of taxes.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

NiSOURCE INC.

Index	Page
<u>Consolidated Review</u>	22
<u>Executive Summary</u>	22
<u>Results of Operations</u>	28
<u>Liquidity and Capital Resources</u>	37
<u>Off Balance Sheet Items</u>	42
<u>Market Risk Disclosures</u>	42
<u>Other Information</u>	45
<u>Results and Discussion of Segment Operations</u>	50
<u>Gas Distribution Operations</u>	51
<u>Gas Transmission and Storage Operations</u>	55
<u>Electric Operations</u>	60
<i>Note regarding forward-looking statements</i>	

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

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, the impact of potential new environmental laws or regulations, the results of material litigation, changes in pension funding requirements, changes in general economic, capital and commodity market conditions, and counter-party credit risk, and the matters set forth in Item 1A, Risk Factors of this report, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

CONSOLIDATED REVIEW**Executive Summary**

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

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

Table of Contents

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

NISOURCE INC.

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

NiSource's Gas Transmission and Storage Operations' net revenues increased \$56.4 million from the same period in 2010, primarily due to higher demand margin revenue as a result of new growth projects. See below for a discussion of growth projects at Gas Transmission and Storage Operations. Additionally, there was an increase due to the net impact of the rate case filing at Columbia Gulf. See below for a discussion of commercial and regulatory initiatives and the expected impact on NiSource.

Depreciation and amortization decreased \$58.9 million primarily as a result of new depreciation rates at Northern Indiana from the implementation of the gas rate case. These rates were put into effect at the end of 2010. Rates for 2012 will be comparable to 2011.

Loss on early extinguishment of long-term debt decreased \$42.8 million in 2011 due to the differences in early redemption fees, primarily attributable to early redemption premiums and unamortized discounts and fees, related to tender offers finalized in the fourth quarter of both 2011 and 2010. See below for a discussion of NiSource's financial management of the balance sheet for more information.

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

Operation and maintenance expense increased \$59.2 million primarily related to additional pension contributions at the Gas Transmission and Storage Operations segment. As provided by its rate cases, GAAP pension expense is deferred to a regulatory asset and pension contributions are recorded to expense. NiSource expects to experience reduced pension costs in 2012 as a result of this contribution. Additionally, during the fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded \$35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers. Refer to Note 20-D, Environmental Matters, in the Notes to Consolidated Financial Statements for more information.

The effective tax rate increased to 35.0% compared to 32.2% for the comparable period last year. The increase is due to a tax rate change in Indiana in 2011 that lowers the corporate income tax rate from 8.5% to 6.5% over four years beginning on July 1, 2012. In addition, other deferred tax assets and liabilities, primarily deferred tax assets related to Indiana net operating loss carryforward, were required to be reduced to reflect the lower rate at which these temporary differences and tax benefits will be realized. In the second quarter of 2011, NiSource recorded tax expense of \$6.8 million to reflect the effect of this rate change. In the third quarter of 2010, NiSource recorded a \$15.2 million reduction in income tax expense as a result of a rate case settlement by Columbia of Pennsylvania that required it to flow through certain tax benefits to customers in current rates. NiSource expects to experience benefits related to this issue until January 2014.

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

Four-Point Platform for Growth

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

Commercial and Regulatory Initiatives

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

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

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

Commercial Growth and Expansion of the Gas Transmission and Storage Business

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

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

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

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

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

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

Table of Contents

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

NiSOURCE INC.

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

Financial Management of the Balance Sheet

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

On November 23, 2011, NiSource Finance issued \$250.0 million of 4.45% senior unsecured notes that mature December 1, 2021 and \$250.0 million of 5.80% senior unsecured notes that mature February 1, 2042.

On November 14, 2011, NiSource Finance commenced a cash tender offer for up to \$250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately \$125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately \$228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which \$124.7 million were accepted for purchase. In accordance with the provisions of ASC 470, *Debt*, NiSource Finance determined the debt issued on November 23, 2011, was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a \$53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

During July 2011, Northern Indiana redeemed \$18.7 million of its medium-term notes, with an average interest rate of 7.30%.

On June 10, 2011, NiSource Finance issued \$400.0 million of 5.95% senior unsecured notes that mature June 15, 2041.

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to \$500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo.

On March 3, 2011, NiSource Finance entered into a new \$1.5 billion four-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility has a termination date of March 3, 2015 and replaced an existing \$1.5 billion five-year credit facility, which would have expired during July 2011.

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

Process and Expense Management

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

Table of Contents

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

NiSOURCE INC.

Ethics and Controls

NiSource has had a long term commitment to providing accurate and complete financial reporting as well as high standards for ethical behavior by its employees. NiSource's senior management takes an active role in the development of this Form 10-K and the monitoring of the Company's internal control structure and performance. In addition, NiSource will continue its mandatory ethics training program in which employees at every level throughout the organization participate.

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

Results of Operations

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

Income from Continuing Operations and Net Income

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

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

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

Immaterial Restatement

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

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

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

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

Income taxes	(0.1)	0.9	2.9	(1.1)	(3.7)	(0.5)	(0.9)
Corrected Net Income	\$ 34.7	\$ 40.2	\$ 209.5	\$ 31.8	\$ 27.6	\$ 27.3	\$ 195.9

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

Statements of Consolidated Cash Flows

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

of \$6.7 million and the impact of \$5.4 million of fees received from a contract buy-out during 2010.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

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

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

Expenses

Operating expenses were \$2,572.2 million in 2011, an increase of \$22.4 million from the comparable 2010 period. This increase was primarily due to an increase in operation and maintenance expenses of \$59.2 million, higher impairment charges of \$14.8 million and increased other taxes of \$7.3 million. The increase in operation and maintenance is due primarily to an increase in employee and administrative costs driven largely by an increase in pension contributions at Gas Transmission and Storage Operations. As provided by its rate cases, GAAP pension

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

expense is deferred to a regulatory asset and pension contributions are recorded to expense. Additionally, during the fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded \$35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers. Higher impairment costs relate to the additional impairment of \$14.7 million recorded in the fourth quarter of 2011 related to Lake Erie Land. These increases were partially offset by a decrease of \$58.9 million in depreciation and amortization expense primarily as a result of the new depreciation rates at Northern Indiana as a result of the implementation of the gas rate case.

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

Equity Earnings in Unconsolidated Affiliates

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

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

Other Income (Deductions)

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

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

Income Taxes

The effective income tax rates were 35.0%, 32.2%, and 41.8% in 2011, 2010 and 2009, respectively. The 2.8% increase in the overall effective tax rate in 2011 versus 2010 was primarily due to a tax rate change in Indiana in 2011 that resulted in recording \$6.8 million in tax expense in

Edgar Filing: NISOURCE INC/DE - Form 10-K

the second quarter, and the 2010 rate settlements that resulted in the flow through of certain tax benefits in rates. The effect of the rate settlements also was the primary

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

cause of the decrease in the overall effective tax rate from 2009 to 2010. Moreover, in 2009 the Company recorded the impact of certain nondeductible expenses, which increased tax expense \$5.3 million and additional deferred income tax expense of \$9.7 million related primarily to state income tax apportionment changes.

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

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

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

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

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

The 2010 Health Care Act includes a provision eliminating, effective January 1, 2013, the tax deductibility of retiree health care costs to the extent of federal subsidies received under the Retiree Drug Subsidy program. When the Retiree Drug Subsidy was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, NiSource recorded a deferred tax asset reflecting the exclusion of the expected future Retiree Drug Subsidy from taxable income. At the same time, an offsetting regulatory liability was established to reflect NiSource's obligation to reduce income taxes collected in future rates. ASC Topic 740 - Income Taxes requires the impact of a change in

Table of Contents

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

NiSOURCE INC.

tax law to be immediately recognized in continuing operations in the income statement for the period that includes the enactment date. In the first quarter of 2010, NiSource reversed its deferred tax asset of \$6.2 million related to previously excludable Retiree Drug Subsidy payments expected to be received after January 1, 2013, which was completely offset by the reversal of the related regulatory liability.

Discontinued Operations

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

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

Liquidity and Capital Resources

A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, are subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries and perform necessary maintenance of facilities. NiSource believes that through income generated from operating activities, amounts available under its short-term revolver, commercial paper program, long-term debt agreements and NiSource's ability to access the capital markets there is adequate capital available to fund its operating activities and capital expenditures in 2012.

Operating Activities

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

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

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.****Investing Activities**

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

<i>(in millions)</i>	000000000000 2012E	000000000000 2011	000000000000 2010	000000000000 2009
Gas Distribution Operations	\$ 533.0	\$ 539.4	\$ 409.7	\$ 343.2
Gas Transmission and Storage Operations	431.6	301.5	302.0	287.4
Electric Operations	413.6	267.7	190.3	162.6
Corporate and Other Operations	21.8	22.0	9.6	5.4
Total	\$ 1,400.0	\$ 1,130.6	\$ 911.6	\$ 798.6

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

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

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

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

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

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

Financing Activities

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

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

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

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

NiSource is also subject to certain other non-financial covenants under the revolving credit facility. Such covenants include a limitation on the creation or existence of new liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional subset of assets equal to \$150 million. An asset sale covenant generally restricts the sale, lease and/or transfer of NiSource's assets to no more than 10% of its consolidated total assets and dispositions for a price not materially less than the fair market value of the assets disposed of that do not impair the ability of NiSource and NiSource Finance to perform obligations under the revolving credit facility, and that, together with all other such dispositions, would not have a material adverse effect. The revolving credit facility also includes a cross-default provision, which triggers an event of default under the credit facility in the event of an uncured payment default relating to any indebtedness of NiSource or any of its subsidiaries in a principal amount of \$50 million or more.

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

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

Credit Ratings. On December 13, 2011, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 18, 2011, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

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

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

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

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

In July 2008, the IURC issued an order approving Northern Indiana's purchase power agreements with subsidiaries of Iberdrola Renewables, Buffalo Ridge I LLC and Barton Windpower LLC. These agreements provide Northern Indiana the opportunity and obligation to purchase up to 100 mw of wind power commencing in early 2009. The

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

contracts extend 15 and 20 years, representing 50 mw of wind power each. No minimum quantities are specified within these agreements due to the variability of electricity production from wind, so no amounts related to these contracts are included in the table above. Upon any termination of the agreements by Northern Indiana for any reason (other than material breach by Buffalo Ridge I LLC or Barton Windpower LLC), Northern Indiana may be required to pay a termination charge that could be material depending on the events giving rise to termination and the timing of the termination. Northern Indiana began purchasing wind power in April 2009.

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

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

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

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

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on July 1, 1992, and Northern Indiana pays for the services under a combination of fixed and variable charges. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period. Estimated minimum payments for this agreement are included within, Other service obligations, in the table of contractual obligations. With the expiration of this contract occurring on June 30, 2012, Northern Indiana is currently evaluating long-term strategic options, including negotiations to renew this contract.

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

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

Table of Contents

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

NiSOURCE INC.

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

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

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

Off Balance Sheet Items

As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit.

NiSource has issued guarantees that support up to approximately \$148 million of commodity-related payments for its current and former subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling \$250 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees outstanding. Refer to Note 20-A, Guarantees and Indemnities, in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Market Risk Disclosures

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

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

Table of Contents

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

NiSOURCE INC.

Commodity Price Risk

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

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

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

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

Interest Rate Risk

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under its revolving credit agreement, commercial paper program and accounts receivable programs, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase (or decrease) in short-term interest rates of 100 basis points (1%) would have increased (or decreased) interest expense by \$16.5 million and \$14.7 million for the years 2011 and 2010, respectively.

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

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of a portion of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of \$660 million with six counterparties having a 6 1/2-year term. NiSource Finance received payments based upon a fixed 7.875% interest rate and paid a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. On September 15, 2008, as a result of the Lehman Brothers Holdings Inc. bankruptcy filing the previous day, NiSource Finance terminated a fixed-to-variable interest rate swap agreement with Lehman Brothers having a notional amount of \$110.0 million. On November 15, 2010, the term of the remaining \$550.0 million

of interest rate swaps expired, and the swaps were terminated.

Table of Contents

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

NiSOURCE INC.

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

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

Credit Risk

Due to the nature of the industry, credit risk is embedded in many of NiSource's business activities. NiSource's extension of credit is governed by a Corporate Credit Risk Policy. In addition, Risk Management Committee guidelines are in place which document management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation efforts. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of commercial operations. Credit risk arises due to the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For forward commodity contracts, credit risk arises when counterparties are obligated to deliver or purchase defined commodity units of gas or power to NiSource at a future date per execution of contractual terms and conditions. Exposure to credit risk is measured in terms of both current obligations and the market value of forward positions net of any posted collateral such as cash, letters of credit and qualified guarantees of support.

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

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

Fair Value Measurement

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

Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures.

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

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

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the gas marketing group that utilizes a variance/covariance methodology. The daily market exposure for the gas marketing portfolio on an average, high and low basis was \$0.1 million, \$0.1 million and zero during 2011, respectively. Prospectively, management has set the VaR limit at \$0.8 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk.

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

Other Information**Critical Accounting Policies**

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

Basis of Accounting for Rate-Regulated Subsidiaries. ASC Topic 980, *Regulated Operations*, provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. The total amounts of regulatory assets and liabilities reflected on the Consolidated Balance Sheets were \$2,147.9 million and \$1,775.9 million at December 31, 2011, and \$1,791.8 million and \$1,688.7 million at December 31, 2010, respectively. For additional information, refer to Note 8, *Regulatory Matters*, in the Notes to Consolidated Financial Statements.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for the application of ASC Topic 980, *Regulated Operations*. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery is approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to

continue to apply the provisions of ASC Topic 980, *Regulated Operations*, NiSource would

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NISOURCE INC.**

be required to apply the provisions of ASC Topic 980-20, *Discontinuation of Rate-Regulated Accounting*. In management's opinion, NiSource's regulated subsidiaries will be subject to ASC Topic 980, *Regulated Operations* for the foreseeable future.

Certain of the regulatory assets reflected on NiSource's Consolidated Balance Sheets require specific regulatory action in order to be included in future service rates. Although recovery of these amounts is not guaranteed, NiSource believes that these costs meet the requirements for deferral as regulatory assets. Regulatory assets requiring specific regulatory action amounted to \$147.5 million at December 31, 2011. If NiSource determined that the amounts included as regulatory assets were not recoverable, a charge to income would immediately be required to the extent of the unrecoverable amounts.

Accounting for Risk Management Activities. Under ASC Topic 815, *Derivatives and Hedging*, the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation. Unrealized and realized gains and losses are recognized each period as components of accumulated other comprehensive income (loss), earnings, or regulatory assets and liabilities depending on the nature of such derivatives. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to accumulated other comprehensive income (loss) and are recognized in earnings concurrent with the disposition of the hedged risks. For fair value hedges, the gains and losses are recorded in earnings each period along with the change in the fair value of the hedged item. As a result of the rate-making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered or passed back in revenues through rates.

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

Although NiSource applies some judgment in the assessment of hedge effectiveness to designate certain derivatives as hedges, the nature of the contracts used to hedge the underlying risks is such that there is a high correlation of the changes in fair values of the derivatives and the underlying risks. NiSource generally uses NYMEX exchange-traded natural gas futures and options contracts and over-the-counter swaps based on published indices to hedge the risks underlying its natural-gas-related businesses. NiSource had \$348.5 million and \$399.8 million of price risk management assets, of which \$56.7 million and \$61.1 million related to hedges, at December 31, 2011 and 2010, respectively, and \$306.7 million and \$355.5 million of price risk management liabilities, of which \$0.5 million and \$1.2 million related to hedges, at December 31, 2011 and 2010, respectively. There were no material unrealized gains or losses recorded to accumulated other comprehensive income (loss), net of taxes, as of December 31, 2011 and 2010.

Pensions and Postretirement Benefits. NiSource has defined benefit plans for both pensions and other postretirement benefits. The calculation of the net obligations and annual expense related to the plans requires a significant degree of judgment regarding the discount rates to be used in bringing the liabilities to present value, long-term returns on plan assets and employee longevity, among other assumptions. Due to the size of the plans and the long-term nature of the associated liabilities, changes in the assumptions used in the actuarial estimates could have material impacts on the measurement of the net obligations and annual expense recognition. For further discussion of NiSource's pensions and other postretirement benefits see Note 12, Pension and Other Postretirement Benefits, in the Notes to Consolidated Financial Statements.

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.**

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

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

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

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

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

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

Asset Retirement Obligations. Entities are required to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. In the absence of quoted market prices, fair value of asset retirement obligations are estimated using present value techniques, using various assumptions including estimates of the amounts and timing of future cash flows associated with retirement activities, inflation rates and credit-adjusted risk free rates. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries defer the difference between the amounts recognized for depreciation and accretion and the amount collected, or expected to be collected, in rates. Refer to Note 7, Asset Retirement Obligations, in the Notes to Consolidated Financial Statements for additional information.

Table of Contents

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

NiSOURCE INC.

Revenue Recognition. Revenue is recorded as products and services are delivered. Utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include estimates for electricity and gas delivered but not billed.

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

Recently Adopted Accounting Pronouncements

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

Recently Issued Accounting Pronouncements

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

International Financial Reporting Standards

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

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

Environmental Matters

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

Bargaining Unit Contract

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****NiSOURCE INC.****2010 Health Care Act**

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

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

Dodd-Frank Financial Reform Act

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

Table of Contents

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

NiSOURCE INC.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

NiSource's operations are divided into three primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana.

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

NiSOURCE INC.

Gas Distribution Operations

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

Industrial	7,861	7,668	7,895
Other	19	65	79
Total	3,327,980	3,329,080	3,319,715

Competition

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

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

NiSOURCE INC.

Gas Distribution Operations (continued)**Market Conditions**

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

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

All NiSource Gas Distribution Operations companies have state-approved recovery mechanisms that provide a means for full recovery of prudently incurred gas costs. Gas costs are treated as pass-through costs and have no impact on the net revenues recorded in the period. The gas costs included in revenues are matched with the gas cost expense recorded in the period and the difference is recorded on the Consolidated Balance Sheets as under-recovered or over-recovered gas cost to be included in future customer billings.

The Gas Distribution Operations companies have pursued non-traditional revenue sources within the evolving natural gas marketplace. These efforts include the sale of products and services upstream of the companies' service territory, the sale of products and services in the companies' service territories, and gas supply cost incentive mechanisms for service to their core markets. The upstream products are made up of transactions that occur between an individual Gas Distribution Operations company and a buyer for the sales of unbundled or rebundled gas supply and capacity. The on-system services are offered by NiSource to customers and include products such as the transportation and balancing of gas on the Gas Distribution Operations company system. The incentive mechanisms give the Gas Distribution Operations companies an opportunity to share in the savings created from such things as gas purchase prices paid below an agreed upon benchmark and its ability to reduce pipeline capacity charges with their customers. Certain Gas Distribution Operations companies continue to offer choice opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in their respective jurisdictions.

Capital Expenditures and Other Investing Activities

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

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

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

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

Bear Garden Station

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents

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

NiSOURCE INC.

Gas Distribution Operations (continued)

Regulatory Matters

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

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

Environmental Matters

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

Restructuring

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

Weather

In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 65 degrees. NiSource composite heating degree-days reported do not directly correlate to the weather related dollar impact on the results of Gas Distribution operations. Heating degree-days experienced during different times of the year or in different operating locations may have more or less impact on volume and dollars depending on when and where they occur. When the detailed results are combined for reporting, there may be weather related dollar impacts on operations when there is not an apparent or significant change in the aggregated NiSource composite heating degree-day comparison.

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

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

Throughput

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****NiSOURCE INC.****Gas Distribution Operations (continued)**

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

Net Revenues

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

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

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

Operating Income

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

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****NiSOURCE INC.****Gas Transmission and Storage Operations**

Year Ended December 31, <i>(in millions)</i>	2011	2010	2009
Operating Revenues			
Transportation revenues	\$ 775.4	\$ 728.4	\$ 724.6
Storage revenues	196.1	198.7	190.8
Other revenues	34.1	22.1	15.3
Operating Revenues	1,005.6	949.2	930.7
Operating Expenses			
Operation and maintenance	473.5	399.6	382.8
Depreciation and amortization	130.0	130.7	121.5
Impairment and loss/(gain) on sale of assets, net	0.1	(0.1)	(1.4)
Other taxes	56.6	57.4	55.9
Total Operating Expenses	660.2	587.6	558.8
Equity Earnings in Unconsolidated Affiliates	14.6	15.0	16.0
Operating Income	\$ 360.0	\$ 376.6	\$ 387.9

Throughput (MMDth)

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

Growth Projects Placed into Service

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

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

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

Cobb Compressor Station Project. This project continued the Gas Transmission and Storage Operations segment strategy to meet producers near-term, incremental transportation demand in the Appalachian Basin. Shippers executed precedent agreements for a total of approximately

Edgar Filing: NISOURCE INC/DE - Form 10-K

25,500 Dth per day of long-term firm transportation service associated with a facility expansion at Cobb Compressor Station in Kanawha County, West Virginia. The Cobb Expansion totaled approximately \$15 million in construction costs and was placed into service in May 2010.

Table of Contents

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

NiSOURCE INC.

Gas Transmission and Storage Operations (continued)

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

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

Growth Projects in Progress

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

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

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

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

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

Regulatory Matters

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

Capital Expenditures and Other Investing Activities

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****NiSOURCE INC.****Gas Transmission and Storage Operations (continued)**

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

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

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

Sales and Percentage of Physical Capacity Sold

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

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

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

Hartsville Compressor Station

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents

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

NiSOURCE INC.

Gas Transmission and Storage Operations (continued)

Environmental Matters

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

Restructuring Plan

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

Throughput

Columbia Transmission provides transportation and storage services for LDCs and other customers within its market area, which covers portions of northeastern, mid-Atlantic, midwestern, and southern states and the District of Columbia. Billed throughput for Columbia Transmission consists of deliveries off of its system excluding gas delivered to storage for later delivery. Billed throughput for Columbia Gulf reflects transportation services for gas delivered through its mainline and laterals. Crossroads Pipeline's throughput comes from deliveries it makes to its customers and other pipelines that are located in northern Indiana and Ohio. Intersegment eliminations represent gas delivered to affiliated pipelines within the segment.

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

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

Operating Revenues

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

Operating revenues were \$949.2 million for 2010, an increase of \$18.5 million from 2009. The increase in operating revenues was primarily due to increased demand and commodity margin revenues as a result of the growth projects of \$22.9 million and an increase of \$8.3 million due to the recognition of revenue for a previously deferred gain for native gas contributed to Hardy Storage from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, there was a \$5.6 million increase in regulatory trackers, which are offset in expense,

Edgar Filing: NISOURCE INC/DE - Form 10-K

\$5.4 million of fees received from a contract buy-out during the period, and a \$3.5 million increase in mineral rights royalty revenues. These increases in revenue were partially offset by a decrease in shorter term transportation and storage services of \$23.1 million and a decrease of \$9.1 million in mineral rights leasing revenues.

Table of Contents

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

NiSOURCE INC.

Gas Transmission and Storage Operations (continued)

Operating Income

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

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****NiSOURCE INC.****Electric Operations**

Year Ended December 31, <i>(in millions)</i>	2011	2010	2009
Net Revenues			
Sales revenues	\$ 1,435.4	\$ 1,387.3	\$ 1,222.4
Less: Cost of sales (excluding depreciation and amortization)	548.8	508.3	456.5
Net Revenues	886.6	879.0	765.9
Operating Expenses			
Operation and maintenance	405.5	387.8	391.7
Depreciation and amortization	214.7	211.8	206.2
Impairment and (gain)/loss on sale of assets, net	0.4	-	0.3
Other taxes	56.5	58.6	50.8
Total Operating Expenses	677.1	658.2	649.0
Operating Income	\$ 209.5	\$ 220.8	\$ 116.9

Revenues (\$ in millions)

Residential	\$ 393.9	\$ 393.2	\$ 360.2
Commercial	382.1	372.7	369.3
Industrial	582.1	508.9	452.8
Wholesale	27.6	30.4	19.3
Other	49.7	82.1	20.8
Total	\$ 1,435.4	\$ 1,387.3	\$ 1,222.4

Sales (Gigawatt Hours)

Residential	3,526.5	3,625.6	3,241.4
Commercial	3,886.5	3,919.9	3,833.9
Industrial	9,257.6	8,459.0	7,690.9
Wholesale	651.6	817.1	600.6
Other	165.5	186.4	158.9
Total	17,487.7	17,008.0	15,525.7

Cooling Degree Days	907	977	515
Normal Cooling Degree Days	808	808	808
% Warmer (Colder) than Normal	12%	21%	(36%)

Electric Customers

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

Electric Supply

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

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****NiSOURCE INC.****Electric Operations (continued)****Market Conditions**

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

Capital Expenditures and Other Investing Activities

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

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

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

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

Regulatory Matters

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

Environmental Matters

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

Restructuring

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

Sales

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

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

Table of Contents

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

NiSOURCE INC.

Electric Operations (continued)

Net Revenues

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

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

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

Operating Income

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

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

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NiSOURCE INC.

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

NiSOURCE INC.

Index	Page
<u>Defined Terms</u>	65
<u>Report of Independent Registered Public Accounting Firm</u>	68
<u>Statements of Consolidated Income</u>	70
<u>Consolidated Balance Sheets</u>	71
<u>Statements of Consolidated Cash Flows</u>	73
<u>Statements of Consolidated Long-Term Debt</u>	74
<u>Statements of Consolidated Common Stockholders' Equity and Comprehensive Income (Loss)</u>	76
<u>Notes to Consolidated Financial Statements</u>	78
<u>Schedule I</u>	155
<u>Schedule II</u>	160

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSOURCE INC.

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission L.L.C.
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company Inc.
NiSource Midstream	NiSource Midstream Services, L.L.C.
PEI	PEI Holdings, Inc.
Whiting Clean Energy	Whiting Clean Energy, Inc.

Abbreviations

2010 Health Care Act	The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 signed into law by the President on March 23, 2010 and March 30, 2010, respectively
AFUDC	Allowance for funds used during construction
AICPA	American Institute of Certified Public Accountants
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent
AOI	Accumulated other comprehensive income
ARP	Alternative Regulatory Plan
ARRs	Auction Revenue Rights
ASC	Accounting Standards Codification
BBA	British Banker Association

Edgar Filing: NISOURCE INC/DE - Form 10-K

Bcf
Board
BPAE
BTMU
BTU
CAA
CAIR

Billion cubic feet
Board of Directors
BP Alternative Energy North America, Inc.
The Bank of Tokyo-Mitsubishi UFJ, LTD.
British Thermal Unit
Clean Air Act
Clean Air Interstate Rule

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

DEFINED TERMS

CAMR	Clean Air Mercury Rule
Ccf	Hundred cubic feet
CARE	Conservation and Ratemaking Efficiency
CCGT	Combined Cycle Gas Turbine
CCRs	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
Chesapeake	Chesapeake Appalachia, L.L.C.
CO ₂	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services
IDEM	Indiana Department of Environmental Management
IFA	Indiana Finance Authority
IFRS	International Financial Reporting Standards
IIG	Indiana Industrial Group
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
MACT	Maximum Achievable Control Technology

Edgar Filing: NISOURCE INC/DE - Form 10-K

Mcf
MGP
MISO
Mitchell
MMDth
mw

Million cubic feet
Manufactured Gas Plant
Midwest Independent Transmission System Operator
Dean H. Mitchell Coal Fired Generating Station
Million dekatherms
Megawatts

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSOURCE INC.

DEFINED TERMS

mwh	Megawatts hours
NAAQS	National Ambient Air Quality Standards
NLMK	Novolipetsk Steel
NOV	Notice of Violation
NO ₂	Nitrogen dioxide
NO _x	Nitrogen oxides
NSR	New Source Review
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUCG	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PJM	PJM Interconnection is a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.
	particulate matter
PM	Price Protection Service
PPS	Public Service Commission
PSC	Public Utility Commission
PUC	Public Utilities Commission of Ohio
PUCO	Royal Bank of Scotland PLC
RBS	Resource Conservation and Recovery Act
RCRA	Regional Transmission Organization
RTO	Securities and Exchange Commission
SEC	State Implementation Plan
SIP	Sulfur dioxide
SO ₂	Sugar Creek electric generating plant
Sugar Creek	Value-at-risk and instrument sensitivity to market factors
VaR	Variable Interest Entity
VIE	Virginia State Corporation Commission
VSCC	Weighted Average Cost of Gas
WACOG	

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSOURCE INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets and statements of consolidated long-term debt of NiSource Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, of common stockholders' equity and comprehensive income (loss), and of cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

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

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio

February 24, 2012

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSOURCE INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of NiSource Inc. and subsidiaries (the Company) as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

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

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio

February 24, 2012

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

STATEMENTS OF CONSOLIDATED INCOME

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

CONSOLIDATED BALANCE SHEETS

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

CONSOLIDATED BALANCE SHEETS (continued)

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

STATEMENTS OF CONSOLIDATED CASH FLOWS

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

Premium and other costs to retire debt	(62.1)	(93.0)	-
Change in short-term debt, net	(23.1)	1,279.5	(1,060.5)
Issuance of common stock	24.4	14.4	10.6
Acquisition of treasury stock	(3.1)	(1.5)	(2.6)
Dividends paid - common stock	(257.8)	(255.6)	(253.3)
Net Cash Flows from (used for) Financing Activities	281.4	210.7	(1,015.6)
Change in cash and cash equivalents from continuing operations	52.4	49.6	242.7
Cash contributions to discontinued operations	(50.1)	(56.8)	(246.9)
Cash and cash equivalents at beginning of period	9.2	16.4	20.6
Cash and Cash Equivalents at End of Period	\$ 11.5	\$ 9.2	\$ 16.4

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****STATEMENTS OF CONSOLIDATED LONG-TERM DEBT**

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****STATEMENTS OF CONSOLIDATED LONG-TERM DEBT (continued)**

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

Dividend reinvestment plan	-	-	8.9	-	-	8.9
Balance December 31, 2010	\$ 2.8	\$ (27.4)	\$ 4,103.9	\$ 876.1	\$ (57.9)	\$ 4,897.5

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

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

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

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

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

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

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

	Common Shares	Treasury Shares	Outstanding Shares
<i>Shares (in thousands)</i>			
Balance January 1, 2009	275,379	(1,117)	274,262
Treasury stock acquired		(192)	(192)
Issued:			

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**1. Nature of Operations and Summary of Significant Accounting Policies*****Immaterial Restatement***

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

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

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

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

Statements of Consolidated Income

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

Continuing operations	\$	1.05	\$	1.02	\$	0.84	\$	0.83
Diluted Earnings Per Share	\$	1.04	\$	1.01	\$	0.79	\$	0.78

79

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**Consolidated Balance Sheet**

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

Statements of Consolidated Cash Flows

<i>(in millions)</i>	Year Ended December 31,			
	2010		2009	
	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Operating Activities				
Net Income	\$ 292.0	\$ 282.6	\$ 217.7	\$ 217.0
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:				
Depreciation and amortization	596.3	597.1	589.3	589.9
Deferred income taxes and investment tax credits	200.1	193.9	378.2	377.8
Changes in Assets and Liabilities:				

Edgar Filing: NISOURCE INC/DE - Form 10-K

(Under) Overrecovered gas and fuel costs	(250.4)	(243.0)	324.4	323.4
Other accruals	56.4	63.4	(7.7)	(6.8)
Regulatory assets/liabilities	163.9	164.3	105.2	105.8

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**Statements of Consolidated Common Stockholders' Equity and Comprehensive Income**

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

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

A. Company Structure and Principles of Consolidation. NiSource, a Delaware corporation, is a holding company whose subsidiaries provide natural gas, electricity and other products and services to approximately 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. NiSource derives substantially all of its revenues and earnings from the operating results of its thirteen direct subsidiaries.

The consolidated financial statements include the accounts of NiSource and its majority-owned subsidiaries after the elimination of all intercompany accounts and transactions. Investments for which at least a 20% interest is owned, certain joint ventures and limited partnership interests of more than 3% are accounted for under the equity method. Except where noted above and in the event where NiSource has significant influence, investments with less than a 20% interest are accounted for under the cost method. NiSource also consolidates variable interest entities for which NiSource is the primary beneficiary.

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

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

Restricted cash was \$160.6 million and \$202.9 million as of December 31, 2011 and 2010, respectively. The decrease in restricted cash was a result of the winding down of NiSource's unregulated natural gas marketing business and the settlement of positions at MF Global as a result of MF Global filing for Chapter 11 bankruptcy protection. MF Global brokered NYMEX hedges of natural gas futures on behalf of NiSource affiliates. At the date of bankruptcy, NiSource affiliates had contracts open with MF Global with settlement dates ranging from November 2011 to February 2014. On November 3, 2011, these contracts were measured at a mark-to-market loss of approximately \$46.4 million. NiSource affiliates had posted initial margin to open these accounts of \$6.9 million and additional maintenance margin for mark-to-market losses, for a

Edgar Filing: NISOURCE INC/DE - Form 10-K

total cash balance of \$53.3 million. Within the first week after the filing, at the direction of the Bankruptcy Court, a transfer of these assets was initiated on behalf of NiSource affiliates to a court-designated replacement broker for future trade activity. The existing futures positions were closed and then rebooked with the replacement broker at the new closing prices as of November 3, 2011. The maintenance margin was retained by MF Global to offset the loss positions of the open contracts on November 3, 2011. NiSource affiliates are monitoring the activity in the bankruptcy case and have filed a proof of claim at the Court's direction.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

D. Accounts Receivable and Unbilled Revenue. Accounts receivable on the Consolidated Balance Sheets includes both billed and unbilled amounts as NiSource believes that total accounts receivable is a more meaningful presentation, given the factors which impact both billed and unbilled accounts receivable. Unbilled revenue is based on estimated amounts of electric energy or natural gas delivered but not yet billed to its customers. Unbilled amounts of accounts receivable relate to a portion of a customer's consumption of gas or electricity from the date of the last cycle billing date through the last day of the month (balance sheet date). Factors taken into consideration when estimating unbilled revenue include historical usage, customer rates and weather. Accounts receivable fluctuates from year to year depending in large part on weather impacts and price volatility. NiSource's accounts receivable on the Consolidated Balance Sheets includes unbilled revenue, less reserves, in the amounts of \$281.5 million and \$458.6 million for the years ended December 31, 2011 and 2010, respectively. The reserve for uncollectible receivables is the Company's best estimate of the amount of probable credit losses in the existing accounts receivable. The Company determined the reserve based on historical experience and in consideration of current market conditions. Account balances are charged against the allowance when it is anticipated the receivable will not be recovered.

E. Investments in Debt and Equity Securities. NiSource's investments in debt and equity securities are carried at fair value and are designated as available-for-sale. These investments are included within "Other investments" on the Consolidated Balance Sheets. Unrealized gains and losses, net of deferred income taxes, are reflected as accumulated other comprehensive income (loss). These investments are monitored for other than temporary declines in market value. Realized gains and losses and permanent impairments are reflected in the Statements of Consolidated Income. No material impairment charges were recorded for the years ended December 31, 2011, 2010 and 2009.

F. Basis of Accounting for Rate-Regulated Subsidiaries. Rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for regulatory accounting. In such an event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery was approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of regulatory accounting, NiSource would be required to apply the provisions of Discontinuation of Rate-Regulated Accounting. In management's opinion, NiSource's regulated subsidiaries will be subject to regulatory accounting for the foreseeable future. Refer to Note 8, Regulatory Matters, in the Notes to Consolidated Financial Statements for additional information.

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

For rate-regulated companies, AFUDC is capitalized on all classes of property except organization costs, land, autos, office equipment, tools and other general property purchases. The allowance is applied to construction costs for that period of time between the date of the expenditure and the date on which such project is completed and placed in service. The pre-tax rate for AFUDC was 3.6% in 2011, 4.9% in 2010 and 3.8% in 2009. Short-term borrowings were primarily used to fund construction efforts for all three years presented; however, long-term borrowings and equity funds were used more extensively in 2010 to fund construction than in the comparative periods.

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

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

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

In 2005, the PUCO authorized Columbia of Ohio to revise its depreciation accrual rates for the period beginning January 1, 2005. The revised depreciation rates are now higher than those which would have been utilized if Columbia of Ohio were not subject to regulation. The amount of depreciation that would have been recorded for 2005 through 2011 had Columbia of Ohio not been subject to rate regulation is a combined \$286.7 million, a \$41.0 million decrease over the \$327.7 million reflected in rates. The regulatory asset was \$90.7 million and \$96.6 million as of December 31, 2011 and 2010, respectively. The amount of depreciation that would have been recorded for 2011 had Columbia of Ohio not been subject to rate regulation is \$54.4 million, a \$5.9 million decrease over the \$60.3 million reflected in rates.

I. Amortization of Software Costs. External and internal costs associated with computer software developed for internal use are capitalized. Capitalization of such costs commences upon the completion of the preliminary stage of each project. Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis generally over a period of five years. NiSource amortized \$29.0 million in 2011, \$25.9 million in 2010 and \$27.7 million in 2009 related to software costs. NiSource's unamortized software balance was \$120.8 million and \$99.0 million at December 31, 2011 and 2010, respectively.

J. Goodwill and Other Intangible Assets. NiSource has approximately \$4.0 billion in goodwill and other intangible assets. Substantially all goodwill relates to the excess of cost over the fair value of the net assets acquired in the Columbia acquisition. In addition, NiSource has other intangible assets consisting primarily of franchise rights apart from goodwill that were identified as part of the purchase price allocations associated with the acquisition of Columbia of Massachusetts, a wholly-owned subsidiary of NiSource, which is being amortized on a straight-line basis over forty years from the date of acquisition. Refer to Note 6, Goodwill and Other Intangible Assets, in the Notes to Consolidated Financial Statements for additional information.

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

L. Revenue Recognition. Revenue is recorded as products and services are delivered. Utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include estimates for electricity and gas delivered but not billed. Cash received in advance from sales of commodities to be delivered in the future is recorded as deferred revenue and recognized as income upon delivery of the commodities. For shorter term transportation and storage service revenues, cash is received at inception of the service period resulting in the

recording of deferred revenues that are recognized in revenues over the period the services are provided.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

M. Earnings Per Share. Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans and the Forward Agreements (see Note 14). The calculation of diluted earnings per share for 2011, 2010, and 2009 excludes out-of-the-money stock options of 2.8 million, 4.1 million and 4.3 million, respectively, that had an anti-dilutive effect.

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

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

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

T. Accounting for Emissions Allowances. Northern Indiana has obtained SO₂ and NO_x emissions allowances from the EPA based upon its electric generation operations that the utility may sell, trade or hold for future use. Northern Indiana utilizes the inventory model in accounting for these emissions allowances, whereby these allowances were recognized at zero cost upon receipt from the EPA. Pursuant to the December 21, 2011 IURC Order, all purchases and sales of emission allowances will be recovered or refunded through the EERM.

U. Accounting for Risk Management and Energy Marketing Activities. NiSource accounts for its derivatives and hedging activities in accordance with ASC 815. NiSource recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value, unless such contracts are exempted as a normal purchase normal sale under the provisions of the standard. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation. Refer to Note 9, Risk Management and Energy Marketing Activities, in the Notes to Consolidated Financial Statements for additional information.

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

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

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

W. Environmental Expenditures. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and estimated site-specific costs where assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. The liability is adjusted as further information is discovered or circumstances change. The reserves for estimated environmental expenditures are recorded on the Consolidated Balance Sheets in Legal and environmental reserves for short-term portions of these liabilities and Other noncurrent liabilities for the respective long-term portions of these liabilities. Rate-regulated subsidiaries applying regulatory accounting establish regulatory assets on the Consolidated Balance Sheets to the extent that future recovery of environmental remediation costs is probable through the regulatory process.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

In addition, Northern Indiana received approval from the IURC in 2003 to recover costs associated with environmental compliance programs for NOx pollution-reduction equipment at Northern Indiana's generating stations. Refer to Note 20, Other Commitments and Contingencies, in the Notes to Consolidated Financial Statements for further information.

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

2. Recent Accounting Pronouncements**Recently Adopted Accounting Pronouncements**

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

Recently Issued Accounting Pronouncements

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

years, and interim periods within those years, beginning after December 15, 2011. NiSource is currently reviewing the provisions of these new standards to determine the impact on its Consolidated Financial Statements and Notes to Consolidated Financial Statements.

3. Impairments, Restructuring and Other Charges

Impairments. An impairment loss shall be recognized only if the carrying amount of a long lived asset is not recoverable and exceeds its fair value. The first step of the test for impairment compares the carrying amount of the long lived asset to the fair value sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

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

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

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

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

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

In February 2009, NiSource announced the restructuring of the Gas Transmission and Storage Operations segment. NiSource eliminated positions across the 16 state operating territory of Gas Transmission and Storage. The reductions occurred through voluntary programs and involuntary separations. In addition to employee reductions, the Gas Transmission and Storage Operations segment took steps to achieve additional cost savings by efficiently

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

managing its various business locations, reducing its fleet operations, creating alliances with third party service providers, and implementing other changes in line with its strategic plan for growth and maximizing value of existing assets. During 2009, NiSource recorded pre-tax restructuring charges of \$19.9 million to Operation and maintenance expense on the Statement of Consolidated Income, which primarily includes costs related to severance and other employee related costs. No additional material charges have been recorded since the initial restructuring charge in the first quarter of 2009. The restructuring program was substantially completed in 2009.

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

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

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

4. Discontinued Operations and Assets and Liabilities Held for Sale

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

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

(in millions)

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

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**5. Property, Plant and Equipment**

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

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

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

6. Goodwill and Other Intangible Assets

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

NiSource has three reporting units that carry or are allocated goodwill. NiSource's goodwill assets at December 31, 2011 were \$3.7 billion pertaining primarily to the acquisition of Columbia on November 1, 2000. Of this amount, approximately \$2.0 billion is allocated to Columbia

Edgar Filing: NISOURCE INC/DE - Form 10-K

Transmission Operations and \$1.7 billion is allocated to Columbia Distribution Operations. In addition, Northern Indiana Gas Distribution Operations goodwill assets at December 31, 2011 related to the purchase of Northern Indiana Fuel and Light in March 1993 and Kokomo Gas in February 1992 were \$18.8 million.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**7. Asset Retirement Obligations**

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

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

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

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries are classified as regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**8. Regulatory Matters****Regulatory Assets and Liabilities**

NiSource follows the accounting and reporting requirements of ASC Topic 980, which provides that regulated entities account for and report assets and liabilities consistent with the economic effect of regulatory rate-making procedures if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income or expense are deferred on the balance sheet and are recognized in the income statement as the related amounts are included in service rates and recovered from or refunded to customers.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for regulatory accounting. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery was approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of regulatory accounting, NiSource would be required to apply the provisions of ASC Topic 980-20, *Discontinuation of Rate-Regulated Accounting*. In management's opinion, NiSource will be subject to regulatory accounting for the foreseeable future.

Regulatory assets were comprised of the following items:

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Regulatory liabilities were comprised of the following items:

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

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

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

Assets:

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

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

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

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

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

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

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

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

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSOURCE INC.

Notes to Consolidated Financial Statements

Liabilities:

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

Cost of Removal Represents anticipated costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries for future costs to be incurred.

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

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

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

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

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

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

Gas Distribution Operations Regulatory Matters

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

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

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

throughout its service territory footprint. Northern Indiana is presently working through implementation plans.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

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

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

Gas Transmission and Storage Operations Regulatory Matters

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

Electric Operations Regulatory Matters

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an Order adopting most aspects of the settlement. The Order approving the settlement provided that certain electric customers of Northern Indiana would receive bill credits of approximately \$55.1 million each year. The credits continued at approximately the same annual level and per the same methodology, until the IURC approval and implementation of new customer rates, which occurred on December 27, 2011. A final reconciliation of the credits will occur in a future fuel cost filing according to the terms of the approved settlement in the 2010 Electric Rate Case. Credits amounting to \$51.0 million, \$60.5 million and \$56.1 million were recognized for electric customers for 2011, 2010 and 2009, respectively.

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

of costs incurred and estimated through June 2012. On October 25, 2011 the IURC issued an Order approving the recovery of actual and estimated expenses in the amount of approximately \$20 million to be recovered over eight months commencing November 2011. On February 1, 2012, Northern Indiana submitted a petition to the IURC to recover lost margins.

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

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Northern Indiana has approval from the IURC to recover certain environmental related costs through an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx SIP and CAIR and CAMR compliance plan projects through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. The IURC approved the continued use of the ECRM and the EERM trackers in its December 21, 2011 Order. As a result of new customer rates, the cost relating to environmental projects that were in service as of June 30, 2010, will be recovered through base rates and will no longer be tracked through the ECRM and EERM.

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

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

9. Risk Management and Energy Marketing Activities

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

Accounting Policy for Derivative Instruments. The ASC topic on accounting for derivatives and hedging requires an entity to recognize all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value, unless such contracts are exempted such as a normal purchase and normal sale contract under the provisions of the ASC topic. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation.

NiSource uses a variety of derivative instruments (exchange traded futures and options, physical forwards and options, basis contracts, financial commodity swaps, and interest rate swaps) to effectively manage its commodity price risk and interest rate risk exposure. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recognized currently in earnings. For derivative contracts that qualify for the normal purchase and normal sales exception, a contract's fair value is not recognized in the Consolidated Financial Statements until the contract is settled.

Unrealized and realized gains and losses are recognized each period as components of accumulated other comprehensive income (loss), regulatory assets and liabilities or earnings depending on the designation of the derivative instrument. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to accumulated other comprehensive income (loss) and are recognized in earnings concurrent with the disposition of the hedged risks. If a forecasted transaction corresponding to a cash flow hedge is no longer probable to occur, the accumulated gains or losses on the derivative are recognized currently in earnings. For fair value hedges, the gains and losses are recorded in earnings each period together with the change in the fair value of the hedged item. As a result of the rate-making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered or passed back to customers in revenues through rates. When gains and losses are recognized in earnings, they are recognized in revenues or cost of sales for derivatives that correspond to commodity risk activities and are recognized in interest expense for derivatives that correspond to interest-rate risk activities.

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

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

Northern Indiana, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative programs must be marked to fair value, but because these derivatives are used within the framework of the companies' GCR or FAC mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Northern Indiana also offers a Depend-a-Bill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill in future months at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, forward physical contracts, NYMEX futures and NYMEX options have been used to secure forward gas prices. The accounting treatment elected for these contracts is varied whereby certain of these contracts have been accounted for as cash flow hedges while some contracts are not. The normal purchase and normal sales exception is elected for forward physical contracts associated with these programs where delivery of the commodity is probable to occur.

Northern Indiana enters into gas purchase contracts at first of the month prices that give counterparties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

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

(c) Megawatt hours reported in thousands

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

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

Contemporaneously with the issuance on September 16, 2005 of \$1 billion of its 5.25% and 5.45% notes, NiSource Finance settled \$900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of \$35.5 million which is being amortized from accumulated other comprehensive loss to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88%, respectively. As of December 31, 2011, accumulated other comprehensive loss includes \$11.3 million related to forward starting interest rate swap settlement. These derivative contracts are accounted for as a cash flow hedge.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

Liability Derivatives (in millions)	December 31, 2011	December 31, 2010
Balance Sheet Location	Fair Value	Fair Value

Derivatives designated as hedging instruments

Commodity price risk programs				
Price risk management liabilities (current)	\$	0.4	\$	1.0
Price risk management liabilities (noncurrent)		0.1		0.2

Total derivatives designated as hedging instruments	\$	0.5	\$	1.2
--	----	------------	----	------------

Derivatives not designated as hedging instruments

Commodity price risk programs				
Price risk management liabilities (current)	\$	167.4	\$	172.9
Price risk management liabilities (noncurrent)		138.8		181.4

Total derivatives not designated as hedging instruments	\$	306.2	\$	354.3
--	----	--------------	----	--------------

Total Liability Derivatives	\$	306.7	\$	355.5
------------------------------------	----	--------------	----	--------------

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

Derivatives in Cash Flow Hedging RelationshipsTwelve Months Ended (*in millions*)

Derivatives in Cash Flow Hedging Relationships	00000000000000	00000000000000	00000000000000
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Commodity price risk programs	\$ -	\$ 0.1	\$ 117.3
Interest rate risk activities	1.6	1.5	1.5
Total	\$ 1.6	\$ 1.6	\$ 118.8

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

Twelve Months Ended (*in millions*)

Derivatives in Cash Flow Hedging Relationships	Location of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	0000000000	0000000000	0000000000	0000000000
		Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2009
Commodity price risk programs	Cost of Sales	\$ -	\$ -	\$ -	\$ -
Interest rate risk activities	Interest expense, net	-	-	-	-

Edgar Filing: NISOURCE INC/DE - Form 10-K

Total	\$	-	\$	-	\$	-
-------	----	---	----	---	----	---

It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in accumulated other comprehensive income (loss) of approximately \$0.7 million of loss, net of taxes.

Derivatives in Fair Value Hedging Relationships

Twelve Months Ended (<i>in millions</i>)	00000000000	00000000000	00000000000		00000000000		
			Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives		Dec. 31, 2011	Dec. 31, 2010
Derivatives in Fair Value Hedging Relationships							
Interest rate risk activities	Interest expense, net	\$	(4.4)	\$	(8.7)	\$	(29.5)
Total		\$	(4.4)	\$	(8.7)	\$	(29.5)

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial StatementsTwelve Months Ended (*in millions*)

Hedged Item in Fair Value Hedge Relationships	000000000000 Location of Gain Recognized in Income on Related Hedged Item	000000000000 000000000000 000000000000 000000000000 Amount of Gain Recognized in Income on Related Hedged Items		
		Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Interest rate risk activities	Interest expense, net	\$ 4.4	\$ 8.7	\$ 29.5
Total		\$ 4.4	\$ 8.7	\$ 29.5

Derivatives not designated as hedging instrumentsTwelve Months Ended (*in millions*)

Derivatives Not Designated as Hedging Instruments	000000000000 Location of Gain (Loss) Recognized in Income on Derivatives	000000000000 000000000000 000000000000 000000000000 Amount of Realized/Unrealized Gain (Loss) Recognized in Income on Derivatives *		
		Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Commodity price risk programs	Gas Distribution revenues	\$ -	\$ (55.6)	\$ (61.7)
Commodity price risk programs	Other revenues	62.6	115.3	172.0
Commodity price risk programs	Cost of Sales	(66.9)	(95.4)	70.5
Total		\$ (4.3)	\$ (35.7)	\$ 180.8

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

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

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

Certain NiSource affiliates have physical commodity purchase agreements that contain ratings triggers that require increases in collateral if the credit rating of NiSource or certain of its affiliates are rated below BBB- by Standard & Poor's or below Baa3 by Moody's. These agreements are primarily for the physical purchase or sale of natural gas and electricity. As of December 31, 2011, the collateral requirement from a downgrade below the ratings trigger levels would amount to approximately \$1.9 million. In addition to agreements with ratings triggers, there are some

Edgar Filing: NISOURCE INC/DE - Form 10-K

agreements that contain adequate assurance or material adverse change provisions that could result in additional credit support such as letters of credit and cash collateral to transact business.

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**10. Variable Interest Entities and Equity Investments****A. Variable Interest Entities.**

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

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

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

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

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

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on July 1, 1992, and Northern Indiana pays for the services under a combination of fixed and variable charges. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period. NiSource has made an exhaustive effort to obtain information needed from Pure Air to determine the status of Pure Air as a VIE. However, Northern Indiana had not been able to obtain this information and as a result, it is unclear whether Pure Air is a VIE and if Northern Indiana is the primary beneficiary. Northern Indiana will continue to request the information required to determine whether Pure Air is a VIE. Northern Indiana has no exposure to loss related to the service agreement with Pure Air.

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

Year Ended December 31, (<i>in millions</i>)	000000000000 2011	000000000000 2010	000000000000 2009
Millennium Pipeline			
Statement of Income Data:			
Net Revenues	\$ 119.3	\$ 103.9	\$ 99.4
Operating Income	63.7	55.9	50.1
Net Income	20.5	22.1	25.5
Balance Sheet Data:			
Total Assets	1,045.0	1,060.6	1,096.1
Total Liabilities	703.4	725.5	867.9
Total Members' Equity	341.6	335.1	228.2

Hardy Storage**Statement of Income Data:**

Net Revenues	\$ 24.4	\$ 23.9	\$ 23.3
Operating Income	16.5	16.2	15.2
Net Income	9.7	9.0	7.9

Balance Sheet Data:

Total Assets	176.1	184.8	206.7
Total Liabilities	114.8	124.1	129.2
Total Members' Equity	61.3	60.7	77.5

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

and \$12.9 million of earnings to NiSource during 2011 and 2010, respectively. Included in Millennium liabilities is a \$2.2 million payable to NiSource as of December 31, 2011.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**11. Income Taxes**

The components of income tax expense were as follows:

Year Ended December 31, (in millions)	000000000000 2011	000000000000 2010	000000000000 2009
Income Taxes			
Current			
Federal	\$ (14.2)	\$ (61.8)	\$ (197.0)
State	(0.9)	3.2	(15.9)
Total Current	(15.1)	(58.6)	(212.9)
Deferred			
Federal	151.8	182.4	332.2
State	31.4	17.4	52.2
Total Deferred	183.2	199.8	384.4
Deferred Investment Credits	(4.8)	(5.9)	(6.5)
Income Taxes from Continuing Operations	\$ 163.3	\$ 135.3	\$ 165.0

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

Year Ended December 31, (in millions)	00000000 2011	00000000 2010	00000000 2009
Book income from Continuing Operations before income taxes	\$ 467.1	\$ 420.5	\$ 394.8
Tax expense at statutory federal income tax rate	163.5	147.2	138.2
	35.0%	35.0%	35.0%
Increases (reductions) in taxes resulting from:			
State income taxes, net of federal income tax benefit	20.1	12.5	23.7
Regulatory treatment of depreciation differences	(8.2)	(16.2)	5.6
Amortization of deferred investment tax credits	(4.8)	(5.9)	(6.5)
Nondeductible expenses	2.5	1.8	7.2
Employee Stock Ownership Plan Dividends	(3.1)	(2.9)	(2.2)
Regulatory treatment of AFUDC-Equity	(0.6)	(1.9)	(1.9)
Section 199 Electric Production Deduction	-	-	(1.2)
Tax accrual adjustments and other, net	(6.1)	0.7	2.1
Income Taxes from Continuing Operations	\$ 163.3	\$ 135.3	\$ 165.0
	35.0%	32.2%	41.8%

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

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

received during 2010.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

At December 31, <i>(in millions)</i>	00000000000 2011	00000000000 2010
Deferred tax liabilities		
Accelerated depreciation and other property differences	\$ 2,943.0	\$ 2,671.0
Unrecovered gas and fuel costs	14.6	49.8
Other regulatory assets	858.8	936.2
Premiums and discounts associated with long-term debt	12.8	14.2
Total Deferred Tax Liabilities	3,829.2	3,671.2
Deferred tax assets		
Deferred investment tax credits and other regulatory liabilities	(73.9)	(123.1)
Cost of removal	(557.9)	(503.3)
Pension and other postretirement/postemployment benefits	(369.8)	(539.0)
Environmental liabilities	(63.6)	(24.4)
Net operating loss carryforward	(250.3)	(121.6)
Other accrued liabilities	(45.7)	(80.5)
Other, net	(56.9)	(49.1)
Total Deferred Tax Assets	(1,418.1)	(1,441.0)
Net Deferred Tax Liabilities less Deferred Tax Assets	2,411.1	2,230.2
Less: Deferred income taxes related to current assets and liabilities (Note)	(130.8)	37.1
Non-Current Deferred Tax Liability	\$ 2,541.9	\$ 2,193.1

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

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

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

<i>(in millions)</i>	00000000000 2011	00000000000 2010
Beginning net accumulated deferred tax liability	\$ 2,230.2	\$ 1,990.9
Deferred income tax expense for the period	183.2	199.8
Change in tax effects of income tax related regulatory assets and liabilities	3.2	27.1
Deferred taxes recorded to other comprehensive income/(loss)	1.0	(7.0)
Deferred taxes transferred to taxes accrued and other charges	(6.5)	19.4
Ending net accumulated deferred tax liability per above table	\$ 2,411.1	\$ 2,230.2

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

Reconciliation of Unrecognized Tax Benefits (<i>in millions</i>)	000000000000 2011	000000000000 2010	000000000000 2009
Unrecognized Tax Benefits - Opening Balance	\$ 129.2	\$ 117.7	\$ 3.5
Gross increases - tax positions in prior period	5.7	1.2	-
Gross decreases - tax positions in prior period	(29.6)	(8.2)	(0.2)
Gross increases - current period tax positions	-	18.5	114.4
Unrecognized Tax Benefits - Ending Balance	\$ 105.3	\$ 129.2	\$ 117.7
Offset for outstanding IRS refunds	(87.9)	(114.2)	(105.4)
Offset for state net operating loss carryforwards	(13.3)	(17.2)	(15.6)
Balance - Net of Refunds and NOL Carryforwards	\$ 4.1	\$ (2.2)	\$ (3.3)

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

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

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

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

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

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

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

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

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

12. Pension and Other Postretirement Benefits

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

Asset Mix Policy of Funds:

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

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

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

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Fair Value Measurements at December 31, 2011:

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

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

(e) This class represents pending trades with brokers.

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

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Fair Value Measurements at December 31, 2010:

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

- (a) This class includes hedge fund of funds that invest in a diverse portfolio of strategies including relative value, event driven and long/short equities.
- (b) This class includes hedge fund of funds that invest in long/short equities, which in total maintain a relatively net market neutral position.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

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

(e) This class represents pending trades with brokers.

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

	Balance at January 1, 2010	Total gains or losses (unrealized / realized)	Purchases	(Sales)	Transfers into/(out of) level 3	Balance at December 31, 2010
Equity securities						
U.S. equities	\$ -	\$ 0.2	\$ -	\$ -	\$ (0.1)	\$ 0.1
Fixed income securities						
Government	1.2	-	-	(0.6)	-	0.6
Corporate	2.7	0.5	-	(1.0)	(1.8)	0.4
Mortgages/Asset backed securities	1.2	(0.6)	0.5	(0.3)	(0.3)	0.5
Other fixed income	1.6	0.1	0.8	(2.0)	-	0.5
Commingled funds						
Fixed income	111.8	10.6	-	(11.0)	-	111.4
Hedge fund of funds						
Multi-strategy	34.9	4.1	10.0	-	-	49.0
Equities-market neutral	33.3	(1.8)	-	-	-	31.5
Private equity limited partnerships						
U.S. multi-strategy	56.5	(0.7)	13.3	(10.3)	-	58.8
International multi-strategy	27.3	3.2	6.4	(0.7)	-	36.2
Distress opportunities	8.3	(0.9)	4.0	(2.1)	-	9.3
Real estate	8.9	0.4	7.7	(1.2)	-	15.8
Total	\$ 287.7	\$ 15.1	\$ 42.7	\$ (29.2)	\$ (2.2)	\$ 314.1

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

NiSource Pension and Other Postretirement Benefit Plans Funded Status and Related Disclosure. The following table provides a reconciliation of the plans' funded status and amounts reflected in NiSource's Consolidated Balance Sheets at December 31 based on a December 31 measurement date:

(in millions)	00000000000		00000000000	
	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
Change in projected benefit obligation (a)				
Benefit obligation at beginning of year	\$ 2,478.4	\$ 2,356.0	\$ 756.0	\$ 731.2
Service cost	37.5	39.1	9.9	9.8
Interest cost	119.5	125.7	38.6	41.4
Plan participants' contributions	-	-	7.0	6.3
Plan amendments	0.2	0.5	(0.5)	1.4
Actuarial loss (gain)	122.5	144.5	30.8	20.1
Benefits paid	(197.4)	(187.4)	(56.4)	(55.1)
Estimated benefits paid by incurred subsidy	-	-	0.9	0.9
Projected benefit obligation at end of year	\$ 2,560.7	\$ 2,478.4	\$ 786.3	\$ 756.0
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 1,900.0	\$ 1,681.5	\$ 326.8	\$ 286.5
Actual return on plan assets	(8.3)	244.1	(1.2)	39.1
Employer contributions	393.5	161.8	53.6	50.0
Plan participants' contributions	-	-	7.0	6.3
Benefits paid	(197.4)	(187.4)	(56.4)	(55.1)
Fair value of plan assets at end of year	\$ 2,087.8	\$ 1,900.0	\$ 329.8	\$ 326.8
Funded Status at end of year	\$ (472.9)	\$ (578.4)	\$ (456.5)	\$ (429.2)
Amounts recognized in the statement of financial position consist of:				
Noncurrent assets	\$ -	\$ -	\$ 31.5	\$ 32.9
Current liabilities	(3.3)	(3.3)	(21.1)	(17.8)
Noncurrent liabilities	(469.6)	(575.1)	(466.9)	(444.3)
Net amount recognized at end of year (b)	\$ (472.9)	\$ (578.4)	\$ (456.5)	\$ (429.2)
Amounts recognized in accumulated other comprehensive income or regulatory asset/liability (c)				
Unrecognized transition asset obligation	\$ -	\$ -	\$ 1.7	\$ 2.9
Unrecognized prior service cost	(6.0)	(6.0)	(4.3)	(4.4)
Unrecognized actuarial loss	1,113.6	871.4	192.2	140.2
	\$ 1,107.6	\$ 865.4	\$ 189.6	\$ 138.7

(a) The change in benefit obligation for Pension Benefits represents the change in Projected Benefit Obligation while the change in benefit obligation for Other Postretirement Benefits represents the change in Accumulated Postretirement Benefit Obligation.

(b) NiSource recognizes in its Consolidated Balance Sheets the underfunded and overfunded status of its various defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation.

(c) NiSource determined that for certain rate-regulated subsidiaries the future recovery of pension and other postretirement benefits costs is probable. These rate-regulated subsidiaries recorded regulatory assets and liabilities of \$1,244.2 million and zero, respectively, as of December 31, 2011, and \$962.7 million and \$1.9 million, respectively, as of December 31, 2010 that would otherwise have been recorded to accumulated other comprehensive income (loss).

Edgar Filing: NISOURCE INC/DE - Form 10-K

NiSource's accumulated benefit obligation for its pension plans was \$2,523.5 million and \$2,429.5 million as of December 31, 2011 and 2010, respectively. The accumulated benefit obligation as of a date is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered prior to that date and based on current and past compensation levels. The accumulated benefit obligation differs from the projected benefit obligation disclosed in the table above in that it includes no assumptions about future compensation levels.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

NiSource pension plans were underfunded by \$472.9 million at December 31, 2011 compared to being underfunded at December 31, 2010 by \$578.4 million. The improvement in funded status was due primarily to an increase in employer contributions in 2011, partially offset by unfavorable asset returns and a decrease in the discount rate. NiSource contributed \$393.5 million and \$161.8 million to its pension plans in 2011 and 2010, respectively.

NiSource's funded status for its other postretirement benefit plans declined by \$27.3 million to an underfunded status of \$456.5 million due primarily to unfavorable asset returns and a decrease in discount rate. NiSource contributed approximately \$53.6 million and \$50.0 million to its other postretirement benefit plans in 2011 and 2010, respectively. No amounts of NiSource's pension or other postretirement plans' assets are expected to be returned to NiSource or any of its subsidiaries in 2012.

A provision of the 2010 Health Care Act requires the elimination, effective January 1, 2011, of lifetime and restrictive annual benefit limits from certain active medical plans. The NiSource Consolidated Flex Medical Plan (the Consolidated Flex Plan), a component welfare benefit plan of the NiSource Life and Medical Benefits Program, covered both active and retired employees and capped lifetime benefits to certain retirees. NiSource examined the provisions of the 2010 Health Care Act and determined the enactment of the law in the first quarter of 2010 qualified as a significant event requiring remeasurement of other postretirement benefit obligations and plan assets as of March 31, 2010. Effective September 1, 2010, NiSource amended the Consolidated Flex Plan and established the NiSource Post-65 Retiree Medical Plan (the Post-65 Retiree Plan) as a separate ERISA plan. In accordance with the amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan, Medicare supplement plan options for NiSource post-age 65 retirees and their eligible post-age 65 dependents are now offered under the Post-65 Retiree Plan, a retiree-only plan, and not under the Consolidated Flex Plan. The Post-65 Retiree Plan is not subject to the provisions of the 2010 Health Care Act requiring elimination of lifetime and restrictive annual benefit limits. The amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan required a second remeasurement of other postretirement benefit obligations and plan assets as of September 1, 2010. The effect of the change in the legislation and the plan amendment resulted in an increase to the other postretirement benefit obligation, net of plan assets, of \$31.0 million and corresponding increases to regulatory assets and AOCI of \$29.4 million and \$1.6 million, respectively. Net periodic postretirement benefit cost for 2010 was also increased by approximately \$2.2 million, of which \$1.3 million was recognized during the second quarter of 2010 and \$0.9 million was recognized during the third quarter of 2010.

The following table provides the key assumptions that were used to calculate the pension and other postretirement benefits obligations for NiSource's various plans as of December 31:

	000000000000	000000000000	000000000000	000000000000
	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
Weighted-average assumptions to Determine Benefit Obligation				
Discount Rate	4.60%	5.00%	4.88%	5.29%
Rate of Compensation Increases	4.00%	4.00%	-	-
Health Care Trend Rates				
Trend for Next Year	-	-	7.50%	8.00%
Ultimate Trend	-	-	5.00%	5.00%
Year Ultimate Trend Reached	-	-	2017	2017

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

<i>(in millions)</i>	000000000000 1% point increase	000000000000 1% point decrease
Effect on service and interest components of net periodic cost	\$ 4.2	\$ (3.8)
Effect on accumulated postretirement benefit obligation	60.3	(54.8)

NiSource expects to make contributions of approximately \$3.3 million to its pension plans and approximately \$51.7 million to its postretirement medical and life plans in 2012.

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

<i>(in millions)</i>	000000000000 Pension Benefits	000000000000 Other Postretirement Benefits	000000000000 Federal Subsidy Receipts
Year(s)			
2012	\$ 212.1	\$ 54.4	\$ 1.4
2013	220.2	54.9	1.7
2014	223.8	55.7	1.9
2015	217.7	56.1	2.0
2016	230.3	56.6	2.1
2017-2021	1,063.0	291.8	9.8

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

<i>(in millions)</i>	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Components of Net Periodic Benefit Cost (Income)						
Service cost	\$ 37.5	\$ 39.2	\$ 36.0	\$ 9.9	\$ 9.8	\$ 8.8
Interest cost	119.5	125.7	143.1	38.6	41.4	47.7
Expected return on assets	(167.0)	(143.7)	(121.8)	(26.6)	(23.8)	(16.9)
Amortization of transitional obligation	-	-	-	1.2	1.3	8.0
Amortization of prior service cost	0.2	2.0	3.9	(0.5)	1.1	1.0
Recognized actuarial loss	55.7	57.8	65.8	6.6	6.7	7.8
Net Periodic Benefit Costs	45.9	81.0	127.0	29.2	36.5	56.4

Additional loss recognized due to:

Edgar Filing: NISOURCE INC/DE - Form 10-K

Settlement loss	-	1.3	-	-	-	-
Total Net Periodic Benefits Cost	\$ 45.9	\$ 82.3	\$ 127.0	\$ 29.2	\$ 36.5	\$ 56.4

NiSource recognized cost of \$45.9 million for its pension plans in 2011 compared to cost of \$82.3 million in 2010 due primarily to favorable long-term expected returns on plan assets in 2010 and increased employer contributions in 2010 compared to 2009. For its other postretirement benefit plans, NiSource recognized \$29.2 million in cost in 2011 compared to \$36.5 million in cost in 2010 due primarily to favorable returns on plan assets in 2010. For 2011

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

and 2010, pension and other postretirement benefit cost of approximately \$58.3 million and \$6.2 million, respectively, was capitalized as a component of plant or recognized as a regulatory asset or liability consistent with regulatory orders for certain of NiSource's regulated businesses.

The following table provides the key assumptions that were used to calculate the net periodic benefits cost for NiSource's various plans:

	Pension Benefits			Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Weighted-average Assumptions to Determine Net Periodic Benefit Cost						
Discount Rate	5.00%	5.54%	6.92%	5.29%	5.86%	6.92%
Expected Long-Term Rate of Return on Plan Assets	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
Rate of Compensation Increases	4.00%	4.00%	4.00%	-	-	-

NiSource believes it is appropriate to assume an 8.75% rate of return on pension plan assets for its calculation of 2011 pension benefits cost. This is primarily based on asset mix and historical rates of return.

The following table provides other changes in plan assets and projected benefit obligations recognized in other comprehensive income or regulatory asset or liability:

	000000000		000000000		000000000		000000000	
	Pension Benefits		Benefits		Other Postretirement			
(in millions)	2011	2010	2011	2010	2011	2010	2011	2010
Other Changes in Plan Assets and Projected Benefit Obligations Recognized in Other Comprehensive Income or Regulatory Asset or Liability								
Settlements	-	(1.3)	-	-	-	-	-	-
Net prior service cost/(credit)	0.2	0.4	(0.5)	1.4	(0.5)	1.4	(0.5)	1.4
Net actuarial (gain)/loss	297.9	44.1	58.7	4.9	58.7	4.9	58.7	4.9
Less: amortization of transitional (asset)/obligation	-	-	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Less: amortization of prior service cost	(0.2)	(2.0)	0.5	(1.1)	0.5	(1.1)	0.5	(1.1)
Less: amortization of net actuarial (gain) loss	(55.7)	(57.8)	(6.6)	(6.8)	(6.6)	(6.8)	(6.6)	(6.8)
Total Recognized in Other Comprehensive Income or Regulatory Asset or Liability	\$ 242.2	\$ (16.6)	\$ 50.8	\$ (2.9)	\$ 50.8	\$ (2.9)	\$ 50.8	\$ (2.9)

	2011	2010	2011	2010
Amount Recognized in Net Periodic Benefits Cost and Other Comprehensive Income or Regulatory Asset or Liability	\$ 288.1	\$ 65.7	\$ 80.0	\$ 33.6

Based on a December 31 measurement date, the net unrecognized actuarial loss, unrecognized prior service cost (credit), and unrecognized transition obligation that will be amortized into net periodic benefit cost during 2012 for the pension plans are \$81.2 million, \$0.2 million and zero, respectively, and for other postretirement benefit plans are \$9.5 million, \$(0.5) million and \$1.2 million, respectively.

13. Authorized Classes of Cumulative Preferred and Preference Stocks

NiSource has 20,000,000 authorized shares of Preferred Stock with a \$0.01 par value, of which 4,000,000 shares are designated Series A Junior Participating Preferred Shares.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

The authorized classes of par value and no par value cumulative preferred and preference stocks of Northern Indiana are as follows: 2,400,000 shares of Cumulative Preferred with a \$100 par value; 3,000,000 shares of Cumulative Preferred with no par value; 2,000,000 shares of Cumulative Preference with a \$50 par value; and 3,000,000 shares of Cumulative Preference with no par value.

As of December 31, 2011, NiSource and Northern Indiana had no preferred shares outstanding. All of NiSource's retained earnings at December 31, 2011 are free of restrictions.

14. Common Stock

As of December 31, 2011, NiSource had 400,000,000 authorized shares of common stock with a \$0.01 par value.

Common Stock Dividend. Holders of shares of NiSource's common stock are entitled to receive dividends when, as and if declared by the Board out of funds legally available. The policy of the Board has been to declare cash dividends on a quarterly basis payable on or about the 20th day of February, May, August and November. NiSource has paid quarterly common dividends totaling \$0.92 per share for the 2011, 2010 and 2009 years. By unanimous written consent dated January 27, 2012, the Board declared a quarterly common dividend of \$0.23 per share, payable on February 20, 2012 to holders of record on February 6, 2012.

Dividend Reinvestment and Stock Purchase Plan. NiSource offers a Dividend Reinvestment and Stock Purchase Plan which allows participants to reinvest dividends and make voluntary cash payments to purchase additional shares of common stock on the open market.

Forward Agreements. On September 14, 2010, NiSource and Credit Suisse Securities (USA) LLC, as forward seller, closed an underwritten registered public offering of 24,265,000 shares of NiSource's common stock. All of the shares sold were borrowed and delivered to the underwriters by the forward seller. NiSource did not receive any of the proceeds from the sale of the borrowed shares, but NiSource will receive proceeds upon settlement of the Forward Agreements referred to below.

In connection with the public offering, NiSource entered into forward sale agreements (Forward Agreements) with an affiliate of the forward seller covering an aggregate of 24,265,000 shares of NiSource's common stock. Settlement of the Forward Agreements is expected to occur no later than September 10, 2012. Subject to certain exceptions, NiSource may elect cash or net share settlement for all or a portion of its obligations under the Forward Agreements. Upon any physical settlement of the Forward Agreements, NiSource will deliver shares of its common stock in exchange for cash proceeds at the forward sale price, which initially is \$15.9638 and is subject to adjustment as provided in the Forward Agreements. The equity forward initial forward price represents the public offering price of \$16.50 per share, net of underwriting discounts and commissions. If the equity forward had been settled by delivery of shares at December 31, 2011, the Company would have received approximately \$357.2 million based on a forward price of \$14.7224 for the 24,265,000 shares. The Company currently anticipates settling the equity forward by delivering shares.

In accordance with ASC 815-40, *Derivatives and Hedging- Contracts in Entity's Own Equity*, NiSource has classified the Forward Agreements as an equity transaction. As a result of this classification, no amounts have been recorded in the consolidated financial statements as of and for the period ended December 31, 2011 in connection with the Forward Agreements. The only impact to the Consolidated Financial Statements is the inclusion of incremental shares within the calculation of fully diluted EPS under the treasury stock method. Refer to Note 1-M, Earnings Per Share, for additional information.

15. Share-Based Compensation

Prior to May 11, 2010, NiSource issued long-term equity incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types of grants,

Edgar Filing: NISOURCE INC/DE - Form 10-K

separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights, restricted stock units, contingent stock units and dividend equivalents payable on grants of options, performance shares and contingent stock awards.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

The Stockholders approved and adopted the NiSource Inc. 2010 Omnibus Incentive Plan (the Omnibus Plan), at the Annual Meeting of Stockholders held on May 11, 2010. The Omnibus Plan provides that the number of shares of common stock of the Company available for awards is 8,000,000 plus the number of shares subject to outstanding awards granted under either the 1994 Plan or the Director Plan (described below) that expire or terminate for any reason and no further awards are permitted to be granted under the 1994 Plan or the Director Plan. The types of awards authorized under the Omnibus Plan do not significantly differ from those previously allowed under the 1994 Plan. As of December 31, 2011, there were 8,315,014 shares reserved for future awards under the Omnibus Plan.

NiSource recognized stock-based employee compensation expense of \$13.4 million, \$11.2 million and \$9.6 million during the years of 2011, 2010 and 2009, respectively, as well as related tax benefits of \$4.7 million, \$3.7 million and \$4.0 million, respectively.

As of December 31, 2011, the total remaining unrecognized compensation cost related to nonvested awards amounted to \$13.8 million, which will be amortized over the weighted-average remaining requisite service period of 1.7 years.

Stock Options. Option grants may be awarded with an exercise price equal to the average of the high and low market price on the day of the grant. As of December 31, 2011, the weighted average remaining contractual life of the options outstanding and exercisable was 1.9 years. Stock option transactions for the year ended December 31, 2011 were as follows:

	Options	Weighted Average Option Price (\$)
Outstanding at December 31, 2010	4,097,635	22.51
Granted	-	-
Exercised	(423,577)	20.70
Cancelled	(855,343)	24.81
Outstanding at December 31, 2011	2,818,715	22.09
Exercisable at December 31, 2011	2,818,715	22.09

No options were granted during the years ended December 31, 2011, 2010, and 2009. As of December 31, 2011, the aggregate intrinsic value for the options outstanding and exercisable was \$4.9 million. During 2011, cash received from the exercise of options was \$8.8 million and a tax benefit of \$0.2 million was realized. No options were exercised during 2010 and 2009.

Restricted Stock Units. In 2011, NiSource granted restricted stock units of 142,593, subject to service conditions. The total grant date fair value of the restricted units was \$2.4 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period of approximately three years. The service conditions for 120,355 units lapse on January 2014 when 100% of the units vest. If before January 2014, the employee terminates employment due to (1) Retirement or Disability (as defined in the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the restricted units on the date of termination. In the event of a Change-in-Control (as defined in the award agreement), all unvested restricted units will immediately vest. Termination due to any other reason will result in all restricted units awarded being forfeited effective on the employee's date of termination. The service conditions lapse for the remaining 22,236 units between March 2012 and July 2014. As of December 31, 2011, 139,540 nonvested restricted stock units were granted and outstanding for the 2011 award.

In 2010, NiSource granted restricted stock units of 265,134, subject to service conditions. The total grant date fair value of the restricted units was \$3.5 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period of approximately three years. The service conditions for 212,428 units

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

lapse on January 2013 when 100% of the units vest. If before January 2013, the employee terminates employment due to (1) Retirement or Disability (as defined in the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the restricted units on the date of termination. In the event of a Change-in-Control (as defined in the award agreement), all unvested restricted units will immediately vest. Termination due to any other reason will result in all restricted units awarded being forfeited effective on the employee's date of termination. The service conditions lapse for the remaining 52,706 units between August 2012 and December 2014. As of December 31, 2011, 239,110 nonvested restricted stock units were granted and outstanding for the 2010 award.

In 2009, NiSource granted restricted stock units of 335,068, subject to service conditions. The total grant date fair value of the restricted units was \$2.5 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period of approximately three years. The service conditions for 313,568 units lapsed on January 2012. The service conditions lapse for the remaining 21,500 units between August 2012 and June 2014. As of December 31, 2011, 275,904 nonvested restricted stock units were granted and outstanding for the 2009 award.

	Restricted Stock Units	Weighted Average Grant Date Fair Value (\$)
Nonvested at December 31, 2010	762,541	11.26
Granted	142,593	17.13
Forfeited	(50,071)	9.95
Vested	(200,509)	14.62
Nonvested and expected to vest at December 31, 2011	654,554	11.61

Time-accelerated Awards. NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. These awards of restricted stock or restricted stock units generally vested over a period of six years or, in the case of restricted stock units, at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return had been met, as measured at the end of the third year after the grant date, the awards would have vested at the end of the third year. The total shareholder return measures established were not met; therefore, these grants did not have an accelerated vesting period. During the first quarter of 2010, all awards with time-accelerated vesting provisions vested due to the lapse of service conditions. There was no activity related to restricted shares and restricted stock units that contain provisions for time-accelerated vesting for the year ended December 31, 2011.

Performance Shares. In 2011, NiSource granted 749,237 performance shares subject to performance conditions. The grant date fair-value of the awards was \$12.0 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and total debt that NiSource defines as total debt adjusted for significant movement in natural gas prices and other adjustments determined by the Board. The service conditions lapse on January 31, 2014 when the shares vest provided the performance criteria are satisfied. If the employee terminates employment before January 28, 2014 due to (1) Retirement or Disability (as defined in the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the performance shares on the date of termination. In the event of a Change-in-Control (as defined in the award agreement), all unvested performance shares will immediately vest. Termination due to any other reason will result in all performance shares awarded being forfeited effective on the employee's date of termination. As of December 31, 2011, 692,997 nonvested performance shares were granted and outstanding for the 2011 award.

In 2010, NiSource granted 662,969 contingent stock units subject to performance conditions. The grant date fair-value of the awards was \$8.6 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

forfeitures, over the three year requisite service period. The performance conditions are based on achievement of non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and total debt that NiSource defines as total debt adjusted for significant movement in natural gas prices and other adjustments determined by the Board. The service conditions lapse on January 31, 2013 when 100% of the shares vest provided the performance criteria is satisfied. If the employee terminates employment before January 31, 2013 due to (1) Retirement or Disability (as defined by the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the contingent units on the date of termination. In the event of a Change-in-Control (as defined by the award agreement), all unvested contingent stock units will immediately vest. Termination due to any other reason will result in all contingent units awarded being forfeited effective on the employee's date of termination. As of December 31, 2011, 601,041 nonvested contingent stock units were granted and outstanding for the 2010 award.

In 2009, NiSource granted 940,707 contingent stock units subject to performance conditions. The grant date fair-value of the awards was \$7.0 million, based on the average market price of NiSource's common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and total debt that NiSource defines as total debt adjusted for significant movement in natural gas prices and other adjustments determined by the Board. The service conditions lapse on January 31, 2012 when 100% of the shares vest provided the performance criteria are satisfied. If the employee terminates employment before January 31, 2012 due to (1) Retirement or Disability (as defined by the award agreement), or (2) the employment conditions will lapse with respect to a pro rata portion of the contingent units on the date of termination. In the event of a Change-in-Control (as defined by the award agreement), all unvested contingent stock units will immediately vest. Termination due to any other reason will result in all contingent units awarded being forfeited effective on the employee's date of termination. As of December 31, 2011, 774,082 nonvested contingent stock units were granted and outstanding for the 2009 award.

	Contingent Awards	Weighted Average Grant Date Fair Value (\$)
Nonvested at December 31, 2010	1,977,628	10.86
Granted	749,237	16.06
Forfeited	(296,344)	13.07
Vested	(362,401)	13.62
Nonvested and expected to vest at December 31, 2011	2,068,120	11.98

Non-employee Director Awards. As of May 11, 2010, awards to non-employee directors may be made only under the Omnibus Plan. Currently, restricted stock units are granted annually to non-employee directors, subject to a non-employee director's election to defer receipt of such restricted stock unit award. The non-employee director's restricted stock units vest on the last day of the non-employee director's annual term corresponding to the year the restricted stock units were awarded subject to special pro-rata vesting rules in the event of Retirement or Disability (as defined in the award agreement), or death. The vested restricted stock units are payable as soon as practicable following vesting except as otherwise provided pursuant to the non-employee director's election to defer. As of December 31, 2011, 113,476 restricted stock units had been issued under the Omnibus Plan.

Only restricted stock units remain outstanding under the prior plan for non-employee directors, the Amended and Restated Non-employee Director Stock Incentive Plan (the Director Plan). All such awards are fully vested and shall be distributed to the directors upon their separation from the Board. As of December 31, 2011, 241,401 restricted stock units remain outstanding under the Director Plan and as noted above no further shares may be issued under the Director Plan.

Edgar Filing: NISOURCE INC/DE - Form 10-K

401 (k) Match, Profit Sharing and Company Contribution. NiSource has a voluntary 401(k) savings plan covering eligible employees that allows for periodic discretionary matches as a percentage of each participant's contributions in newly issued shares of common stock. NiSource also has a retirement savings plan that provides for discretionary

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

profit sharing contributions of shares of common stock to eligible employees based on earnings results; and, effective January 1, 2010, eligible exempt employees hired after January 1, 2010, receive a non-elective company contribution of three percent of eligible pay in shares of common stock. For the years ended December 31, 2011, 2010 and 2009, NiSource recognized 401(k) match, profit sharing and non-elective contribution expense of \$25.9 million, \$19.7 million and \$14.9 million, respectively.

16. Long-Term Debt

NiSource Finance is a 100% owned, consolidated finance subsidiary of NiSource that engages in financing activities to raise funds for the business operations of NiSource and its subsidiaries. NiSource Finance was incorporated in February 2000 under the laws of the state of Indiana. Prior to 2000, the function of NiSource Finance was performed by Capital Markets. NiSource Finance obligations are fully and unconditionally guaranteed by NiSource. Consequently no separate financial statements for NiSource Finance are required to be reported. No other NiSource subsidiaries guarantee debt.

On November 23, 2011, NiSource Finance issued \$250.0 million of 4.45% senior unsecured notes that mature December 1, 2021 and \$250.0 million of 5.80% senior unsecured notes that mature February 1, 2042.

On November 14, 2011, NiSource Finance commenced a cash tender offer for up to \$250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately \$125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately \$228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which \$124.7 million were accepted for purchase. In accordance with the provisions of ASC 470, *Debt*, NiSource Finance determined the debt issued on November 23, 2011, was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a \$53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

During July 2011, Northern Indiana redeemed \$18.7 million of its medium-term notes, with an average interest rate of 7.30%.

On June 10, 2011, NiSource Finance issued \$400.0 million of 5.95% senior unsecured notes that mature June 15, 2041.

On December 8, 2010, NiSource Finance issued \$250.0 million of 6.25% senior unsecured notes that mature December 15, 2040.

On December 1, 2010, NiSource Finance commenced a cash tender offer for up to \$250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.80% notes due 2019. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2019 notes were accepted. On December 14, 2010, NiSource Finance announced that approximately \$272.9 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered. Based upon the principal amount of the 2016 notes tendered, NiSource Finance increased the maximum aggregate principal amount of 2016 notes it would purchase from \$250.0 million to \$325.0 million and terminated the portion of the tender offer related to its 6.80% notes due 2019. On December 30, 2010, NiSource Finance announced that \$273.1 million of these notes were successfully tendered and accepted for purchase. In accordance with the provisions of ASC 470, *Debt*, NiSource Finance determined the debt issued on December 8, 2010 was substantially different from the tendered notes, and therefore the transaction qualified as a debt extinguishment. NiSource Finance recorded a \$96.7 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

On November 15, 2010, NiSource Finance redeemed \$681.8 million of its 7.875% unsecured notes.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Following are the outstanding long-term debt sinking fund requirements and maturities at December 31, 2011. The long-term debt maturities shown below include capital lease obligations and the debt of certain low-income housing real estate investments. NiSource does not guarantee the long-term debt obligations of the low-income housing real estate investments.

Year Ending December 31, <i>(in millions)</i>		
2012	\$	327.3
2013		501.4
2014		567.3
2015		237.0
2016		426.7
After		4,572.1
Total ⁽¹⁾	\$	6,631.8

(1) This amount excludes \$37.4 million of unamortized discount and premium.

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

Of NiSource's long-term debt outstanding at December 31, 2011, \$109.0 million was issued by NiSource's subsidiary, Capital Markets. The financial obligations of Capital Markets are subject to a Support Agreement between NiSource and Capital Markets, under which NiSource has committed to make payments of interest and principal on Capital Markets' obligations in the event of a failure to pay by Capital Markets. Under the terms of the Support Agreement, in addition to the cash flow from cash dividends paid to NiSource by any of its consolidated subsidiaries, the assets of NiSource, other than the stock and assets of Northern Indiana, are available as recourse for the benefit of Capital Markets' creditors. The carrying value of the NiSource assets, excluding the assets of Northern Indiana, was \$15.0 billion at December 31, 2011.

NiSource Finance maintains \$500.0 million notional value of interest rate swap agreements relating to its outstanding long-term debt. The effect of these agreements is to modify the interest rate characteristics of a portion of their respective long-term debt from fixed to variable. Refer to Note 9, Risk Management and Energy Marketing Activities, in the Notes to Consolidated Financial Statements for further information regarding interest rate swaps.

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

NiSource is also subject to certain other non-financial covenants under the revolving credit facility. Such covenants include a limitation on the creation or existence of new liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional subset of assets equal to \$150 million. An asset sale covenant generally restricts the sale, lease and/or transfer of NiSource's assets to no more than 10% of its consolidated total assets and dispositions for a price not materially less than the fair market value of the assets disposed of that do not impair the ability of NiSource and NiSource Finance to perform obligations under the revolving credit facility, and that, together with all other such dispositions, would not have a material adverse effect. The revolving credit facility also include a cross-default provision, which triggers an event of default under the credit facility in the event of an uncured payment default relating to any indebtedness of NiSource or any of its subsidiaries in a principal amount of \$50 million or more.

NiSource's indentures generally do not contain any financial maintenance covenants. However, NiSource's indentures are generally subject to cross default provisions ranging from uncured payment defaults of \$5 million to \$50 million, and limitations on the incurrence of liens on

Edgar Filing: NISOURCE INC/DE - Form 10-K

NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional subset of assets capped at 10% of NiSource's consolidated net tangible assets.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**17. Short-Term Borrowings**

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to \$500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. Commercial paper issuances are supported by available capacity under NiSource's \$1.5 billion unsecured revolving credit facility, which expires in March 2015. At December 31, 2011, NiSource had \$402.7 million of commercial paper outstanding.

On March 3, 2011, NiSource Finance entered into a new \$1.5 billion four-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility has a termination date of March 3, 2015 and replaced an existing \$1.5 billion five-year credit facility, which would have expired during July 2011. The purpose of the facility is to fund ongoing working capital requirements and for general corporate purposes, including supporting liquidity for NiSource's commercial paper program, and provides for the issuance of letters of credit. At December 31, 2011, NiSource had \$725.0 million of outstanding borrowings under this facility.

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

Beginning January 1, 2010, transfers of accounts receivable that previously qualified for sales accounting no longer qualify and are accounted for as secured borrowings resulting in the recognition of short-term debt on the Consolidated Balance Sheets in the amount of \$231.7 million and \$275.0 million as of December 31, 2011 and 2010, respectively. Refer to Note 19, "Transfers of Financial Assets," for additional information.

Short-term borrowings were as follows:

At December 31, <i>(in millions)</i>	00000000000000000000 2011	00000000000000000000 2010
Commercial Paper weighted average interest rate of 1.01% at December 31, 2011	\$ 402.7	\$ -
Credit facilities borrowings weighted average interest rate of 1.99% and 0.78% at December 31, 2011 and 2010, respectively	\$ 725.0	\$ 1,107.5
Accounts receivable securitization facility borrowings	231.7	275.0
Total short-term borrowings	\$ 1,359.4	\$ 1,382.5

Total short-term borrowings as of March 31, 2011, June 30, 2011 and September 30, 2011 were \$1,263.0 million, \$870.4 million and \$1,234.0 million, respectively.

18. Fair Value Disclosures

A Fair Value Measurements. NiSource adopted the provisions of ASC Topic 820 "Fair Value Measurements and Disclosures" for financial assets and liabilities on January 1, 2008 and non-financial assets and liabilities on January 1, 2009. There was no impact on retained earnings as a result of the adoption.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Recurring Fair Value Measurements. The following tables present financial assets and liabilities measured and recorded at fair value on NiSource's Consolidated Balance Sheet on a recurring basis and their level within the fair value hierarchy as of December 31, 2011 and December 31, 2010:

Recurring Fair Value Measurements	Quoted Prices			Balance as of December 31, 2011
	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Commodity price risk management assets:				
Physical price risk programs	\$ -	\$ 140.7	\$ -	\$ 140.7
Financial price risk programs (a)	148.3	2.5	0.3	151.1
Interest rate risk activities	-	56.7	-	56.7
Available-for-sale securities	32.9	63.1	-	96.0
Total	\$ 181.2	\$ 263.0	\$ 0.3	\$ 444.5

Liabilities

Commodity price risk management liabilities:

Physical price risk programs	\$ -	\$ 3.9	\$ -	\$ 3.9
Financial price risk programs	301.1	1.7	-	302.8
Total	\$ 301.1	\$ 5.6	\$ -	\$ 306.7

(a) During the fourth quarter of 2011, NiSource recorded a reserve of \$22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business. The financial price risk program amount above is shown gross and has not been adjusted for the reserve.

Recurring Fair Value Measurements	Quoted Prices			Balance as of December 31, 2010
	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Commodity Price risk management assets:				
Physical price risk programs	\$ -	\$ 161.4	\$ -	\$ 161.4

Edgar Filing: NISOURCE INC/DE - Form 10-K

Financial price risk programs	173.8	3.2	0.3	177.3
Interest rate risk activities	-	61.1	-	61.1
Available-for-sale securities	43.5	37.9	-	81.4
Total	\$ 217.3	\$ 263.6	\$ 0.3	\$ 481.2

Liabilities

Commodity Price risk management liabilities:

Physical price risk programs	\$ -	\$ 3.6	\$ -	\$ 3.6
Financial price risk programs	348.5	3.3	0.1	351.9
Total	\$ 348.5	\$ 6.9	\$ -	\$ 355.5

Price risk management assets and liabilities include commodity exchange-traded and non-exchange-based derivative contracts. Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

To determine the fair value of derivatives associated with NiSource's unregulated natural gas marketing business, certain reserves were calculated. These reserves were primarily determined by evaluating the credit worthiness of certain customers, fair value of future cash flows, and the cost of maintaining restricted cash.

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

Available-for-sale securities are investments pledged as collateral for trust accounts related to NiSource's wholly-owned insurance company. Available-for-sale securities are included within Other investments in the Consolidated Balance Sheets. Securities classified within Level 1 include U.S. Treasury debt securities which are highly liquid and are actively traded in over-the-counter markets. NiSource values corporate and mortgage-backed debt securities using a matrix pricing model that incorporates market-based information. These securities trade less frequently and are classified within Level 2. Unrealized gains and losses from available-for-sale securities are included in other comprehensive income. The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale debt securities at December 31, 2011 and 2010 were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in millions)</i>				
Available-for-sale debt securities, December 31, 2011				
U.S. Treasury securities	\$ 36.7	\$ 1.7	\$ -	\$ 38.4
Corporate/Other bonds	56.3	1.6	(0.3)	57.6
Total Available-for-sale debt securities	\$ 93.0	\$ 3.3	\$ (0.3)	\$ 96.0

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in millions)</i>				
Available-for-sale debt securities, December 31, 2010				

Edgar Filing: NISOURCE INC/DE - Form 10-K

U.S. Treasury securities	\$ 43.4	\$ 0.6	\$ (0.5)	\$ 43.5
Corporate/Other bonds	36.1	2.0	(0.2)	37.9
Total Available-for-sale debt securities	\$ 79.5	\$ 2.6	\$ (0.7)	\$ 81.4

136

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

For the year ended December 31, 2011, 2010, and 2009 the realized gain on sale of available for sale U.S. Treasury debt securities was \$0.5 million, \$0.7 million and \$1.1 million, respectively. For the year ended December 31, 2011, 2010, and 2009 the realized gain on sale of available for sale Corporate/Other bond debt securities was \$0.9 million, \$1.0 million, and \$0.9 million.

The cost of maturities sold is based upon specific identification. At December 31, 2011, there are no U.S. Treasury debt securities with maturities of less than a year. At December 31, 2011 approximately \$1.0 million of Corporate/Other bonds have maturities of less than a year while the remaining securities have maturities of greater than one year.

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the periods ended December 31, 2011 and December 31, 2010:

Period Ended December 31, 2011 <i>(in millions)</i>	Financial		
	Transmission Rights	Other Derivatives	Total
Balance as of January 1, 2011	\$ -	\$ 0.2	\$ 0.2
Total gains (losses) (unrealized/realized)			
Included in regulatory assets/liabilities	-	-	-
Purchases	-	(1.1)	(1.1)
Settlements	-	1.2	1.2
Balance as of December 31, 2011	\$ -	\$ 0.3	\$ 0.3
Change in unrealized gains/(losses) relating to instruments still held as of December 31, 2011	\$ -	\$ (0.4)	\$ (0.4)

Period Ended December 31, 2010 <i>(in millions)</i>	Financial		
	Transmission Rights	Other Derivatives	Total
Balance as of January 1, 2010	\$ 1.9	\$ 0.2	\$ 2.1
Total gains (losses) (unrealized/realized)			
Included in regulatory assets/liabilities	(16.3)	-	(16.3)
Settlements	14.4	-	14.4
Balance as of December 31, 2010	\$ -	\$ 0.2	\$ 0.2
Change in unrealized gains/(losses) relating to instruments still held as of December 31, 2010	\$ -	\$ -	\$ -

As discussed in Note 9, Risk Management and Energy Marketing Activities, part of the MISO Day 2 initiative, Northern Indiana obtains FTRs, which help to offset congestion costs due to the MISO Day 2 activity. These instruments are considered derivatives and are classified as Level 3 and are reflected in the table above. FTRs are valued based on the value of allocated ARR and forecasted congestion costs. Since congestion costs are recoverable through the fuel cost recovery mechanism, the related gains and losses associated with marking these derivatives to market are recorded as a regulatory asset or liability. Northern Indiana also writes options for regulatory incentive purposes which are also considered in the Level 3 valuations. Realized gains and losses for these Level 3 recurring items are included in income within Cost of Sales on the Statements of Consolidated Income. Unrealized gains and losses from Level 3 recurring items are included within Regulatory assets or Regulatory liabilities on the Consolidated Balance Sheets.

Non-recurring Fair Value Measurements. During the twelve months ended December, 31 2011, NiSource recorded \$14.7 million of asset impairments as a result of third party appraisals. The fair value of these assets was determined based on unobservable inputs and is deemed to be a Level 3 fair value measurement under the fair value hierarchy. See Note 3, Impairments, Restructuring and Other Charges, for further

discussion.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

There were no significant non-recurring fair value measurements recorded during the twelve months ended December 31, 2010.

B. Other Fair Value Disclosures for Financial Instruments. NiSource has certain financial instruments that are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, customer deposits and short-term borrowings. NiSource's long-term borrowings are recorded at historical amounts unless designated as a hedged item in a fair value hedge.

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

Long-term investments. NiSource has corporate owned life insurance which is measured and recorded at cash surrender value. NiSource's investments in corporate owned life insurance at December 31, 2011 and 2010 were \$26.2 million and \$26.0 million, respectively.

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

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

	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	2011	2011	2010	2010
At December 31, <i>(in millions)</i>				
Long-term investments	\$ 26.7	\$ 25.7	\$ 26.7	\$ 25.4
Long-term debt (including current portion)	6,594.4	7,369.4	5,970.3	6,482.4

19. Transfers of Financial Assets

Beginning January 1, 2010, transfers of accounts receivable that previously qualified for sales accounting no longer qualify and are accounted for as secured borrowings resulting in the recognition of short-term borrowings on the Consolidated Balance Sheets. The maximum amount of debt that can be recognized related to NiSource's accounts receivable programs is \$515 million.

Prior to January 1, 2010, NiSource's accounts receivable programs qualified for sale accounting based upon the conditions met in ASC Topic 860, *Transfers and Servicing*.

All accounts receivables sold to the commercial paper conduits are valued at face value, which approximates fair value due to their short-term nature. The amount of the undivided percentage ownership interest in the accounts receivables sold is determined in part by required loss reserves under the agreements. Below is information about the accounts receivable securitization agreements entered into by NiSource's subsidiaries.

On October 23, 2009, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CGORC, a wholly-owned subsidiary of Columbia of Ohio. CGORC, in turn, is party to an agreement with BTMU and RBS, also dated October 23, 2009, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by BTMU and RBS. On October 21, 2011, the agreement was renewed with an amendment increasing the maximum seasonal program limit from \$200 million to \$240 million. The amended agreement expires on October 19, 2012, and can be renewed if

Edgar Filing: NISOURCE INC/DE - Form 10-K

mutually agreed to by all parties. As of December 31, 2011, \$102.5 million of accounts receivable had been transferred by CGORC. CGORC is a separate corporate entity from NiSource and Columbia of Ohio, with its own separate obligations, and upon a liquidation of CGORC, CGORC's obligations must be satisfied out of CGORC's assets prior to any value becoming available to CGORC's stockholder. Under the agreement, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

On October 23, 2009, Northern Indiana entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to NARC, a wholly-owned subsidiary of Northern Indiana. NARC, in turn, is party to an agreement with RBS, also dated October 23, 2009, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by RBS. The maximum seasonal program limit under the terms of the agreement is \$200 million. On August 31, 2011, the agreement was renewed, having a new scheduled termination date of August 29, 2012, and can further be renewed if mutually agreed to by both parties. As of December 31, 2011, \$100.0 million of accounts receivable had been transferred by NARC. NARC is a separate corporate entity from NiSource and Northern Indiana, with its own separate obligations, and upon a liquidation of NARC, NARC's obligations must be satisfied out of NARC's assets prior to any value becoming available to NARC's stockholder. Under the agreement, an event of termination occurs if Northern Indiana's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB or Ba2 at either Standard & Poor's or Moody's, respectively.

On March 15, 2010, Columbia of Pennsylvania entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CPRC, a wholly-owned subsidiary of Columbia of Pennsylvania. CPRC, in turn, is party to an agreement with BTMU, also dated March 15, 2010, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by BTMU. The maximum seasonal program limit under the terms of the agreement is \$75 million. On March 14, 2011, the agreement was renewed, having a new scheduled termination date of March 13, 2012, and can be further renewed if mutually agreed to by both parties. As of December 31, 2011, \$29.2 million of accounts receivable has been transferred by CPRC. CPRC is a separate corporate entity from NiSource and Columbia of Pennsylvania, with its own separate obligations, and upon a liquidation of CPRC, CPRC's obligations must be satisfied out of CPRC's assets prior to any value becoming available to CPRC stockholder. Under the agreement, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

The following tables reflect the gross and net receivables transferred as well as short-term borrowings related to the securitization transactions as of December 31, 2011 and December 31, 2010 for Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania:

<i>(in millions)</i>	December 31, 2011	December 31, 2010
Gross Receivables interest	\$ 510.5	\$ 655.6
Less: Receivables not transferred	278.8	380.6
Net receivables transferred	\$ 231.7	\$ 275.0
Short-term debt due to asset securitization	\$ 231.7	\$ 275.0

For the year ended December 31, 2009, NiSource received proceeds from receivables sold of \$2,808.4 million, remitted collections to the commercial paper conduits of \$2,923.4 million and repurchased receivables of \$133.1 million. This resulted in a net use of operating cash flows of \$248.1 million. Additionally, for the year ended December 31, 2009, \$8.9 million of fees associated with the securitization transactions were recorded as other, net expense.

Beginning January 1, 2010, transfers of accounts receivable that previously qualified for sale accounting no longer qualify and are accounted for as secured borrowings. As such, at December 31, 2011 and 2010, the entire gross receivables balance remains on the Consolidated Balance Sheets and short-term borrowings are recorded in the amount of proceeds received from the commercial paper conduits involved in the transactions. During 2011 and 2010, \$43.3 million and \$275.0 million was recorded as cash from financing activities related to the change in short-term borrowings due to the securitization transactions, respectively. For the year ended December 2011 and 2010, \$3.8 million and \$6.3 million of fees associated with the securitization transactions were recorded as interest expense, respectively. Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania remain responsible for collecting on the receivables securitized and the receivables cannot be sold to another party.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**20. Other Commitments and Contingencies**

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total guarantees and indemnities in existence at December 31, 2011 and the years in which they expire are:

<i>(in millions)</i>	Total	2012	2013	2014	2015	2016	After
Guarantees of subsidiaries debt	\$ 6,120.8	\$ 315.0	\$ 420.3	\$ 500.0	\$ 230.0	\$ 291.5	\$ 4,364.0
Guarantees supporting energy commodity contracts of subsidiaries	148.4	66.5	-	-	80.0	-	1.9
Accounts receivable securitization	231.7	231.7	-	-	-	-	-
Lines of credit	1,127.7	1,127.7	-	-	-	-	-
Letters of credit	37.5	36.2	0.3	1.0	-	-	-
Other guarantees	272.5	12.0	224.3	32.2	-	-	4.0
Total commercial commitments	\$ 7,938.6	\$ 1,789.1	\$ 644.9	\$ 533.2	\$ 310.0	\$ 291.5	\$ 4,369.9

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of \$6.1 billion of debt for various wholly-owned subsidiaries including NiSource Finance and Columbia of Massachusetts, and through a support agreement, Capital Markets, which is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance. On October 3, 2011, NiSource executed a Second Supplemental Indenture to the original Columbia of Massachusetts Indenture dated April 1, 1991, for the specific purpose of guaranteeing Columbia of Massachusetts' outstanding medium-term notes.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to \$148.4 million of commodity-related payments for its current subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas services. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit and Accounts Receivable Advances. On March 3, 2011, NiSource Finance entered into a new \$1.5 billion four-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an existing \$1.5 billion five-year credit facility which would have expired during July 2011. The new facility has a termination date of March 3, 2015. The purpose of the facility is to fund ongoing working capital requirements and for general corporate purposes, including supporting liquidity for NiSource's commercial paper program, and provides for the issuance of letters of credit. At December 31, 2011, NiSource had \$725.0 million in borrowings under its four-year revolving credit facility, \$402.7 million outstanding under its commercial paper program and \$231.7 million outstanding under its accounts receivable securitization agreements. At December 31, 2011, NiSource had issued stand-by letters of credit of approximately \$37.5 million for the benefit of third parties. See Note 17, Short-term Borrowings, of the Notes to Consolidated Financial Statements for additional information.

Other Guarantees or Obligations. On June 30, 2008, NiSource's subsidiary, PEI, sold Whiting Clean Energy to BPAE for \$216.7 million which included \$16.1 million in working capital. The agreement with BPAE contains representations, warranties, covenants and closing conditions. NiSource has executed purchase and sales agreement guarantees totaling \$220 million which guarantee performance of PEI's covenants, agreements, obligations, liabilities, representations and warranties under the agreement with BPAE. No amounts related to the purchase and sale agreement guarantees are reflected in the Consolidated Balance Sheet as of December 31, 2011. These guarantees are due to expire in June 2013.

Edgar Filing: NISOURCE INC/DE - Form 10-K

NiSource has additional purchase and sale agreement guarantees totaling \$30.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sale agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSOURCE INC.

Notes to Consolidated Financial Statements

In connection with Millennium's refinancing of its long-term debt in August 2010, NiSource provided a letter of credit to Union Bank N.A., as Collateral Agent for deposit into a debt service reserve account as required under the Deposit and Disbursement Agreement governing the Millennium notes offering. This account is to be drawn upon by the note holders in the event that Millennium is delinquent on its principal and interest payments. The value of NiSource's letter of credit represents 47.5% (NiSource's ownership percentage in Millennium) of the Debt Service Reserve Account requirement, or \$16.2 million. The total exposure for NiSource is \$16.2 million. NiSource recorded an accrued liability of \$1.5 million related to the inception date fair value of this guarantee as of December 31, 2011.

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

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

C. Tax Matters. NiSource records liabilities for potential income tax assessments. The accruals relate to tax positions in a variety of taxing jurisdictions and are based on management's estimate of the ultimate resolution of these positions. These liabilities may be affected by changing interpretations of laws, rulings by tax authorities, or the expiration of the statute of limitations. NiSource is part of the IRS's Large and Mid-Size Business program. As a result each year's federal income tax return is typically audited by the IRS. As of December 31, 2011, tax years through 2007 have been audited and are effectively closed to further assessment. The audit of tax years 2008 and 2009 began on June 2, 2011. As of December 31, 2011, there were no state income tax audits in progress that would have a material impact on the consolidated financial statements.

NiSource is currently being audited for sales and use tax compliance in the states of Virginia, Kentucky, Pennsylvania, Ohio, Maine and Massachusetts.

D. Environmental Matters.

NiSource operations are subject to environmental statutes and regulations related to air quality, water quality, hazardous waste and solid waste. NiSource believes that it is in substantial compliance with those environmental regulations currently applicable to its operations and believes that it has all necessary permits to conduct its operations.

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

As of December 31, 2011 and 2010, NiSource had recorded reserves of approximately \$173.5 million and \$79.8 million, respectively, to cover environmental remediation at various sites. See below for a discussion regarding the increase in the reserves in 2011. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated. The original estimates for cleanup can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including currently enacted laws and regulations, the nature and extent of contamination, the method of cleanup, and the availability of cost recovery from customers. These expenditures are not currently estimable at some sites. NiSource periodically adjusts its reserves as information is collected and estimates become more refined.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**Air**

The actions listed below could require further reductions in emissions from various emission sources. NiSource will continue to closely monitor developments in these matters.

Climate Change. Future legislative and regulatory programs could significantly restrict emissions of GHGs or could impose a cost or tax on GHG emissions. Recently, proposals have been developed to implement Federal, state and regional GHG programs and to create renewable energy standards.

In 2009 and 2010, the United States Congress considered a number of legislative proposals to regulate GHG emissions. The United States House of Representatives passed a comprehensive climate change bill in June 2009 that would have created a GHG-cap-and-trade system and implemented renewable energy standards. Bills on the same topics were introduced in the Senate in 2009 and 2010, but failed to garner enough support to pass.

If a Federal or state comprehensive climate change bill were to be enacted into law, the impact on NiSource's financial performance would depend on a number of factors, including the overall level of required GHG reductions, the renewable energy targets, the degree to which offsets may be used for compliance, the amount of recovery allowed from customers, and the extent to which NiSource would be entitled to receive CO₂ allowances at no cost. Comprehensive Federal or state GHG regulation could result in additional expense or compliance costs that may not be fully recoverable from customers and could materially impact NiSource's financial results.

National Ambient Air Quality Standards. The CAA requires EPA to set national air quality standards for particulate matter and five other pollutants (the NAAQS) considered harmful to public health and the environment. Periodically EPA imposes new or modifies existing NAAQS. States that contain areas that do not meet the new or revised standards must take steps to maintain or achieve compliance with the standards. These steps could include additional pollution controls on boilers, engines, turbines, and other facilities owned by electric generation, gas distribution, and gas transmission operations.

The following NAAQS were recently added or modified:

Particulate Matter: In 2006, the EPA issued revisions to the NAAQS for particulate matter. The final rule (1) increased the stringency of the current fine particulate (PM_{2.5}) standard, (2) added a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter), and (3) revoked the annual standards for coarse particulate (PM₁₀) while retaining the 24-hour PM₁₀ standards. These actions were challenged in a case before the DC Court of Appeals, *American Farm Bureau Federation et al. v. EPA*. In 2009, the appeals court granted portions of the plaintiffs' petitions challenging the fine particulate standards but denied portions of the petitions challenging the standards for coarse particulate. State plans implementing the new standard for inhalable coarse particulate and the modified 24-hour standard for fine particulate are expected in 2012. The annual and secondary PM_{2.5} standards have been remanded to the EPA for reconsideration.

Ozone (eight hour): On September 2, 2011, the EPA announced it would implement its 2008 eight-hour ozone NAAQS rather than tightening the standard in 2012. The EPA will review, and possibly revise, the standard in 2013 consistent with CAA requirements. Northern Indiana will continue to monitor this matter and cannot estimate the impact of any new rules at this time.

Nitrogen Dioxide (NO₂): The EPA revised the NO₂ NAAQS by adding a one-hour standard while retaining the annual standard. The new standard could impact some NiSource combustion sources. EPA will designate areas that do not meet the new standard beginning in 2012. States with areas that do not meet the standard will need to develop rules to bring areas into compliance within five years of designation. Additionally, under certain permitting circumstances emissions from some existing NiSource combustion sources may need to be assessed and compared to the revised NO₂ standards before areas are designated. Petitions challenging the rule have been filed by various parties. NiSource will continue to monitor this matter and cannot estimate the impact of these rules at this time.

National Emission Standard for Hazardous Air Pollutants. On August 20, 2010, the EPA revised national emission standards for hazardous air pollutants for certain stationary reciprocating internal combustion engines. Compliance requirements vary by engine type and will generally be required within three years. NiSource is continuing its evaluation of the cost impacts of the final rule and estimates the cost of compliance to be \$20 - \$25 million.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**Waste**

NiSource subsidiaries are potentially responsible parties at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws. Additionally, a program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors may have liability. The program has identified 67 such sites where liability is probable. Remedial actions at many of these sites are being overseen by state or federal environmental agencies through consent agreements or voluntary remediation agreements.

During the fourth quarter of 2011, NiSource completed a probabilistic model to estimate its future remediation costs related to its MGP sites. The model was prepared by a third party and incorporates NiSource and general industry experience with remediating MGP sites. NiSource accordingly increased its liability for estimated remediation costs by \$71.1 million. The total liability at NiSource related to the facilities subject to remediation was \$139.5 million and \$66.7 million at December 31, 2011 and 2010, respectively. The liability represents NiSource's best estimate of the probable cost to remediate the facilities. NiSource believes that it is reasonably possible that remediation costs could vary by as much as \$25 million in addition to the costs noted above. Remediation costs are estimated based on the best available information, applicable remediation standards at the balance sheet date, and experience with similar facilities.

Additional Issues Related to Individual Business Segments

The sections above describe various regulatory actions that affect Gas Transmission and Storage Operations, Electric Operations, and certain other discontinued operations for which NiSource has retained a liability. Specific information is provided below.

Gas Transmission and Storage Operations.**Waste**

Columbia Transmission continues to conduct characterization and remediation activities at specific sites under a 1995 AOC (subsequently modified in 1996 and 2007). The 1995 AOC originally covered 245 major facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. As a result of the 2007 amendment, approximately 50 facilities remain subject to the terms of the AOC. During the third quarter of 2011, Columbia Transmission completed a study to estimate its future remediation requirements related to the AOC. Columbia Transmission accordingly increased its liability for estimated remediation costs by \$25.6 million. The total liability at Columbia Transmission related to the facilities subject to remediation was \$30.0 million and \$9.5 million at December 31, 2011 and 2010, respectively. The liability represents Columbia Transmission's best estimate of the cost to remediate the facilities or manage the site until retirement. A Response Action Work Plan consistent with this estimate was submitted to the EPA in the fourth quarter of 2011 and subsequently approved. Remediation costs are estimated based on the information available, applicable remediation standards, and experience with similar facilities. Columbia Transmission expects that the remediation for these facilities will be completed in 2015.

One of the facilities subject to the 1995 AOC is the Majorsville Operations Center, which was remediated under an EPA approved Remedial Action Work Plan in summer 2008. Pursuant to the Remedial Action Work Plan, Columbia Transmission completed a project that stabilized residual oil contained in soils at the site and in sediments in an adjacent stream. Columbia Transmission continues to monitor the site subject to EPA oversight. On April 23, 2009, PADEP issued an NOV to Columbia Transmission, alleging that the remediation did not fully address the contamination. The NOV asserts violations of the Pennsylvania Clean Streams Law and the Pennsylvania Solid Waste Management Act and includes a proposed penalty of \$1 million. Columbia Transmission is unable to estimate the likelihood or cost of potential penalties or additional remediation at this time.

Electric Operations.**Air**

Northern Indiana expects to become subject to a number of new air-quality mandates in the next several years.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

These mandates may require Northern Indiana to make capital improvements to its electric generating stations. The cost of capital improvements is estimated to be \$620 million to \$1.1 billion. This figure includes additional capital improvements associated with the New Source Review Consent decree, CSAPR and the proposed Utility Hazardous Air Pollutants Rule. Northern Indiana believes that the capital costs will likely be recoverable from ratepayers.

Sulfur dioxide: On December 8, 2009, the EPA revised the SO₂ NAAQS by adopting a new 1-hour primary NAAQS for SO₂. EPA expects to designate areas that do not meet the new standard by mid-2012. States with such areas would have until 2014 to develop attainment plans with compliance required by 2017. Northern Indiana will continue to monitor developments in these matters but does not anticipate a material impact.

Cross-State Air Pollution Rule / Clean Air Interstate Rule (CAIR) / Transport Rule: On July 6, 2011, the EPA announced its replacement for the 2005 CAIR to reduce the interstate transport of fine particulate matter and ozone. The CSAPR reduces overall emissions of SO₂ and NO_x by setting state-wide caps on power plant emissions. The CSAPR limits emissions, including Northern Indiana's, with restricted emission allowance trading programs were scheduled to begin in 2012. In a decision issued on December 30, 2011, the D.C. Circuit Court stayed the CSAPR and reinstated the CAIR trading program provisions and requirements, including reissuing CAIR emission allowances, pending resolution of the stay. This development does not significantly impact Northern Indiana's current emissions control plans. Northern Indiana utilizes the inventory model in accounting for emission allowances issued under the CAIR program whereby these allowances were recognized at zero cost upon receipt from the EPA. Northern Indiana believes its current multi-pollutant compliance plan and NOV capital investments will allow Northern Indiana to meet the emission requirements of CSAPR whenever final resolution of the stay is reached.

Utility Hazardous Air Pollutants: On February 8, 2008, the United States Court of Appeals for the District of Columbia Circuit vacated two EPA rules that are the basis for the Indiana Air Pollution Control Board's Clean Air Mercury Rule (CAMR) that established utility mercury emission limits in two phases (2010 and 2018) and a cap-and-trade program to meet those limits. In response to the vacatur, the EPA pursued a new Section 112 rulemaking to establish MACT standards for electric utilities. The EPA finalized the Mercury and Air Toxics Standards (MATS) Rule on December 16, 2011. Compliance for Northern Indiana's affected units will be required in early 2015, with the possibility of a one year extension. Northern Indiana is currently developing a plan for further environmental controls to comply with MATS.

New Source Review: On September 29, 2004, the EPA issued an NOV to Northern Indiana for alleged violations of the CAA and the Indiana SIP. The NOV alleges that modifications were made to certain boiler units at three of Northern Indiana's generating stations between the years 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana, EPA, the Department of Justice, and IDEM have settled the matter through a consent decree.

Water

The Phase II Rule of the Clean Water Act Section 316(b), which requires all large existing steam electric generating stations to meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures, became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. Various court challenges and EPA responses ensued. The EPA announced a proposed rule and is obligated to finalize a rule in 2012. Northern Indiana will continue to monitor this matter but cannot estimate the cost of compliance at this time.

Waste

On March 31, 2005, the EPA and Northern Indiana entered into an AOC under the authority of Section 3008(h) of the RCRA for the Bailly Station. The order requires Northern Indiana to identify the nature and extent of releases of hazardous waste and hazardous constituents from the facility. Northern Indiana must also remediate any release of hazardous constituents that present an unacceptable risk to human health or the environment. The process to complete investigation and select appropriate remediation activities is ongoing.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

On June 21, 2010, EPA published a proposed rule for CCRs through the RCRA. The proposal outlines multiple regulatory approaches that EPA is considering. These proposed regulations could negatively affect Northern Indiana's ongoing byproduct reuse programs and would impose additional requirements on its management of coal combustion residuals. Northern Indiana will continue to monitor developments in this matter and cannot estimate the cost of compliance at this time.

Other Operations.**Waste**

NiSource affiliates have retained environmental liabilities, including cleanup liabilities associated with some of its former operations. Four sites are associated with its former propane operations and ten sites associated with former petroleum operations. At one of those sites, an AOC has been signed with EPA to address petroleum residue in soil and groundwater.

E. Operating and Capital Lease Commitments. NiSource leases assets in several areas of its operations. Payments made in connection with operating leases were \$52.9 million in 2011, \$56.7 million in 2010 and \$56.2 million in 2009, and are primarily charged to operation and maintenance expense as incurred. Capital leases and related accumulated depreciation included in the Consolidated Balance Sheets were \$92.7 million and \$29.8 million at December 31, 2011, and \$76.4 million and \$22.5 million at December 31, 2010, respectively.

NiSource Corporate Services has a license agreement with Rational Systems, LLC for pipeline business software requiring annual payments of \$5.8 million over 10 years, which began in January 2008. This agreement is recorded as a capital lease.

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

<i>(in millions)</i>	Operating Leases	Capital Leases (a)
2012	\$ 41.2	\$ 14.3
2013	34.0	12.8
2014	29.1	12.5
2015	19.0	12.2
2016	14.1	9.9
After	24.6	86.1
Total future minimum payments	\$ 162.0	\$ 147.8

(a) Capital lease payments shown above are inclusive of interest totaling \$58.4 million.

F. Purchase and Service Obligations. NiSource has entered into various purchase and service agreements whereby NiSource is contractually obligated to make certain minimum payments in future periods. NiSource's purchase obligations are for the purchase of physical quantities of natural gas, electricity and coal. NiSource's service agreements encompass a broad range of business support and maintenance functions which are generally described below.

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2011 to 2045, require NiSource to pay fixed monthly charges.

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

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

Northern Indiana has contracts with four major rail operators providing for coal transportation services for which there are certain minimum payments. These service contracts extend for various periods through 2015.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on July 1, 1992, and Northern Indiana pays for the services under a combination of fixed and variable charges. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period. With the expiration of this contract occurring on June 30, 2012, Northern Indiana is currently evaluating long term strategic options, including negotiations to renew this contract.

The estimated aggregate amounts of minimum fixed payments at December 31, 2011, were:

	Vertex					Total
	Energy	Pipeline	IBM	Outsourcing	Other	
	Commodity	Service	Service	LLC Service	Service	
<i>(in millions)</i>	Agreements	Agreements	Agreement	Agreement	Agreements	
2012	\$ 239.3	\$ 256.9	\$ 78.4	\$ 12.3	\$ 132.2	\$ 719.1
2013	130.4	225.3	77.4	12.2	82.0	527.3
2014	120.2	185.7	75.1	12.1	78.3	471.4
2015	85.1	138.9	35.8	6.0	81.0	346.8
2016	1.5	121.3	3.4	-	-	126.2
After	5.9	565.2	1.8	-	-	572.9
Total purchase and service obligations	\$ 582.4	\$ 1,493.3	\$ 271.9	\$ 42.6	\$ 373.5	\$ 2,763.7

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**21. Accumulated Other Comprehensive Loss**

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

Year Ended December 31, (in millions)	2011	2010
Other comprehensive income (loss):		
Unrealized gains on securities	\$ 8.0	\$ 6.1
Tax expense on unrealized gains on securities	(3.1)	(2.4)
Unrealized losses on cash flow hedges	(52.3)	(56.4)
Tax benefit on unrealized losses on cash flow hedges	20.5	21.6
Unrecognized pension benefit and OPEB costs	(53.0)	(43.3)
Tax benefit on unrecognized pension benefit and OPEB costs	20.2	16.5
Total Accumulated Other Comprehensive Loss, net of taxes	\$ (59.7)	\$ (57.9)
<u>Equity Investment</u>		

During 2008, Millennium, in which Columbia Transmission has an equity investment, entered into three interest rate swap agreements with a notional amount totaling \$420.0 million with seven counterparties. During August 2010, Millennium completed the refinancing of its long-term debt, securing permanent fixed-rate financing through the private placement issuance of two tranches of notes totaling \$725.0 million, \$375.0 million at 5.33% due June 30, 2027 and \$350.0 million at 6.00% due June 30, 2032. Upon the issuance of these notes, Millennium repaid all outstanding borrowings under its credit agreement, terminated the sponsor guarantee, and cash settled the interest rate hedges. These interest rate swap derivatives were primarily accounted for as cash flow hedges by Millennium. As an equity method investment, NiSource is required to recognize a proportional share of Millennium's OCI. The remaining unrealized loss of \$19.7 million, net of tax, related to these terminated interest rate swaps is being amortized over a 15 year period ending June 2025 into earnings using the effective interest method through interest expense as interest payments are made by Millennium. The unrealized loss of \$19.7 million and \$21.1 million at December 31, 2011 and December 31, 2010, respectively, is included in unrealized losses on cash flow hedges above.

22. Other, Net

Year Ended December 31, (in millions)	2011	2010	2009
Interest income	\$ 4.4	\$ 6.3	\$ 6.8
Sales of accounts receivable (a)	-	-	(8.4)
Miscellaneous (b)	(11.7)	(2.5)	0.2
Total Other, net	\$ (7.3)	\$ 3.8	\$ (1.4)

(a) Refer to Note 19, Transfers of Financial Assets, for additional information.

(b) Miscellaneous for the year ended December 31, 2011 primarily consists of pre-tax charitable donations.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**23. Interest Expense, Net**

Year Ended December 31, (in millions)	2011	2010	2009
Interest on long-term debt	\$ 362.9	\$ 390.7	\$ 386.7
Interest on short-term borrowings	13.5	1.9	2.3
Discount on prepayment transactions	7.1	8.5	13.0
Accounts receivable securitization (a)	3.8	6.3	-
Allowance for borrowed funds used and interest capitalized during construction	(3.1)	(2.7)	(1.9)
Other	(7.4)	(12.4)	(0.8)
Total Interest Expense, net	\$ 376.8	\$ 392.3	\$ 399.3

(a) Refer to Note 19, "Transfers of Financial Assets," for additional information.

24. Segments of Business

Operating segments are components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The NiSource Chief Executive Officer is the chief operating decision maker.

At December 31, 2011, NiSource's operations are divided into three primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana.

Prior to 2010, NiSource reported Other Operations, which primarily included ventures focused on its unregulated natural gas marketing business and distributed power generation technologies, including fuel cells and storage systems, as a reporting segment. In the first quarter of 2010, NiSource made a decision to wind down the unregulated natural gas marketing activities as a part of the Company's long-term strategy of focusing on its core regulated businesses. As a result, Other Operations no longer met the definition of a reporting segment and, accordingly, has been included within Corporate and Other in the table below beginning in 2010 and for all periods presented.

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Year Ended December 31, <i>(in millions)</i>	2011	2010	2009
REVENUES			
Gas Distribution Operations			
Unaffiliated	\$ 3,497.3	\$ 3,657.4	\$ 3,885.3
Intersegment	1.4	10.7	17.1
Total	3,498.7	3,668.1	3,902.4
Gas Transmission and Storage Operations			
Unaffiliated	856.7	780.3	719.1
Intersegment	148.9	168.9	211.6
Total	1,005.6	949.2	930.7
Electric Operations			
Unaffiliated	1,434.6	1,386.6	1,221.6
Intersegment	0.8	0.7	0.8
Total	1,435.4	1,387.3	1,222.4
Corporate and Other			
Unaffiliated	230.5	590.3	825.6
Intersegment	464.6	435.9	422.1
Total	695.1	1,026.2	1,247.7
Eliminations	(615.7)	(616.2)	(651.6)
Consolidated Revenues	\$ 6,019.1	\$ 6,414.6	\$ 6,651.6

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

Year Ended December 31, <i>(in millions)</i>	2011	2010	2009
Operating Income (Loss)			
Gas Distribution Operations	\$ 392.8	\$ 332.3	\$ 327.2
Gas Transmission and Storage Operations	360.0	376.6	387.9
Electric Operations	209.5	220.8	116.9
Corporate and Other	(57.2)	(24.0)	(32.0)
Consolidated	\$ 905.1	\$ 905.7	\$ 800.0
Depreciation and Amortization			
Gas Distribution Operations	\$ 174.0	\$ 239.3	\$ 248.1
Gas Transmission and Storage Operations	130.0	130.7	121.5
Electric Operations	214.7	211.8	206.2
Corporate and Other	19.5	15.3	14.1
Consolidated	\$ 538.2	\$ 597.1	\$ 589.9
Assets			
Gas Distribution Operations	\$ 7,467.4	\$ 7,356.1	\$ 7,000.1
Gas Transmission and Storage Operations	4,215.3	3,996.5	3,834.5
Electric Operations	4,306.4	4,153.8	4,176.5
Corporate and Other	4,719.2	4,407.0	4,251.4
Consolidated	\$ 20,708.3	\$ 19,913.4	\$ 19,262.5
Capital Expenditures (a)			
Gas Distribution Operations	\$ 498.9	\$ 401.9	\$ 349.2
Gas Transmission and Storage Operations	312.6	235.4	256.1
Electric Operations	296.3	158.7	165.2
Corporate and Other	17.4	7.8	6.7
Consolidated	\$ 1,125.2	\$ 803.8	\$ 777.2

(a) Excludes investing activities in equity investments.

25. Hurricanes and Other Items

NiSource received insurance proceeds for capital repairs of \$5.0 million and \$62.7 million related to hurricanes and other items in 2010 and 2009, respectively, which are separately included in the investing activities section on the Statement of Consolidated Cash Flows. NiSource did not receive any insurance proceeds for capital repairs in 2011. As of December 31, 2011 there were no claims outstanding for these incidents.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements**26. Quarterly Financial Data (Unaudited)**

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

	First	Second	Third	Fourth
<i>(in millions, except per share data)</i>	Quarter	Quarter	Quarter	Quarter
2011				
Gross revenues	\$ 2,231.6	\$ 1,228.3	\$ 1,068.7	\$ 1,490.5
Operating Income	406.4	165.5	147.4	185.8
Income from Continuing Operations	209.1	40.8	36.3	17.6
Results from Discontinued Operations - net of taxes	0.4	(0.6)	(1.6)	(2.9)
Net Income	209.5	40.2	34.7	14.7
Basic Earnings (Loss) Per Share				
Continuing Operations	0.75	0.14	0.13	0.06
Discontinued Operations	-	-	(0.01)	(0.01)
Basic Earnings Per Share	\$ 0.75	\$ 0.14	\$ 0.12	\$ 0.05
Diluted Earnings (Loss) Per Share				
Continuing Operations	0.73	0.14	0.13	0.05
Discontinued Operations	-	-	(0.01)	(0.01)
Diluted Earnings Per Share	\$ 0.73	\$ 0.14	\$ 0.12	\$ 0.04
2010				
Gross revenues	\$ 2,356.8	\$ 1,170.1	\$ 1,135.7	\$ 1,752.0
Operating Income	401.1	137.9	114.0	252.7
Income from Continuing Operations	196.0	27.2	27.8	34.2
Results from Discontinued Operations - net of taxes	(0.1)	0.1	(0.2)	(2.4)
Net Income	195.9	27.3	27.6	31.8
Basic Earnings (Loss) Per Share				
Continuing Operations	0.71	0.10	0.10	0.12
Discontinued Operations	-	-	-	(0.01)
Basic Earnings Per Share	\$ 0.71	\$ 0.10	\$ 0.10	\$ 0.11
Diluted Earnings (Loss) Per Share				
Continuing Operations	0.71	0.10	0.10	0.11
Discontinued Operations	-	-	-	(0.01)
Diluted Earnings Per Share	\$ 0.71	\$ 0.10	\$ 0.10	\$ 0.10

On November 14, 2011, NiSource Finance commenced a cash tender offer for up to \$250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.15% notes due 2013. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2013 notes were accepted. On December 13, 2011, NiSource Finance announced that approximately \$125.3 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered and accepted for purchase. In addition, approximately \$228.7 million of the aggregate principal amount of outstanding 6.15% notes due 2013 were validly tendered, of which \$124.7 million were accepted for purchase. In accordance with the provisions of ASC 470, *Debt*, NiSource Finance determined the debt issued on November 23, 2011, was substantially different from the tendered notes, and, therefore, the transaction qualified as a debt extinguishment. NiSource Finance recorded a \$53.9 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums and unamortized discounts and fees.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

During the fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded \$35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers.

During the fourth quarter of 2011, NiSource recorded a reserve of \$22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business.

During the first quarter of 2010, NDC Douglas Properties, a subsidiary of NiSource Development Company reported some of its low income housing investments as discontinued operations. During the second quarter of 2010, these investments were reclassified to held and used and continuing operations and prior quarters were accordingly restated as continuing operations.

In the fourth quarter of 2010, NiSource repurchased 273.1 million aggregate principal amount of its outstanding 10.75% notes due 2016 pursuant to a cash tender offer. As a result of this tender offer, NiSource incurred \$96.7 million in early redemption fees, primarily attributable to early redemption premiums and unamortized discounts and fees which is recorded as a loss on the early extinguishment of long-term debt within income from continuing operations.

As discussed further in Note 1, NiSource made correcting adjustments to its historical financial statements for the quarters of 2011 and 2010. NiSource does not believe these correcting adjustments are material to its financial statements for any reported period.

The following tables set forth the effects of the correcting adjustments to Net Income for the quarterly periods in 2011 and 2010:

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**

NiSOURCE INC.

Notes to Consolidated Financial Statements

The following tables set forth the effects of the correcting adjustments on affected line items within the Statements of Consolidated Income for the quarters in 2011 and 2010:

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****Notes to Consolidated Financial Statements**

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

27. Supplemental Cash Flow Information

The following tables provide additional information regarding NiSource's Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009:

Year Ended December 31, <i>(in millions)</i>	2011	2010	2009
Supplemental Disclosures of Cash Flow Information			
Non-cash transactions:			
Capital expenditures included in current liabilities	\$ 98.3	\$ 106.0	\$ 62.2
Change in equity investments related to unrealized gains (losses)	-	(24.1)	38.8
Stock issuance to employee saving plans	25.8	19.7	15.3
Schedule of interest and income taxes paid:			
Cash paid for interest, net of interest capitalized amounts	\$ 369.2	\$ 393.0	\$ 380.7
Cash paid for income taxes	9.3	68.9	33.9

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****SCHEDULE I****CONDENSED FINANCIAL INFORMATION OF REGISTRANT****BALANCE SHEET**

As of December 31, <i>(in millions)</i>	2011	2010
ASSETS		
Investments and Other Assets:		
Investments in subsidiary companies	\$ 9,249.7	\$ 9,215.7
Total Investments and Other Assets	9,249.7	9,215.7
Current Assets:		
Other current assets	353.7	244.8
Total Current Assets	353.7	244.8
Other non-current assets	53.3	56.6
TOTAL ASSETS	9,656.7	9,517.1
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	4,997.3	4,897.5
Total Capitalization	4,997.3	4,897.5
Current liabilities	613.3	644.2
Notes payable to subsidiaries	3,996.2	3,932.4
Other non-current liabilities	49.9	43.0
TOTAL CAPITALIZATION AND LIABILITIES	\$ 9,656.7	\$ 9,517.1

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****SCHEDULE I****CONDENSED FINANCIAL INFORMATION OF REGISTRANT****STATEMENT OF INCOME**

Year Ended December 31, <i>(in millions, except per share amounts)</i>	2011	2010	2009
Equity in net earnings of consolidated subsidiaries	\$ 437.4	\$ 431.2	\$ 362.4
Other income (deductions):			
Administrative and general expenses	(13.5)	(11.3)	(12.6)
Interest income	1.2	0.7	0.5
Interest expense	(206.1)	(230.3)	(207.6)
Other, net	(10.0)	(4.0)	(4.0)
Total Other income (deductions)	(228.4)	(244.9)	(223.7)
Income from continuing operations before income taxes	209.0	186.3	138.7
Income taxes	(94.8)	(98.9)	(91.1)
Income from continuing operations	303.8	285.2	229.8
Loss from discontinued operations - net of taxes	(4.7)	(2.7)	(10.3)
Gain (Loss) on Disposition of discontinued operations - net of taxes	-	0.1	(2.5)
NET INCOME	\$ 299.1	\$ 282.6	\$ 217.0
Average common shares outstanding (millions)	280.4	277.8	275.1
Diluted average common shares (millions)	288.5	280.1	275.8
Basic earnings (loss) per share			
Continuing operations	\$ 1.08	\$ 1.03	\$ 0.84
Discontinued operations	(0.02)	(0.01)	(0.05)
Basic earnings per share	\$ 1.06	\$ 1.02	\$ 0.79
Diluted earnings (loss) per share			
Continuing operations	\$ 1.05	\$ 1.02	\$ 0.83
Discontinued operations	(0.02)	(0.01)	(0.05)

Edgar Filing: NISOURCE INC/DE - Form 10-K

Diluted earnings per share	\$	1.03	\$	1.01	\$	0.78
-----------------------------------	----	-------------	----	------	----	------

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****SCHEDULE I****CONDENSED FINANCIAL INFORMATION OF REGISTRANT****STATEMENT OF CASH FLOWS**

Year Ended December 31, <i>(in millions)</i>	00000000000 2011	00000000000 2010	00000000000 2009
Net cash provided by operating activities	\$ 313.6	\$ 212.9	\$ 217.2
Cash flows provided by (used in) investing activities:			
Proceeds (loss) from disposition of assets	-	-	(0.4)
(Increase) decrease in notes receivable from subsidiaries	(139.3)	31.4	39.1
Net cash (used in) provided by investing activities	(139.3)	31.4	38.7
Cash flows provided by (used in) financing activities:			
Issuance of common shares	24.4	14.4	10.6
Increase (decrease) in notes payable to subsidiaries	63.8	(1.6)	(10.8)
Cash dividends paid on common shares	(257.8)	(255.6)	(253.3)
Acquisition of treasury shares	(3.1)	(1.5)	(2.6)
Net cash used in financing activities	(172.7)	(244.3)	(256.1)
Net decrease in cash and cash equivalents	1.6	-	(0.2)
Cash and cash equivalents at beginning of year	-	-	0.2
Cash and cash equivalents at end of year	\$ 1.6	\$ -	\$ -

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

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NISOURCE INC.****SCHEDULE I****CONDENSED FINANCIAL INFORMATION OF REGISTRANT****NOTES TO CONDENSED FINANCIAL STATEMENTS****1. Dividends from Subsidiaries**

Cash dividends paid to NiSource by its consolidated subsidiaries were: \$440.0 million, \$232.0 million and \$510.9 million in 2011, 2010 and 2009, respectively.

2. Commitments and Contingencies

NiSource, Inc. and its subsidiaries are parties to litigation, environmental and other matters. Refer to Note 20, Other Commitments and Contingencies, in the Notes to Consolidated Financial Statements for additional information. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The maximum potential amount of future payments NiSource could have been required to make under these guarantees as of December 31, 2011 was approximately \$7.9 billion. Of this amount, approximately \$6.3 billion relates to guarantees of wholly-owned consolidated entities.

3. Related Party Transactions

Balances due to or due from related parties included in the Balance Sheets as of December 31, 2011 and 2010 are as follows:

At December 31, <i>(in millions)</i>	000000000000 2011	000000000000 2010
Current assets due from subsidiaries ^(a)	\$ 288.6	\$ 167.2
Current liabilities due to subsidiaries ^(b)	602.6	582.3
Non-current liabilities due to subsidiaries ^(c)	3,996.2	3,932.4

(a) The balances at December 31, 2011 and 2010 are classified as Current assets on the Balance Sheets.

(b) The balances at December 31, 2011 and 2010 are classified as Current liabilities on the Balance Sheets. At December 31, 2011 and 2010, \$573.7 million and \$532.8 million related to interest on affiliated notes payable, respectively.

(c) The balances at December 31, 2011 and 2010 are classified as Notes payable to subsidiaries on the Balance Sheets.

4. Notes to Financial Statements

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

Edgar Filing: NISOURCE INC/DE - Form 10-K

As discussed further in Note 1, NiSource is making correcting adjustments its historical condensed financial information of registrant for 2010 and 2009. NiSource does not believe these corrections are material to its condensed financial information of registrant for any reported period. Refer to Note 1 for the effects of each correction on Net Income.

The following tables set forth the effects of the correcting adjustments on affected line items within NiSource's previously reported Balance Sheet as of December 31, 2010 and Statement of Income for the years 2010 and 2009. There was no effect to the Statement of Cash Flows for the years 2010 and 2009:

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****SCHEDULE I****CONDENSED FINANCIAL INFORMATION OF REGISTRANT****NOTES TO CONDENSED FINANCIAL STATEMENTS****Balance Sheet**

<i>(in millions)</i>	December 31, 2010	
	As Previously Reported	As Corrected
ASSETS		
Investments and Other Assets:		
Investments in subsidiary companies	\$ 9,241.0	\$ 9,215.7
Total Investments and Other Assets	9,241.0	9,215.7
TOTAL ASSETS	9,542.5	9,517.1
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	4,923.2	4,897.5
Total Capitalization	4,923.2	4,897.5
Other non-current liabilities	42.7	43.0
TOTAL CAPITALIZATION AND LIABILITIES	\$ 9,542.5	\$ 9,517.1

Statement of Income

<i>(in millions, except per share amounts)</i>	0000000000000000 0000000000000000 0000000000000000 0000000000000000			
	Year Ended December 31,			
	2010		2009	
	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Equity in net earnings of consolidated subsidiaries	\$ 440.6	\$ 431.2	\$ 363.1	\$ 362.4
Other income (deductions)				
Administrative and general expenses	(11.4)	(11.3)	(12.6)	(12.6)
Total Other income (deductions)	(245.0)	(244.9)	(223.7)	(223.7)
Income from continuing operations before income taxes	195.6	186.3	139.4	138.7
Income taxes	(99.0)	(98.9)	(91.1)	(91.1)
Income from continuing operations	294.6	285.2	230.5	229.8

Edgar Filing: NISOURCE INC/DE - Form 10-K

NET INCOME	\$	292.0	\$	282.6	\$	217.7	\$	217.0
Basic Earnings Per Share (\$)								
Continuing operations	\$	1.06	\$	1.03	\$	0.84	\$	0.84
Basic Earnings Per Share	\$	1.05	\$	1.02	\$	0.79	\$	0.79
Diluted Earnings Per Share (\$)								
Continuing operations	\$	1.05	\$	1.02	\$	0.84	\$	0.83
Diluted Earnings Per Share	\$	1.04	\$	1.01	\$	0.79	\$	0.78

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)****NiSOURCE INC.****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS****Twelve months ended December 31, 2011**

(\$ in millions)	Balance Jan. 1, 2011	Additions		Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2011
		Charged to Costs and Expenses	Charged to Other Account *			
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:						
Reserve for accounts receivable	\$ 37.4	\$ 13.8	\$ 76.6	\$ -	\$ 97.3	\$ 30.5
Reserve for other investments	3.0	-	-	-	-	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:						
Reserve for cost of operational gas	2.7	-	-	-	-	2.7

Twelve months ended December 31, 2010

(\$ in millions)	Balance Jan. 1, 2010	Additions		Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2010
		Charged to Costs and Expenses	Charged to Other Account *			
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:						
Reserve for accounts receivable	\$ 39.6	\$ 17.6	\$ 72.5	\$ -	\$ 92.3	\$ 37.4
Reserve for other investments	3.0	-	-	-	-	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:						
Reserve for cost of operational gas	5.7	(2.9)	-	-	0.1	2.7

Twelve months ended December 31, 2009

(\$ in millions)	Balance Jan. 1, 2009	Additions		Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2009
		Charged to Costs and Expenses	Charged to Other Account *			
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:						
Reserve for accounts receivable	\$ 45.3	\$ 68.9	\$ 75.7	\$ -	\$ 150.3	\$ 39.6
Reserve for other investments	3.0	-	-	-	-	3.0
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:						
Reserve for cost of operational gas	5.7	-	-	-	-	5.7

* Charged to Other Accounts reflects the deferral of bad debt expense to a regulatory asset.

Table of Contents

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

NiSOURCE INC.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

NiSource management, including NiSource's principal executive officer and principal financial officer, are responsible for establishing and maintaining NiSource's internal control over financial reporting, as such term is defined under Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. However, management would note that a control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. NiSource's management has adopted the framework set forth in the Committee of Sponsoring Organizations of the Treadway Commission report, Internal Control - Integrated Framework, the most commonly used and understood framework for evaluating internal control over financial reporting, as its framework for evaluating the reliability and effectiveness of internal control over financial reporting. During 2011, NiSource conducted an evaluation of its internal control over financial reporting. Based on this evaluation, NiSource management concluded that NiSource's internal control over financial reporting was effective as of the end of the period covered by this annual report.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by NiSource in the reports that it files or submits under the Exchange Act is accumulated and communicated to NiSource's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Deloitte & Touche LLP, NiSource's independent registered public accounting firm, issued an attestation report on NiSource's internal controls over financial reporting which is contained in Item 8, Financial Statements and Supplementary Data.

Changes in Internal Controls

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

ITEM 9B. OTHER INFORMATION

Not applicable.

Table of Contents

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

NiSOURCE INC.

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

Information regarding directors will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which information is incorporated by reference.

Information regarding NiSource's code of ethics, the audit committee and the audit committee financial expert and procedures for shareholder recommendations for director nominations will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which information is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which information is incorporated by reference.

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

Information regarding security ownership of certain beneficial owners and management and the Equity Compensation Plan Information will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which information is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required under this Item with respect to certain relationships and related transactions and director independence will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which information is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accounting fees and services will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which information is incorporated by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

NiSOURCE INC.

Financial Statements and Financial Statement Schedules

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

Exhibits

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

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

Table of Contents

SIGNATURES

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

NiSource Inc.
(Registrant)

Date February 24, 2012 By: /s/ ROBERT C. SKAGGS, JR.
Robert C. Skaggs, Jr.
President, Chief Executive Officer and Director
(Principal Executive Officer)

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

/s/ ROBERT C. SKAGGS, JR.	President, Chief	February 24, 2012
Robert C. Skaggs, Jr.	Executive Officer and Director (Principal Executive Officer)	
/s/ STEPHEN P. SMITH	Executive Vice President and	February 24, 2012
Stephen P. Smith	Chief Financial Officer (Principal Financial Officer)	
/s/ JON D. VEURINK	Vice President and	February 24, 2012
Jon D. Veurink	Chief Accounting Officer (Principal Accounting Officer)	
/s/ IAN M. ROLLAND	Chairman and Director	February 24, 2012
Ian M. Rolland		
/s/ RICHARD A. ABDOO	Director	February 24, 2012
Richard A. Abdo		
/s/ STEVEN C. BEERING	Director	February 24, 2012
Steven C. Beering		
/s/ SIGMUND L. CORNELIUS	Director	February 24, 2012

Edgar Filing: NISOURCE INC/DE - Form 10-K

Sigmund L. Cornelius

/s/ MICHAEL E. JESANIS Director February 24, 2012

Michael E. Jesanis

/s/ MARTY R. KITTRELL Director February 24, 2012

Marty R. Kittrell

/s/ W. LEE NUTTER Director February 24, 2012

W. Lee Nutter

/s/ DEBORAH S. PARKER Director February 24, 2012

Deborah S. Parker

/s/ RICHARD L. THOMPSON Director February 24, 2012

Richard L. Thompson

/s/ CAROLYN Y. WOO Director February 24, 2012

Carolyn Y. Woo

Table of Contents**EXHIBIT INDEX**

EXHIBIT NUMBER	DESCRIPTION OF ITEM
(3.1)	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Form 10-Q filed on August 4, 2008).
(3.2)	Bylaws of NiSource Inc., as amended and restated through May 11, 2010 (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Form 8-K filed on May 14, 2010).
(4.1)	Indenture dated as of March 1, 1988, between Northern Indiana and Manufacturers Hanover Trust Company, as Trustee (incorporated by reference to Exhibit 4 to the Northern Indiana Registration Statement (Registration No. 33-44193)).
(4.2)	First Supplemental Indenture dated as of December 1, 1991, between Northern Indiana and Manufacturers Hanover Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to the Northern Indiana Registration Statement (Registration No. 33-63870)).
(4.3)	Indenture Agreement between NIPSCO Industries, Inc., NIPSCO Capital Markets, Inc. and Chase Manhattan Bank as trustee dated February 14, 1997 (incorporated by reference to Exhibit 4.1 to the NIPSCO Industries, Inc. Registration Statement (Registration No. 333-22347)).
(4.4)	Second Supplemental Indenture, dated as of November 1, 2000 among NiSource Capital Markets, Inc., NiSource Inc., New NiSource Inc., and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.45 to the NiSource Inc. Form 10-K for the period ended December 31, 2000).
(4.5)	Indenture, dated November 14, 2000, among NiSource Finance Corp., NiSource Inc., as guarantor, and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.1 to the NiSource Inc. Form S-3, dated November 17, 2000 (Registration No. 333-49330)).
(10.1)	2010 Omnibus Incentive Plan (incorporated by reference to Exhibit B to NiSource Inc. Definitive Proxy Statement to Shareholders held on May 11, 2010, filed on April 2, 2010).*
(10.2)	NiSource Inc. Nonemployee Director Stock Incentive Plan as amended and restated effective May 13, 2008 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.3)	NiSource Inc. Nonemployee Director Retirement Plan, as amended and restated effective May 13, 2008. (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.4)	Amended and Restated NiSource Inc. Directors Charitable Gift Program effective May 13, 2008. (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
(10.5)	Supplemental Life Insurance Plan effective January 1, 1991, as amended, (incorporated by reference to Exhibit 2 to the NIPSCO Industries, Inc. Form 8-K filed on March 25, 1992). *
(10.6)	NiSource Inc. Executive Deferred Compensation Plan, as amended and restated, effective January 1, 2008 (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Form 10-Q filed on November 4, 2008). *
(10.7)	Form of Change in Control and Termination Agreement (applicable to each named executive officer)(incorporated by reference to Exhibit 10.7 to the NiSource Inc. Form 10-Q filed on November 4, 2008). *
(10.8)	Form of Agreement between NiSource Inc. and certain officers of Columbia Energy Group and schedule of parties to such Agreements (incorporated by reference to Exhibit 10.33 to the NiSource Inc. Form 10-K for the period ended December 31, 2002). *
(10.9)	NiSource Inc. 1994 Long-Term Incentive Plan, as amended and restated effective January 1, 2005 (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Form 8-K filed on December 2, 2005). *
(10.10)	1st Amendment to NiSource Inc. 1994 Long Term Incentive Plan, effective January 22, 2009. (incorporated by reference to Exhibit 10.10 to the NiSource Inc. Form 10-K filed on February 27, 2009). *

Table of Contents

EXHIBIT INDEX

- (10.11) Form of Nonqualified Stock Option Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Form 8-K filed on January 3, 2005). *
- (10.12) Form of Contingent Stock Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to NiSource Inc. Form 10-Q filed on May 4, 2010).*
- (10.13) Form of Performance Share Agreement under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.15 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*
- (10.14) Form of Restricted Stock Unit Award Agreement for Nonemployee Directors under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.16 to the NiSource Inc. Form 10-K for the period ended December 31, 2010).*
- (10.15) Form of Restricted Stock Unit Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.17 to the NiSource Inc. Form 10-K for the period ended December 31, 2010). *
- (10.16) Form of Restricted Stock Agreement under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.18 to the NiSource Inc. Form 10-K for the period ended December 31, 2010) *
- (10.17) Form of Restricted Stock Unit Award Agreement for Non-employee directors under the Non-employee Director Stock Incentive Plan. (incorporated by reference to Exhibit 10.19 to the NiSource Inc. Form 10-K for the period ended December 31, 2010)*
- (10.18) Form of Restricted Stock Unit Award Agreement for Nonemployee Directors under the 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to NiSource Inc. Form 10-Q filed on August 2, 2011).
- (10.19) Amended and Restated NiSource Inc. Supplemental Executive Retirement Plan effective May 13, 2011 (incorporated by reference to Exhibit 10.3 to NiSource Inc. Form 10-Q filed on October 28, 2011) .
- (10.20) Amended and Restated Pension Restoration Plan for NiSource Inc. and Affiliates effective May 13, 2011 (incorporated by reference to Exhibit 10.4 to NiSource Inc. Form 10-Q filed on October 28, 2011).
- (10.21) Amended Restated Savings Restoration Plan for NiSource Inc. and Affiliates effective May 13, 2011 (incorporated by reference to Exhibit 10.1 to NiSource Inc. Form 10-Q filed on October 28, 2011).
- (10.22) Amended and Restated NiSource Inc. Executive Deferred Compensation Plan effective May 13, 2011 (incorporated by reference to Exhibit 10.2 to NiSource Inc. Form 10-Q filed on October 28, 2011).
- (10.23) NiSource Inc. Executive Severance Policy, as amended and restated, effective January 1, 2010 (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Form 10-Q filed on May 4, 2010).
- (10.24) Letter Agreement between NiSource Corporate Services Company and Christopher A. Helms dated March 15, 2005 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2005). *
- (10.25) Letter Agreement dated August 29, 2011 between Christopher A. Helms and NiSource Inc. or any of its affiliates or subsidiaries (incorporated by reference to Exhibit 10.5 to NiSource Inc. Form 10-Q filed on October 28, 2011). *
- (10.26) Letter Agreement between NiSource Corporate Services Company and Jimmy Staton dated December 13, 2007 (incorporated by reference to Exhibit 10.23 to the NiSource Inc. Form 10-K filed on February 27, 2009).*
- (10.27) Letter Agreement between NiSource Corporate Services Company and Stephen P. Smith dated May 14, 2008. (incorporated by reference to Exhibit 10.24 to the NiSource Inc. Form 10-K filed on February 27, 2009).*

Table of Contents

EXHIBIT INDEX

- (10.28) Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the lender parties thereto as Lenders, Credit Suisse AG, Cayman Islands Branch as Syndication Agent, The Bank Of Tokyo-Mitsubishi UFJ, Ltd., Citibank, N.A., and JPMorgan Chase Bank, N.A. as Co-Documentation Agents and Barclays Bank PLC, as Administrative Agent dated March 3, 2011 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 10-Q for the period ended March 30, 2011).
- (10.29) Note Purchase Agreement, dated August 23, 2005, by and among NiSource Finance Corp., as issuer, NiSource Inc., as guarantor, and the purchasers named therein (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on August 26, 2005).
- (10.30) Amendment No. 1, dated as of November 10, 2008, to the Note Purchase Agreement by and among NiSource Finance Corp., as issuer, NiSource Inc., as guarantor, and the purchasers whose names appear on the signature page thereto. (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Form 10-K filed on February 27, 2009).
- (10.31) Guaranty of NiSource Inc. in favor of JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 8-K filed on August 30, 2007).
- (10.32) Agreement for Business Process and Support Services between NiSource Corporate Services Company and IBM, effective June 20, 2005 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Form 10-Q for the period ended June 30, 2005).
- (10.33) Amendment #4 to Agreement for Business Process and Support Services between NiSource Corporate Services Company and IBM, effective December 1, 2007 (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Form 10-K for the period ended December 31, 2007).*
- (10.34) Letter agreement, dated September 8, 2010 between NiSource Inc. and Credit Suisse International (incorporated by reference to Exhibit 1.2 to the NiSource Inc. Current Report on Form 8-K filed on September 14, 2010).
- (10.35) Letter agreement, dated September 9, 2010 between NiSource Inc. and Credit Suisse International (incorporated by reference to Exhibit 1.3 to the NiSource Inc. Current Report on Form 8-K filed on September 14, 2010).
- (12) Ratio of Earnings to Fixed Charges. **
- (21) List of Subsidiaries. **
- (23) Consent of Deloitte & Touche LLP. **
- (31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
- (31.2) Certification of Stephen P. Smith, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
- (32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **
- (32.2) Certification of Stephen P. Smith, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **
- (101.INS) XBRL Instance Document**
- (101.SCH) XBRL Schema Document**
- (101.CAL) XBRL Calculation Linkbase Document**
- (101.LAB) XBRL Labels Linkbase Document**
- (101.PRE) XBRL Presentation Linkbase Document**
- (101.DEF) XBRL Definition Linkbase Document**

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

** Exhibit filed herewith.

Edgar Filing: NISOURCE INC/DE - Form 10-K

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