NISOURCE INC/DE
Form 10-Q
May 03, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from ______ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

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

(877) 647-5990

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 280,083,192 shares outstanding at April 29, 2011.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED March 31, 2011
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DEFINED TERMS

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

NiSource Subsidiaries and Affiliates	
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 Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
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
ACES	American Clean Energy and Security Act of 2009
AFUDC	Allowance for funds used during construction
Ameren	Ameren Services Company
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent
AOCI	Accumulated other comprehensive income
ARRs	Auction Revenue Rights
ASC	Accounting Standards Codification
BBA	British Banker Association
Bcf	Billion cubic feet

Board	Board of Directors
BPAE	BP Alternative Energy North America Inc
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CARE	Conservation and Ratemaking Efficiency
CCGT	Combined Cycle Gas Turbine

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DEFINED TERMS

CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
Chesapeake	Chesapeake Appalachia, L.L.C.
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
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental Cost Tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTRs	Financial Transmission Rights
GAAP	U.S. Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
IDEM	Indiana Department of Environmental Management
IFRS	International Financial Reporting Standards
IRP	Infrastructure Replacement Program
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last in first out
Mcf	Million cubic feet
MISO	Midwest Independent Transmission System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO2	Nitrogen dioxide
NOx	Nitrogen oxide
NSR	New Source Review
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUCC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan

PJM	PJM Interconnection is a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.
PM	particulate matter
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RBS	Royal Bank of Scotland PLC
RCRA	Resource Conservation and Recovery Act
RSG	Revenue Sufficiency Guarantee
RTO	Regional Transmission Organization

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DEFINED TERMS

SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entities
VSCC	Virginia State Corporation Commission

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PART I

ITEM 1. FINANCIAL STATEMENTS

NiSource Inc.

Condensed Statements of Consolidated Income (unaudited)

Three Months Ended March 31, *(in millions, except per share amounts)*	**2011**	2010
Net Revenues		
Gas Distribution	**$1,372.0**	$1,341.1
Gas Transportation and Storage	**403.0**	370.4
Electric	**347.1**	317.9
Other	**110.1**	329.3
Gross Revenues	**2,232.2**	2,358.7
Cost of Sales (excluding depreciation and amortization)	**1,170.9**	1,286.3
Total Net Revenues	**1,061.3**	1,072.4
Operating Expenses		
Operation and maintenance	**432.5**	439.6
Depreciation and amortization	**138.9**	149.8
Impairment and loss on sale of assets, net	**0.7**	0.1
Other taxes	**93.0**	86.9
Total Operating Expenses	**665.1**	676.4
Equity Earnings in Unconsolidated Affiliates	**3.0**	7.4
Operating Income	**399.2**	403.4
Other Income (Deductions)		
Interest expense, net	**(89.8)**	(98.8)
Other, net	**3.3**	2.6
Total Other Deductions	**(86.5)**	(96.2)
Income from Continuing Operations before Income Taxes	**312.7**	307.2
Income Taxes	**107.9**	109.8
Income from Continuing Operations	**204.8**	197.4
Income (Loss) from Discontinued Operations net of taxes	**0.4**	(0.2)
Gain on Disposition of Discontinued Operations net of taxes		0.1
Net Income	**$ 205.2**	$ 197.3
Basic Earnings Per Share		
Continuing operations	**$ 0.73**	$ 0.71

Discontinued operations		
Basic Earnings Per Share	**$ 0.73**	$ 0.71
Diluted Earnings Per Share		
Continuing operations	**$ 0.72**	$ 0.71
Discontinued operations		
Diluted Earnings Per Share	**$ 0.72**	$ 0.71
Dividends Declared Per Common Share	**$ 0.46**	$ 0.46
Basic Average Common Shares Outstanding	**279.3**	276.9
Diluted Average Common Shares	**285.0**	277.5

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Condensed Consolidated Balance Sheets (unaudited)

(in millions)	**March 31, 2011**	December 31, 2010
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$19,575.8**	$19,494.9
Accumulated depreciation and amortization	**(8,528.0)**	(8,492.6)
Net utility plant	**11,047.8**	11,002.3
Other property, at cost, less accumulated depreciation	**92.8**	94.7
Net Property, Plant and Equipment	**11,140.6**	11,097.0
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**2.3**	7.9
Unconsolidated affiliates	**202.6**	200.9
Other investments	**136.3**	139.7
Total Investments and Other Assets	**341.2**	348.5
Current Assets		
Cash and cash equivalents	**62.5**	9.2
Restricted cash	**164.9**	202.9
Accounts receivable (less reserve of $55.3 and $37.4, respectively)	**1,063.2**	1,079.3
Income tax receivable	**20.4**	99.0
Gas inventory	**81.5**	298.2
Underrecovered gas and fuel costs	**25.4**	135.7
Materials and supplies, at average cost	**84.4**	83.8
Electric production fuel, at average cost	**51.0**	46.0
Price risk management assets	**134.1**	159.5
Exchange gas receivable	**65.5**	62.7
Regulatory assets	**112.6**	151.8
Prepayments and other	**119.7**	120.8
Total Current Assets	**1,985.2**	2,448.9
Other Assets		
Price risk management assets	**188.3**	240.3
Regulatory assets	**1,661.2**	1,650.4
Goodwill	**3,677.3**	3,677.3
Intangible assets	**305.9**	308.6

Postretirement and postemployment benefits assets	**38.5**	35.1
Deferred charges and other	**140.6**	132.7
Total Other Assets	**6,011.8**	6,044.4
Total Assets	**$19,478.8**	$19,938.8

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Condensed Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	**March 31, 2011**	December 31, 2010
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders Equity		
Common stock $0.01 par value, 400,000,000 shares authorized; 279,930,189 and 278,855,291 shares issued and outstanding, respectively	**$ 2.8**	$ 2.8
Additional paid-in capital	**4,120.1**	4,103.9
Retained earnings	**978.3**	901.8
Accumulated other comprehensive loss	**(56.7)**	(57.9)
Treasury stock	**(30.2)**	(27.4)
Total Common Stockholders Equity	**5,014.3**	4,923.2
Long-term debt, excluding amounts due within one year	**5,927.6**	5,936.1
Total Capitalization	**10,941.9**	10,859.3
Current Liabilities		
Current portion of long-term debt	**36.4**	34.2
Short-term borrowings	**1,263.0**	1,382.5
Accounts payable	**429.6**	581.8
Dividends payable	**64.5**	0.1
Customer deposits and credits	**181.6**	318.1
Taxes accrued	**244.4**	221.1
Interest accrued	**61.2**	114.4
Overrecovered gas and fuel costs	**91.8**	11.8
Price risk management liabilities	**146.1**	173.9
Exchange gas payable	**139.4**	266.1
Deferred revenue	**7.8**	6.8
Regulatory liabilities	**87.4**	92.9
Accrued liability for postretirement and postemployment benefits	**23.3**	23.3
Temporary LIFO liquidation credit	**2.2**	
Legal and environmental reserves	**68.2**	86.0
Other accruals	**249.2**	336.4
Total Current Liabilities	**3,096.1**	3,649.4
Other Liabilities and Deferred Credits		
Price risk management liabilities	**135.5**	181.6
Deferred income taxes	**2,340.2**	2,209.7
Deferred investment tax credits	**32.5**	33.7
Deferred credits	**72.4**	68.6

Deferred revenue		0.3
Accrued liability for postretirement and postemployment benefits	**944.7**	1,039.6
Regulatory liabilities and other removal costs	**1,612.0**	1,595.8
Asset retirement obligations	**140.1**	138.8
Other noncurrent liabilities	**163.4**	162.0
Total Other Liabilities and Deferred Credits	**5,440.8**	5,430.1
Total Capitalization and Liabilities	**$19,478.8**	$19,938.8

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Condensed Statements of Consolidated Cash Flows (unaudited)

Three Months Ended March 31, *(in millions)*	**2011**	2010
Operating Activities		
Net Income	**$ 205.2**	$ 197.3
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:		
Depreciation and amortization	**138.9**	149.8
Net changes in price risk management assets and liabilities	**14.3**	(7.4)
Deferred income taxes and investment tax credits	**99.4**	27.2
Deferred revenue	**0.7**	(15.8)
Stock compensation expense and 401(k) profit sharing contribution	**7.8**	2.2
Gain on sale of assets		(0.1)
Loss on impairment of assets	**0.7**	
Income from unconsolidated affiliates	**(3.1)**	(7.4)
Gain on disposition of discontinued operations net of taxes		(0.1)
(Gain) loss from discontinued operations net of taxes	**(0.4)**	0.2
Amortization of debt related costs	**2.1**	2.7
AFUDC equity	**(1.4)**	(1.4)
Distributions of earnings received from equity investee	**1.8**	
Changes in Assets and Liabilities:		
Accounts receivable	**16.0**	(138.4)
Income tax receivable	**78.6**	22.1
Inventories	**208.5**	332.7
Accounts payable	**(119.9)**	(103.0)
Customer deposits and credits	**(136.5)**	(124.7)
Taxes accrued	**24.1**	96.4
Interest accrued	**(53.0)**	(38.9)
Over (Under) recovered gas and fuel costs	**190.4**	(251.1)
Exchange gas receivable/payable	**(129.6)**	(66.7)
Other accruals	**(34.1)**	(17.2)
Prepayments and other current assets	**1.3**	5.4
Regulatory assets/liabilities	**18.6**	47.8
Postretirement and postemployment benefits	**(94.4)**	1.3
Deferred credits	**3.5**	(1.1)
Deferred charges and other non current assets	**(3.6)**	(2.6)
Other non current liabilities	**0.9**	5.2
Net Operating Activities from Continuing Operations	**436.8**	114.4
Net Operating Activities used for Discontinued Operations	**(14.7)**	(31.1)
Net Cash Flows from Operating Activities	**422.1**	83.3
Investing Activities		
Capital expenditures	**(209.4)**	(138.8)
Insurance recoveries		0.5

Proceeds from disposition of assets	**5.5**	0.2
Restricted cash withdrawals (deposits)	**38.0**	(46.1)
Other investing activities	**(9.2)**	(10.6)
Net Investing Activities used for Continuing Operations	**(175.1)**	(194.8)
Net Investing Activities from Discontinued Operations		0.4
Net Cash Flow used for Investing Activities	**(175.1)**	(194.4)
Financing Activities		
Retirement of long-term debt	**(2.8)**	(0.9)
Premiums and other debt related costs	**(8.2)**	
Change in short-term borrowings, net	**(119.5)**	267.7
Issuance of common stock	**3.7**	3.6
Acquisition of treasury stock	**(2.7)**	(1.4)
Dividends paid common stock	**(64.2)**	(63.7)
Net Cash Flow (used for) from Financing Activities	**(193.7)**	205.3
Change in cash and cash equivalents from continuing operations	**68.0**	124.9
Cash contributions to discontinued operations	**(14.7)**	(30.7)
Cash and cash equivalents at beginning of period	**9.2**	16.4
Cash and Cash Equivalents at End of Period	**$ 62.5**	$ 110.6

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Condensed Statements of Consolidated Comprehensive Income (unaudited)

Three Months Ended March 31, *(in millions, net of taxes)*	**2011**	2010
Net Income	**$205.2**	$197.3
Other comprehensive income (loss)		
Net (loss) gain on available for sale securities[a]	**(0.3)**	0.5
Net unrealized gains (losses) on cash flow hedges[b], [c]	**1.1**	(2.9)
Unrecognized pension benefit and OPEB costs[d]	**0.4**	0.5
Total other comprehensive income (loss)	**1.2**	(1.9)
Total Comprehensive Income	**$206.4**	$195.4

(a) Net unrealized (loss) gain on available-for-sale securities, net of $0.2 million tax benefit and $0.3 million tax expense in the first quarter of 2011 and 2010, respectively.

(b) Net unrealized gains (losses) on derivatives qualifying as cash flow hedges, net of $0.7 million tax expense and $1.8 million tax benefit in the first quarter of 2011 and 2010, respectively.

(c) Net unrealized gains (losses) on cash flow hedges includes a gain of $0.2 million and zero related to the amortization of unrealized losses of interest rate swaps held by NiSource s unconsolidated equity method investments for the first quarter of 2011 and 2010, respectively.

(d) Unrecognized pension benefit and OPEB costs, net of $0.4 million and $0.3 million tax expense for the first quarter of 2011 and 2010, respectively.

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

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

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource s Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although NiSource believes that the disclosures made are adequate to make the information not misleading.

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 10, Fair Value Disclosures, for additional information.

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS includes the incremental effects of the various long-term incentive compensation plans and the Forward Agreements (refer to Note 4 Forward Equity Agreement for additional information). The calculation of diluted earnings per share for March 31, 2011 and 2010 excludes out-of-the-money stock options that had an anti-dilutive effect. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

Three Months Ended March 31, *(in thousands)*	**2011**	2010
Denominator		
Basic average common shares outstanding	**279,339**	276,947
Dilutive potential common shares		
Shares contingently issuable under employee stock plans	**1,112**	281
Shares restricted under employee stock plans	**317**	287
Forward agreements	**4,203**	
Diluted Average Common Shares	**284,971**	277,515

4. Forward Equity Agreement

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

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. If the equity forward had been settled by delivery of shares at March 31, 2011, NiSource would have received approximately $375.4 million based on a forward price of $15.4693 for the 24,265,000 shares. NiSource currently anticipates settling the equity forward by delivering shares.

In accordance with ASC 815-40, NiSource has classified the Forward Agreement 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 three months ended March 31, 2011 and the year ended December 31, 2010 in connection with the Forward Agreements. The only impact to the Condensed Consolidated Financial Statements (unaudited) is the inclusion of incremental shares within the calculation of fully diluted EPS under the treasury stock method. Refer to Note 3, Earnings Per Share, for additional information.

5. Gas in Storage

Both the LIFO inventory methodology and the weighted average cost methodology are used to value natural gas in storage. Gas Distribution Operations price natural gas storage injections at the average of the costs of natural gas supply purchased during the year. For interim periods, the difference between current projected replacement cost and the LIFO cost for quantities of gas temporarily withdrawn from storage is recorded as a temporary LIFO liquidation credit or debit within the Condensed Consolidated Balance Sheets (unaudited). Due to seasonality requirements, NiSource expects interim variances in LIFO layers to be replenished by year-end. In addition to the temporary LIFO liquidation credit described above, NiSource also has a temporary LIFO liquidation debit of $11.9 million recorded for the first three months of 2011 for certain gas distribution companies recorded within, Prepayments and other, on the Condensed Consolidated Balance Sheets (unaudited).

6. Discontinued Operations and Assets and Liabilities Held for Sale

The assets of discontinued operations and held for sale on the Condensed Consolidated Balance Sheet (unaudited) at March 31, 2011 were:

(in millions)

Assets of discontinued operations and held for sale:	Property, plant and equipment, net	Other assets	**Total**
Columbia Transmission	$ 2.3	$	$ **2.3**
Total	**$ 2.3**	**$**	**$ 2.3**

There were no liabilities of discontinued operations and held for sale at March 31, 2011.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

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

(in millions)

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

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

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.

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. Assets held for sale related to the Line R System have a net book value of $2.1 million. The sale transaction is expected to close in the second quarter 2011.

NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. Three of these properties were sold during the first quarter of 2010 and two of these properties remained classified as assets and liabilities held for sale as of March 31, 2010. Results of operations and cash flows for these properties were 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.

Lake Erie Land, which is a wholly-owned subsidiary of NiSource Development Company, 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 the second quarter of 2009, the developer was unable to meet certain contractual obligations under the sale agreement and consequently the Company sought remedial actions. Lake Erie Land has a note receivable valued at $5.8 million as of March 31, 2011 and $6.5 million as of December 31, 2010 as well as other properties of $28.2 million that are presented as Other Investments as of March 31, 2011 and December 31, 2010. In April 2011, NiSource settled a mortgage foreclosure action against the developer and reacquired the Sand Creek Country Club and other properties. NiSource is seeking to market the Lake Erie Land properties and has determined they do not meet the criteria to be classified as assets held for sale under GAAP as of March 31, 2011.

Results from discontinued operations, which primarily arise from 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:

Three Months Ended March 31, *(in millions)*	**2011**	2010

Revenues from Discontinued Operations	**$**	$ 0.7
Income (Loss) from discontinued operations	**0.6**	(0.3)
Income tax expense (benefit)	**0.2**	(0.1)
Income (Loss) from Discontinued Operations net of taxes	**$0.4**	$(0.2)
Gain on Disposition of Discontinued Operations net of taxes	**$**	$ 0.1

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

7. Asset Retirement Obligations

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

Changes in NiSource s liability for asset retirement obligations for the first three months of 2011 and 2010 are presented in the table below:

(in millions)	**2011**	2010
Balance as of January 1,	**$138.8**	$138.2
Accretion expense	**0.2**	0.2
Accretion recorded as a regulatory asset/liability	**1.7**	1.8
Settlements	**(0.6)**	(0.5)
Balance as of March 31,	**$140.1**	$139.7

8. Regulatory Matters

Gas Distribution Operations Regulatory Matters

Significant Rate Developments. 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.

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, and seeking to implement a levelized distribution charge for its residential class that would mitigate revenue volatility associated with volumetric rates. The case is now in the discovery phase and hearings have been set for June 2011. Columbia of Pennsylvania expects that the Pennsylvania PUC will issue an order in the third or fourth quarter of 2011 with rates going into effect in the fourth quarter.

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 allows 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 benefit of $35.7 million as a credit to its customers as a reduction of the GCR rate.

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 seeks 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 company s rates. The proposed billing adjustment is 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. 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. 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. Columbia of Pennsylvania expects that the Pennsylvania PUC will rule on this matter in conjunction with the base rate case, as described above.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

On September 1, 2010 Northern Indiana, Northern Indiana Fuel and Light and Kokomo Gas filed to merge 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 that provides for the merger and settlement of the rate proceedings. The settlement stipulates that all of Northern Indiana s existing services, rates and charges will 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 and an order is anticipated in the second quarter of 2011 with new rates implemented during the third quarter of 2011.

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 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 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 provided for the full amount of the refund, which Northern Indiana began returning to customers in March, 2010, and will be completed in May 2011.

Columbia of Massachusetts filed an application to implement its Targeted Infrastructure Replacement Factor Rider on April 30, 2010. On October 29, 2010, the DPU approved Columbia of Massachusetts proposed adjustment factor, to take effect November 1, 2010, 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. That adjustment, which took effect on November 1, 2010, subject to further review and reconciliation, was approved by the DPU on March 23, 2011.

In March 2009, Indiana Governor Daniels signed Senate Bill 423 into law giving the Indiana Finance Authority 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 Indiana Finance Authority (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 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 held a

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Prehearing Conference on January 27, 2011, in which a procedural schedule was established. Hearings in this proceeding will occur in early May 2011 and based upon the schedule it is anticipated that an order will be issued later in 2011.

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 will conduct 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.

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

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

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

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

Gas Transmission and Storage Operations Regulatory Matters

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 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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

processing plants to the Texas Eastern Wind Ridge compressor station in southwestern Pennsylvania to provide significant additional capacity to eastern markets. This third project went into service in April 2011.

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 proposes 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 and the parties to the case are actively engaged in discussions to resolve the case via settlement.

Electric Operations Regulatory Matters

Significant Rate Developments. On June 27, 2008, Northern Indiana filed a petition for new electric base rates and charges. The filing requested an increase in base rates calculated to produce additional gross margin of $85.7 million when compared to a normalized test year ended December 31, 2007. On August 25, 2010, the IURC issued an order authorizing electric rates to reflect investments in reliability, environmental technology and other infrastructure improvements.

Upon review of the order, NiSource has concluded that the overall impact is in line with the company s expected outcome for the case and its financial outlook. The IURC approved a rate base of $2,639.0 million and an overall rate of return of 7.29%, which results in an allowed net operating income of $192.4 million. In conjunction with approved expenses, the rate order approves rates designed to produce a margin of $899.0 million based on 2007 test year volumes. The approved rate base includes the Sugar Creek Generating Station. Among other findings, the IURC also approved revised depreciation accrual rates for electric and common plant, amortization of deferrals, and two new tracking mechanisms, a Resource Adequacy Tracker and RTO Tracker. The IURC also found that Northern Indiana, before declaring or paying any dividends to NiSource must provide the IURC notice at least 20 business days prior. Northern Indiana provided such notice prior to making any dividend declaration subsequent to the receipt of the August 25, 2010 rate order.

Consistent with Northern Indiana s proposal, the IURC also approved a rate base that excludes Dean H. Mitchell Generating Station and Michigan City Generating Station Units 2 and 3. In accordance with ASC 980, Northern Indiana retired the Dean H. Mitchell Generating Station and Michigan City Generating Station Units 2 and 3 during the third quarter of 2010 as the stations are no longer used and useful. As a result of the 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.

Some parties sought reconsideration and/or rehearing of specific aspects of the case. On April 25, 2011 the IURC issued a docket entry to extend the deemed denied date for reconsideration and/or rehearing to be 30 days following the IURC s Order on Northern Indiana s November 19, 2010 petition for new electric base rates and charges. Several parties have also filed an appeal of the IURC order to the Indiana Court of Appeals. The appeals are still pending.

As part of the order, the IURC required Northern Indiana to file a compliance filing with updated tariffs and Northern Indiana made such filing on September 14, 2010. New rates cannot be implemented until the IURC approves the filed tariff. On April 25, 2011 the IURC issued a docket entry to suspend the compliance filing schedule. Based on this docket entry, Northern Indiana does not believe that rates from the August 25, 2010 IURC order will be implemented.

Northern Indiana filed a petition for reconsideration with the IURC on September 14, 2010 to clarify that the effective date of certain aspects of the 2008 case including the new depreciation rates, commencement of amortization of deferred balances and discontinuance of further regulatory deferrals and the $55.0 million bill credit should coincide with the IURC s approval of new customer rates. On October 22, 2010, the IURC issued a docket entry clarifying that this interpretation is correct.

ITEM 1. FINANCIAL STATEMENTS (continued)
NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

On November 19, 2010, Northern Indiana filed a petition for new electric base rates and charges. The filing requests 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. If approved, the rates from this new petition would replace any other existing rates, including those that may be approved by effect of the August 25, 2010 rate order. The proposed rates would ease bill impacts on residential customers, while still allowing Northern Indiana to continue investing in service, reliability and infrastructure improvements. Northern Indiana filed the proceeding under the IURC s minimum standard filing requirements prescribing timeframes for issuance of an order if required information is supplied as part of the rate case filing. The IURC held its prehearing conference on December 17, 2010 and issued a prehearing conference order on January 5, 2011. The parties agreed to and the IURC ordered a procedural schedule that includes a bifurcated hearing. The evidentiary hearing on the revenue requirement portion of Northern Indiana s case-in-chief was held on February 28 March 4, 2011, and the evidentiary hearing on the cost allocation portion of the case is scheduled for the week of May 16, 2011. If fully litigated, the remainder of the evidentiary hearing is scheduled for the weeks of September 7, 2011 and September 12, 2011, with briefing concluding in November 2011, and an order anticipated in early 2012 with the implementation of new rates anticipated in the first quarter of 2012.

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 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 Sugar Creek investment was included in the rate base as part of the IURC s August 25, 2010 rate order. Northern Indiana will continue to defer depreciation expenses and debt-based carrying costs associated with the $330.0 million Sugar Creek investment until the IURC s approval and implementation of new customer rates. 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. The IURC also approved a five year amortization of balances that were deferred as of December 31, 2009 and such amortization will commence with the IURC s approval and implementation of new customer rates. The same treatment was requested in the 2010 Electric rate case filing.

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an Order adopting most aspects of the settlement. The Order approving the settlement provides that certain electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year. The credits will continue at approximately the same annual level and per the same methodology, until the IURC approval and implementation of new customer rates. Credits amounting to $13.0 million and $14.2 million were recognized for electric customers for the first quarter of 2011 and 2010, 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.

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 December 31, 2008, and to recover, through a tracker, charges deferred between December 31, 2008 and the IURC s approval of new customer

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

rates. During the first quarter of 2011 and 2010, MISO costs of $2.6 million and $1.9 million were deferred, respectively. As of March 31, 2011, Northern Indiana had deferred a total of $39.2 million of MISO costs. In the rate 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. The implementation of such trackers coincides with the IURC s approval and implementation of new customer rates.

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 Midwest ISO and PJM Interconnection jointly filed a settlement agreement, which is pending FERC approval, 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 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.

As part of a settlement agreement which resolved issues surrounding purchased power costs, Northern Indiana implemented a new benchmarking standard, that became effective in October 2007, which defines the price above which purchased power costs must be absorbed by Northern Indiana and are not permitted to be passed on to ratepayers. 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 and a set sharing mechanism. The agreement also contemplated Northern Indiana adding generating capacity to its existing portfolio by providing for the benchmark to be adjusted as new capacity is added. The dispatch of Sugar Creek into MISO on December 1, 2008 triggered a change in the benchmark, whereby the first 500 mw tier of the benchmark provision was eliminated. During the first quarter of 2011 and 2010, the amount of purchased power costs exceeding the benchmark amounted to zero and $0.1 million, respectively, which was recognized as a net reduction of revenues.

Northern Indiana has approval from the IURC to recover certain environmental related costs through an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM s NOx SIP and CAIR and CAMR compliance plan projects through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. The IURC approved the continued use of the ECRM and the EERM trackers in the August 25, 2010 rate order and Northern Indiana has requested similar treatment in the November 19, 2010 filing. When the IURC approves new customer rates, the cost relating to environmental projects that were in service as of the filed test year will be recovered through base rates and will no longer be tracked through the ECRM and EERM.

The IURC has authorized Northern Indiana to recover costs relating to qualified pollution control projects estimated to cost $514 million, which includes new projects at the R.M. Schahfer Generating Station approved by the IURC s December 29, 2010 Order. On February 4, 2011 Northern Indiana filed ECR-17 and EER-8, which included $281

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

million (capital expenditure net of accumulated depreciation) of such capital costs and operating and maintenance expenses of $27 million for the year ended December 31, 2010. 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 19-C, Environmental Matters, in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information.

9. Risk Management Activities

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

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

NiSource uses a variety of derivative instruments (exchange traded futures and options, physical forwards and options, basis contracts, financial commodity swaps, and interest rate swaps) to effectively manage its commodity price risk and interest rate risk exposure. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recognized currently in earnings. For derivative contracts that qualify for the normal purchase and normal sales exception, a contract s fair value is not recognized in the Consolidated Financial Statements until the contract is settled.

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

As a result of the rate-making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered or passed back to customers in revenues through rates. When gains and losses are recognized in earnings, they are recognized in 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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

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

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

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

not accounted for as a hedge, but since congestion costs are recoverable through the fuel cost recovery mechanism, the related gains and losses associated with marking these derivatives to market are recorded as a regulatory asset or liability. In the second quarter of 2008, MISO changed its allocation procedures from an allocation of FTRs to an allocation of ARRs, whereby Northern Indiana was allocated ARRs based on its historical use of the MISO administered transmission system. ARRs entitle the holder to a stream of revenues or charges based on the price of the associated FTR in the FTR auction. ARRs are not derivatives and are convertible to FTRs.

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 reserves of $5.1 million at March 31, 2011 and $6.4 million at December 31, 2010, against certain of these physical sale contract derivatives. These amounts represent reserves related to the creditworthiness of certain customers, the 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 gain of approximately $121.4 million at March 31, 2011 and $154.4 million at December 31, 2010, while the financial derivative contracts marked-to-market had a fair value loss of $118.1 million at March 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.

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

	March 31, 2011	December 31, 2010
Commodity Price Risk Program:		
Gas price volatility program derivatives (MMDth)	**26.4**	28.4
Price Protection Service program derivatives (MMDth)	**0.9**	1.6
DependaBill program derivatives (MMDth)	**0.2**	0.4
Regulatory incentive program derivatives (MMDth)	**3.9**	2.0
Gas marketing program derivatives (MMDth)(a)	**39.4**	48.2
Gas marketing forward physical derivatives (MMDth)(b)	**38.1**	48.0
Electric energy program FTR derivatives (mw)	**3,386.7**	8,279.1

(a) Basis contract volumes not included in the above table were 33.7 MMDth and 42.0 MMDth as of March 31, 2011 and December 31, 2010, respectively.

(b) Basis contract volumes not included in the above table were 41.7 MMDth and 52.1 MMDth as of March 31, 2011 and December 31, 2010, respectively.

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 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 March 31, 2011, NiSource had $7.2 billion of outstanding 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.

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.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Contemporaneously with the issuance on September 16, 2005 of $1 billion of its 5.25% and 5.45% notes, maturing September 15, 2017 and 2020, respectively, 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 March 31, 2011, accumulated other comprehensive loss includes $12.5 million related to forward starting interest rate swap settlement. These derivative contracts are accounted for as a cash flow hedge.

As of March 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 the credit agreement, terminated the sponsor guarantee and cash settled the interest rate hedges. These interest rate hedges were accounted for as cash flow hedges by Millennium. As it reports Millennium as an equity method investment, NiSource is required to recognize a proportional share of Millennium s OCI. NiSource s proportionate share of the remaining unrealized loss is $20.9 million, net of tax. Millennium is amortizing the unrealized loss related to these terminated interest rate swaps into earnings using the effective interest method through interest expense as interest payments are made. NiSource records its proportionate share of the amortization as Equity Earnings in Unconsolidated Affiliates at the Condensed Statements of Consolidated Income.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

NiSource s location and fair value of derivative instruments on the Condensed Consolidated Balance Sheets (unaudited) were:

Asset Derivatives *(in millions)* Balance Sheet Location	**March 31, 2011 Fair Value**	December 31, 2010 Fair Value
Derivatives designated as hedging instruments		
Interest rate risk activities		
Price risk management assets (current)	**$**	$
Price risk management assets (noncurrent)	**50.9**	61.1
Total derivatives designated as hedging instruments	**$ 50.9**	$ 61.1
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management assets (current)	**$134.1**	$ 159.5
Price risk management assets (noncurrent)	**137.4**	179.2
Total derivatives not designated as hedging instruments	**$271.5**	$ 338.7
Total Asset Derivatives	**$322.4**	$ 399.8

Liability Derivatives *(in millions)* Balance Sheet Location	**March 31, 2011 Fair Value**	December 31, 2010 Fair Value
Derivatives designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	**$ 0.7**	$ 1.0
Price risk management liabilities (noncurrent)	**0.1**	0.2
Total derivatives designated as hedging instruments	**$ 0.8**	$ 1.2
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	**$145.4**	$ 172.9
Price risk management liabilities (noncurrent)	**135.4**	181.4
Total derivatives not designated as hedging instruments	**$280.8**	$ 354.3
Total Liability Derivatives	**$281.6**	$ 355.5

The effect of derivative instruments on the Condensed Statements of Consolidated Income (unaudited) was:
Derivatives in Cash Flow Hedging Relationships
Three Months Ended, *(in millions):*

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) **March 31, 2011**	March 31, 2010	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) **March 31, 2011**	March 31, 2010
Commodity price risk programs	**$0.5**	$(3.3)	Cost of Sales	**$ 0.6**	$0.5
Interest rate risk activities	**0.4**	0.4	Interest expense, net	**(0.7)**	
Total	**$0.9**	$(2.9)		**$(0.1)**	$0.5

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Three Months Ended, *(in millions):*

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

It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in accumulated other comprehensive loss of approximately $0.4 million of loss, net of taxes.

Derivatives in Fair Value Hedging Relationships

Three Months Ended, *(in millions)*

Derivatives in Fair Value Hedging Relationships	Location of (Loss) Gain Recognized in Income on Derivatives	Amount of (Loss) Gain Recognized in Income on Derivatives	
		March 31, 2011	March 31, 2010
Interest rate risk activities	Interest expense, net	**$ (10.3)**	$ 2.1
Total		**$ (10.3)**	$ 2.1

Three Months Ended, *(in millions)*

Hedged Item in Fair Value Hedge Relationships	Location of Gain (Loss) Recognized in Income on Related Hedged Item	Amount of Gain (Loss) Recognized in Income on Related Hedged Items	
		March 31, 2011	March 31, 2010

Fixed-rate debt	Interest expense, net	**$ 10.3**	$ (2.1)
Total		**$ 10.3**	$ (2.1)

<u>Derivatives not designated as hedging instruments</u>
Three Months Ended, *(in millions)*

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Realized/Unrealized Gain (Loss) Recognized in Income on Derivatives *	
		March 31, 2011	March 31, 2010
Commodity price risk programs	Gas Distribution revenues	**$ (21.7)**	$ (21.0)
Commodity price risk programs	Other revenues	**10.6**	77.2
Commodity price risk programs	Cost of Sales	**(2.4)**	(71.2)
Total		**$ (13.5)**	$ (15.0)

* For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, gains of $22.6 million and $20.7 million for the first quarter of 2011 and 2010, respectively, were deferred as allowed by regulatory orders. These amounts will be amortized to income over future periods of up to twelve months as specified in a regulatory order.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

NiSource has not reclassified earnings from accumulated other comprehensive income to Cost of Sales due to the probability that certain forecasted transactions would not occur for the three months ended March 31, 2011 and 2010.

NiSource s derivative instruments measured at fair value as of March 31, 2011 and December 31, 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. The collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $0.3 million. In addition to agreements with ratings triggers, there are some agreements that contain adequate assurance or material adverse change provisions that could result in additional credit support such as letters of credit and cash collateral to transact business.

NiSource had $148.9 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 Condensed Consolidated Balance Sheets (unaudited) as of March 31, 2011 and December 31, 2010, respectively.

10. Fair Value Disclosures

A. Fair Value Measurements.

Recurring Fair Value Measurements. The following tables present financial assets and liabilities measured and recorded at fair value on NiSource s Condensed Consolidated Balance Sheet (unaudited) on a recurring basis and their level within the fair value hierarchy as of March 31, 2011 and December 31, 2010:

Recurring Fair Value Measurements March 31, 2011 *(in millions)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2011
Assets				
Commodity Price risk management assets:				
Physical price risk programs	$	$126.5	$	$ 126.5
Financial price risk programs	142.6	2.2	0.2	145.0
Interest rate risk activities		50.9		50.9
Available-for-sale securities	40.3	38.1		78.4
Total	$ 182.9	$217.7	$ 0.2	$ 400.8
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	$	$ 2.6	$	$ 2.6
Financial price risk programs	276.4	2.3	0.3	279.0
Total	$ 276.4	$ 4.9	$ 0.3	$ 281.6

ITEM 1. FINANCIAL STATEMENTS (continued)
NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Recurring Fair Value Measurements December 31, 2010 *(in millions)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
Assets				
Commodity Price risk management assets:				
Physical price risk programs	$	$161.4	$	$ 161.4
Financial price risk programs	173.8	3.2	0.3	177.3
Interest rate risk activities		61.1		61.1
Available-for-sale securities	43.5	37.9		81.4
Total	$ 217.3	$263.6	$ 0.3	$ 481.2
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	$	$ 3.6	$	$ 3.6
Financial price risk programs	348.5	3.3	0.1	351.9
Total	$ 348.5	$ 6.9	$ 0.1	$ 355.5

Price risk management assets and liabilities include commodity exchange-traded and non-exchange-based derivative contracts. Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures.
To determine the fair value of derivatives associated with NiSource s unregulated natural gas marketing business, certain reserves were calculated. These reserves were primarily determined by evaluating the credit worthiness of certain customers, fair value of future cash flows, and the cost of maintaining restricted cash. Refer to Note 9, Risk

Management Activities for additional information on price risk assets.

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

Available-for-sale securities are investments pledged as collateral for trust accounts related to NiSource s wholly-owned insurance company. Available-for-sale securities are included within Other investments in the Condensed

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Consolidated Balance Sheets (unaudited). Securities classified within Level 1 include U.S. Treasury debt securities which are highly liquid and are actively traded in over-the-counter markets. NiSource values corporate and mortgage-backed debt securities using a matrix pricing model that incorporates market-based information. These securities trade less frequently and are classified within Level 2. Total gains and losses from available-for-sale securities are included in other comprehensive income (loss). The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale debt securities at March 31, 2011 and December 31, 2010 were:

(in millions)	**Amortized Cost**	**Total Gains**	**Total Losses**	**Fair Value**
Available-for-sale debt securities, March 31, 2011				
U.S. Treasury and Other Governmental Agencies	$40.4	$0.5	$(0.6)	$40.3
Corporate/Other	37.3	1.0	(0.2)	38.1
Total Available-for-sale debt securities	**$77.7**	**$1.5**	**$(0.8)**	**$78.4**

(in millions)	**Amortized Cost**	**Total Gains**	**Total Losses**	**Fair Value**
Available-for-sale debt securities, Dec. 31, 2010				
U.S. Treasury and Other Governmental Agencies	$43.4	$0.6	$(0.5)	$43.5
Corporate/Other	36.1	2.0	(0.2)	37.9
Total Available-for-sale debt securities	**$79.5**	**$2.6**	**$(0.7)**	**$81.4**

For the three months ended March 31, 2011 and 2010, the net realized gain on the sale of available-for-sale U.S. Treasury debt securities was $0.1 million and zero, respectively. For the three months ended March 31, 2011 and 2010, the realized gain on sale of available-for-sale Corporate/Other bond debt securities was $0.5 million and $0.4 million, respectively.

The cost of maturities sold is based upon specific identification. At March 31, 2011, approximately $1.0 million of U.S. Treasury debt securities have maturities of less than a year while the remaining securities have maturities of greater than one year. At March 31, 2011, approximately $1.1 million of Corporate/Other bonds have maturities of less than a year while the remaining securities have maturities of greater than one year.

NiSource adopted 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 during the first quarter of 2011. The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2011 and 2010:

Three Months Ended March 31, 2011 *(in millions)*	Financial Transmission Rights	Other Derivatives	Total
Balance as of January 1, 2011	$	$ 0.2	$ 0.2
		(0.4)	(0.4)

Total gains or (losses) (unrealized/realized) Included in regulatory assets/liabilities			
Purchases		(0.4)	(0.4)
Settlements		0.5	0.5
Balance as of March 31, 2011	$	$(0.1)	$(0.1)
Change in unrealized gains/(losses) relating to instruments still held as of March 31, 2011	$	$(0.9)	$(0.9)

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Three Months Ended March 31, 2010 *(in millions)*	Financial Transmission Rights	Other Derivatives	Total
Balance as of January 1, 2010	$ 1.9	$ 0.2	$ 2.1
Total gains or losses (unrealized/realized) Included in regulatory assets/liabilities			
Purchases		(0.6)	(0.6)
Settlements	(1.0)	0.3	(0.7)
Balance as of March 31, 2010	$ 0.9	$ (0.1)	$ 0.8
Change in unrealized gains/(losses) relating to instruments still held as of March 31, 2010	$	$	$

As discussed in Note 9, as 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 reflected in the table above. FTRs are valued using a valuation model based on the value of allocated ARRs and forecasted congestion costs. Since congestion costs are recoverable through the fuel cost recovery mechanism, the related gains and losses associated with marking these derivatives to market are recorded as a regulatory asset or liability. Northern Indiana also writes options for regulatory incentive purposes which are also considered Level 3 valuations. Realized gains and losses for these Level 3 recurring items are included in income within Cost of Sales on the Condensed Statements of Consolidated Income (unaudited). Unrealized gains and losses from Level 3 recurring items are included within Regulatory assets or Regulatory liabilities on the Condensed Consolidated Balance Sheets (unaudited).

Non-recurring Fair Value Measurements. There were no significant non-recurring fair value measurements recorded during the first three months of 2011 and 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.

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 March 31, 2011 and December 31, 2010 were $26.9 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 as of	**Estimated Fair Value as of**	Carrying	Estimated Fair Value as of

(in millions)	**March 31, 2011**	**March 31, 2011**	Amount as of Dec. 31, 2010	Dec. 31, 2010
Long-term investments	**$ 27.6**	**$ 26.3**	$ 26.7	$ 25.4
Long-term debt (including current portion)	**5,964.0**	**6,513.7**	5,970.3	6,482.4

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

11. Transfers of Financial Assets

Transfers of accounts receivable are accounted for as secured borrowings resulting in the recognition of short-term borrowings on the Condensed Consolidated Balance Sheets (unaudited). The maximum amount of debt that can be recognized related to NiSource s accounts receivable programs is $475 million.

All accounts receivables sold to the commercial paper conduits are valued at face value, which approximate 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 commercial paper conduits sponsored by BTMU and RBS. On October 22, 2010, the agreement was renewed with an amendment reducing the maximum seasonal program limit from $275 million to $200 million. The amended agreement expires on October 21, 2011, and can be renewed if mutually agreed to by all parties. As of March 31, 2011, $200.0 million of accounts receivable had been transferred by CGORC. CGORC is a separate corporate entity from NiSource and Columbia of Ohio, with its own separate obligations, and upon a liquidation of CGORC, CGORC s obligations must be satisfied out of CGORC s assets prior to any value becoming available to CGORC s stockholder. Under the agreement, an event of termination occurs if NiSource s debt rating is withdrawn by either Standard & Poor s or Moody s, or falls below BB- or Ba3 at either Standard & Poor s or Moody s, respectively.

On October 23, 2009, Northern Indiana entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to NARC, a wholly-owned subsidiary of Northern Indiana. NARC, in turn, is party to an agreement with RBS, also dated October 23, 2009, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by RBS. The maximum seasonal program limit under the terms of the agreement is $200 million. On October, 22, 2010, the agreement was renewed, having a new scheduled termination date of August 31, 2011, and can be further renewed if mutually agreed to by both parties. As of March 31, 2011, $200.0 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 March 31, 2011, $75.0 million of accounts receivable had been transferred by CPRC. CPRC is a separate corporate entity from NiSource and Columbia of Pennsylvania, with its own separate obligations, and upon a liquidation of CPRC, CPRC s obligations must be satisfied out of CPRC s assets prior to any value becoming available to CPRC s stockholder. Under the agreement, an event of termination occurs if NiSource s debt rating is withdrawn by either Standard & Poor s or Moody s, or falls below BB- or Ba3 at either Standard & Poor s or Moody s, respectively.

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ITEM 1. FINANCIAL STATEMENTS (continued)
NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)
The following table reflects the gross and net receivables transferred as well as short-term borrowings related to the securitization transactions as of March 31, 2011 and December 31, 2010 for Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania:

(in millions)	**March 31, 2011**	December 31, 2010
Gross Receivables	**$ 706.9**	$ 655.6
Less: Receivables not transferred	**231.9**	380.6
Net receivables transferred	**$ 475.0**	$ 275.0
Short-term debt due to asset securitization	**$ 475.0**	$ 275.0

During the first quarter of 2011 and 2010, $1.5 million and $1.9 million of fees associated with the securitization transactions were recorded as interest expense. 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.
12. Goodwill Assets
In accordance with the provisions for goodwill accounting under GAAP, 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 the FASB.
NiSource s goodwill assets at March 31, 2011 were $3.7 billion pertaining primarily to the acquisition of Columbia on November 1, 2000. Of this amount, approximately $2.0 billion is allocated to Columbia Transmission Operations and $1.7 billion is allocated to Columbia Distribution Operations. In addition, the goodwill balances at March 31, 2011 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.
The test performed at June 30, 2010 indicated that the fair value of each of the reporting units that carry or are allocated goodwill exceeded their carrying values, indicating that no impairment exists under Step 1 of the annual impairment test.
NiSource considered whether there were any events or changes in circumstances during the first quarter 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 first quarter.
13. Income Taxes
NiSource s interim effective tax rates reflect the estimated annual effective tax rates for 2011 and 2010, adjusted for tax expense associated with certain discrete items. The effective tax rates for the three months ended March 31, 2011 and March 31, 2010 were 34.5% and 35.8%, respectively. These effective tax rates differ from the Federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other permanent book-to-tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.
The decrease in the effective tax rate of 1.3% in the first quarter of 2011 versus first quarter of 2010 is due primarily to reductions in tax expense in 2011 to reflect utility rate-making flow through taxes in the State of Pennsylvania.
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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

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 Condensed Statements of Consolidated Income (unaudited) for the first three months of 2011.

There were no material changes recorded in the first quarter of 2011 to NiSource s uncertain tax positions as of December 31, 2010.

14. Pension and Other Postretirement Benefits

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

NiSource expects to make contributions of approximately $149.7 million to its pension plans and approximately $49.3 million to its postretirement medical and life plans in 2011, which could change depending on market conditions. For the three months ended March 31, 2011, NiSource has contributed $90.7 million to its pension plans and $10.8 million to its other postretirement benefit plans.

The following table provides the components of the plans net periodic benefits cost for the three months ended March 31, 2011 and 2010:

	Pension Benefits		**Other Postretirement Benefits**	
Three Months Ended March 31, *(in millions)*	**2011**	2010	**2011**	2010
Components of Net Periodic Benefit Cost				
Service cost	**$ 9.4**	$ 9.7	**$ 2.5**	$ 2.4
Interest cost	**29.9**	31.4	**9.6**	10.3
Expected return on assets	**(41.8)**	(35.9)	**(6.7)**	(5.8)
Amortization of transitional obligation			**0.3**	0.3
Amortization of prior service cost	**0.1**	0.5	**(0.1)**	(0.1)
Recognized actuarial loss	**13.9**	14.5	**1.7**	1.5
Total Net Periodic Benefit Costs	**$ 11.5**	$ 20.2	**$ 7.3**	$ 8.6

For the quarters ended March 31, 2011 and 2010, pension and other postretirement benefit cost of approximately $7.1 million and $3.1 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.

15. Variable Interests and 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

ITEM 1. FINANCIAL STATEMENTS (continued)
NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)
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 March 31, 2011, consistent with prior periods, NiSource consolidated its low income housing real estate investments from which NiSource derives certain tax benefits. Based on the newly adopted guidance on the consolidation of variable interest entities, these investments met the definition of a VIE. As of March 31, 2011, NiSource is a 99% limited partner with a net investment of approximately $0.7 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 March 31, 2011, gross assets of the low income housing real estate investments in continuing operations were $28.3 million. Current and non-current assets were $0.7 million and $27.6 million, respectively. As of March 31, 2011, NiSource recorded long-term debt of approximately $10.8 million as a result of consolidating these investments. However, this debt is nonrecourse to NiSource and NiSource s direct and indirect subsidiaries. Approximately $0.4 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.
16. Long-Term Debt
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 announced that it was commencing 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. In accordance with the provisions of ASC 470, *Debt*, NiSource determined

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

the new 6.25% notes due 2040 to be substantially different from the old debt instrument, and therefore the transaction qualified as a debt extinguishment. NiSource 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.

17. Short-Term Borrowings

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 commercial paper liquidity, and provides for the issuance of letters of credit. At March 31, 2011, NiSource had $788.0 million of outstanding borrowings under this facility.

As of March 31, 2011 and December 31, 2010, NiSource had $32.5 million of stand-by letters of credit outstanding, of which $14.2 million was 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 Condensed Consolidated Balance Sheet (unaudited) in the amount of $475.0 million as of March 31, 2011. Refer to Note 11, Transfers of Financial Assets, for additional information.

(in millions)	**March 31, 2011**	December 31, 2010
Credit facilities borrowings weighted average interest rate of a 2.10% and 0.78% at March 31, 2011 and December 31, 2010, respectively	**$ 788.0**	$ 1,107.5
Accounts receivable securitization facility borrowings	**475.0**	275.0
Total short-term borrowings	**$ 1,263.0**	$ 1,382.5

18. Share-Based Compensation

Prior to May 11, 2010, NiSource issued long-term incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights, restricted stock units, contingent stock units and dividend equivalents payable on grants of options, performance units and contingent stock awards.

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 NiSource available for awards is 8,000,000 plus the number of shares subject to outstanding awards granted under either the 1994 Plan or the Director Plan (described below) that expire or terminate for any reason 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. At March 31, 2011, there were 7,949,541 shares reserved for future awards under the Omnibus Plan.

NiSource recognized stock-based employee compensation expense of $3.0 million and $2.2 million during the first three months of 2011 and 2010, respectively, as well as related tax benefits of $1.0 million and $0.8 million, respectively.

As of March 31, 2011, the total remaining unrecognized compensation cost related to nonvested awards amounted to $22.9 million, which will be amortized over the weighted-average remaining requisite service period of 2.2 years.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Stock Options. As of March 31, 2011, approximately 3.5 million options were outstanding and exercisable with a weighted average strike price of $21.93. The strike price of all issued options was above the market price of NiSource stock as of March 31, 2011.

Restricted Awards. In the first quarter of 2011, NiSource granted 113,314 restricted stock units, subject to service conditions. The total grant date fair value of the restricted units was $1.9 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 109,405 units lapse on January 2014 when 100% of the shares vest. If before January 2014, the employee terminates employment (1) due to retirement, having attained age 55 and completed ten years of service, or (2) due to death or disability, the employment conditions will lapse with respect to a pro rata portion of the restricted units on the date of termination. Termination due to any other reason will result in all restricted units awarded being forfeited effective the employee s date of termination. Employees will be entitled to receive dividends upon vesting. The service conditions lapse for the remaining 3,909 units between March 2012 and March 2014. As of March 31, 2011, 695,391 nonvested restricted stock units were granted and outstanding.

Contingent Stock Units. In the first quarter of 2011, NiSource granted 705,431 contingent stock units subject to performance conditions. The grant date fair-value of the awards was $11.2 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. The service conditions lapse on January 31, 2014 when 100% of the shares vest. If the employee terminates employment before January 31, 2014 (1) due to retirement, having attained age 55 and completed ten years of service, or (2) due to death or disability, the employment conditions will lapse with respect to a pro rata portion of the contingent units on the date of termination. Termination due to any other reason will result in all contingent units awarded being forfeited effective the employee s date of termination. Employees will be entitled to receive dividends upon vesting. As of March 31, 2011, 2,272,719 nonvested contingent stock units were granted and outstanding.

Non-employee Director Awards. The Omnibus Plan provides for awards to employees and non-employee directors of incentive and nonqualified stock options, stock appreciation rights, restricted stock and restricted stock units, performance shares, performance units, cash-based awards and other stock-based awards. As of May 11, 2010, awards to non-employee directors may be made only under the Omnibus Plan. Restricted stock units granted to non-employee directors vest immediately and are payable six months following separation from service on the Board. As of March 31, 2011, 65,363 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 March 31, 2011, 281,455 restricted stock units remain issued under the Director Plan and as noted above no further shares may be issued under the Director Plan.

401(k) Match and Profit Sharing. NiSource has a voluntary 401(k) savings plan covering eligible employees that allows for periodic discretionary matches as a percentage of each participant s contributions in newly issued shares of common stock. NiSource also has a retirement savings plan that provides for discretionary profit sharing contributions of shares of common stock to eligible employees based on earnings results. For the three months ended March 2011 and 2010, NiSource recognized 401(k) match and profit sharing expense of $3.9 million and $5.3 million, respectively.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

19. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries intended commercial purposes. The total commercial commitments in existence at March 31, 2011 and the years in which they expire were:

(in millions)	Total	2011	2012	2013	2014	2015	After
Guarantees of subsidiaries debt	$5,430.9	$	$315.0	$545.0	$500.0	$230.0	$3,840.9
Guarantees supporting commodity transactions of subsidiaries	152.2	51.5	18.8			80.0	1.9
Accounts receivable securitization	475.0	475.0					
Lines of credit	788.0	788.0					
Letters of credit	32.5	12.2	19.1	0.2	1.0		
Other guarantees	322.4	2.0	12.6	223.1	32.2		52.5
Total commercial commitments	$7,201.0	$1,328.7	$365.5	$768.3	$533.2	$310.0	$3,895.3

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $5.4 billion of debt for various wholly-owned subsidiaries including NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource s Condensed Consolidated Balance Sheets (unaudited). 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.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $152.2 million of commodity-related payments for its current subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets (unaudited).

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 commercial paper liquidity, and provides for the issuance of letters of credit. At March 31, 2011, NiSource had $788.0 million in borrowings under its four-year revolving credit facility and $475.0 million outstanding under its accounts receivable securitization agreements. At March 31, 2011, NiSource issued stand-by letters of credit of approximately $32.5 million for the benefit of third parties. See Note 17, Short-term Borrowings, for additional information.

Other Guarantees or Obligations. On June 30, 2008, NiSource 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 sales agreement guarantees are reflected in the Condensed Consolidated Balance Sheet (unaudited) as of March 31, 2011. These guarantees are due to expire in June 2013.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

NiSource has additional purchase and sales 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 sales agreement guarantees are reflected in the Condensed Consolidated Balance Sheets (unaudited). Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

In connection with Millennium s refinancing of its long-term debt in August 2010, NiSource provided a letter of credit to Union Bank N.A., as Collateral Agent for deposit into a debt service reserve account as required under the Deposit and Disbursement Agreement governing the Millennium notes offering. This account is to be drawn upon by the note holders in the event that Millennium is delinquent on its principal and interest payments. The value of NiSource s letter of credit represents 47.5% (NiSource s ownership percentage in Millennium) of the Debt Service Reserve Account requirement, or $16.2 million. The total exposure for NiSource is $16.2 million. NiSource recorded an accrued liability of $1.5 million related to the inception date fair value of this guarantee as of March 31, 2011.

On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into multiple agreements to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreement, Columbia Transmission issued guarantees securing payment for 50% of any amounts issued in connection with Hardy Storage up until such time as the project is placed in service and operated within certain specified parameters. As of December 31, 2009, Hardy Storage had outstanding borrowings of $123.4 million under the temporary financing agreement, for which Columbia Transmission had recorded an accrued liability of approximately $1.2 million related to the fair value of its guarantee securing payment for $61.7 million which is 50% of the amount borrowed. Hardy Storage satisfied the terms and conditions of its financing agreement on March 17, 2010, when Hardy Storage secured permanent financing, facilitating Columbia Transmission s release from its underlying guarantee and therefore, the accrued liability of $1.2 million was relieved as of March 31, 2010.

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

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

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

The Plaintiffs, who are West Virginia landowners, filed a lawsuit in early 2003 in the West Virginia Circuit Court for Roane County, West Virginia (the Trial Court) against CNR alleging that CNR underpaid royalties on gas produced on their land by improperly deducting post-production costs and not paying a fair value for the gas. Plaintiffs also claimed that Defendants fraudulently concealed the deduction of post-production charges. In December 2004, the Trial Court granted Plaintiffs motion to add NiSource and Columbia as Defendants. The Trial Court later certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from CNR (and its predecessors or successors) on lands lying within the boundary of the state of West Virginia. Although NiSource sold CNR in 2003, NiSource remained obligated to manage this litigation and was responsible for the majority of any damages awarded to Plaintiffs. On January 27, 2007, the jury hearing the case returned a verdict against all Defendants in the amount of $404.3 million inclusive of both compensatory and punitive damages; Defendants subsequently filed their Petition for Appeal, which was later amended, with the West Virginia Supreme Court of Appeals (the Appeals Court), which refused the petition on May 22, 2008. On August 22, 2008, Defendants filed Petitions to the United States Supreme Court for writ of certiorari. Given the Appeals Court s earlier refusal of the appeal, NiSource adjusted its reserve in the second quarter of 2008 to reflect the portion of the Trial Court judgment for which NiSource would be responsible, inclusive of interest. This amount was included in Legal and environmental reserves, on the Consolidated Balance Sheet as of December 31, 2008. On October 24, 2008, the Trial Court preliminarily approved a Settlement Agreement with a total settlement amount of $380 million. The settlement received final approval by the Trial Court on November 22, 2008. NiSource s share

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

of the settlement liability is up to $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 million and thereby complied with its obligation to secure the unpaid portion of the settlement. The letter of credit was terminated on December 29, 2010. The Trial Court entered its Order discharging the judgment on January 20, 2009 and is supervising the administration of the settlement proceeds. As of March 31, 2011, NiSource has contributed a total of $337.5 million into the qualified settlement fund, $330.5 million of which was contributed prior to December 31, 2010. As of March 31, 2011, $1.3 million of the maximum settlement liability has not been paid. NiSource will be required to make additional payments, pursuant to the settlement, upon notice from the Class Administrator, however, NiSource does not expect these additional payments to be material.

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

Poplar Creek Development Company v. Chesapeake Appalachia, L.L.C., U.S. District Court, E.D. Kentucky

On February 8, 2007, Plaintiff filed the Thacker case, a purported class action alleging that Chesapeake has failed to pay royalty owners the correct amounts pursuant to the provisions of their oil and gas leases covering real property located within the state of Kentucky. Columbia has assumed the defense of Chesapeake in this matter pursuant to the provisions of the Stock Purchase Agreement dated July 3, 2003, among Columbia, NiSource, and Triana Energy Holding, Inc., Chesapeake s predecessor in interest (Stock Purchase Agreement). Plaintiffs filed an Amended Complaint on March 19, 2007, which, among other things, added NiSource and Columbia as Defendants. On March 31, 2008, the Court denied a Motion by Defendants to Dismiss and on June 3, 2008, the Plaintiffs moved to certify a class consisting of all persons entitled to payment of royalty by Chesapeake under leases operated by Chesapeake at any point after February 5, 1992, on real property in Kentucky.

In June 2009, the parties to the Thacker litigation presented a Settlement Agreement to the Court for preliminary approval, which provides for a settlement amount of $28.8 million. NiSource has fully reserved for the entire settlement amount. The court granted the Motion for Preliminary Approval and held a fairness hearing on November 10, 2009. On March 3, 2010 the Court granted final approval of the settlement and on March 31, 2010, Poplar Creek filed a notice of appeal of that approval with the Sixth Circuit. On February 17, 2011, the Sixth Circuit affirmed the lower court s approval of the settlement.

On October 9, 2008, Chesapeake tendered the Poplar Creek case to Columbia and Columbia conditionally assumed the defense of this matter pursuant to the provisions of the Stock Purchase Agreement. Poplar Creek also purports to be a class action covering royalty owners in the state of Kentucky and alleges that Chesapeake has improperly deducted costs from the royalty payments; thus there is some overlap of parties and issues between the Poplar Creek and Thacker cases. Chesapeake filed a motion for judgment on the pleadings in December 2008, which was granted on July 2, 2009. Plaintiffs appealed the dismissal to the Sixth Circuit Court of Appeals. Oral argument was held on December 9, 2010 for both the Thacker and Poplar Creek cases. On February 17, 2011, the Sixth Circuit affirmed the lower court s decision.

Environmental Protection Agency Notice of Violation

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 agreed to settle the NOV. The parties settlement is memorialized in a consent decree that was lodged in the United States District Court for the Northern District of Indiana on January 13, 2011. The consent decree covers Northern Indiana s four coal generating stations: Bailly, Michigan City, R.M. Schahfer, and D.H. Mitchell. Northern Indiana must surrender environmental permits for D.H. Mitchell s coal-fired boilers, which have not been used to generate power since 2002. At the other generating stations, Northern Indiana must install additional control equipment, including three new sulfur dioxide (SO2) control devices and one new nitrogen oxide (NOx) control device. The consent decree also imposes emissions limits for NOx, SO2, and particulate, and annual tonnage limits for NOx and SO2. In addition, Northern Indiana must surrender certain NOx and SO2 allowances, pay fines of $3.5 million, and invest $9.5 million in environmental mitigation projects. Northern Indiana is estimating the cost of NSR related capital improvements at $570 to

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

$840 million, which will be expended between 2010 and 2018. Northern Indiana believes the capital costs will likely be recoverable from ratepayers.

C. 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 March 31, 2011 and December 31, 2010, NiSource had recorded reserves of approximately $79.7 million and $79.8 million, respectively, to cover environmental remediation at various sites. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated. The original estimates for cleanup can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including currently enacted laws and regulations, the nature and extent of contamination, the method of cleanup, and the availability of cost recovery from customers. These expenditures are not currently estimable at some sites. NiSource periodically adjusts its reserves as information is collected and estimates become more refined.

Air

The actions listed below could require further reductions in emissions from various emission sources. NiSource will continue to closely monitor developments in these matters.

Climate Change. Future legislative and regulatory programs could significantly restrict emissions of GHGs or could impose a cost or tax on GHG emissions. Recently, proposals have been developed to implement Federal, state and regional GHG programs and to create renewable energy standards.

In 2009 and 2010, the United States Congress considered a number of legislative proposals to regulate GHG emissions. The United States House of Representatives passed a comprehensive climate change bill in June 2009 that would have created a GHG-cap-and trade system and implemented renewable energy standards. Bills on the same topics were introduced in the Senate in 2009 and 2010, but failed to garner enough support to pass.

If a Federal or state comprehensive climate change bill were to be enacted into law, the impact on NiSource s financial performance would depend on a number of factors, including the overall level of required GHG reductions, the renewable energy targets, the degree to which offsets may be used for compliance, the amount of recovery allowed from customers, and the extent to which NiSource would be entitled to receive CO_2 allowances at no cost. Comprehensive Federal or state GHG regulation could result in additional expense or compliance costs that may not be fully recoverable from customers and could materially impact NiSource s financial results.

National Ambient Air Quality Standards. The CAA requires EPA to set national air quality standards for particulate matter and five other pollutants (the NAAQS) considered harmful to public health and the environment. Periodically EPA imposes new or modifies existing NAAQS. States that contain areas that do not meet the new or revised standards must take steps to maintain or achieve compliance with the standards. These steps could include additional pollution controls on boilers, engines, turbines, and other facilities owned by electric generation, gas distribution, and gas transmission operations.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

The following NAAQS were recently added or modified:

Particulate Matter: In 2006, the EPA issued revisions to the NAAQS for particulate matter. The final rule (1) increased the stringency of the current fine particulate (PM2.5) standard, (2) added a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter), and (3) revoked the annual standards for coarse particulate (PM10) while retaining the 24-hour PM10 standards. These actions were challenged in a case before the DC Court of Appeals, *American Farm Bureau Federation et al. v. EPA.* In 2009, the appeals court granted portions of the plaintiffs petitions challenging the fine particulate standards but denied portions of the petitions challenging the standards for coarse particulate. State plans implementing the new standard for inhalable coarse particulate and the modified 24-hour standard for fine particulate are expected in 2012. The annual and secondary PM2.5 standards have been remanded to the EPA for reconsideration.

Ozone (eight hour): On March 12, 2008, the EPA announced the tightening of the eight-hour ozone NAAQS. EPA has yet to announce the classification structure and the corresponding attainment dates for the new standard. On September 16, 2009, the EPA announced it would reconsider the March 2008 tightening of the ozone NAAQS and if needed promulgate more stringent standards. If the standards are tightened and area designations subsequently changed, new SIPs will need to be developed by the states within three years to bring the nonattainment areas into compliance. NiSource will continue to monitor this matter and cannot estimate the impact of the 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 the 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 to $25 million.

Waste

NiSource subsidiaries are potentially responsible parties at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws. Additionally, a program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors may have liability. The program has identified up to 84 such sites and initial investigations have been conducted at 56 sites. Follow-up investigation activities have been completed or are in progress at 50 sites and remedial measures have been implemented or completed at 37 sites. Remedial actions at many of these sites are being overseen by state or federal environmental agencies through consent agreements or voluntary remediation agreements. The final costs of cleanup have not yet been determined. As site investigations and cleanups proceed reserves are adjusted to reflect new information.

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 we have retained a liability. Specific information is provided below.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

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 measuremen