

NISOURCE INC/DE  
Form 10-Q  
October 31, 2013

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

35-2108964  
(I.R.S. Employer  
Identification No.)

801 East 86th Avenue  
Merrillville, Indiana  
(Address of principal executive offices)

46410  
(Zip Code)

(877) 647-5990

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant 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  No

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  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 Par Value: 313,294,844 shares outstanding at October 24, 2013.

NISOURCE INC.  
 FORM 10-Q QUARTERLY REPORT  
 FOR THE QUARTER ENDED SEPTEMBER 30, 2013  
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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
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission, L.L.C.
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
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
NEVCO	NiSource Energy Ventures, L.L.C.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
NiSource Midstream	NiSource Midstream Services, L.L.C.
Pennant	Pennant Midstream, L.L.C.

Abbreviations

AFUDC	Allowance for funds used during construction
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent
AOCI	Accumulated Other Comprehensive Income (Loss)
ARRs	Auction Revenue Rights
ASC	Accounting Standards Codification
BBA	British Banker Association
Bcf	Billion cubic feet
BNS	Bank of Nova Scotia
Board	Board of Directors
BP AE	BP Alternative Energy North America, Inc.
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.

## DEFINED TERMS (continued)

BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
Ccf	Hundred cubic feet
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund)
CO <sub>2</sub>	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DPU	Department of Public Utilities
DSIC	Distribution System Improvement Charge
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental Cost Tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
Hilcorp	Hilcorp Energy Company
hp	Horsepower
IDEM	Indiana Department of Environmental Management
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
kV	Kilovolt
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
MATS	Mercury and Air Toxics Standards
Mcf	Thousand cubic feet
MMcf	Million cubic feet



DEFINED TERMS (continued)

MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station
Mizuho	Mizuho Corporate Bank Ltd.
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO <sub>2</sub>	Nitrogen dioxide
NO <sub>x</sub>	Nitrogen oxide
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.
PM	Particulate matter
PNC	PNC Bank, N.A.
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RA	Resource Adequacy
RBS	Royal Bank of Scotland, PLC
RCRA	Resource Conservation and Recovery Act
RDAF	Revenue decoupling adjustment factor
RTO	Regional Transmission Organization
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO <sub>2</sub>	Sulfur dioxide
TDSIC	Transmission, Distribution and Storage System Improvement Charge
TIRF	Targeted Infrastructure Reinvestment Factor
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entities
VSCC	Virginia State Corporation Commission
WACOG	Weighted Average Cost of Gas

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

NiSource Inc.

Condensed Statements of Consolidated Income (unaudited)

(in millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Net Revenues				
Gas Distribution	\$255.1	\$226.3	\$1,540.6	\$1,382.6
Gas Transportation and Storage	346.9	278.3	1,181.9	1,043.7
Electric	413.4	418.0	1,175.2	1,147.7
Other	61.4	33.6	162.8	63.3
Gross Revenues	1,076.8	956.2	4,060.5	3,637.3
Cost of Sales (excluding depreciation and amortization)	243.0	227.2	1,268.3	1,090.3
Total Net Revenues	833.8	729.0	2,792.2	2,547.0
Operating Expenses				
Operation and maintenance	468.9	418.6	1,375.6	1,208.2
Depreciation and amortization	144.5	125.3	431.4	418.0
Gain on sale of assets, net	(9.8 )	(0.7 )	(10.2 )	(3.8 )
Other taxes	64.3	62.3	221.7	215.3
Total Operating Expenses	667.9	605.5	2,018.5	1,837.7
Equity Earnings in Unconsolidated Affiliates	10.5	8.0	25.6	24.2
Operating Income	176.4	131.5	799.3	733.5
Other Income (Deductions)				
Interest expense, net	(103.7 )	(107.9 )	(304.3 )	(314.4 )
Other, net	4.7	2.2	22.1	5.3
Total Other Deductions	(99.0 )	(105.7 )	(282.2 )	(309.1 )
Income from Continuing Operations before Income Taxes	77.4	25.8	517.1	424.4
Income Taxes	27.9	9.2	179.2	147.7
Income from Continuing Operations	49.5	16.6	337.9	276.7
Income from Discontinued Operations - net of taxes	0.1	2.7	7.5	5.4
(Loss) Gain on Disposition of Discontinued Operations - net of taxes	(1.5 )	—	34.9	—
Net Income	\$48.1	\$19.3	\$380.3	\$282.1
Basic Earnings Per Share				
Continuing operations	\$0.16	\$0.05	\$1.08	\$0.97
Discontinued operations	—	0.01	0.14	0.02
Basic Earnings Per Share	\$0.16	\$0.06	\$1.22	\$0.99
Diluted Earnings Per Share				
Continuing operations	\$0.16	\$0.05	\$1.08	\$0.93
Discontinued operations	—	0.01	0.14	0.02
Diluted Earnings Per Share	\$0.16	\$0.06	\$1.22	\$0.95
Dividends Declared Per Common Share	\$0.25	\$0.24	\$0.98	\$0.94
Basic Average Common Shares Outstanding	312.8	290.3	312.1	285.9
Diluted Average Common Shares	313.8	300.0	313.0	296.7

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)

(in millions, net of taxes)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net Income	\$48.1	\$19.3	\$380.3	\$282.1
Other comprehensive income (loss)				
Net unrealized gain (loss) on available-for-sale securities <sup>(1)</sup>	0.9	0.7	(2.4	) (1.8
Net unrealized gain on cash flow hedges <sup>(2)</sup>	0.6	0.8	2.0	2.7
Unrecognized pension benefit and OPEB costs <sup>(3)</sup>	0.1	0.7	5.5	2.0
Total other comprehensive income	1.6	2.2	5.1	2.9
Total Comprehensive Income	\$49.7	\$21.5	\$385.4	\$285.0

Net unrealized gain (loss) on available-for-sale securities, net of \$0.5 million and \$0.3 million tax expense in the  
<sup>(1)</sup> third quarter of 2013 and 2012, respectively, and \$1.3 million and \$1.5 million tax benefit for the nine months ended September 30, 2013 and 2012, respectively.

Net unrealized gains on derivatives qualifying as cash flow hedges, net of \$0.4 million and \$0.6 million tax  
<sup>(2)</sup> expense in the third quarter of 2013 and 2012, respectively, and \$1.3 million and \$1.8 million tax expense for the nine months ended September 30, 2013 and 2012, respectively.

Unrecognized pension benefit and OPEB costs, net of zero and \$0.2 million tax expense in the third quarter of  
<sup>(3)</sup> 2013 and 2012, respectively, and \$3.5 million and \$1.0 million tax expense for the nine months ended September 30, 2013 and 2012, 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.

Condensed Consolidated Balance Sheets (unaudited)

(in millions)	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Property, Plant and Equipment		
Utility plant	\$22,869.7	\$21,642.3
Accumulated depreciation and amortization	(9,258.6	) (8,986.4
Net utility plant	13,611.1	12,655.9
Other property, at cost, less accumulated depreciation	301.3	260.0
Net Property, Plant and Equipment	13,912.4	12,915.9
Investments and Other Assets		
Unconsolidated affiliates	327.8	243.3
Other investments	201.6	194.4
Total Investments and Other Assets	529.4	437.7
Current Assets		
Cash and cash equivalents	14.9	36.3
Restricted cash	18.3	46.8
Accounts receivable (less reserve of \$20.2 and \$24.0, respectively)	591.0	907.3
Income tax receivable	6.4	130.9
Gas inventory	454.8	326.6
Underrecovered gas and fuel costs	16.4	45.0
Materials and supplies, at average cost	99.9	97.4
Electric production fuel, at average cost	39.8	71.7
Price risk management assets	21.1	0.5
Exchange gas receivable	84.3	51.3
Assets of discontinued operations and assets held for sale	—	133.9
Regulatory assets	152.5	162.8
Prepayments and other	246.1	357.2
Total Current Assets	1,745.5	2,367.7
Other Assets		
Price risk management assets	—	40.7
Regulatory assets	1,863.2	2,024.4
Goodwill	3,666.2	3,677.3
Intangible assets	278.4	286.6
Deferred charges and other	89.0	94.4
Total Other Assets	5,896.8	6,123.4
Total Assets	\$22,084.1	\$21,844.7

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)	September 30, 2013	December 31, 2012
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization		
Common Stockholders' Equity		
Common stock - \$0.01 par value, 400,000,000 shares authorized; 313,135,192 and 310,280,867 shares outstanding, respectively	\$3.2	\$3.1
Additional paid-in capital	4,672.9	4,597.6
Retained earnings	1,133.8	1,059.6
Accumulated other comprehensive loss	(60.4	) (65.5
Treasury stock	(48.6	) (40.5
Total Common Stockholders' Equity	5,700.9	5,554.3
Long-term debt, excluding amounts due within one year	7,089.1	6,819.1
Total Capitalization	12,790.0	12,373.4
Current Liabilities		
Current portion of long-term debt	541.2	507.2
Short-term borrowings	820.8	776.9
Accounts payable	369.6	538.9
Dividends payable	78.3	—
Customer deposits and credits	249.2	269.6
Taxes accrued	181.3	235.5
Interest accrued	71.6	133.7
Overrecovered gas and fuel costs	31.7	22.1
Price risk management liabilities	8.8	8.2
Exchange gas payable	207.3	146.2
Deferred revenue	21.3	42.8
Regulatory liabilities	75.5	171.6
Accrued liability for postretirement and postemployment benefits	6.1	6.1
Liabilities of discontinued operations and liabilities held for sale	—	108.6
Legal and environmental reserves	34.2	42.2
Other accruals	308.7	309.7
Total Current Liabilities	3,005.6	3,319.3
Other Liabilities and Deferred Credits		
Price risk management liabilities	1.5	2.6
Deferred income taxes	3,133.5	2,953.3
Deferred investment tax credits	21.9	24.8
Deferred credits	94.9	84.1
Noncurrent deferred revenue	23.1	—
Accrued liability for postretirement and postemployment benefits	1,003.1	1,107.3
Regulatory liabilities and other removal costs	1,615.9	1,593.3
Asset retirement obligations	175.5	160.4
Other noncurrent liabilities	219.1	226.2
Total Other Liabilities and Deferred Credits	6,288.5	6,152.0
Commitments and Contingencies (Refer to Note 17)	—	—
Total Capitalization and Liabilities	\$22,084.1	\$21,844.7

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)

Nine Months Ended September 30, (in millions)	2013	2012	
Operating Activities			
Net Income	\$380.3	\$282.1	
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:			
Depreciation and amortization	431.4	418.0	
Net changes in price risk management assets and liabilities	1.9	1.2	
Deferred income taxes and investment tax credits	199.1	132.8	
Deferred revenue	1.6	(0.7)	)
Stock compensation expense and 401(k) profit sharing contribution	39.7	33.0	
Gain on sale of assets	(10.2)	(3.8)	)
Income from unconsolidated affiliates	(25.5)	(22.9)	)
Gain on disposition of discontinued operations - net of tax	(34.9)	—	)
Income from discontinued operations - net of taxes	(7.5)	(5.4)	)
Amortization of debt related costs	7.0	7.3	
AFUDC equity	(12.7)	(4.7)	)
Distributions of earnings received from equity investees	19.0	25.1	
Changes in Assets and Liabilities:			
Accounts receivable	318.4	333.9	
Income tax receivable	124.6	(55.1)	)
Inventories	(103.7)	19.6	)
Accounts payable	(177.7)	(151.0)	)
Customer deposits and credits	(20.4)	(50.0)	)
Taxes accrued	(68.0)	(41.3)	)
Interest accrued	(62.1)	(29.0)	)
Over(Under)recovered gas and fuel costs	38.1	(9.1)	)
Exchange gas receivable/payable	28.1	(10.2)	)
Other accruals	(36.5)	(90.9)	)
Prepayments and other current assets	45.5	48.3	
Regulatory assets/liabilities	71.5	96.3	
Postretirement and postemployment benefits	(95.9)	(11.6)	)
Deferred credits	11.1	7.6	
Deferred charges and other noncurrent assets	11.8	28.1	
Other noncurrent liabilities	(6.3)	4.1	)
Net Operating Activities from Continuing Operations	1,067.7	951.7	
Net Operating Activities from (used for) Discontinued Operations	10.9	(9.9)	)
Net Cash Flows from Operating Activities	1,078.6	941.8	
Investing Activities			
Capital expenditures	(1,297.3)	(1,022.2)	)
Insurance recoveries	6.4	3.0	
Proceeds from disposition of assets	17.9	23.6	
Restricted cash withdrawals	28.5	95.8	
Contributions to equity investees	(77.1)	(11.3)	)
Other investing activities	(48.4)	(38.1)	)
Net Investing Activities used for Continuing Operations	(1,370.0)	(949.2)	)

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Net Investing Activities from (used for) Discontinued Operations	118.7	(2.1	)
Net Cash Flows used for Investing Activities	(1,251.3	) (951.3	)
Financing Activities			
Issuance of long-term debt	815.3	991.4	
Repayments of long-term debt and capital lease obligations	(505.2	) (11.6	)
Premiums and other debt related costs	(3.2	) (3.4	)
Change in short-term borrowings, net	43.9	(1,133.7	)
Issuance of common stock	36.1	376.4	
Acquisition of treasury stock	(8.0	) (10.0	)
Dividends paid - common stock	(227.6	) (198.8	)
Net Cash Flows from Financing Activities	151.3	10.3	
Change in cash and cash equivalents (used for) from continuing operations	(151.0	) 12.8	
Cash contributions from (to) discontinued operations	129.6	(12.0	)
Cash and cash equivalents at beginning of period	36.3	11.5	
Cash and Cash Equivalents at End of Period	\$14.9	\$12.3	

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 Condensed Consolidated Financial Statements (unaudited) for NiSource (the “Company”) 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, 2012.

Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.

The Condensed Consolidated Financial Statements (unaudited) 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

There have been no recently issued accounting pronouncements which are expected to have a material impact on the Company's Condensed Consolidated Financial Statements (unaudited) or Notes to the Condensed Consolidated Financial Statements (unaudited).

## 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 forward agreements, which were settled in the third quarter of 2012. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Denominator				
Basic average common shares outstanding	312,842	290,328	312,053	285,891
Dilutive potential common shares:				
Stock options	112	197	102	159
Shares contingently issuable under employee stock plans	369	434	327	393
Shares restricted under stock plans	490	654	477	626
Forward agreements	—	8,399	—	9,609
Diluted Average Common Shares	313,813	300,012	312,959	296,678

## 4. Discontinued Operations and Assets and Liabilities Held for Sale

On September 1, 2013, NiSource sold the commercial and industrial natural gas portfolio of its unregulated natural gas marketing business. The sale included the physical contracts and associated financial hedges that comprise the portfolio, as well as the gas inventory and customer deposits of the business. For the three and nine months ended September 30, 2013, an after tax loss of \$1.5 million was included in Loss on Disposition of Discontinued Operations,

net of taxes in the Condensed Statements of Consolidated Income (unaudited). The assets and liabilities sold are classified as held for sale as of December 31, 2012. Refer to Note 7, "Risk Management Activities" for additional information regarding the price risk assets and liabilities of the business.

During 2012, NiSource began marketing to sell the service plan and leasing business lines of its Retail Services business. As of December 31, 2012, the assets and liabilities of the business lines met the criteria to be classified as held for sale in accordance



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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

with GAAP. Additionally, the results of operations and cash flows were classified as discontinued operations. The sale of the business lines closed in January 2013 resulting in gain from the disposition of discontinued operations of \$36.4 million, net of taxes, which was recorded during the first quarter of 2013.

There were no assets and liabilities of discontinued operations and held for sale on the Condensed Consolidated Balance Sheet (unaudited) at September 30, 2013.

The assets and liabilities of discontinued operations and held for sale on the Consolidated Balance Sheet at December 31, 2012 by segment were:

(in millions)

Assets of discontinued operations and held for sale:	Property, plant and equipment, net	Price risk management assets	Other Assets	Total
Gas Distribution Operations	\$21.5	\$—	\$4.5	\$26.0
Electric Operations	—	—	0.7	0.7
Corporate and Other	—	107.0	0.2	107.2
Total	\$21.5	\$107.0	\$5.4	\$133.9

Liabilities of discontinued operations and held for sale:	Price risk management liabilities	Other Liabilities	Total
Gas Distribution Operations	\$—	\$3.3	\$3.3
Electric Operations	—	0.6	0.6
Corporate and Other	104.7	—	104.7
Total	\$104.7	\$3.9	\$108.6

Total assets and liabilities of discontinued operations and held for sale in the table above relate to the commercial and industrial portfolio of NiSource's unregulated natural gas marketing business and the service plan and leasing business lines of NiSource's Retail Services business.

Results from discontinued operations are provided in the following table. These results are primarily from NiSource's Retail Services business, a settlement at NiSource's former exploration and production subsidiary, CER, NiSource's unregulated natural gas marketing business and Columbia Propane. For additional information regarding the settlement refer to Note 17-B, "Other Legal Proceedings," in the Notes to Condensed Consolidated Financial Statements (unaudited).

(in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenues from Discontinued Operations	\$0.4	\$10.8	\$1.3	\$28.8
Income from discontinued operations	0.1	4.5	12.2	8.6
Income tax expense	—	1.8	4.7	3.2
Income from Discontinued Operations - net of taxes	\$0.1	\$2.7	\$7.5	\$5.4
(Loss) Gain on Disposition of Discontinued Operations - net of taxes	\$(1.5)	\$—	\$34.9	\$—

5. 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).



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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

Changes in NiSource's liability for asset retirement obligations for the nine months ended September 30, 2013 and 2012 are presented in the table below:

(in millions)	2013	2012
Balance as of January 1,	\$ 160.4	\$ 146.4
Accretion expense	0.9	0.8
Accretion recorded as a regulatory asset/liability	6.5	6.6
Additions	9.7	—
Settlements	(1.3	) (0.7
Change in estimated cash flows	(0.7	) (1.1
Balance as of September 30,	\$ 175.5	\$ 152.0

## 6. Regulatory Matters

## Gas Distribution Operations Regulatory Matters

**Significant Rate Developments.** On April 30, 2013, Indiana Governor Pence signed Senate Enrolled Act 560 into law. Among other provisions, this legislation provides for cost recovery outside of a base rate proceeding for new or replacement electric and gas transmission, distribution, and storage projects that a public utility undertakes for the purposes of safety, reliability, system modernization, or economic development. The cost recovery mechanism is referred to as a Transmission, Distribution and Storage System Improvement Charge or "TDSIC." Provisions of the TDSIC require that, among other things, requests for recovery include a seven year plan of eligible investments. Once the plan is approved by the IURC, 80 percent of eligible costs can be recovered using a periodic rate adjustment mechanism. Recoverable costs include a return on, and of, the investment, including AFUDC, post in service carrying charges, operation and maintenance expenses, depreciation, and property taxes. The remaining 20 percent of recoverable costs are to be deferred for future recovery in the public utility's next general rate case. The periodic rate adjustment mechanism is capped at an annual increase of no more than two percent of total retail revenues. On October 3, 2013, Northern Indiana filed its gas TDSIC with the IURC. The filing included the seven year plan of eligible investments for a total of \$710.0 million. An order is expected by the second quarter of 2014.

On June 18, 2013, Northern Indiana, the OUCC and other customer stakeholder groups filed a unanimous agreement with the IURC to extend Northern Indiana's 2010 natural gas customer rate settlement through 2020. The Settlement Agreement was approved by order issued on August 28, 2013 with the stipulation that, on or before November 2020, Northern Indiana must file a general rate case.

On April 15, 2013, Columbia of Ohio filed an application that seeks authority to reduce its Percentage of Income Payment Plan Rider. This revised rate, which will result in an annual reduction of revenues by approximately \$6.7 million, became effective May 31, 2013.

On April 15, 2013, Columbia of Ohio filed an application to reduce its Uncollectible Expense Rider by \$16.5 million. On May 29, 2013, the PUCO issued an Entry that approved the revised Uncollectible Expense Rider.

On April 1, 2013, Columbia of Ohio filed an application that seeks authority to recover the \$8.2 million base chip transition cost currently deferred. By Order dated August 28, 2013, the PUCO approved Columbia of Ohio's application.

On December 24, 2012, Columbia of Ohio filed an application for authority to continue its capital expenditure program in 2013 and succeeding years, and for the authority to defer the related post in-service carrying charges, depreciation expense, and property taxes on the assets of the capital expenditure program placed into service in 2013. The corresponding expenditures are expected to total approximately \$8.0 million in 2013. By Order dated October 9, 2013, the PUCO approved the application.

On November 30, 2012, Columbia of Ohio filed a Notice of Intent to file an application to adjust rates associated with its IRP and DSM Riders. Columbia of Ohio filed its Application on February 28, 2013 and indicated that Columbia of Ohio is seeking to increase revenues by approximately \$29 million. A stipulation resolving all issues was filed on April 9, 2013, and a hearing was held on April 11, 2013. On April 24, 2013, the PUCO approved the stipulation.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

On May 29, 2013, Columbia of Kentucky filed an application with the Kentucky PSC requesting an increase of approximately \$16.6 million in base rate revenues, the use of a forecasted test period and a revenue normalization adjustment to recognize changes in customer usage not included in Columbia of Kentucky's current weather normalization adjustment. The parties are engaged in settlement negotiations, and a hearing is scheduled for November 13, 2013. If approved, new rates are expected to go into effect in January 2014.

On September 28, 2012, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC, seeking a revenue increase of approximately \$77.3 million annually and providing three options for residential rate design in order to mitigate revenue volatility associated with usage based rates. Columbia of Pennsylvania is the first utility in Pennsylvania to seek Pennsylvania PUC approval to design rates to recover costs that are projected to be incurred after the implementation of those new rates, as authorized by the Pennsylvania General Assembly with the passage of Act 11 of 2012. Accordingly, Columbia of Pennsylvania's filing sought to implement rates in July 2013 under which Columbia of Pennsylvania would immediately begin to recover costs that are projected for the twelve-month period ending June 30, 2014. On March 15, 2013, the parties to the rate case filed a joint petition formally seeking Pennsylvania PUC approval of a settlement featuring a revenue increase of \$55.3 million annually and the implementation of a Weather Normalization Adjustment, whereby residential charges are adjusted in the event of winter temperatures that deviate from historic norms by plus or minus five percent. The Pennsylvania PUC issued an order approving the settlement on May 23, 2013, and new rates went into effect July 1, 2013.

On July 3, 2013, the VSCC issued an order approving an amendment to Columbia of Virginia's infrastructure tracking mechanism pursuant to the Steps to Advance Virginia's Energy ("SAVE") Plan Act. Columbia of Virginia's five year SAVE Plan provides for recovery of costs associated with the accelerated replacement of certain facilities designed to improve system safety or reliability through a rate rider. The amendment increases authorized annual investments by \$5 million from 2013 through 2016, to \$25 million per year. In addition, the amendment expands the types of infrastructure eligible for the tracking mechanism and affords Columbia of Virginia additional flexibility with respect to annual and total plan limitations on expenditures.

On April 16, 2013, Columbia of Massachusetts submitted a filing with the Massachusetts DPU requesting an annual revenue requirement increase of \$30.1 million. An order is expected by February 28, 2014, with new rates going into effect on March 1, 2014. Pursuant to the procedural schedule for this case, on September 3, 2013, Columbia of Massachusetts filed its updated revenue requirement of \$29.5 million and on October 16, 2013, filed an updated cost of service for \$30 million. Evidentiary hearings began on October 2, 2013.

On September 3, 2013, Columbia of Massachusetts and the Massachusetts Office of the Attorney General filed a Joint Motion for Approval of a Settlement Agreement with the Massachusetts DPU which resolves issues related to the disposition of revenues realized by Columbia of Massachusetts in 2005 from MASSPOWER's buy-out of a special contract with Columbia of Massachusetts, and which are currently pending before the Massachusetts DPU in D.P.U. 10-10. The Settlement Agreement proposed to return \$8.9 million to the customers of Columbia of Massachusetts in the form of a Distribution Rate Credit on their bills during the period November 1, 2013 through April 30, 2014. On October 16, 2013, the DPU issued an order approving the Settlement Agreement.

On March 7, 2013, the Massachusetts DPU issued its final order approving \$10.5 million of decoupling revenues for Columbia of Massachusetts' Peak Period RDAF that was effective November 1, 2012 through April 30, 2013.

On February 27, 2013, Columbia of Maryland filed a base rate case with the Maryland PSC, seeking a revenue increase of approximately \$5.3 million annually and seeking to implement a residential Revenue Normalization Adjustment in order to decouple revenues from customer usage and seeking to recover costs for environmental remediation associated with a former manufactured gas plant operated by a Columbia of Maryland predecessor in

Hagerstown, Maryland, where a Columbia of Maryland service center is currently located. Hearings were held in June 2013. On September 23, 2013, the Maryland PSC issued an order that approved an annual revenue increase of \$3.6 million, as well as Columbia of Maryland's proposed revenue normalization adjustment. The Maryland PSC permitted recovery of environmental remediation costs for the service center property, but denied recovery of the costs to acquire and remediate the adjacent property. On October 23, 2013, Columbia of Maryland filed a Petition for Judicial Review of the denial of the costs to acquire and remediate the adjacent property. New rates went into effect on September 25, 2013.

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

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, gas energy efficiency programs, 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 subject to 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.

#### Columbia Pipeline Group (formerly known as Gas Transmission and Storage) Operations Regulatory Matters

Columbia Transmission Customer Settlement. On January 24, 2013, the FERC approved the Columbia Transmission Customer Settlement (the "Settlement"). In March 2013, Columbia Transmission paid \$88.1 million in refunds to customers pursuant to the Settlement with its customers in conjunction with its comprehensive interstate natural gas pipeline modernization program. The refunds were made as part of the Settlement, which included a \$50.0 million refund to max rate contract customers and a base rate reduction retroactive to January 1, 2012. Columbia Transmission expects to invest approximately \$1.5 billion over a five-year period to modernize its system to improve system integrity and enhance service reliability and flexibility. The Settlement with firm customers includes an initial five-year term with provisions for potential extensions thereafter.

The Settlement also provided for a depreciation rate reduction to 1.5% and elimination of negative salvage rate effective January 1, 2012 and for a second base rate reduction, which begins January 1, 2014, which equates to approximately \$25 million in revenues annually thereafter.

The Settlement includes a Capital Cost Recovery Mechanism (CCRM), a tracker mechanism that will allow Columbia Transmission to recover, through an additive capital demand rate, its revenue requirement for capital investments made under Columbia Transmission's long-term plan to modernize its interstate transmission system. The CCRM provides for a 14% revenue requirement with a portion designated as a recovery of increased taxes other than income taxes. The additive demand rate is earned on costs associated with projects placed into service by October 31 each year. The initial additive demand rate will be effective on February 1, 2014. The CCRM will give Columbia Transmission the opportunity to recover its revenue requirement associated with \$1.5 billion investment in the modernization program, while maintaining competitive rates for its shippers. The CCRM recovers the revenue requirement associated with qualifying modernization costs that Columbia Transmission incurs after satisfying the requirement associated with \$100.0 million in annual capital maintenance expenditures. The CCRM applies to Columbia Transmission's transportation shippers. The CCRM will not exceed \$300.0 million per year in investment in

eligible facilities, subject to a 15% annual tolerance and a total cap of \$1.5 billion for the entire five-year initial term.

Chesapeake, Virginia LNG Facility Modernization. In connection with long-term extensions of their expiring service agreements, the three customers of Columbia Transmission's Chesapeake, Virginia LNG peaking facility agreed to fund upgrades to modernize the facility. Under the settlement, Columbia Transmission will invest approximately \$30 million to upgrade the facility and each customer will extend its contract for 15 years. The settlement was filed with the FERC on February 28, 2013 and approved without modification on June 3, 2013. The project's first phase is scheduled to be complete in the fourth quarter of 2013.



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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

**Cost Recovery Trackers.** A significant portion of the transmission and storage regulated companies' revenue is related to the recovery of their operating costs, the review and recovery of which occurs via standard regulatory proceedings with the FERC under section 7 of the Natural Gas Act. However, certain operating costs of the NiSource regulated transmission and storage companies are significant and recurring in nature, such as fuel for compression and lost and unaccounted for gas. The FERC allows for the recovery of such costs via cost tracking mechanisms. These tracking mechanisms allow the transmission and storage companies' rates to fluctuate in response to changes in certain operating costs or conditions as they occur to facilitate the timely recovery of its costs incurred. The tracking mechanisms involve a rate adjustment that is filed at a predetermined frequency, typically annually, with the FERC and is subject to regulatory review before new rates go into effect. Other such costs under regulatory tracking mechanisms include upstream pipeline transmission, electric compression, environmental, and operational purchases and sales of natural gas.

**Electric Operations Regulatory Matters**

**Significant Rate Developments.** As part of a multi-state effort to strengthen the electric transmission system serving the Midwest, Northern Indiana anticipates making investments in two projects that were authorized by the MISO and are scheduled to be in service during the latter part of the decade. On July 19, 2012 and December 19, 2012, the FERC issued orders approving construction work in progress in rate base and abandoned plant cost recovery requested by Northern Indiana, for the 100-mile, 345 kV transmission project and its right to develop 50 percent of the 66-mile, 765 kV project. On December 19, 2012, the FERC issued an order authorizing Northern Indiana's request to transition to forward looking rates, allowing more timely recovery of Northern Indiana's investment in transmission assets. Northern Indiana began recording revenue in the first quarter of 2013 using a forward looking rate, based on an average construction work in progress balance of \$19.8 million. For the nine months ended September 30, 2013 revenue of \$2.3 million was recorded.

On July 19, 2013, Northern Indiana filed its electric TDSIC, further discussed above, with the IURC. The filing included the seven year plan of eligible investments for a total of approximately \$1.1 billion with the majority of the spend occurring in years 2016 through 2020. An order is expected by the first quarter of 2014.

**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.

Certain operating costs of the Electric Operations are significant, recurring in nature, and generally outside the control of Northern Indiana. The IURC allows for recovery of such costs via cost tracking mechanisms. Such tracking mechanisms allow for abbreviated regulatory proceedings in order for Northern Indiana 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 electric energy efficiency programs, MISO non-fuel costs and revenues, resource capacity charges, and environmental related costs.

Northern Indiana has approval from the IURC to recover certain environmental related costs through an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement environmental compliance plan projects through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM.

On October 10, 2013, the IURC issued an order approving Northern Indiana's MATS Compliance Projects. Refer to Note 17-C, "Environmental Matters," for additional information on the MATS rule. The Order approved estimated capital costs of \$59.3 million and granted the requested ratemaking relief and accounting treatment associated with these projects through the annual EERM and semi-annual ECRM tracker filings.

On April 24, 2013, the IURC issued an order on ECR-21 approving Northern Indiana's request to begin earning a return on net capital expenditures of \$376.4 million. On August 1, 2013, Northern Indiana filed ECR-22 requesting a return on net capital expenditures of \$478.8 million, an increase of \$102.4 million from ECR-21.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

## 7. 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 or fair value risk associated with NiSource's borrowings.

NiSource designates some of its commodity forward contracts as cash flow hedges of forecasted purchases of commodities and designates its interest rate swaps as fair value hedges of fixed-rate borrowings. Additionally, certain NiSource subsidiaries enter into forward physical contracts with various third parties to procure or sell natural gas or power. Certain forward physical contracts are derivatives which qualify for, and for which NiSource may elect, the normal purchase and normal sales exception which do not require mark-to-market accounting.

**Accounting Policy for Derivative Instruments.** The ASC topic on accounting for derivatives and hedging requires an entity to recognize all derivatives as either assets or liabilities on the Condensed Consolidated Balance Sheets (unaudited) at fair value, unless such contracts are exempted, such as normal purchase and normal sale contracts 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, 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 Condensed Consolidated Financial Statements (unaudited) until the contract is settled.

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

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

**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 or other derivative contracts. Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These commodity price risk programs and their respective accounting treatment are described below.

Northern Indiana, Columbia of Pennsylvania, Columbia of Kentucky and Columbia of Virginia use NYMEX futures and NYMEX options to minimize risk associated with gas price volatility. These derivative programs must be marked to fair value, but because

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

these derivatives are used within the framework of the companies' GCR or FAC mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

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

Northern Indiana also offers a Depend-a-Bill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill in future months at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, forward physical contracts, NYMEX futures and NYMEX options have been used to secure forward gas prices. The normal purchase and normal sales exception is elected for forward physical contracts associated with these programs where delivery of the commodity is probable to occur.

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

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

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

On September 1, 2013, NiSource sold the commercial and industrial natural gas portfolio of its unregulated natural gas marketing business. The sale included the physical contracts and associated financial hedges that comprise the portfolio, as well as the gas inventory and customer deposits of the business. The physical sales contracts marked-to-market had a fair value of approximately \$35.4 million at December 31, 2012, while the financial derivative contracts marked-to-market had a fair value loss of \$33.2 million at December 31, 2012. These amounts have been reclassified to held for sale as of December 31, 2012. Refer to Note 4, "Discontinued Operations and Assets and Liabilities Held for Sale" for additional information regarding the transaction.



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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

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

	September 30, 2013	December 31, 2012
Commodity Price Risk Program:		
Gas price volatility program derivatives (MMDth)	25.8	26.3
Price Protection Service program derivatives (MMDth)	1.0	1.2
DependaBill program derivatives (MMDth)	0.3	0.3
Gas marketing program derivatives (MMDth) <sup>(1)(3)</sup>	—	9.1
Gas marketing forward physical derivatives (MMDth) <sup>(2)(3)</sup>	—	8.4
Electric energy program FTR derivatives (mw)	1,218.2	8,927.3

<sup>(1)</sup> Basis contract volumes not included in the above table were 8.2 MMDth as of December 31, 2012.

<sup>(2)</sup> Basis contract volumes not included in the above table were 9.2 MMDth as of December 31, 2012.

<sup>(3)</sup> Contract volumes are from NiSource's unregulated natural gas marketing business that was sold on September 1, 2013.

**Interest Rate Risk Activities.** NiSource recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure. NiSource Finance has entered into various “receive fixed” and “pay floating” interest rate swap agreements which modify the interest rate characteristics of a portion of its outstanding long-term debt from fixed to variable rate. These interest rate swaps also serve to hedge the fair market value of NiSource Finance’s outstanding debt portfolio. As of September 30, 2013, NiSource had \$7.2 billion of outstanding fixed rate debt, of which \$500 million is subject to fluctuations in interest rates as a result of the fixed-to-variable interest rate swap transactions. These interest rate swaps are designated as fair value hedges. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness for the nine months ended September 30, 2013 and 2012.

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 which will expire on July 15, 2014. 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.

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 AOCI 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 September 30, 2013, AOCI includes \$8.6 million related to forward starting interest rate swap settlement, net of tax. These derivative contracts are accounted for as a cash flow hedge. As of September 30, 2013, NiSource holds a 47.5% interest in Millennium. As NiSource reports Millennium as an equity method investment, NiSource is required to recognize a proportional share of Millennium’s OCI. NiSource’s proportionate share of the remaining unrecognized loss associated with settled interest rate swaps is \$17.9 million, net of tax, as of September 30, 2013. Millennium is amortizing the losses related to these terminated interest rate swaps into earnings using the effective interest method through interest expense as interest payments are made. NiSource records its proportionate share of the amortization as Equity Earnings in Unconsolidated Affiliates in the Condensed Statements of Consolidated Income (unaudited).

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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)	September 30, 2013	December 31, 2012
Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments		
Interest rate risk activities		
Price risk management assets (current)	\$21.0	\$—
Price risk management assets (noncurrent)	—	40.4
Total derivatives designated as hedging instruments	\$21.0	\$40.4
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management assets (current)	\$0.1	\$0.5
Price risk management assets (noncurrent)	—	0.3
Assets held for sale (current) <sup>(1)</sup>	—	107.0
Total derivatives not designated as hedging instruments	\$0.1	\$107.8
Total Asset Derivatives	\$21.1	\$148.2

<sup>(1)</sup> Prior to the classification as "Assets held for sale," \$15.3 million was classified as noncurrent.

Liability Derivatives (in millions)	September 30, 2013	December 31, 2012
Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	\$0.1	\$0.1
Price risk management liabilities (noncurrent)	—	—
Total derivatives designated as hedging instruments	\$0.1	\$0.1
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	\$8.7	\$8.1
Price risk management liabilities (noncurrent)	1.5	2.6
Liabilities held for sale (current) <sup>(2)</sup>	—	104.7
Total derivatives not designated as hedging instruments	\$10.2	\$115.4
Total Liability Derivatives	\$10.3	\$115.5

<sup>(2)</sup> Prior to the classification as "Liabilities held for sale," \$17.7 million was classified as noncurrent.

As noted in NiSource's accounting policy for derivative instruments, above, for its commodity price risk programs, NiSource has elected not to net fair value amounts for its derivative instruments or the fair value amounts recognized for its right to receive cash collateral or obligation to pay cash collateral arising from those derivative instruments recognized at fair value, which are executed with the same counterparty under a master netting arrangement.





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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

The tables below represent the amounts subject to an enforceable master netting arrangement not otherwise disclosed:  
Offsetting of Derivative Assets (in millions)

As of September 30, 2013

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement in the Statement of Financial Position	Net Amount
Counterparty A <sup>(1)</sup>	\$—	\$—	\$—	\$—	\$—
Counterparty B	0.1	—	0.1	(10.3 )	(10.2 )
Other <sup>(2)</sup>	21.0	—	21.0	—	21.0
Total	\$21.1	\$—	\$21.1	\$(10.3 )	\$10.8

Offsetting of Derivative Liabilities (in millions)

As of September 30, 2013

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement in the Statement of Financial Position	Net Amount
Counterparty A <sup>(1)</sup>	\$—	\$—	\$—	\$—	\$—
Counterparty B	(10.3 )	—	(10.3 )	10.3	—
Other <sup>(2)</sup>	—	—	—	—	—
Total	\$(10.3 )	\$—	\$(10.3 )	\$10.3	\$—

Offsetting of Derivative Assets (in millions)

As of December 31, 2012

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement in the Statement of Financial Position	Net Amount
Counterparty A <sup>(1)</sup>	\$71.8	\$—	\$71.8	\$(71.8 )	\$—
Counterparty B	0.9	—	0.9	(0.9 )	—
Other <sup>(2)</sup>	75.5	—	75.5	—	75.5
Total	\$148.2	\$—	\$148.2	\$(72.7 )	\$75.5

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

## Offsetting of Derivative Liabilities (in millions)

As of December 31, 2012

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement in the Statement of Financial Position	Net Amount
Counterparty A <sup>(1)</sup>	\$(103.4 )	\$—	\$(103.4 )	\$71.8	\$(31.6 )
Counterparty B	(10.8 )	—	(10.8 )	0.9	(9.9 )
Other <sup>(2)</sup>	(1.3 )	—	(1.3 )	—	(1.3 )
Total	\$(115.5 )	\$—	\$(115.5 )	\$72.7	\$(42.8 )

<sup>(1)</sup> Amounts in "Counterparty A" are balances from the commercial and industrial natural gas portfolio of NiSource's unregulated natural gas marketing business which was sold on September 1, 2013, and are included in assets and liabilities held for sale. Refer to Note 4, "Discontinued Operations and Assets and Liabilities Held for Sale" for additional information regarding the transaction.

<sup>(2)</sup> Amounts in "Other" include physical positions with counterparties that are part of NiSource's unregulated natural gas marketing business as well as fixed-to-variable interest rate swap agreements entered into by NiSource. 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)

	Amount of Gain Recognized in OCI on Derivative (Effective Portion)	Location of Loss Reclassified from AOCI into Income	Amount of Loss Reclassified from AOCI into Income (Effective Portion)
Derivatives in Cash Flow Hedging Relationships	September 30, 2013	September 30, 2012	September 30, 2013
Commodity price risk programs	\$—	\$0.2	\$—
Interest rate risk activities	—	0.4	(0.4 )
Total	\$—	\$0.6	\$(0.4 )

Nine Months Ended (in millions)

	Amount of Gain Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Derivatives in Cash Flow Hedging Relationships	September 30, 2013	September 30, 2012	September 30, 2013
Commodity price risk programs	\$—	\$0.8	\$0.1
Interest rate risk activities	—	1.2	(1.2 )
Total	\$—	\$2.0	\$(1.1 )

There was no income statement recognition of gains or losses for the ineffective portion and amounts excluded from effectiveness testing for derivatives in cash flow hedging relationships for the three and nine months ended September 30, 2013 and 2012.

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 AOCI of approximately \$0.1 million of loss, net of taxes.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

## Derivatives in Fair Value Hedging Relationships

## Three Months Ended (in millions)

Derivatives in Fair Value Hedging Relationships	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives	
		September 30, 2013	September 30, 2012
Interest rate risk activities	Interest expense, net	\$(9.9)	\$(8.3)
Total		\$(9.9)	\$(8.3)

## Nine Months Ended (in millions)

Derivatives in Fair Value Hedging Relationships	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives	
		September 30, 2013	September 30, 2012
Interest rate risk activities	Interest expense, net	\$(19.4)	\$(16.5)
Total		\$(19.4)	\$(16.5)

## Three Months Ended (in millions)

Hedged Item in Fair Value Hedge Relationships	Location of Gain Recognized in Income on Related Hedged Item	Amount of Gain Recognized in Income on Related Hedged Items	
		September 30, 2013	September 30, 2012
Fixed-rate debt	Interest expense, net	\$9.9	\$8.3
Total		\$9.9	\$8.3

## Nine Months Ended (in millions)

Hedged Item in Fair Value Hedge Relationships	Location of Gain Recognized in Income on Related Hedged Item	Amount of Gain Recognized in Income on Related Hedged Items	
		September 30, 2013	September 30, 2012
Fixed-rate debt	Interest expense, net	\$19.4	\$16.5
Total		\$19.4	\$16.5

## Derivatives not designated as hedging instruments

## 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 *	
		September 30, 2013	September 30, 2012
Commodity price risk programs	Gas Distribution revenues	\$—	\$—
Commodity price risk programs	Other revenues	—	—
Commodity price risk programs	Cost of Sales	6.6	6.8
Commodity price risk programs	(Loss) Income from Discontinued Operations - net of taxes	(1.2)	0.6
Total		\$5.4	\$7.4

\* For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, gains of \$6.7 million and \$6.8 million for the three months ended September 30, 2013 and 2012, respectively, were deferred as allowed per 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)

Nine 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 *	
		September 30, 2013	September 30, 2012
Commodity price risk programs	Gas Distribution revenues	\$—	\$0.3
Commodity price risk programs	Other revenues	—	—
Commodity price risk programs	Cost of Sales	7.5	(8.6 )
Commodity price risk programs	(Loss) Income from Discontinued Operations - net of taxes	(0.8 )	2.8
Total		\$6.7	\$(5.5 )

\* For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, a gain of \$7.6 million for the nine months ended September 30, 2013 and a loss of \$8.3 million for the nine months ended 2012 were deferred as allowed per regulatory orders. These amounts will be amortized to income over future periods of up to twelve months as specified in a regulatory order.

NiSource's derivative instruments measured at fair value as of September 30, 2013 and December 31, 2012 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 \$0.8 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 \$13.5 million and \$45.7 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 September 30, 2013 and December 31, 2012, respectively.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

## 8. 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 Sheets (unaudited) on a recurring basis and their level within the fair value hierarchy as of September 30, 2013 and December 31, 2012:

Recurring Fair Value Measurements September 30, 2013 (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 September 30, 2013
Assets				
Commodity Price risk management assets:				
Physical price risk programs	\$—	\$—	\$—	\$—
Financial price risk programs	0.1	—	—	0.1
Interest rate risk activities	—	21.0	—	21.0
Available-for-sale securities	26.5	99.9	—	126.4
Total	\$26.6	\$120.9	\$—	\$147.5
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	\$—	\$—	\$—	\$—
Financial price risk programs	9.7	—	0.6	10.3
Total	\$9.7	\$—	\$0.6	\$10.3



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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

Recurring Fair Value Measurements December 31, 2012 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2012
<b>Assets</b>				
Commodity Price risk management assets:				
Physical price risk programs	\$—	\$—	\$—	\$—
Physical price risk programs (assets held for sale)	—	35.4	—	35.4
Financial price risk programs	0.7	—	0.1	0.8
Financial price risk programs (assets held for sale)	70.8	0.8	—	71.6
Interest rate risk activities	—	40.4	—	40.4
Available-for-sale securities	27.4	84.4	—	111.8
<b>Total</b>	<b>\$98.9</b>	<b>\$161.0</b>	<b>\$0.1</b>	<b>\$260.0</b>
<b>Liabilities</b>				
Commodity Price risk management liabilities:				
Physical price risk programs	\$—	\$—	\$—	\$—
Financial price risk programs	10.8	—	—	10.8
Financial price risk programs (liabilities held for sale)	104.2	0.5	—	104.7
<b>Total</b>	<b>\$115.0</b>	<b>\$0.5</b>	<b>\$—</b>	<b>\$115.5</b>

Price risk management assets and liabilities include commodity exchange-traded and non-exchange-based derivative contracts. Exchange-traded derivative contracts are based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures. As of September 30, 2013 and December 31, 2012, there were no material transfers between fair value hierarchies. Additionally, there were no changes in the method or significant assumptions used to estimate the fair value of NiSource's financial instruments. 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.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

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 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 September 30, 2013 and December 31, 2012 were:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities, September 30, 2013				
U.S. Treasury	\$31.3	\$0.5	\$(0.3)	) \$31.5
Corporate/Other	94.8	1.2	(1.1)	) 94.9
Total Available-for-sale debt securities	\$126.1	\$1.7	\$(1.4)	) \$126.4
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities, December 31, 2012				
U.S. Treasury	\$31.1	\$1.5	\$—	) \$32.6
Corporate/Other	76.8	2.5	(0.1)	) 79.2
Total Available-for-sale debt securities	\$107.9	\$4.0	\$(0.1)	) \$111.8

For the three months ended September 30, 2013 and 2012, 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 September 30, 2013 and 2012, the net realized gain on sale of available-for-sale Corporate/Other bond debt securities was zero and \$0.1 million, respectively.

For the nine months ended September 30, 2013 and 2012, the net realized gain on the sale of available-for-sale U.S. Treasury debt securities was \$0.5 million and \$0.3 million, respectively. For the nine months ended September 30, 2013 and 2012, the net realized gain on sale of available-for-sale Corporate/Other bond debt securities was \$0.3 million and \$0.1 million, respectively.

The cost of maturities sold is based upon specific identification. At September 30, 2013, approximately \$0.4 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 September 30, 2013, approximately \$3.0 million of Corporate/Other bonds have maturities of less than a year while the remaining securities have maturities of greater than one year.

There are no material items in the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the three and nine months ended September 30, 2013 and 2012.

**Non-recurring Fair Value Measurements.** In January 2013, NiSource sold the service plan and leasing business lines of its Retail Services business. The disposed business lines were included in the Columbia Distribution Operations reporting unit and the Northern Indiana Gas Distribution Operations reporting unit. Goodwill associated with the disposed business lines was included in the carrying amount of the business lines in determining the gain on disposal. The amount of the goodwill included in the carrying amount was based on the relative fair values of the business lines disposed of and the portion of the reporting units that were retained. The fair value of the disposed business lines was

determined by using the selling price of the business lines. The fair value of the reporting units that were retained was determined by a weighted average of income and market approaches. This approach was similar to the process undertaken to calculate the fair value of the reporting units for the goodwill impairment test conducted on May 1, 2012. These approaches are further discussed in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and yield fair values considered to be at Level 3 of the fair value hierarchy. The respective fair value of the disposed business lines was divided by the fair value of the reporting units to which the disposed business lines belonged. These percentages were then applied to those goodwill balances to determine their allocations. As a result of these procedures, NiSource recorded a disposal of goodwill of approximately \$11.0 million during the first quarter of 2013. This amount is included within the "(Loss) Gain on Disposition of Discontinued Operations - net of taxes" on the Condensed Statements of Consolidated Income (unaudited).

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

There were no significant non-recurring fair value measurements recorded during the nine months ended September 30, 2012.

B. Other Fair Value Disclosures for Financial Instruments. The carrying amount of cash and cash equivalents, restricted cash, notes receivable, customer deposits and short-term borrowings is a reasonable estimate of fair value due to their liquid or short-term nature. NiSource's long-term borrowings are recorded at historical amounts unless designated as a hedged item in a fair value hedge.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value.

Long-term Debt. The fair values of these securities are estimated based on the quoted market prices for the same or similar issues or on the rates offered for securities of the same remaining maturities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value. These fair value measurements are classified as Level 2 within the fair value hierarchy. For the nine months ended September 30, 2013 and 2012, there were no changes in the method or significant assumptions used to estimate the fair value of the financial instruments.

The carrying amount and estimated fair values of financial instruments were as follows:

(in millions)	Carrying Amount as of September 30, 2013	Estimated Fair Value as of September 30, 2013	Carrying Amount as of Dec. 31, 2012	Estimated Fair Value as of Dec. 31, 2012
Long-term debt (including current portion)	\$7,630.3	\$8,172.1	\$7,326.3	\$8,389.0

## 9. 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 \$515 million.

All accounts receivable sold to the commercial paper conduits are valued at face value, which approximates fair value due to their short-term nature. The amount of the undivided percentage ownership interest in the accounts receivable sold is determined in part by required loss reserves under the agreements. Below is information about the accounts receivable securitization agreements entered into by NiSource's subsidiaries.

On October 23, 2009, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CGORC, a wholly-owned subsidiary of Columbia of Ohio. CGORC, in turn, is party to an agreement with BTMU and BNS, entered into on October 19, 2012, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to commercial paper conduits sponsored by BTMU and BNS. This agreement with BTMU and BNS was renewed on October 18, 2013. Prior to this agreement with BTMU and BNS, CGORC was party to a series of agreements with BTMU and RBS which dated from October 23, 2009 until its amendment on October 19, 2012. The maximum seasonal program limit under the terms of the new agreement remains at \$240 million. The current agreement expires on October 17, 2014, and can be renewed if mutually agreed to by all parties. As of September 30, 2013, \$73.3 million of accounts receivable had been transferred by CGORC. CGORC is a separate corporate entity from NiSource and Columbia of Ohio, with its own separate obligations, and upon a liquidation of CGORC, CGORC's obligations must be satisfied out of CGORC's assets prior to any value becoming available to CGORC's stockholder.

On October 23, 2009, Northern Indiana entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to NARC, a wholly-owned subsidiary of Northern Indiana. NARC, in turn, is party to an agreement with PNC and Mizuho entered into on August 29, 2012, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to commercial paper conduits sponsored by PNC

and Mizuho. This agreement with PNC and Mizuho was renewed on August 28, 2013. Prior to this agreement with PNC and Mizuho, NARC was party to a series of agreements with RBS which dated from October 23, 2009 until its amendment on August 29, 2012. The maximum seasonal program limit under the terms of the current agreement, which expires on August 27, 2014, is \$200 million, and can be further renewed if mutually agreed to by all parties. As of September 30, 2013, \$125.0 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.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

On March 15, 2010, Columbia of Pennsylvania entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CPRC, a wholly-owned subsidiary of Columbia of Pennsylvania. CPRC, in turn, is party to an agreement with BTMU, also dated March 15, 2010, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit sponsored by BTMU. The maximum seasonal program limit under the terms of the agreement is \$75 million. On March 13, 2013, the agreement was renewed, having a new scheduled termination date of March 12, 2014, and can be further renewed if mutually agreed to by both parties. As of September 30, 2013, \$10.0 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.

The following table reflects the gross and net receivables transferred as well as short-term borrowings related to the securitization transactions as of September 30, 2013 and December 31, 2012 for Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania:

(in millions)	September 30, 2013	December 31, 2012
Gross Receivables	\$350.8	\$525.3
Less: Receivables not transferred	142.5	292.0
Net receivables transferred	\$208.3	\$233.3
Short-term debt due to asset securitization	\$208.3	\$233.3

For both the three months ended September 30, 2013 and 2012, \$0.5 million of fees associated with the securitization transactions were recorded as interest expense. For the nine months ended September 30, 2013 and 2012, fees of \$2.0 million and \$2.5 million associated with the securitization transactions were recorded as interest expense, respectively. Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania remain responsible for collecting on the receivables securitized and the receivables cannot be sold to another party.

## 10. Goodwill Assets

In accordance with the provisions for goodwill accounting under GAAP, NiSource tests its goodwill for impairment annually as of May 1 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 three reporting units are Columbia Distribution Operations, Columbia Transmission Operations and Northern Indiana Gas Distribution Operations.

NiSource's goodwill assets as of September 30, 2013 were \$3.7 billion pertaining primarily to the acquisition of Columbia on November 1, 2000. Of this amount, approximately \$2.0 billion is allocated to Columbia Transmission Operations and \$1.7 billion is allocated to Columbia Distribution Operations. In addition, Northern Indiana Gas Distribution Operations' goodwill assets at September 30, 2013 related to the purchase of Northern Indiana Fuel and Light in March 1993 and Kokomo Gas in February 1992 were \$17.8 million.

NiSource completed a quantitative ("step 1") fair value measurement of its reporting units during the May 1, 2012 goodwill test. The test indicated that the fair value of each of the reporting units that carry or are allocated goodwill substantially exceeded their carrying values, indicating that no impairment existed under the step 1 annual impairment test.

In September 2011, FASB issued Accounting Standards Update 2011-08, which allows entities testing goodwill for impairment the option of performing a qualitative ("step 0") assessment before calculating the fair value of a reporting unit for the goodwill impairment test. If a step 0 assessment is performed, an entity is no longer required to calculate

the fair value of a reporting unit unless the entity determines that based on the qualitative step 0 assessment that it is more likely than not that its fair value is less than its carrying amount. The update was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

NiSource applied this guidance for its 2013 annual test and utilized the qualitative step 0 analysis to its reporting units for the annual impairment test performed as of May 1, 2013.



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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

For the current year qualitative step 0 test performed as of May 1, 2013, NiSource assessed various assumptions, events and circumstances that would have affected the estimated fair value of the reporting units in its base line May 1, 2012 test. The results of this assessment indicated that it is not more likely than not that its reporting unit fair values are less than the reporting unit carrying values and no impairments are necessary.

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

During the first quarter of 2013, as part of the sale of the service plan and leasing business lines of its Retail Services business, NiSource allocated \$10.0 million of goodwill from Columbia Distribution Operations to the sale and allocated \$1.0 million of goodwill from Northern Indiana Gas Distribution Operations to the sale. Refer to Note 4 "Discontinued Operations and Assets and Liabilities Held for Sale" for more information.

11. Income Taxes

NiSource's interim effective tax rates reflect the estimated annual effective tax rates for 2013 and 2012, adjusted for tax expense associated with certain discrete items. The effective tax rates for the three months ended September 30, 2013 and 2012 were 36.0% and 35.7%, respectively. The effective tax rates for the nine months ended September 30, 2013 and 2012 were 34.7% and 34.8%, 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.

On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012 (ATRA). ATRA, among other things, extends retroactively the research credit under Internal Revenue Code section 41 until December 31, 2013, and also extends and modifies 50% bonus depreciation for 2013. In general, 50% bonus depreciation will be available for property placed in service before January 1, 2014, or in the case of certain property having longer production periods, before January 1, 2015. NiSource recorded the effects of ATRA in the first quarter 2013. The retroactive extension of the research credit did not have a significant effect on net income.

On March 7, 2013, the Congressional Joint Committee on Taxation took no exception to the conclusions reached by the IRS in its 2008-2010 audit examination of NiSource. Therefore, in the first quarter of 2013, NiSource recognized a federal income tax receivable of \$15.9 million that was related to the 2008 and 2009 tax years and increases in net operating loss carryforwards of \$0.6 million that was related to uncertain tax positions in the 2010-2012 tax years. NiSource received payments of \$75.1 million in March 2013 and \$70.6 million in April 2013 of principal and interest from the IRS related to the audit examination. The recognition of the receivables and net operating loss carryforwards did not materially affect tax expense or net income.

On July 24, 2013, Transportation Finance Bill H3535 which was passed by the Massachusetts legislature, repealed the reduced tax rate of 6.5% for public utility corporations contained in Section 52A of Chapter 63 of the Massachusetts General Laws. Effective January 1, 2014, Columbia of Massachusetts will be taxed at 8.0%, which is the current franchise tax rate for corporations that are not public utilities. Deferred income taxes were adjusted by \$3.2 million as a result of this law change.

On September 13, 2013, the IRS and U.S. Treasury issued final regulations on the deductibility and capitalization of expenditures related to tangible property, generally effective for tax years beginning on or after January 1, 2014.

Taxpayers may elect early adoption of the regulations for the 2012 or 2013 tax year. NiSource does not plan to early adopt the regulations. Deferred tax liabilities at September 30, 2013 are not materially affected by the regulations. The final regulations do not impact the effect of Revenue Procedure 2013-24 issued on April 30, 2013 which provided guidance for repairs related to generation property. Among other things, the Revenue Procedure listed units of property and material components of units of property for purposes of analyzing repair versus capitalization issues. NiSource will likely adopt this Revenue Procedure for income tax filings in 2014.

There were no material changes recorded in the third quarter of 2013 to NiSource's uncertain tax positions as of December 31, 2012.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

## 12. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover its employees. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource. The expected cost of such benefits is accrued during the employees' years of service. Current rates of rate-regulated companies include postretirement benefit costs, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. For most plans, cash contributions are remitted to grantor trusts. For the nine months ended September 30, 2013, NiSource has contributed \$9.1 million to its pension plans and \$29.6 million to its other postretirement benefit plans.

The following tables provide the components of the plans' net periodic benefits cost for the three and nine months ended September 30, 2013 and 2012:

Three Months Ended September 30, (in millions)	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Components of Net Periodic Benefit Cost				
Service cost	\$9.0	\$9.4	\$3.0	\$2.8
Interest cost	24.9	28.2	8.0	9.6
Expected return on assets	(42.0	) (41.2	) (7.6	) (6.7
Amortization of transition obligation	—	—	0.2	0.3
Amortization of prior service cost	—	0.1	(0.2	) 0.5
Recognized actuarial loss	18.9	20.3	2.8	2.3
Settlement loss	4.0	1.9	—	—
Total Net Periodic Benefit Costs	\$14.8	\$18.7	\$6.2	\$8.8
Nine Months Ended September 30, (in millions)	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Components of Net Periodic Benefit Cost				
Service cost	\$27.7	\$28.2	\$9.0	\$8.4
Interest cost	73.5	84.6	24.2	28.2
Expected return on assets	(126.5	) (123.4	) (22.8	) (20.1
Amortization of transition obligation	—	—	0.4	0.9
Amortization of prior service cost	0.2	0.3	(0.6	) 0.3
Recognized actuarial loss	59.3	60.9	8.4	7.1
Settlement loss	28.3	1.9	—	—
Total Net Periodic Benefit Costs	\$62.5	\$52.5	\$18.6	\$24.8

For the quarters ended September 30, 2013 and 2012, pension and other postretirement benefit cost of approximately \$4.4 million and \$8.2 million, respectively, was capitalized as a component of plant or recognized as a regulatory asset or liability consistent with regulatory orders for certain of NiSource's regulated businesses. For the nine months ended September 30, 2013 and 2012, pension and other postretirement benefit cost of approximately \$30.2 million and \$19.1 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.

As of February 28, 2013, it became probable that a NiSource pension plan's lump sum payouts for 2013 would exceed the plan's 2013 service cost plus interest cost and, therefore, settlement accounting was required. A settlement charge of \$20.7 million was recorded during the first quarter of 2013. As a result of the settlement, the pension plan was remeasured as of February 28, 2013

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

resulting in a decrease to the pension benefit obligation, net of plan assets, of \$18.6 million, and net decreases to regulatory assets and accumulated other comprehensive loss of \$36.1 million and \$3.2 million, respectively. During the second quarter of 2013, NiSource continued to apply settlement accounting for the pension plan and recognized an additional settlement charge of \$3.6 million. As a result of the additional settlement, the pension plan was remeasured as of May 31, 2013 resulting in a decrease to the pension benefit obligation, net of plan assets, of \$30.7 million, and net decreases to regulatory assets and accumulated other comprehensive loss of \$30.8 million and \$3.5 million, respectively. During the third quarter of 2013, NiSource continued to apply settlement accounting for the pension plan and recognized an additional settlement charge of \$4.0 million. As a result of the additional settlement, the pension plan was remeasured as of August 31, 2013 resulting in a decrease to the pension benefit obligation, net of plan assets, of \$1.7 million, a net decrease to regulatory assets of \$6.5 million and a net increase to accumulated other comprehensive loss \$0.8 million. Net periodic pension benefit cost for 2013 was decreased by \$3.6 million as a result of the remeasurements.

The following table provides the key assumptions that were used to calculate the pension benefit obligation and the net periodic benefit cost at the measurement dates of August 31, 2013, May 31, 2013, February 28, 2013 and December 31, 2012:

	August 31, 2013	May 31, 2013	February 28, 2013	December 31, 2012	
Actuarial Assumptions					
Discount Rate	4.25	% 3.75	% 3.50	% 3.63	%
Expected return on assets	8.30	% 8.30	% 8.30	% 8.30	%

### 13. Variable Interests and Variable Interest Entities

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

NiSource consolidates those VIEs for which it is the primary beneficiary. NiSource considers quantitative and qualitative elements in determining the primary beneficiary. Qualitative measures include the ability to control an entity and the obligation to absorb losses or the right to receive benefits.

NiSource's analysis 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 VIE, 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.

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. NiSource has made an exhaustive effort to obtain information needed from Pure Air to determine the status of Pure Air as a VIE. However, Northern Indiana has not been able to obtain this information and as a result, it is unclear whether Pure Air is a VIE and if Northern Indiana is the primary beneficiary. Northern Indiana will continue to request the information required to determine whether Pure Air is a VIE. Northern Indiana has no exposure to loss related to the service agreement with Pure Air and payments under this agreement were \$17.1 million and \$16.5 million for the nine months ended September 30, 2013 and 2012, respectively.

14. Long-Term Debt

On October 10, 2013, NiSource Finance issued \$500.0 million of 5.65% senior unsecured notes that mature on February 1, 2045.

On August 19, 2013, Northern Indiana redeemed \$30.0 million of 7.16% medium term notes.

On July 22, 2013, Northern Indiana redeemed \$5.0 million of 7.21% medium term notes.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

On July 8, 2013, Northern Indiana redeemed \$15.0 million of 7.35% medium term notes.

On June 3, 2013, Northern Indiana redeemed \$18.0 million of 5.20% pollution control bonds.

On April 12, 2013, NiSource Finance issued \$750.0 million of 4.80% senior unsecured notes that mature on February 15, 2044.

On March 1, 2013, NiSource Finance redeemed \$420.3 million of 6.15% senior unsecured notes.

On April 5, 2012, NiSource Finance negotiated a \$250.0 million three-year bank term loan with a syndicate of banks having an original maturity date of April 3, 2015. On April 15, 2013, NiSource Finance amended the term loan to add an additional lender to the syndicate of banks, increase borrowings under the term loan to \$325.0 million and extend the maturity date to April 15, 2016. Borrowings under the term loan have an interest rate of LIBOR plus 125 basis points.

## 15. Short-Term Borrowings

On September 30, 2013, NiSource Finance amended its existing revolving credit facility with a syndicate of banks led by Barclays Capital to expand capacity to \$2.0 billion and extend the termination date to September 28, 2018. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource's \$1.5 billion commercial paper program, provide for issuance of letters of credit, and also for general corporate purposes. At September 30, 2013, NiSource had no outstanding borrowings under this facility.

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to \$500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. The program capacity was expanded to \$1.5 billion with the addition of RBS as a fifth dealer on February 15, 2013. Commercial paper issuances are supported by available capacity under NiSource's \$2.0 billion unsecured revolving credit facility. At September 30, 2013, NiSource had \$612.5 million of commercial paper outstanding.

As of September 30, 2013 and December 31, 2012, NiSource had \$39.2 million and \$36.4 million of stand-by letters of credit outstanding, of which \$21.3 million and \$18.3 million were under the revolving credit facility, respectively. Transfers of accounts receivable are accounted for as secured borrowings resulting in the recognition of short-term debt on the Condensed Consolidated Balance Sheets (unaudited) in the amount of \$208.3 million and \$233.3 million as of September 30, 2013 and December 31, 2012, respectively. Refer to Note 9, "Transfers of Financial Assets," for additional information.

(in millions)	September 30, 2013	December 31, 2012
Commercial Paper weighted average interest rate of 0.67% and 1.11% at September 30, 2013 and December 31, 2012, respectively.	\$612.5	\$499.6
Credit facilities borrowings weighted average interest rate of 3.73% at December 31, 2012.	—	44.0
Accounts receivable securitization facility borrowings	208.3	233.3
Total short-term borrowings	\$820.8	\$776.9

Given their turnover is less than 90 days, cash flows related to the borrowings and repayments of the items listed above are presented net in the Condensed Statements of Consolidated Cash Flows (unaudited).





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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

## 16. Share-Based Compensation

The stockholders approved and adopted the NiSource Inc. 2010 Omnibus Incentive Plan (the “Omnibus Plan”), at the Annual Meeting of Stockholders held on May 11, 2010. The Omnibus Plan provides for awards to employees and non-employee directors of incentive and nonqualified stock options, stock appreciation rights, restricted stock and restricted stock units, performance shares, performance units, cash-based awards and other stock-based awards. The Omnibus Plan provides that the number of shares of common stock of NiSource available for awards is 8,000,000 plus the number of shares subject to outstanding awards granted under either the 1994 Plan or the Director Plan (described below) that expire or terminate for any reason. No further awards are permitted to be granted under the 1994 Plan or the Director Plan. At September 30, 2013, there were 6,734,008 shares reserved for future awards under the Omnibus Plan.

Prior to May 11, 2010, NiSource issued long-term equity incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (“1994 Plan”). The types of equity awards previously authorized under the 1994 Plan did not significantly differ from those permitted under the Omnibus Plan. NiSource recognized stock-based employee compensation expense of \$8.8 million and \$6.3 million for the three months ended September 30, 2013, and 2012, respectively, as well as related tax benefits of \$3.2 million and \$2.2 million, respectively. For the nine months ended September 30, 2013, and 2012, stock-based employee compensation expense of \$17.5 million and \$13.6 million was recognized, respectively, as well as related tax benefits of \$6.1 million and \$5.0 million, respectively.

As of September 30, 2013, the total remaining unrecognized compensation cost related to nonvested awards amounted to \$21.8 million, which will be amortized over the weighted-average remaining requisite service period of 2.0 years. **Stock Options.** As of September 30, 2013, approximately 0.5 million options were outstanding and exercisable with a weighted average strike price of \$22.44. No options were granted during the nine months ended September 30, 2013 and 2012. As of September 30, 2013, the aggregate intrinsic value for the options outstanding and exercisable was \$4.5 million. During the nine months ended September 30, 2013 and 2012, cash received from the exercise of options was \$22.6 million and \$24.7 million, respectively.

**Restricted Stock Units and Restricted Stock.** During the nine months ended September 30, 2013, NiSource granted 69,651 restricted stock units and shares of restricted stock, subject to service conditions. The total grant date fair value of restricted stock units and shares of restricted stock was \$1.8 million, based on the average market price of NiSource’s common stock at the date of each grant less the present value of any dividends not received during the vesting period, which will be expensed, net of forfeitures, over the vesting period which is generally three years. If the employee terminates employment before the service conditions lapse due to (1) Retirement or Disability (as defined in the award agreement), or (2) death, the employment conditions will lapse with respect to a pro rata portion of the shares of restricted stock and restricted stock units on the date of termination. In the event of a Change-in-Control (as defined in the award agreement), all unvested shares of restricted stock and restricted stock units will immediately vest. Termination due to any other reason will result in all unvested shares of restricted stock and restricted stock units awarded being forfeited effective on the employee’s date of termination. As of September 30, 2013, 371,870 nonvested (all of which are expected to vest) restricted stock units and shares of restricted stock were granted and outstanding.

**Performance Shares.** During the nine months ended September 30, 2013, NiSource granted 664,776 performance shares subject to performance conditions. The grant date fair value of the awards was \$15.7 million, based on the average market price of NiSource’s common stock at the date of each grant less the present value of dividends not received during the vesting period which will be expensed, net of forfeitures, over the three year requisite service period. The performance conditions are based on achievement of certain non-GAAP financial measures: cumulative net operating earnings, that NiSource defines as income from continuing operations adjusted for certain items; and cumulative funds from operations that NiSource defines as net operating cash flows provided by continuing operations; and relative total shareholder return, a non-GAAP market measure that NiSource defines as the annualized growth in the dividends and share price of a share of NiSource’s common stock (calculated using a 20 trading day

average of NiSource's closing price beginning December 31, 2012 and ending on December 31, 2015) compared to the total shareholder return performance of a predetermined peer group of companies. The service conditions lapse on February 29, 2016 when the shares vest provided the performance criteria are satisfied. In general, if the employee terminates employment before February 29, 2016 due to (1) Retirement or Disability (as defined in the award agreement), or (2) death, the employment conditions will lapse with respect to a pro rata portion of the performance shares payable at target on the date of termination provided the performance criteria are met. In the event of a Change-in-Control (as defined in the award agreement), all unvested performance shares will immediately vest. Termination due to any other reason will result in all performance shares awarded being

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

forfeited effective on the employee's date of termination. As of September 30, 2013, 1,974,337 nonvested performance shares were granted and outstanding.

Non-employee Director Awards. As of May 11, 2010, awards to non-employee directors may be made only under the Omnibus Plan. Currently, restricted stock units are granted annually to non-employee directors, subject to a non-employee director's election to defer receipt of such restricted stock unit award. The non-employee director's restricted stock units vest on the last day of the non-employee director's annual term corresponding to the year the restricted stock units were awarded subject to special pro-rata vesting rules in the event of Retirement or Disability (as defined in the award agreement), or death. The vested restricted stock units are payable as soon as practicable following vesting except as otherwise provided pursuant to the non-employee director's election to defer. As of September 30, 2013, 148,702 restricted stock units are outstanding to non-employee directors under the Omnibus Plan.

Only restricted stock units remain outstanding under the prior plan for non-employee directors, the Amended and Restated Non-employee Director Stock Incentive Plan (the "Director Plan"). All such awards are fully vested and shall be distributed to the directors upon their separation from the Board. As of September 30, 2013, 181,106 restricted stock units remain outstanding under the Director Plan and as noted above no further shares may be awarded under the Director Plan.

401(k) Match, Profit Sharing and Company Contribution. NiSource has a voluntary 401(k) savings plan covering eligible employees that allows for periodic discretionary matches as a percentage of each participant's contributions in newly issued shares of common stock. NiSource also has a retirement savings plan that provides for discretionary profit sharing contributions of shares of common stock to eligible employees based on earnings results; and eligible exempt employees hired after January 1, 2010, receive a non-elective company contribution of three percent of eligible pay in shares of common stock. For the quarters ended September 30, 2013 and 2012, NiSource recognized 401(k) match, profit sharing and non-elective contribution expense of \$7.9 million and \$6.7 million, respectively. For the nine months ended September 30, 2013 and 2012, NiSource recognized 401(k) match, profit sharing and non-elective contribution expense of \$22.2 million and \$19.4 million, respectively.

## 17. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total guarantees and indemnities in existence at September 30, 2013 and the years in which they expire were:

(in millions)	Total	2013	2014	2015	2016	2017	After
Guarantees of subsidiaries debt	\$7,210.5	\$—	\$500.0	\$230.0	\$616.5	\$507.0	\$5,357.0
Guarantees supporting commodity transactions of subsidiaries	10.7	10.7	—	—	—	—	—
Accounts receivable securitization	208.3	208.3	—	—	—	—	—
Lines of credit	612.5	612.5	—	—	—	—	—
Letters of credit	39.2	0.7	22.3	16.2	—	—	—
Other guarantees	132.3	18.1	48.4	3.0	—	—	62.8
Total commercial commitments	\$8,213.5	\$850.3	\$570.7	\$249.2	\$616.5	\$507.0	\$5,419.8

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of \$7.2 billion of debt for various wholly-owned subsidiaries including NiSource Finance and Columbia of Massachusetts, and through a support

agreement, Capital Markets, which is reflected on NiSource's 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. On October 3, 2011, NiSource executed a Second Supplemental Indenture to the original Columbia of Massachusetts Indenture dated April 1, 1991, for the specific purpose of guaranteeing Columbia of Massachusetts' outstanding medium-term notes.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

**Guarantees Supporting Commodity Transactions of Subsidiaries.** NiSource has issued guarantees, which support up to \$10.7 million of commodity-related payments for its current subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas services. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets (unaudited).

**Lines and Letters of Credit and Accounts Receivable Advances.** On September 30, 2013, NiSource Finance amended its existing revolving credit facility with a syndicate of banks led by Barclays Capital to expand capacity to \$2.0 billion and extend the termination date to September 28, 2018. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource's \$1.5 billion commercial paper program, provide for the issuance of letters of credit, and also for general corporate purposes. At September 30, 2013, NiSource had no borrowings under its five-year revolving credit facility, \$612.5 million in commercial paper outstanding and \$208.3 million outstanding under its accounts receivable securitization agreements. At September 30, 2013, NiSource issued stand-by letters of credit of approximately \$39.2 million for the benefit of third parties. See Note 15, "Short-Term Borrowings," for additional information.

**Other Guarantees or Obligations.** NiSource has additional purchase and sales agreement guarantees totaling \$28.0 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.

NiSource has on deposit a letter of credit with Union Bank, N.A., Collateral Agent, in a debt service reserve account in association with Millennium's notes as required under the Deposit and Disbursement Agreement that governs the Millennium notes. 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 has an accrued liability of \$1.5 million related to the inception date fair value of this guarantee as of September 30, 2013.

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

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

In 2003, the Company divested itself of a certain non-utility subsidiary, which subsequently became involved in litigation around business transactions, some of which predated its sale to a third party. Successors in interest to that third party looked to the Company for indemnification under the Asset Purchase Agreement ("APA") negotiated by the Company at the time of sale. As the litigation wound down and was concluded over the years, the Company advanced settlement and defense costs associated with all claims made in the litigation and reserved its rights to seek reimbursement for claims potentially not within the scope of the indemnities under the APA. Later, the Company looked to the successors in interest to the APA for reimbursement of settlement and defense related charges associated with claims that were not subject to the indemnification provisions in the APA. Ultimately, the amount of claims subject to the indemnities provided for in the APA was the subject of an arbitration claim between the Company and the successors in interest to the APA. In January of 2013, the parties to the arbitration proceeding agreed that the Company would be reimbursed \$17.5 million for settlement amounts advanced and defense costs incurred beyond the scope of indemnities under the APA, which has since been paid to the Company in full. This amount was recorded in income from discontinued operations, net of tax, in the first quarter of 2013.

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.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

As of September 30, 2013 and December 31, 2012, NiSource had recorded reserves of approximately \$149.5 million and \$160.6 million, respectively, to cover environmental remediation at various sites. The current portion of this reserve is included in "Legal and environmental reserves" in the Condensed Consolidated Balance Sheets (unaudited). The noncurrent portion is included in "Other noncurrent liabilities" in the Condensed Consolidated Balance Sheets (unaudited). NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated. The original estimates for cleanup can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including currently enacted laws and regulations, the nature and extent of contamination, the method of cleanup, and the availability of cost recovery from customers. These expenditures are not currently estimable at some sites. NiSource periodically adjusts its reserves as information is collected and estimates become more refined.

## Air

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

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

In the first quarter of 2012, the EPA proposed an output-based carbon standard for new power plants. On September 20, 2013, the EPA announced withdrawal of the proposed standard and released a new proposal. The newly proposed standard would, for the first time, set national limits on the amount of carbon emissions allowed from new power plants. The revised numerical limit requires that compliance for new coal-fired plants include capture and sequestration of carbon dioxide. In addition, the EPA acknowledged that it intends to regulate existing sources with a proposed rule expected in 2014.

If the EPA develops a GHG new source performance standard for existing units or if a federal or state comprehensive climate change bill were to be enacted into law, the impact on NiSource's financial performance would depend on a number of factors, including the overall level of required GHG reductions, the renewable energy targets, the degree to which offsets may be used for compliance, the amount of recovery allowed from customers, and the extent to which NiSource would be entitled to receive CO<sub>2</sub> allowances at no cost. Comprehensive federal or state GHG regulation could result in additional expense or compliance costs that may not be fully recoverable from customers and could materially impact NiSource's financial results.

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

The following NAAQS were recently added or modified:

**Particulate Matter:** In December 2009, the EPA issued area designations for the 2006 24-hour PM<sub>2.5</sub> standard, and several counties in which NiSource operates were designated as non-attainment. In addition, a final rule was promulgated in December 2012 that lowered the annual PM<sub>2.5</sub> standard from 15 to 12 micrograms per cubic meter. NiSource will continue to monitor these matters and cannot estimate their impact at this time.

**Ozone (eight hour):** On September 2, 2011, the EPA announced it would implement its 2008 eight-hour ozone NAAQS rather than tightening the standard in 2012. The EPA will review, and possibly revise, the standard in 2013 consistent with CAA requirements. In addition, the EPA has designated the Chicago metropolitan area, including the area in which Northern Indiana operates one of its electric generation facilities, as non-attainment for ozone. NiSource will continue to monitor this matter and cannot estimate the impact of any new rules at this time.

Nitrogen Dioxide (NO<sub>2</sub>): The EPA revised the NO<sub>2</sub> NAAQS by adding a one-hour standard while retaining the annual standard. The new standard could impact some NiSource combustion sources. The EPA designated all areas of the country as unclassifiable/attainment in January 2012. After the establishment of a new monitoring network and possible modeling implementation, areas will potentially be re-designated sometime in 2016. States with areas that do not meet the standard will be required to develop rules to bring areas into compliance within five years of designation. Additionally, under certain permitting circumstances emissions from some existing NiSource combustion sources may need to be assessed and mitigated. NiSource will continue to monitor this matter and cannot estimate the impact of these rules at this time.



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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

Waste

NiSource subsidiaries are potentially responsible parties at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws. Additionally, a program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors may have liability. The program has identified 67 such sites where liability is probable. Remedial actions at many of these sites are being overseen by state or federal environmental agencies through consent agreements or voluntary remediation agreements.

NiSource utilizes a probabilistic model to estimate its future remediation costs related to its MGP sites. The model was prepared with the assistance of a third party and incorporates NiSource and general industry experience with remediating MGP sites. NiSource completes an annual refresh of the model in the second quarter of each fiscal year. No material changes to the liability were noted as a result of the refresh completed as of June 30, 2013. The total liability at NiSource related to the facilities subject to remediation was \$131.4 million and \$132.6 million at September 30, 2013 and December 31, 2012, respectively. The liability represents NiSource's best estimate of the probable cost to remediate the facilities. NiSource believes that it is reasonably possible that remediation costs could vary by as much as \$25 million in addition to the costs noted above. Remediation costs are estimated based on the best available information, applicable remediation standards at the balance sheet date, and experience with similar facilities.

Additional Issues Related to Individual Business Segments

The sections below describe various regulatory actions that affect Columbia Pipeline Group Operations, Electric Operations, and certain other discontinued operations for which NiSource has retained a liability.

Columbia Pipeline Group Operations.

Waste

Columbia Transmission continues to conduct characterization and remediation activities at specific sites under a 1995 AOC (subsequently modified in 1996 and 2007). The 1995 AOC originally covered 245 major facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. As a result of the 2007 amendment, approximately 50 facilities remain subject to the terms of the AOC. During the third quarter of 2011, Columbia Transmission completed a study to estimate its future remediation requirements related to the AOC. Columbia Transmission accordingly increased its liability for estimated remediation costs by \$25.6 million. Since the third quarter of 2011, Columbia Transmission has been monitoring its liability on a quarterly basis and performed an annual refresh of the study during the second quarter of subsequent years, with no material changes recorded. The total liability at Columbia Transmission related to the facilities subject to remediation was \$11.8 million and \$21.7 million at September 30, 2013 and December 31, 2012, respectively. The liability represents Columbia Transmission's best estimate of the cost to remediate the facilities or manage the sites. Remediation costs are estimated based on the information available, applicable remediation standards, and experience with similar facilities. Columbia Transmission expects that the remediation for these facilities will be substantially completed in 2015.

One of the facilities subject to the 1995 AOC is the Majorsville Operations Center, which was remediated under an EPA approved Remedial Action Work Plan in summer 2008. The completed work was approved by EPA, and Columbia Transmission continues to monitor the site subject to EPA oversight. On April 23, 2009, the PADEP issued Columbia Transmission an NOV, alleging that the remediation did not fully address the site's impact on an adjacent stream, which Columbia Transmission disputes. The NOV asserts violations of the Pennsylvania Clean Streams Law and the Pennsylvania Solid Waste Management Act and includes a settlement demand in the amount of \$1 million. The PADEP has not initiated a legal proceeding since issuance of the NOV. Columbia Transmission believes that it is reasonably unlikely that a penalty will be assessed.

Electric Operations.

Air

Northern Indiana expects to become subject to a number of new air-quality mandates in the next several years. These mandates may require Northern Indiana to make capital improvements to its electric generating stations. The cost of capital improvements is estimated to be \$860 million, of which approximately \$350 million remains to be spent. This figure includes additional capital improvements associated with the New Source Review Consent Decree and the Utility Mercury and Air Toxics Standards Rule. Northern Indiana believes that the capital costs will likely be recoverable from ratepayers.

Sulfur dioxide: In June 2010, the EPA promulgated a revised primary one-hour SO<sub>2</sub> NAAQS. The EPA completed its initial round of SO<sub>2</sub> nonattainment designations in July 2013, based upon ambient air monitoring data. Counties containing Northern Indiana

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

coal-fired generating stations were not designated as nonattainment, but they will be addressed in future action by the EPA. Northern Indiana will continue to monitor developments in these matters but does not anticipate a material impact.

**Cross-State Air Pollution Rule / Clean Air Interstate Rule (CAIR) / Transport Rule:** On July 6, 2011, the EPA announced its replacement for the 2005 CAIR to reduce the interstate transport of fine particulate matter and ozone. The CSAPR reduces overall emissions of SO<sub>2</sub> and NO<sub>x</sub> by setting state-wide caps on power plant emissions. The CSAPR limits emissions, including Northern Indiana's, and restricted emission allowance trading programs were scheduled to begin in 2012. In a decision issued on August 21, 2012 the D.C. Circuit Court vacated the CSAPR leaving the CAIR trading program provisions and requirements in place. The EPA subsequently petitioned for a writ of certiorari, and the Supreme Court granted this writ on June 24, 2013. Oral arguments are scheduled for December 10, 2013 and a decision is expected sometime next year. These legal developments do not significantly impact Northern Indiana's current emissions control plans. Northern Indiana utilizes the inventory model in accounting for emission allowances issued under the CAIR program whereby these allowances were recognized at zero cost upon receipt from the EPA. Northern Indiana believes its current multi-pollutant compliance plan and New Source Review Consent Decree capital investments will allow Northern Indiana to meet the emission requirements of CAIR, while a replacement for CSAPR is developed to address the court's decision.

**Utility Mercury and Air Toxics Standards Rule:** On February 8, 2008, the United States Court of Appeals for the District of Columbia Circuit vacated two EPA rules that are the basis for the Indiana Air Pollution Control Board's Clean Air Mercury Rule (CAMR) that established utility mercury emission limits in two phases (2010 and 2018) and a cap-and-trade program to meet those limits. In response to the vacatur, the EPA pursued a new Section 112 rulemaking to establish MACT standards for electric utilities. The EPA finalized the MATS rule on December 16, 2011. Compliance for Northern Indiana's affected units is required by April 2016. Northern Indiana has developed a plan for further environmental controls to comply with MATS.

**New Source Review:** On September 29, 2004, the EPA issued an NOV to Northern Indiana for alleged violations of the CAA and the Indiana SIP. The NOV alleged that modifications were made to certain boiler units at three of Northern Indiana's generating stations between the years 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana, the EPA, the Department of Justice, and IDEM have settled the matter through a consent decree, entered on July 22, 2011.

**Water**

The Phase II Rule of the Clean Water Act Section 316(b), which requires all large existing steam electric generating stations to meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures, became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. Various court challenges and EPA responses ensued. The EPA announced a proposed rule and is obligated to finalize a rule in 2013. Northern Indiana will continue to monitor this matter but cannot estimate the cost of compliance at this time.

On June 7, 2013, the EPA published a proposed rule to amend the effluent limitations guidelines and standards for the Steam Electric Power Generating category. Northern Indiana anticipates the rule to be finalized in 2014 and will continue to monitor this matter but cannot estimate the cost of compliance at this time.

**Waste**

On March 31, 2005, the EPA and Northern Indiana entered into an AOC under the authority of Section 3008(h) of the RCRA for the Bailly Station. The order requires Northern Indiana to identify the nature and extent of releases of hazardous waste and hazardous constituents from the facility. Northern Indiana must also remediate any release of hazardous constituents that present an unacceptable risk to human health or the environment. In July 2012, the EPA

issued a Final Decision for Areas A and B of the Bailly facility. Remedial activities in those areas have commenced and may continue into 2014. The process to investigate and select appropriate remedial activities at a third area is ongoing.

The Indiana Department of Environmental Management requested that Northern Indiana enter into AOCs to identify the nature and extent of releases of hazardous waste and hazardous constituents at the Michigan City and Mitchell Generating Stations. The final AOC for the Michigan City Generating Station became effective in October 2013, and investigation activities are expected to commence in 2014. A final AOC for the Mitchell Generating Station is expected to be effective in 2014. Northern Indiana cannot estimate the cost of compliance with any AOCs at this time. On June 21, 2010, the EPA published a proposed rule for regulation of CCRs. The proposal outlines multiple regulatory approaches that the EPA is considering. These proposed regulations could negatively affect Northern Indiana's ongoing byproduct reuse

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

programs and would impose additional requirements on its management of coal combustion residuals. Northern Indiana will continue to monitor developments in this matter and cannot estimate the cost of compliance at this time. Other Operations.

## Waste

NiSource affiliates have retained environmental liabilities, including cleanup liabilities associated with some of its former operations. Four sites are associated with its former propane operations and ten sites associated with former petroleum operations. At one of those sites, an AOC has been signed with the EPA to address petroleum residue in soil and groundwater.

D. Other Matters. On November 23, 2012, while Columbia of Massachusetts was investigating the source of an odor of gas at a service location in Springfield, Massachusetts, a gas service line was pierced and an explosion occurred. While this explosion impacted multiple buildings and resulted in several injuries, no life threatening injuries or fatalities have been reported. Columbia of Massachusetts is fully cooperating with both the Massachusetts DPU and the Occupational Safety & Health Administration in their investigations of this incident. Columbia of Massachusetts believes any costs associated with damages, injuries, and other losses related to this incident are substantially covered by insurance. Any amounts not covered by insurance are not expected to have a material impact on NiSource's consolidated financial statements. In accordance with GAAP, NiSource recorded any reserves and the related insurance recoveries resulting from this incident on a gross basis within the Condensed Consolidated Balance Sheets (unaudited).

## 18. Accumulated Other Comprehensive Loss

The following tables display the components of Accumulated Other Comprehensive Loss for the three and nine months ended September 30, 2013:

Three Months Ended September 30, 2013 (in millions)	Gains and Losses on Securities <sup>(1)</sup>	Gains and Losses on Cash Flow Hedges <sup>(1)</sup>	Pension and OPEB Items <sup>(1)</sup>	Accumulated Other Comprehensive Loss <sup>(1)</sup>
Balance as of July 1, 2013	\$(0.7)	\$(27.2)	\$(34.1)	\$(62.0)
Other comprehensive income before reclassifications	1.0	(0.1)	(0.6)	0.3
Amounts reclassified from accumulated other comprehensive income	(0.1)	0.7	0.7	1.3
Net current-period other comprehensive income	0.9	0.6	0.1	1.6
Balance as of September 30, 2013	\$0.2	\$(26.6)	\$(34.0)	\$(60.4)

Nine Months Ended September 30, 2013 (in millions)	Gains and Losses on Securities <sup>(1)</sup>	Gains and Losses on Cash Flow Hedges <sup>(1)</sup>	Pension and OPEB Items <sup>(1)</sup>	Accumulated Other Comprehensive Loss <sup>(1)</sup>
Balance as of January 1, 2013	\$2.6	\$(28.6)	\$(39.5)	\$(65.5)
Other comprehensive income before reclassifications	(1.9)	(0.1)	2.6	0.6
Amounts reclassified from accumulated other comprehensive income	(0.5)	2.1	2.9	4.5
Net current-period other comprehensive (loss) income	(2.4)	2.0	5.5	5.1
Balance as of September 30, 2013	\$0.2	\$(26.6)	\$(34.0)	\$(60.4)

<sup>(1)</sup>All amounts are net of tax. Amounts in parentheses indicate debits.

## Equity Investment

As Millennium is an equity method investment, NiSource is required to recognize a proportional share of Millennium's OCI. The remaining unrecognized loss at September 30, 2013 of \$17.9 million, net of tax, related to terminated interest rate swaps is being amortized over the period ending June 2025 into earnings using the effective interest method through interest expense as interest payments are made by Millennium. The unrecognized loss of \$17.9 million and \$18.7 million at September 30, 2013 and December 31, 2012, respectively, is included in gains and losses on cash flow hedges above.

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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

## 19. Business Segment Information

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

At September 30, 2013, NiSource's operations are divided into three primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Columbia Pipeline Group (formerly known as Gas Transmission and Storage) Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states along with unregulated businesses that include midstream services and development of mineral rights positions. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana.

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

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
REVENUES				
Gas Distribution Operations				
Unaffiliated	\$409.5	\$378.9	\$2,126.8	\$1,882.8
Intersegment	—	0.1	0.2	0.4
Total	409.5	379.0	2,127.0	1,883.2
Columbia Pipeline Group Operations				
Unaffiliated	251.3	156.6	752.0	599.1
Intersegment	31.4	31.5	105.9	105.4
Total	282.7	188.1	857.9	704.5
Electric Operations				
Unaffiliated	413.6	418.3	1,175.9	1,148.4
Intersegment	0.1	0.2	0.5	0.6
Total	413.7	418.5	1,176.4	1,149.0
Corporate and Other				
Unaffiliated	2.4	2.4	5.8	7.0
Intersegment	119.6	119.3	351.3	345.3
Total	122.0	121.7	357.1	352.3
Eliminations	(151.1 )	(151.1 )	(457.9 )	(451.7 )
Consolidated Gross Revenues	\$1,076.8	\$956.2	\$4,060.5	\$3,637.3
Operating Income (Loss)				
Gas Distribution Operations	\$(5.0 )	\$10.4	\$279.1	\$263.4
Columbia Pipeline Group Operations	98.7	38.8	321.0	268.9
Electric Operations	87.5	83.7	212.2	200.2
Corporate and Other	(4.8 )	(1.4 )	(13.0 )	1.0

Consolidated Operating Income	\$176.4	\$131.5	\$799.3	\$733.5
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## ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

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

## 20. Supplemental Cash Flow Information

The following table provides additional information regarding NiSource's Condensed Statements of Consolidated Cash Flows (unaudited) for the nine months ended September 30, 2013 and 2012:

(in millions)	Nine Months Ended September 30,	
	2013	2012
Supplemental Disclosures of Cash Flow Information		
Non-cash transactions:		
Capital expenditures included in current liabilities	\$202.7	\$119.6
Stock issuance to employee savings plans	22.2	19.4
Schedule of interest and income taxes paid:		
Cash paid for interest, net of interest capitalized amounts	\$359.4	\$336.1
Cash paid for income taxes	8.5	8.4

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

NiSource Inc.

Note regarding forward-looking statements

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

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, the impact of potential new environmental laws or regulations, the results of material litigation, changes in pension funding requirements, changes in general economic, capital and commodity market conditions, counterparty credit risk, and the matters set forth in the "Risk Factors" section of NiSource's 2012 Form 10-K, many of which are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time. NiSource expressly disclaims a duty to update any of the forward-looking statements contained in this report.

The following Management's Discussion and Analysis of Financial Conditions and Results of Operations should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

CONSOLIDATED REVIEW

Executive Summary

NiSource (the "Company") is an energy holding company under the Public Utility Holding Company Act of 2005 whose subsidiaries are engaged in the transmission, storage and distribution of natural gas in the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England and the generation, transmission and distribution of electricity in Indiana. NiSource generates virtually 100% of its operating income through these rate-regulated businesses. A significant portion of NiSource's operations is subject to seasonal fluctuations in sales. During the heating season, which is primarily from November through March, net revenues from gas sales are more significant, and during the cooling season, which is primarily from June through September, net revenues from electric sales and transportation services are more significant, than in other months.

For the nine months ended September 30, 2013, NiSource reported income from continuing operations of \$337.9 million, or \$1.08 per basic share, compared to \$276.7 million, or \$0.97 per basic share reported for the same period in 2012.

The increase in income from continuing operations was due primarily to the following items:

The impacts of the customer settlement at Columbia Transmission increased net revenues by \$50.2 million. Refer to Note 6, "Regulatory Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for more information.

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Regulatory and service programs at Gas Distributions Operations increased net revenues by \$28.5 million primarily due to the impacts from the implementation of rates under Columbia of Ohio's approved infrastructure replacement program and rate cases at Columbia of Massachusetts and Columbia of Pennsylvania. Refer to Note 8, "Regulatory Matters," of NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for more information.

Colder weather in 2013 resulted in an increase in income from continuing operations of \$27.4 million compared to the prior year. Weather statistics are provided in the Gas Distribution and Electric Operations' segment discussions.

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

NiSource Inc.

Net revenues increased by \$20.4 million as a result of environmental investment cost recovery at Electric Operations resulting from the electric rate case. Refer to Note 8, "Regulatory Matters," of NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for more information.

Other, net increased by \$16.8 million primarily due to a gain from insurance proceeds and AFUDC earnings.

These increases to income from continuing operations were partially offset by the following:

Employee and administrative expense increased by \$32.8 million due primarily to IT support and enhancement projects, greater labor expense due to a growing workforce and reduced payroll capitalization and timing of outages and maintenance.

Depreciation and amortization increased by \$13.4 million primarily as a result of higher capital expenditures placed in service. NiSource projects 2013 capital expenditures to be approximately \$2.0 billion.

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

Platform for Growth

NiSource's business plan will continue to center on commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and cost and process excellence.

Commercial and Regulatory Initiatives

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

Northern Indiana continued to focus on customer service, reliability and long-term growth and modernization initiatives during the third quarter, while executing on significant environmental investments.

In line with legislation passed earlier this year to support a variety of infrastructure long-term investments, Northern Indiana filed a seven-year natural gas infrastructure modernization and expansion plan with the IURC on October 3, 2013. The legislation provides for timely recovery of related investments through deferrals and tracking mechanisms. The natural gas plan outlines a program of qualifying system modernization projects, with anticipated investment opportunities of approximately \$710 million. Northern Indiana's seven-year electric infrastructure modernization plan, filed on July 19, 2013 with outlined investments of approximately \$1.1 billion, remains under review by the IURC. Northern Indiana anticipates making its initial electric and natural gas investments in early-to-mid 2014.

Northern Indiana extended its 2010 natural gas customer rate settlement through 2020 following the IURC's approval of an agreement reached earlier this year with the OUCC and other key customer stakeholders on August 28, 2013. Work continues on Northern Indiana's two electric transmission projects in northern Indiana, which support new jobs, enhance system reliability and offer environmental benefits. Northern Indiana recently selected the route for the first project and is in discussions with landowners and communities along the line's path. Together the projects will involve an investment by Northern Indiana of approximately \$500 million.

Northern Indiana continues to execute on the approximately \$250 million FGD project at the Michigan City generating station. This project is scheduled for completion by the end of 2015. The approximately \$500 million FGD project at Northern Indiana's Schahfer generating station remains on schedule and on budget. The units will be placed into service in the fourth quarter of 2013 and in late 2014.

On October 10, 2013, the IURC issued an Order approving Northern Indiana's capital projects and associated cost recovery for investments to support compliance with the EPA's MATS rule. The investments are expected to reach approximately \$60 million over the next three years.



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

NiSource Inc.

NiSource's Gas Distribution companies continue to deliver strong results from their strategy of aligning long-term infrastructure replacement and enhancement programs with a variety of complementary customer programs and regulatory initiatives.

Gas Distribution Operations' infrastructure replacement and enhancement program is on track to reach an investment level of approximately \$750 million in 2013. This investment supports NiSource's commitment to delivering safe, reliable services to customers and solid financial performance for shareholders.

Columbia of Kentucky continues to make progress on its base rate case filed in May 2013 with the Kentucky PSC. The case seeks an annual revenue increase of approximately \$16.6 million. It also includes a more modern rate design using a revenue normalization adjustment and supports Columbia of Kentucky's ongoing infrastructure investment plans. If approved, new rates are expected to go into effect in January 2014.

Columbia of Massachusetts' base rate case remains on schedule with the Massachusetts DPU. The case, which seeks increased cost of service of \$30 million, is designed to support Columbia of Massachusetts' expanded infrastructure modernization and replacement plans with timely investment recovery. An order is expected by February 28, 2014, with new rates going into effect on March 1, 2014.

On September 23, 2013, Columbia of Maryland received a final order from the Maryland PSC on its base rate case. In addition to implementing a revenue normalization adjustment mechanism for residential customers, the Order approved an annual revenue increase of \$3.6 million. Rates went into effect on September 25, 2013.

Refer to Note 6, "Regulatory Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for a complete discussion of regulatory and commercial matters.

Modernization, Commercial Growth and Expansion of the Columbia Pipeline Group (formerly known as Gas Transmission and Storage) Operations

Columbia Pipeline Group Operations continues to make progress on its long-term infrastructure modernization program, as well as a series of midstream and core growth initiatives tied to NiSource's asset position in the Utica and Marcellus Shale production regions.

Columbia Transmission is on track to complete the first year of investments under its system modernization settlement. As provided in the settlement, Columbia Transmission will make a tracker filing reflecting first-year investments of approximately \$300 million with the FERC by the end of this year. The modernization settlement covers the initial five years of a 10 to 15 year program totaling \$4 billion to \$5 billion of investments.

On September 30, 2013, Pennant announced the construction of an approximately \$60 million, 38-mile natural gas liquids pipeline in eastern Ohio. The line will connect a cryogenic processing plant in New Middleton, Ohio, to the UEO Kensington facility near Kensington, Columbiana County, Ohio. The initial capacity is expected to deliver up to approximately 90,000 barrels a day, starting in the third quarter of 2014. NiSource Midstream operates Pennant, which is jointly owned by Harvest Pipeline, an affiliate of Hilcorp, and NiSource Midstream.

The first phase of Pennant's pipeline and processing facilities remains on schedule to begin service by the end of 2013. The \$320 million project involves the construction of 55 miles of 20 inch and 24 inch gathering pipeline facilities with an initial capacity of 600 MMcf per day, and a cryogenic natural gas liquids processing plant with an initial capacity of 200 MMcf per day. NiSource owns a 50.0% interest in Pennant and is responsible for 50.0% of the investment.

Millennium is on track with development of an approximately \$45 million new compressor facility in Delaware County, New York. The project, which will increase the pipeline's delivery capacity to 850,000 Dth per day, is expected to be in service April 1, 2014. NiSource owns a 47.5% interest in Millennium and is responsible for 47.5% of the investment.

- Columbia Pipeline Group Operations' core projects, including the approximately \$200 million West Side Expansion Project, the approximately \$275 million East Side Expansion Project and the approximately \$37 million Power Plant Generation Project, among others, remain on track and will add more than 1 Bcf of capacity when completed over the next two years.

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

NiSource Inc.

Financial Management of the Balance Sheet

At the end of the third quarter, NiSource maintained approximately \$1,381.1 million in net available liquidity. Additionally, during the first quarter of 2013, Standard & Poor's reaffirmed NiSource's BBB- credit rating and stable outlook.

On October 10, 2013, NiSource Finance issued \$500.0 million of 5.65% senior unsecured notes that mature on February 1, 2045.

On September 30, 2013, NiSource Finance amended its existing revolving credit facility with a syndicate of banks led by Barclays Capital to expand capacity to \$2.0 billion and extend the termination date to September 28, 2018. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource's \$1.5 billion commercial paper program, provide for issuance of letters of credit, and also for general corporate purposes. At September 30, 2013, NiSource had no outstanding borrowings under this facility.

On August 19, 2013, Northern Indiana redeemed \$30.0 million of 7.16% medium term notes.

On July 22, 2013, Northern Indiana redeemed \$5.0 million of 7.21% medium term notes.

On July 8, 2013, Northern Indiana redeemed \$15.0 million of 7.35% medium term notes.

On June 3, 2013, Northern Indiana redeemed \$18.0 million of 5.20% pollution control bonds.

On April 12, 2013, NiSource Finance issued \$750.0 million of 4.80% senior unsecured notes that mature on February 15, 2044.

On March 1, 2013, NiSource Finance redeemed \$420.3 million of 6.15% senior unsecured notes.

On April 5, 2012, NiSource Finance negotiated a \$250.0 million three-year bank term loan with a syndicate of banks having an original maturity date of April 3, 2015. On April 15, 2013, NiSource Finance amended the term loan to add an additional lender to the syndicate of banks, increase borrowings under the term loan to \$325 million and extend the maturity date to April 15, 2016. Borrowings under the term loan have an interest rate of LIBOR plus 125 basis points.

Ethics and Controls

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

Refer to "Controls and Procedures" included in Item 4.

Results of Operations

Quarter Ended September 30, 2013

Net Income

NiSource reported net income of \$48.1 million, or \$0.16 per basic share, for the three months ended September 30, 2013, compared to net income of \$19.3 million, or \$0.06 per basic share, for the third quarter of 2012. Income from continuing operations was \$49.5 million, or \$0.16 per basic share, for the three months ended September 30, 2013, compared to income from continuing operations of \$16.6 million, or \$0.05 per basic share, for the third quarter of 2012. Operating income was \$176.4 million, an increase of \$44.9 million from the same period in 2012. All per share



amounts are basic earnings per share. Basic average shares of common stock outstanding at September 30, 2013 were 312.8 million compared to 290.3 million at September 30, 2012.

Comparability of line item operating results between quarterly periods is impacted by regulatory and tax trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on income from continuing operations.

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

NiSource Inc.

## Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the quarter ended September 30, 2013, were \$833.8 million, a \$104.8 million increase from the same period last year. This increase in net revenues was primarily due to increased Columbia Pipeline Group Operations' net revenues of \$94.5 million and increased Gas Distribution Operations' net revenues of \$15.4 million partially offset by a decrease in Electric Operations' net revenues of \$5.3 million.

- Columbia Pipeline Group Operations' net revenues increased primarily as a result of the 2012 customer settlement at Columbia Transmission, which increased net revenues by \$66.0 million and higher regulatory trackers, which are offset in expense, of \$26.7 million.

Gas Distribution Operations' net revenues increased primarily due to an increase of \$11.1 million for regulatory and service programs, including the impacts from the implementation of rates under Columbia of Ohio's approved infrastructure replacement program and the rate case at Columbia of Pennsylvania and increased trackers, which are offset in expense, of \$7.1 million. These increases were partially offset by a settlement of \$3.2 million at Columbia of Massachusetts related to a prior period contract.

Electric Operations' net revenues decreased due primarily to the effects of colder weather of \$8.9 million, lower environmental trackers, which are offset in expense, of \$8.4 million, a decrease of \$3.8 million related to the final reconciliation of the revenue credit recorded in 2012 and lower residential margins of \$1.6 million. These decreases were partially offset by an increase in environmental investment cost recovery of \$7.2 million and higher commercial and industrial margins of \$6.9 million.

## Operating Expenses

Operating expenses for the third quarter of 2013 were \$667.9 million, an increase of \$62.4 million from the 2012 period. This increase was primarily due to higher operation and maintenance expenses of \$50.3 million and increased depreciation and amortization of \$19.2 million, partially offset by an increase in the gain on sale of assets of \$9.1 million. The increase in operation and maintenance expenses was primarily due to increased regulatory trackers, which are offset in revenue, of \$28.7 million, software data conversion costs of \$7.5 million, higher environmental costs of \$6.5 million and increased employee and administrative costs of \$5.2 million. The increase in depreciation and amortization is primarily due to the impacts of the customer settlement at Columbia Transmission. The gain on the sale of assets is primarily attributable to the sale of storage base gas of \$11.1 million at Columbia Transmission.

## Equity Earnings in Unconsolidated Affiliates

Equity Earnings in Unconsolidated Affiliates were \$10.5 million during the third quarter of 2013 compared to \$8.0 million for the third quarter of 2012. Equity Earnings in Unconsolidated Affiliates includes investments in Millennium and Hardy Storage, which are integral to the Columbia Pipeline Group Operations' business.

## Other Income (Deductions)

Other Income (Deductions) reduced income by \$99.0 million in the third quarter of 2013 compared to a reduction in income of \$105.7 million in the prior year. The decrease in deductions is primarily due to a decrease in interest expense of \$4.2 million resulting from the maturities of \$420.3 million of long-term debt in March 2013 and \$315.0 million of long-term debt in November 2012 partially offset by higher interest expense from the issuance of \$750.0 million of long-term debt issued in April 2013. Other, net income of \$4.7 million was recorded in 2013 compared to \$2.2 million in 2012.

## Income Taxes

Income tax expense for the quarter ended September 30, 2013 was \$27.9 million compared to \$9.2 million in the prior year. NiSource's interim effective tax rates reflect the estimated annual effective tax rates for 2013 and 2012, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarters ended September 30, 2013 and 2012 were 36.0% and 35.7%, 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.

On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012 (ATRA). ATRA, among other things, extends retroactively the research credit under Internal Revenue Code section 41 until December 31, 2013, and also extends and modifies 50% bonus depreciation for 2013. In general, 50% bonus depreciation will be available for property placed in service before January 1, 2014, or in the case of certain property having longer production periods, before January 1, 2015. NiSource

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

NiSource Inc.

recorded the effects of ATRA in the first quarter 2013. The retroactive extension of the research credit did not have a significant effect on net income.

On March 7, 2013, the Congressional Joint Committee on Taxation took no exception to the conclusions reached by the IRS in its 2008-2010 audit examination of NiSource. Therefore, in the first quarter of 2013, NiSource recognized a federal income tax receivable of \$15.9 million that was related to the 2008 and 2009 tax years and increases in net operating loss carryforwards of \$0.6 million that was related to uncertain tax positions in the 2010-2012 tax years. NiSource received payments of \$75.1 million in March 2013 and \$70.6 million in April 2013 of principal and interest from the IRS related to the audit examination. The recognition of the receivables and net operating loss carryforwards did not materially affect tax expense or net income.

On July 24, 2013, Transportation Finance Bill H3535 which was passed by the Massachusetts legislature, repealed the reduced tax rate of 6.5% for public utility corporations contained in Section 52A of Chapter 63 of the Massachusetts General Laws. Effective January 1, 2014, Columbia of Massachusetts will be taxed at 8.0%, which is the current franchise tax rate for corporations that are not public utilities. Deferred income taxes were adjusted by \$3.2 million as a result of this law change.

On September 13, 2013, the IRS and U.S. Treasury issued final regulations on the deductibility and capitalization of expenditures related to tangible property, generally effective for tax years beginning on or after January 1, 2014. Taxpayers may elect early adoption of the regulations for the 2012 or 2013 tax year. NiSource does not plan to early adopt the regulations. Deferred tax liabilities at September 30, 2013 are not materially affected by the regulations. The final regulations do not impact the effect of Revenue Procedure 2013-24 issued on April 30, 2013 which provided guidance for repairs related to generation property. Among other things, the Revenue Procedure listed units of property and material components of units of property for purposes of analyzing repair versus capitalization issues. NiSource will likely adopt this Revenue Procedure for income tax filings in 2014.

There were no material changes recorded in the third quarter of 2013 to NiSource's uncertain tax positions as of December 31, 2012.

Discontinued Operations

There was net income of \$0.1 million in the third quarter of 2013 from discontinued operations compared to net income of \$2.7 million in the third quarter of 2012. There was a loss on disposition of discontinued operations of \$1.5 million in the third quarter of 2013 due to the sale of NiSource's unregulated marketing business.

Results of Operations

Nine Months Ended September 30, 2013

Net Income

NiSource reported net income of \$380.3 million, or \$1.22 per basic share, for the nine months ended September 30, 2013, compared to net income of \$282.1 million, or \$0.99 per basic share, for the nine months ended September 30, 2012. Income from continuing operations was \$337.9 million, or \$1.08 per basic share, for the nine months ended September 30, 2013, compared to income from continuing operations of \$276.7 million, or \$0.97 per basic share, for the nine months ended September 30, 2012. Operating income was \$799.3 million, an increase of \$65.8 million from the same period in 2012. All per share amounts are basic earnings per share. Basic average shares of common stock outstanding at September 30, 2013 were 312.1 million compared to 285.9 million at September 30, 2012.

Comparability of line item operating results between quarterly periods is impacted by regulatory and tax trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked

operating expenses are offset by increases in net revenues and have essentially no impact on income from continuing operations.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the nine months ended September 30, 2013, were \$2,792.2 million, a \$245.2 million increase from the same period last year. This increase in net revenues was primarily due to increased Columbia Pipeline Group Operations' net revenues of \$154.1 million, increased Gas Distribution Operations' net revenues of \$90.0 million and increased Electric Operations' net revenues of \$1.5 million. Columbia Pipeline Group Operations' net revenues increased primarily due to higher regulatory trackers, which are offset in expense, of \$96.5 million, the impacts of the customer settlement at Columbia Transmission, which increased net

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

NiSource Inc.

revenues by \$50.2 million, higher commodity and demand revenue of \$4.7 million and increased mineral rights royalty revenue of \$4.4 million. These increases were partially offset by lower shorter term transportation services of \$3.5 million.

Gas Distribution Operations' net revenues increased primarily due to the effects of colder weather of \$40.4 million, an increase of \$28.5 million for regulatory and service programs, including the impacts from the implementation of rates under Columbia of Ohio's approved infrastructure replacement program and rate cases at Columbia of Massachusetts and Columbia of Pennsylvania, increased trackers, which are offset in expense, of \$13.7 million, and an increase in residential and commercial usage of \$5.7 million.

Electric Operations' net revenues increased due primarily to an increase in environmental investment cost recovery of \$20.4 million, higher industrial, residential and commercial margins of \$10.0 million and transmission upgrade revenue of \$6.5 million. These increases were partially offset by the effects of colder weather of \$13.0 million, lower environmental trackers, which are offset in expense, of \$12.2 million, a decrease of \$4.7 million related to the final reconciliation of the revenue credit recorded in 2012, higher fuel handling costs of \$3.3 million and a decrease in a RTO recovery mechanism of \$2.9 million, which is offset in expense.

## Operating Expenses

Operating expenses for the nine months ended 2013 were \$2,018.5 million, an increase of \$180.8 million from the 2012 period. This increase was primarily due to higher operation and maintenance expenses of \$167.4 million and increased depreciation and amortization of \$13.4 million. The increase in operation and maintenance expenses was primarily due to increased regulatory trackers, which are offset in revenue, of \$107.6 million, higher employee and administrative costs of \$32.8 million, increased outside services of \$12.3 million, software data conversion costs of \$7.5 million and a mark-to-market adjustment of corporate owned life insurance assets primarily in the prior year of \$6.6 million. These increases were partially offset by lower electric generation costs of \$11.2 million as a result of the timing of planned and unplanned outages. The increase in depreciation and amortization is primarily due to higher capital expenditures placed in service.

## Equity Earnings in Unconsolidated Affiliates

Equity Earnings in Unconsolidated Affiliates were \$25.6 million for the nine months ended September 30, 2013 compared to \$24.2 million for the same period in 2012. Equity Earnings in Unconsolidated Affiliates includes investments in Millennium and Hardy Storage, which are integral to the Columbia Pipeline Group Operations' business.

## Other Income (Deductions)

Other Income (Deductions) reduced income by \$282.2 million in the nine months ended September 30, 2013 compared to a reduction in income of \$309.1 million in the prior year. The decrease in deductions is primarily due to an increase in Other, net of \$16.8 million in 2013 compared to the same period in 2012 and a decrease in interest expense. This increase is primarily attributable to a gain from insurance proceeds and AFUDC earnings. Interest expense of \$304.3 million was recorded in 2013, a decrease of \$10.1 million compared to the prior year. The decrease resulted from the maturity of \$420.3 million of long-term debt in March 2013 and \$315.0 million of long-term debt in November 2012, and lower average short-term borrowings partially offset by higher interest expense from the issuance of \$750.0 million of long-term debt in April 2013 and \$750.0 million of long-term debt in June 2012.

## Income Taxes

Income tax expense for the nine months ended September 30, 2013 was \$179.2 million compared to \$147.7 million in the prior year. NiSource's interim effective tax rates reflect the estimated annual effective tax rates for 2013 and 2012, adjusted for tax expense associated with certain discrete items. The effective tax rates for the six months ended September 30, 2013 and 2012 were 34.7% and 34.8%, 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.

**Discontinued Operations**

There was net income of \$7.5 million for the nine months ended September 30, 2013 from discontinued operations compared to net income of \$5.4 million for the comparable period in 2012. The increase is primarily the result of a one-time settlement received in the first quarter of 2013. A gain on the disposition of discontinued operations of \$34.9 million was recorded in 2013 as a result of a gain on the sale of the service plan and leasing business lines of NiSource's Retail Services business partially offset by a loss on the sale of NiSource's unregulated marketing business.

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

NiSource Inc.

Liquidity and Capital Resources

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

NiSource believes that through income generated from operating activities, amounts available under its revolving credit facility, commercial paper program and long-term debt agreements and NiSource's ability to access the capital markets, there is adequate capital available to fund its operating activities and capital expenditures in 2013.

Operating Activities

Net cash from operating activities for the nine months ended September 30, 2013 was \$1,078.6 million, an increase of \$136.8 million compared to the nine months ended September 30, 2012. The increase in net cash from operating activities was primarily due to an increase in working capital from income tax receivables of \$179.7 million primarily due to a refund from the IRS received in 2013.

**Pension and Other Postretirement Plan Funding.** NiSource expects to make contributions of approximately \$11.3 million to its pension plans and approximately \$40.4 million to its postretirement medical and life plans in 2013, which could change depending on market conditions. For the nine months ended September 30, 2013, NiSource has contributed \$9.1 million to its pension plans and \$29.6 million to its other postretirement benefit plans.

Investing Activities

NiSource's capital expenditures for the nine months ended September 30, 2013 were \$1,297.3 million, compared to \$1,022.2 million for the comparable period in 2012. This increased spending is mainly due to higher expenditures in the Columbia Pipeline Group Operations segment for various growth projects primarily in the Marcellus and Utica Shale areas and for expenditures under its modernization program. Additionally, there were increased expenditures in the Electric Operations segment due primarily to the FGD projects. NiSource projects 2013 capital expenditures to be approximately \$2.0 billion.

Restricted cash was \$18.3 million and \$46.8 million as of September 30, 2013 and December 31, 2012, respectively. The decrease in restricted cash was due to the sale of NiSource's unregulated natural gas marketing business.

Contributions to equity investees increased \$65.8 million due to higher contributions made by NiSource Midstream to Pennant. Refer to the Columbia Pipeline Group Operations segment discussion in the Management's Discussion and Analysis of Financial Conditions and Results of Operations for information on these contributions.

Financing Activities

**Long-term Debt.** Refer to Note 14, "Long-Term Debt," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on long-term debt.

**Credit Facilities.** On September 30, 2013, NiSource Finance amended its existing revolving credit facility with a syndicate of banks led by Barclays Capital to expand capacity to \$2.0 billion and extend the termination date to September 28, 2018. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource's \$1.5 billion commercial paper program, provide for issuance of letters of credit, and also for general corporate purposes.

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to \$500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. The program capacity was expanded to \$1.5 billion with the addition of RBS as a fifth dealer on February 15, 2013. Commercial



paper issuances are supported by available capacity under NiSource's \$2.0 billion unsecured revolving credit facility, which expires in September 2018.

NiSource Finance had no outstanding borrowings under its five-year revolving credit facility at September 30, 2013 and borrowings of \$44.0 million at December 31, 2012, at a weighted average interest rate of 3.73%. In addition, NiSource Finance had \$612.5 million in commercial paper outstanding at September 30, 2013, at a weighted average interest rate of 0.67% and \$499.6 million in commercial paper outstanding at December 31, 2012, at a weighted average interest rate of 1.11%.

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

NiSource Inc.

As of September 30, 2013 and December 31, 2012, NiSource had \$208.3 million and \$233.3 million, respectively, of short-term borrowings recorded on the Condensed Consolidated Balance Sheets (unaudited) and cash from financing activities in the same amount relating to its accounts receivable securitization facilities. See Note 9, "Transfers of Financial Assets."

As of September 30, 2013, NiSource had \$39.2 million of stand-by letters of credit outstanding of which \$21.3 million were under the revolving credit facility. At December 31, 2012, NiSource had \$36.4 million of stand-by letters of credit outstanding of which \$18.3 million were under the revolving credit facility.

As of September 30, 2013, an aggregate of \$1,366.2 million of credit was available under the credit facility.

**Sale of Trade Accounts Receivables.** Refer to Note 9, "Transfers of Financial Assets," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on the sale of accounts receivable.

All accounts receivable sold to the commercial paper conduits are valued at face value, which approximates fair value due to their short-term nature. The amount of the undivided percentage ownership interest in the accounts receivables sold is determined, in part, by required loss reserves under the agreements.

**Credit Ratings.** On February 25, 2013, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. On December 11, 2012, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 16, 2012, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. The collateral requirement that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately \$34.0 million. In addition to agreements with ratings triggers, there are other agreements that contain "adequate assurance" or "material adverse change" provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business.

**Contractual Obligations.** Refer to Note 11, "Income Taxes," in the Notes to Condensed Consolidated Financial Statements (unaudited) for material changes recorded during the nine months ended September 30, 2013 to NiSource's uncertain tax positions recorded as of December 31, 2012.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on July 1, 1992 and expired on June 30, 2012. On June 29, 2012, this agreement was renewed for ten years and, in accordance with GAAP, was evaluated to determine whether the arrangement qualified as a lease. Based on the terms of the agreement, the arrangement qualified for capital lease accounting. The effective date of the new agreement was July 1, 2012. NiSource capitalized this lease beginning in the third quarter of 2012.

**Market Risk Disclosures**

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

risk, interest rate risk and credit risk. Risk management at NiSource is a multi-faceted process with oversight by the Risk Management Committee that requires constant communication, judgment and knowledge of specialized products and markets. NiSource's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. These include but are not limited to market, operational, financial, compliance and strategic risk types. In recognition of the increasingly varied and complex nature of the energy business, NiSource's risk management process, policies and procedures continue to evolve and are subject to ongoing review and modification.

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

NiSource Inc.

Commodity Price Risk

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

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

Interest Rate Risk

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under its revolving credit agreement, term loan, commercial paper program and accounts receivable programs, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase (or decrease) in short-term interest rates of 100 basis points (1%) would have increased (or decreased) interest expense by \$3.6 million and \$10.7 million for the three and nine months ended September 30, 2013, respectively, and \$2.8 million and \$11.3 million for the three and nine months ended September 30, 2012, respectively.

Credit Risk

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

Exposure to credit risk is measured in terms of both current obligations and the market value of forward positions net of any posted collateral such as cash, letters of credit and qualified guarantees of support.

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

Fair Value Measurement

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

Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded

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

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

NiSource Inc.

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

Refer to Note 8, "Fair Value Disclosures," in the Notes to the Condensed Consolidated Financial Statements (unaudited) for additional information on NiSource's fair value measurements.

Off Balance Sheet Arrangements

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

NiSource has issued guarantees that support up to approximately \$10.7 million of commodity-related payments for its current and former subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas services. 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).

NiSource has purchase and sales agreement guarantees totaling \$28.0 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.

NiSource has other guarantees outstanding. Refer to Note 17-A, "Guarantees and Indemnities," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information about NiSource's off balance sheet arrangements.

Other Information

Critical Accounting Policies

There were no significant changes to critical accounting policies for the period ended September 30, 2013.

Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-10 which amends ASC 815 to include the Fed Funds Effective Swap Rate as an appropriate benchmark interest rate in the accounting for fair value and cash flow hedges in the United States, in addition to the interest rates on direct Treasury obligations of the U.S. government and LIBOR. Additionally, entities are no longer prohibited from using different benchmark interest rates for similar hedges except in rare and justifiable circumstances. The ASU applies prospectively to qualifying new hedging relationships entered into on or after July 17, 2013, or to hedging relationships redesignated on or after that date. NiSource is currently reviewing the provisions of the new standard to determine the future impact on its Condensed Consolidated Financial Statements (unaudited) and Notes to Condensed Consolidated Financial Statements (unaudited).

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

NiSource Inc.

Dodd-Frank Financial Reform Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Act") was passed by Congress on July 15, 2010 and was signed into law on July 21, 2010. The Act, among other things, establishes a Financial Stability Oversight Council ("FSOC") and a Consumer Financial Protection Bureau ("CFPB") whose duties include the monitoring of domestic and international financial regulatory proposals and developments, as well as the protection of consumers. The FSOC may submit comments to the SEC and any standard-setting body with respect to an existing or proposed accounting principle, standard or procedure. The Act also creates increased oversight of the over-the-counter ("OTC") derivatives markets, requiring OTC transactions in instruments defined as "swaps" under the new regulations to be cleared through a "designated contract market" or "swap execution facility" and cash margins to be posted for those transactions. During 2012, the Commodity Futures Trading Commission ("CFTC") finalized most of the remaining key regulations under the Act, which started to go into effect in late 2012 in accordance with a schedule promulgated by the CFTC. NiSource is not a "swap dealer", a "major swap participant" or a "financial entity" as defined under the regulations and, therefore, various exemptions from mandatory clearing and real-time reporting will apply to most of NiSource's swap transactions. While the Act and the new regulations have had some impact on capital markets and derivatives markets generally, NiSource does not expect compliance with the Act to have any material effect on its operations.

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

NiSource Inc.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into three primary business segments: Gas Distribution Operations, Columbia Pipeline Group (formerly known as Gas Transmission and Storage) Operations, and Electric Operations.

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

NiSource Inc.

Gas Distribution Operations

(in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Net Revenues				
Sales revenues	\$409.5	\$379.0	\$2,127.0	\$1,883.2
Less: Cost of gas sold (excluding depreciation and amortization)	131.7	116.6	964.6	810.8
Net Revenues	277.8	262.4	1,162.4	1,072.4
Operating Expenses				
Operation and maintenance	199.1	174.8	614.6	552.6
Depreciation and amortization	51.1	47.9	149.7	141.2
Loss on sale of assets	1.3	—	1.2	—
Other taxes	31.3	29.3	117.8	115.2
Total Operating Expenses	282.8	252.0	883.3	809.0
Operating (Loss) Income	\$(5.0 )	\$10.4	\$279.1	\$263.4
Revenues (\$ in millions)				
Residential	\$235.3	\$213.4	\$1,331.2	\$1,208.1
Commercial	68.7	61.0	452.2	383.4
Industrial	32.0	32.5	140.6	127.7
Off System	54.8	46.4	210.4	125.3
Other	18.7	25.7	(7.4 )	38.7
Total	\$409.5	\$379.0	\$2,127.0	\$1,883.2
Sales and Transportation (MMDth)				
Residential	15.2	15.4	182.0	146.6
Commercial	16.2	19.7	118.5	106.1
Industrial	120.7	119.2	367.4	364.6
Off System	15.6	16.0	55.7	46.7
Other	—	—	0.4	0.2
Total	167.7	170.3	724.0	664.2
Heating Degree Days	94	123	3,576	2,859
Normal Heating Degree Days	85	88	3,576	3,627
% Colder (Warmer) than Normal	11	% 40	% —	% (21 )%
Customers				
Residential			3,022,289	3,006,298
Commercial			276,219	275,356
Industrial			7,488	7,706
Other			22	22
Total			3,306,018	3,289,382

NiSource's Gas Distribution Operations serve approximately 3.3 million customers in seven states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky and Maryland. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with 74% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

Regulatory Matters

Refer to Note 6, "Regulatory Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on significant rate developments and cost recovery and trackers for the Gas Distribution Operations segment.

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

## NiSource Inc.

## Gas Distribution Operations

**Customer Usage.** Increased efficiency of natural gas appliances and improvements in home building codes and standards has contributed to a long-term trend of declining average use per customer. Usage for the nine months ended September 30, 2013 increased from the same period last year primarily due to colder weather compared to prior year. While historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge, operating costs are largely incurred on a fixed basis, and do not fluctuate due to changes in customer usage. As a result, the NiSource LDCs have pursued changes in rate design to more effectively match recoveries with costs incurred. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing changes to rate design. Columbia of Ohio restructured its rate design through a base rate proceeding and has adopted a "de-coupled" rate design which more closely links the recovery of fixed costs with fixed charges. Columbia of Massachusetts and Columbia of Virginia received regulatory approval of decoupling mechanisms which adjust revenues to an approved benchmark level through a volumetric adjustment factor. Columbia of Maryland has received regulatory approval to implement a residential class revenue normalization adjustment, a decoupling mechanism whereby monthly revenues that exceed or fall short of approved levels are reconciled in subsequent months. In a prior base rate proceeding, Columbia of Pennsylvania implemented a higher fixed residential customer charge. In its 2010 rate case, Northern Indiana implemented a higher fixed customer charge for residential and small customer classes moving toward full straight fixed variable rate design. This rate design was also incorporated in the settlement of the 2011 merger of the three Indiana LDCs: Northern Indiana, Kokomo Gas and Northern Indiana Fuel and Light.

**Environmental Matters**

Various environmental matters occasionally impact the Gas Distribution Operations segment. As of September 30, 2013, a reserve has been recorded to cover probable and estimable environmental response actions. Refer to Note 17-C, "Environmental Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information regarding environmental matters for the Gas Distribution Operations segment.

**Weather**

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

Weather in the Gas Distribution Operations' territories for the third quarter of 2013 was 11% colder than normal and 24% warmer than the third quarter in 2012.

Weather in the Gas Distribution Operations' territories for the nine months ended September 30, 2013 was normal and 25% colder compared to the same period in 2012.

**Throughput**

Total volumes sold and transported of 167.7 MMDth for the third quarter of 2013 decreased by 2.6 MMDth from the same period last year. This 1.5% decrease in volume was primarily attributable to warmer weather.

Total volumes sold and transported of 724.0 MMDth for the nine months ended September 30, 2013 increased by 59.8 MMDth from the same period last year. This 9.0% increase in volume was primarily attributable to colder weather

compared to the prior year.

#### Net Revenues

Net revenues for the third quarter of 2013 were \$277.8 million, an increase of \$15.4 million from the same period in 2012. The increase in net revenues is due primarily to an increase of \$11.1 million for regulatory and service programs, including the impacts from the implementation of rates under Columbia of Ohio's approved infrastructure replacement program and the rate case at Columbia of Pennsylvania and increased trackers, which are offset in expense, of \$7.1 million. These increases were partially offset by a settlement of \$3.2 million at Columbia of Massachusetts related to a prior period contract.

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

NiSource Inc.

## Gas Distribution Operations

At Northern Indiana, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased gas costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustment to Other gross revenues for the three and nine months ended September 30, 2013 was a revenue increase of \$8.1 million and a decrease of \$42.4 million, respectively, compared to an increase of \$15.5 million and a decrease of \$22.2 million for the three and nine months ended September 30, 2012, respectively.

Net revenues for the nine months ended September 30, 2013 were \$1,162.4 million, an increase of \$90.0 million from the same period in 2012. The increase in net revenues is due primarily to the effects of colder weather of \$40.4 million, an increase of \$28.5 million for regulatory and service programs, including the impacts from the implementation of rates under Columbia of Ohio's approved infrastructure replacement program and rate cases at Columbia of Massachusetts and Columbia of Pennsylvania, increased trackers, which are offset in expense, of \$13.7 million, and an increase in residential and commercial usage of \$5.7 million.

## Operating (Loss) Income

For the third quarter of 2013, Gas Distribution Operations reported an operating loss of \$5.0 million, a decrease of \$15.4 million from the comparable 2012 period. This decrease is due to an increase in operating expenses, partially offset by higher net revenues, as described above. Operating expenses were \$30.8 million higher than the comparable period reflecting increased trackers, which are offset in net revenues, of \$7.1 million, higher environmental costs of \$6.3 million, increased outside services of \$5.6 million, higher depreciation of \$3.2 million due to an increase in capital expenditures placed in service, increased employee and administrative expenses of \$2.6 million, higher uncollectibles of \$2.1 million, increased other taxes, excluding trackers described above, of \$1.8 million and a loss on the disposition of land of \$1.3 million.

For the nine months ended September 30, 2013, Gas Distribution Operations reported operating income of \$279.1 million, an increase of \$15.7 million from the comparable 2012 period. Operating income increased as a result of higher net revenues, as described above, partially offset by increased operating expenses. Operating expenses were \$74.3 million higher than the comparable period reflecting increased employee and administrative expenses of \$18.0 million primarily due to increased IT support and enhancement projects and greater labor expense due to a growing workforce and reduced payroll capitalization, higher trackers, which are offset in net revenues, of \$13.7 million, increased outside service costs of \$12.6 million, higher environmental costs of \$8.6 million, an increase in depreciation of \$8.5 million due to an increase in capital expenditures placed in service, higher other taxes, excluding trackers described above, of \$6.2 million, increased materials and supplies of \$2.8 million and a loss on the disposition of land of \$1.3 million.

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

NiSource Inc.

Columbia Pipeline Group Operations

(in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Net Revenues				
Transportation revenues	\$176.4	\$109.3	\$558.9	\$506.9
Storage revenues	48.6	49.2	147.8	147.2
Other revenues	57.7	29.6	151.2	50.4
Total Sales Revenues	282.7	188.1	857.9	704.5
Less: Cost of sales (excluding depreciation and amortization)	0.1	—	0.3	1.0
Net Revenues	282.6	188.1	857.6	703.5
Operating Expenses				
Operation and maintenance	165.3	135.0	448.0	340.7
Depreciation and amortization	26.7	8.2	78.9	74.2
(Gain) Loss on sale of assets	(11.1	) —	(11.3	) 0.1
Other taxes	13.5	14.1	46.6	43.8
Total Operating Expenses	194.4	157.3	562.2	458.8
Equity Earnings in Unconsolidated Affiliates	10.5	8.0	25.6	24.2
Operating Income	\$98.7	\$38.8	\$321.0	\$268.9
Throughput (MMDth)				
Columbia Transmission	158.4	189.1	790.8	778.9
Columbia Gulf	134.0	205.9	494.0	669.8
Crossroads Pipeline	4.1	3.3	12.4	11.7
Intrasegment eliminations	(36.5	) (86.1	) (211.8	) (314.6
Total	260.0	312.2	1,085.4	1,145.8

NiSource's Columbia Pipeline Group Operations segment primarily consists of the operations of Columbia Transmission, Columbia Gulf, NiSource Midstream, NEVCO, Crossroads Pipeline, and the equity investments in Pennant, Millennium and Hardy Storage. In total, NiSource owns a pipeline network of approximately 15,000 miles extending from the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in 16 northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the Columbia Pipeline Group Operations segment operates one of the nation's largest underground natural gas storage systems.

Columbia Pipeline Group Operations' most significant projects are as follows:

**Big Pine Gathering System Project.** The Columbia Pipeline Group Operations segment made an investment of approximately \$165 million, which included right-of-way acquisitions and installation, refurbishment and operation of approximately 57 miles of pipeline facilities in the hydrocarbon-rich Western Pennsylvania shale production region. The newly constructed pipeline has an initial combined capacity of 425,000 MMcf per day. Natural gas production is being sourced from XTO Energy Inc., a subsidiary of ExxonMobil, in Butler County, Pennsylvania, and delivered to Columbia Transmission and two other third-party pipelines in Pennsylvania. The project was placed into service in April 2013.

Power Plant Generation Project. The Columbia Pipeline Group Operations segment is spending approximately \$37 million on an expansion project, which includes new pipeline and modifications to existing compression assets, with Virginia Power Services Energy Corporation, Inc., the energy manager for Virginia Electric and Power Company. This project will expand the Columbia Transmission system in order to provide up to nearly 250,000 Dth per day of transportation capacity under a long-term, firm contract. The project is expected to be ready for commercial operations by mid-2014.

West Side Expansion. The Columbia Pipeline Group Operations segment is investing approximately \$200 million in new pipeline and compression to increase supply origination from the Smithfield and Waynesburg areas on the Columbia Transmission system and provide a backhaul transportation path to Gulf Coast markets on the Columbia Gulf system. This investment will increase capacity up to 444,000 Dth per day from the Smithfield and Waynesburg areas and up to 540,000 Dth per day from Leach to Rayne

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

NiSource Inc.

Columbia Pipeline Group Operations

transporting Marcellus production under long-term, firm contracts. The project is expected to be in service by the fourth quarter of 2014 with limited interim service provided in 2012 through 2014.

East Side Expansion. The Columbia Pipeline Group Operations segment is developing its East Side Expansion project, which will provide access for Marcellus supplies to the northeastern and mid-Atlantic markets. Backed by binding precedent agreements, the project will add up to 312,000 Dth per day of capacity and is expected to be placed in service by the end of the third quarter 2015. Columbia Transmission continues to refine the engineering and construction costs of this approximately \$275 million project.

Giles County Project. The Columbia Pipeline Group Operations segment is spending approximately \$23 million to construct nearly thirteen miles of pipeline to provide 45,000 Dth per day of firm service to a third party off of its Line KA system into Columbia of Virginia's system. Columbia of Virginia will expand pipeline facilities and an existing direct connection with the third party's plant in Giles County, Virginia. The project is planned to be in-service by the fourth quarter 2014.

Line 1570 Expansion . The Columbia Pipeline Group Operations segment is replacing 18.7 miles of 20-inch bare steel pipe with 24-inch pipe from Waynesburg, Pennsylvania to Redd Farm, Pennsylvania at an approximate cost of \$20 million. The project also includes the installation of two compressors at Redd Farm and an uprate in horsepower at Waynesburg, increasing capacity by nearly 100,000 Dth per day. The project is expected to be in service by the end of the fourth quarter 2014.

Equity Investments

Pennant. NiSource Midstream entered into a 50:50 joint venture in 2012 with affiliates of Hilcorp to construct new wet natural gas gathering pipeline infrastructure and natural gas liquids (NGL) processing facilities to support natural gas production in the Utica Shale region of northeastern Ohio and western Pennsylvania. NiSource Midstream and Hilcorp jointly own Pennant with NiSource Midstream serving as the operator of Pennant and the facilities. NiSource accounts for the joint venture under the equity method of accounting.

Pennant is investing in the construction of approximately 55 miles of 20-24 inch wet gas gathering pipeline facilities with a capacity of approximately 600 MMcf per day. In addition, Pennant is installing a gas processing facility in New Middletown, Ohio that will have an initial capacity of 200 MMcf per day. Consistent with the terms of the joint venture, NiSource Midstream will operate the gas processing facility and associated wet gas gathering system. The joint venture is designed and anticipated to serve other producers with significant acreage development in the area with an interest in obtaining capacity on the system. NiSource Midstream's initial investment in this area, including the pipeline and the processing plant, is expected to be approximately \$160 million. A portion of the facilities are expected to be in service in the fourth quarter of 2013 and the remainder will be in service in the second quarter of 2014.

Pennant is also investing approximately \$60 million to construct a 12-inch, 38-mile NGL pipeline that will connect the gas processing facility to the UEO Kensington facility near Kensington, Columbiana County, Ohio and will have the capacity to initially deliver up to approximately 90,000 barrels a day. The construction of this pipeline will enhance the Pennant gathering and processing facility to become a full-service solution for providers in the northern Utica shale region, offering access to wet gas gathering and processing, as well as residue gas and NGL takeaway to attractive market destinations. Construction is expected to be completed in the third quarter of 2014.



During the third quarter of 2013, NiSource Midstream made cash contributions to Pennant totaling \$41.9 million. A cash contribution of \$0.4 million was made to Pennant during the third quarter of 2012. For the nine months ended September 30, 2013, NiSource Midstream made cash contributions to Pennant of \$68.0 million. In October 2013, NiSource Midstream made a cash contribution to Pennant of \$16.5 million to fund its continued construction activities.

In a separate agreement with Hilcorp, test wells were drilled in 2012 and continue in 2013 to support the development of the hydrocarbon potential on more than 100,000 combined acres in the Utica/Point Pleasant Shale formation. Production wells are being drilled in 2013, with the full production program in development. NiSource will invest alongside Hilcorp in the development of the acreage, owning both a working and overriding royalty interest. All of the Hilcorp/NiSource acreage is dedicated to Pennant.

Millennium. Millennium operates approximately 250 miles of pipeline granted under the authority of the FERC. The Millennium pipeline has the capability to transport up to 525,400 Dth per day of natural gas to markets along its route, which lies between Corning, New York and Ramapo, New York, as well as to the New York City market through its pipeline interconnections. Columbia

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

NiSource Inc.

Columbia Pipeline Group Operations

Transmission owns a 47.5% interest in Millennium and acts as operator for the pipeline in partnership with DTE Millennium Company and National Grid Millennium LLC, which each own an equal remaining share of the company.

During the third quarter of 2013 and 2012, Columbia Transmission made contributions to Millennium to fund its share of capital projects of \$2.4 million and \$3.3 million, respectively. For the same respective periods, Columbia Transmission received distributions of earnings of \$6.2 million and \$7.1 million. For the nine months ended September 30, 2013, Columbia Transmission made contributions of \$9.0 million and received distributions of \$17.1 million. For the same period last year, Columbia Transmission made contributions of \$10.9 million and received distributions of \$22.8 million.

Millennium continued to make progress on two projects, which began in 2012, that will add nearly 30,000 hp of compression to its system, driven to meet the contractual obligations of its anchor shippers. The first project went into service on June 1, 2013 and increased capacity at its interconnections with Algonquin Gas Transmission to 675,000 Dth per day, a total investment of approximately \$45 million. The second project includes a total investment of approximately \$45 million that will increase capacity by 175,000 Dth per day with interconnections to other third-party facilities. The second project is expected to be in service by April 1, 2014. Columbia Transmission's share of the above investments is limited to its 47.5% interest in Millennium.

Hardy Storage. Hardy Storage is a 50:50 joint venture between subsidiaries of Columbia Transmission and Piedmont that manages an underground storage field in Hardy and Hampshire counties in West Virginia. Columbia Transmission serves as operator of the company, which is regulated by the FERC. Hardy Storage has a working storage capacity of 12 Bcf and the ability to deliver 176,000 Dth of natural gas per day.

During the third quarter of 2013, NiSource received \$0.5 million of available accumulated earnings. For the same period last year, NiSource received \$0.8 million of available accumulated earnings. For the nine months ended September 30, 2013 and 2012, NiSource received \$1.9 million and \$2.3 million, respectively, of available accumulated earnings. NiSource made no contributions during 2013 or 2012.

Sales and Percentage of Physical Capacity Sold

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

Firm service contracts require pipeline capacity to be reserved for a given customer between certain receipt and delivery points. Firm customers generally pay a "capacity reservation" fee based on the amount of capacity being reserved regardless of whether the capacity is used, plus an incremental usage fee when the capacity is used. Annual capacity reservation revenues derived from firm service contracts generally remain constant over the life of the contract because the revenues are based upon capacity reserved and not whether the capacity is actually used. The high percentage of revenue derived from capacity reservation fees mitigates the risk of revenue fluctuations within the Columbia Pipeline Group Operations segment due to changes in near-term supply and demand conditions. The following percentages for 2012 exclude the impact of the \$50 million refund obligation recorded in the third quarter 2012 resulting from the Columbia Transmission customer settlement. For the quarter ended September 30, 2013,

approximately 93.7% of the transportation revenues were derived from capacity reservation fees paid under firm contracts and 4.1% of the transportation revenues were derived from usage fees under firm contracts compared to approximately 91.0% and 5.4%, respectively, for the quarter ended September 30, 2012. For the nine months ended September 30, 2013, approximately 92.9% of the transportation revenues were derived from capacity reservation fees paid under firm contracts and 5.3% of the transportation revenues were derived from usage fees under firm contracts compared to approximately 91.4% and 6.0% respectively, for the nine months ended September 30, 2012.

Interruptible transportation service is typically short term in nature and is generally used by customers that either do not need firm service or have been unable to contract for firm service. These customers pay a usage fee only for the volume of gas actually transported. The ability to provide this service is limited to available capacity not otherwise used by firm customers, and customers receiving services under interruptible contracts are not assured capacity in the pipeline facilities. Columbia Pipeline Group Operations provides interruptible service at competitive prices in order to capture short term market opportunities as they occur and interruptible service is viewed by management as an important strategy to optimize revenues from the gas transmission assets. For the quarters ended September 30, 2013 and 2012, approximately 2.2% and 3.6%, respectively, of the transportation revenues

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

NiSource Inc.

Columbia Pipeline Group Operations

were derived from interruptible contracts. For the nine months ended September 30, 2013 and 2012, approximately 1.8% and 2.6%, respectively, of the transportation revenues were derived from interruptible contracts.

Regulatory Matters

Refer to Note 6, "Regulatory Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on regulatory matters for the Columbia Pipeline Group Operations segment.

Environmental Matters

Various environmental matters occasionally impact the Columbia Pipeline Group Operations segment. As of September 30, 2013, a reserve has been recorded to cover probable and estimable environmental response actions. Refer to Note 17-C, "Environmental Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information regarding environmental matters for the Columbia Pipeline Group Operations segment.

Throughput

Columbia Transmission's throughput consists of gas transportation service deliveries to LDC city gates, to gas fired power plants, other industrial customers, or other interstate pipelines in its market area. Columbia Transmission's market area covers portions of northeastern, mid-Atlantic, midwestern, and southern states as well as the District of Columbia. Gas delivered via transportation services to storage is not accounted for as throughput until it is withdrawn from storage and delivered to one of the aforementioned locations via a transportation service. Throughput for Columbia Gulf traditionally consists of gas delivered to Columbia Transmission at Leach, Kentucky as well as gas delivered south of Leach to other interstate pipelines or to an LDC's city gate. Recent changes in market conditions have resulted in more non-traditional throughput such as backhaul transportation services that originate in Leach that flow southward. Columbia Gulf has begun to flow gas in a southerly direction from its Louisiana interconnects to markets in the southeastern United States. Crossroads Pipeline serves customers in Northern Indiana and Ohio via gas flowing west to east originating from outside the Chicago area to Cygnet, Ohio where it interconnects with Columbia Transmission. Intra-segment eliminations represent gas delivered to an affiliated pipeline within the segment. Throughput for the Columbia Pipeline Group Operations segment totaled 260.0 MMDth for the third quarter of 2013, compared to 312.2 MMDth for the same period in 2012. The decrease of 52.2 MMDth was primarily attributable to a decrease in value between traditional Gulf Coast supplies and Columbia Pipeline Group's markets.

Throughput for the Columbia Pipeline Group Operations segment totaled 1,085.4 MMDth for the nine months ended September 30, 2013, compared to 1,145.8 MMDth for the same period in 2012. The colder weather, which drove a majority of the increase on the Columbia Transmission system, was more than offset by the impact from increased production of Appalachian shale gas that resulted in fewer deliveries being made by Columbia Gulf to Columbia Transmission at Leach, Kentucky.

Net Revenues

Net revenues were \$282.6 million for the third quarter of 2013, an increase of \$94.5 million from the same period in 2012. The increase in net revenues is primarily due to the 2012 customer settlement at Columbia Transmission, which resulted in an increase in net revenues of \$66.0 million and higher regulatory trackers, which are offset in expense, of \$26.7 million.

Net revenues were \$857.6 million for the nine months ended September 30, 2013, an increase of \$154.1 million from the same period in 2012. The increase in net revenues is due primarily to higher regulatory trackers, which are offset in expense, of \$96.5 million, the impacts of the customer settlement at Columbia Transmission, which resulted in an increase in net revenues of \$50.2 million, higher commodity and demand revenue of \$4.7 million and increased mineral rights royalty revenue of \$4.4 million. These increases were partially offset by lower shorter term

transportation services of \$3.5 million.

**Operating Income**

Operating income was \$98.7 million for the third quarter of 2013, an increase of \$59.9 million from the third quarter of 2012. Operating income increased as a result of higher net revenues, as described above, and higher equity earnings, partially offset by increased operating expenses. Operating expenses increased \$37.1 million primarily as a result of increased regulatory trackers, which are offset in net revenues, of \$26.7 million, higher depreciation of \$18.5 million primarily due to the Columbia Transmission customer settlement and software data conversion costs of \$7.5 million. These increases were partially offset by a gain on the sale of storage base gas of \$11.1 million and decreased outside services of \$2.2 million. Equity earnings increased \$2.5 million primarily from higher earnings at Millennium.

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

NiSource Inc.

Columbia Pipeline Group Operations

Operating income was \$321.0 million for the nine months ended September 30, 2013, an increase of \$52.1 million from the comparable 2012 period. Operating income increased as a result of higher net revenues, as described above, partially offset by increased operating expenses. Operating expenses increased \$103.4 million primarily as a result of increased regulatory trackers, which are offset in net revenues, of \$96.5 million, software data conversion costs of \$7.5 million, higher depreciation of \$4.7 million primarily due to increased capital expenditures placed in service, an increase in employee and administrative expenses of \$3.8 million and higher other taxes of \$2.8 million. These increases were partially offset by a gain on the sale of storage base gas of \$11.1 million.

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

NiSource Inc.

Electric Operations

(in millions)	Three Months Ended		Nine Months Ended		
	September 30, 2013	2012	September 30, 2013	2012	
Net Revenues					
Sales revenues	\$413.7	\$418.5	\$1,176.4	\$1,149.0	
Less: Cost of sales (excluding depreciation and amortization)	142.2	141.7	408.4	382.5	
Net Revenues	271.5	276.8	768.0	766.5	
Operating Expenses					
Operation and maintenance	107.1	113.2	323.7	333.0	
Depreciation and amortization	60.6	63.7	184.2	186.2	
Other taxes	16.3	16.2	47.9	47.1	
Total Operating Expenses	184.0	193.1	555.8	566.3	
Operating Income	\$87.5	\$83.7	\$212.2	\$200.2	
Revenues (\$ in millions)					
Residential	\$122.1	\$126.5	\$326.1	\$320.1	
Commercial	116.8	111.8	324.8	316.4	
Industrial	155.3	137.3	467.0	443.0	
Wholesale	3.1	4.8	20.8	12.4	
Other	16.4	38.1	37.7	57.1	
Total	\$413.7	\$418.5	\$1,176.4	\$1,149.0	
Sales (Gigawatt Hours)					
Residential	1,000.5	1,118.7	2,633.7	2,761.1	
Commercial	1,066.1	1,071.1	2,929.9	2,955.3	
Industrial	2,337.2	2,247.9	6,913.1	6,964.9	
Wholesale	108.6	157.9	664.6	233.0	
Other	31.3	26.7	91.5	85.1	
Total	4,543.7	4,622.3	13,232.8	12,999.4	
Cooling Degree Days	531	674	781	1,051	
Normal Cooling Degree Days	570	578	799	808	
% (Colder) Warmer than Normal	(7	)% 17	% (2	)% 30	%

## Electric Customers

Residential	401,174	400,158
Commercial	54,267	53,884
Industrial	2,371	2,441
Wholesale	728	715
Other	6	6
Total	458,546	457,204

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 459 thousand customers in 20 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer

season.

Electric Supply

On October 28, 2011, Northern Indiana filed its 2011 Integrated Resource Plan with the IURC. The plan evaluates demand-side and supply-side resource alternatives to reliably and cost-effectively meet Northern Indiana customers' future energy requirements

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

NiSource Inc.

Electric Operations

over the next twenty years. Existing resources are expected to be sufficient, assuming favorable outcomes for environmental upgrades, to meet customers' needs for the next decade. Northern Indiana continues to monitor and assess economic, regulatory and legislative activity, and will update its resource plan as appropriate.

## Regulatory Matters

Refer to Note 6, "Regulatory Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on significant rate developments and cost recovery and trackers for the Electric Operations segment.

## Environmental Matters

Various environmental matters occasionally impact the Electric Operations segment. As of September 30, 2013, a reserve has been recorded to cover probable and estimable environmental response actions. Refer to Note 17-C, "Environmental Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information regarding environmental matters for the Electric Operations segment.

## Sales

Electric Operations sales quantities for the third quarter 2013 were 4,543.7 gwh, a decrease of 78.6 gwh compared to the third quarter of 2012. The 1.7% decrease is primarily attributable to a decrease in residential usage.

Electric Operations sales quantities for the nine months ended September 30, 2013 were 13,232.8 gwh, an increase of 233.4 gwh compared to the same period in 2012. The 1.8% increase is primarily attributable to an increase in wholesale usage.

## Net Revenues

Net revenues were \$271.5 million for the third quarter of 2013, a decrease of \$5.3 million from the same period in 2012. The decrease in net revenues is due primarily to the effects of colder weather of \$8.9 million, lower environmental trackers, which are offset in expense, of \$8.4 million, a decrease of \$3.8 million related to the final reconciliation of the revenue credit recorded in 2012 and lower residential margins of \$1.6 million. These decreases were partially offset by an increase in environmental investment cost recovery of \$7.2 million and higher commercial and industrial margins of \$6.9 million.

At Northern Indiana, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased fuel costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustment to Other gross revenues for the three and nine months ended September 30, 2013 was a revenue increase of \$6.9 million and \$6.6 million, respectively, compared to an increase of \$17.3 million and a decrease of \$0.9 million for the three and nine months ended September 30, 2012, respectively.

Net revenues were \$768.0 million for the nine months ended September 30, 2013, an increase of \$1.5 million from the same period in 2012. The increase in net revenues is due primarily to an increase in environmental investment cost recovery of \$20.4 million, higher industrial, residential and commercial margins of \$10.0 million and transmission upgrade revenue of \$6.5 million. These increases were partially offset by the effects of colder weather of \$13.0 million, lower environmental trackers, which are offset in expense, of \$12.2 million, a decrease of \$4.7 million related to the final reconciliation of the revenue credit recorded in 2012, higher fuel handling costs of \$3.3 million and a decrease in a RTO recovery mechanism of \$2.9 million, which is offset in expense.

## Operating Income

For the third quarter of 2013, Electric Operations reported operating income of \$87.5 million, an increase of \$3.8 million from the comparable 2012 period. Operating income increased as a result of decreased operating expenses partially offset by lower net revenues, as described above. Operating expenses decreased \$9.1 million due primarily to lower environmental trackers, which are offset in net revenues, of \$8.4 million, decreased storm damage costs of \$2.8

million and lower electric generation costs of \$2.7 million. These decreases were partially offset by higher employee and administrative costs of \$3.8 million.

For the nine months ended September 30, 2013, Electric Operations reported operating income of \$212.2 million, an increase of \$12.0 million from the comparable 2012 period. Operating income increased as a result of higher net revenues, as described above, and decreased operating expenses. Operating expenses decreased \$10.5 million due primarily to lower environmental trackers, which are offset in net revenues, of \$12.2 million, decreased electric generation costs of \$11.2 million as a result of the timing of outages and maintenance and lower MISO fees of \$2.9 million, which are offset in revenue by a RTO recovery mechanism. These decreases were partially offset by increased employee and administrative expenses of \$12.3 million and higher depreciation and amortization, excluding trackers described above, of \$4.0 million.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NiSource Inc.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NiSource’s Chief Executive Officer and its Principal Financial Officer, after evaluating the effectiveness of NiSource’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource’s disclosure controls and procedures are considered effective.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by NiSource in the reports that it files or submits under the Exchange Act is accumulated and communicated to NiSource’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

During the quarter ended September 30, 2013, NiSource implemented the first phase of a multi-year process of migrating its subsidiaries to a common financial general ledger. During this phase, Columbia of Massachusetts migrated to the new general ledger system. Additional phases will continue through the end of 2015 with other NiSource subsidiaries migrating to the common financial general ledger. The implementation is not being made in response to any deficiency in our internal controls. This implementation has resulted in certain changes to business processes and internal controls impacting our financial reporting. NiSource has taken steps to monitor and maintain appropriate internal control over financial reporting during this phase and will continue to evaluate the operating effectiveness of related controls during subsequent phases and periods.

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

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PART II

ITEM 1. LEGAL PROCEEDINGS

NiSource Inc.

In 1995, Columbia Transmission entered into an AOC with the EPA that requires Columbia Transmission to characterize and remediate environmental contamination at thousands of locations along Columbia Transmission's pipeline system. One of the facilities subject to the AOC is the Majorsville Operations Center, which was remediated under the EPA approved Remedial Action Work Plan in summer of 2008. The completed work was approved by the EPA, and Columbia Transmission continues to monitor the site subject to the EPA oversight.

On April 23, 2009, however, the PADEP issued Columbia Transmission an NOV, alleging that the remediation did not fully address the site's impact on an adjacent stream, which Columbia Transmission disputes. The NOV asserts violations of the Pennsylvania Clean Streams Law and the Pennsylvania Solid Waste Management Act and contains a settlement demand in the amount of \$1 million. The PADEP has not initiated a legal proceeding since issuance of the NOV. Columbia Transmission believes that it is reasonably unlikely that a penalty will be assessed.

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors disclosed in NiSource's 2012 Annual Report on Form 10-K filed on February 19, 2013.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

NiSource Inc.

- (10.1) Amended and Restated Revolving Credit Agreement (the "Agreement") with the lenders party thereto, Barclays Bank PLC, as Administrative Agent, Credit Suisse Securities (USA) LLC, as Syndication Agent, The Bank of Tokyo-Mitsubishi UFJ Ltd., Citibank, N.A. and JPMorgan Chase Bank, N.A., as Co-Documentation Agents, and Barclays Bank PLC, Credit Suisse Securities (USA) LLC, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Bookrunners dated September 30, 2013.
- (31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Certification of Stephen P. Smith, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
- (32.2) Certification of Stephen P. Smith, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
- (101.INS) XBRL Instance Document
- (101.SCH) XBRL Schema Document
- (101.CAL) XBRL Calculation Linkbase Document
- (101.LAB) XBRL Labels Linkbase Document
- (101.PRE) XBRL Presentation Linkbase Document
- (101.DEF) XBRL Definition Linkbase Document
- Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

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SIGNATURE

NiSource Inc.

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

NiSource Inc.  
(Registrant)

Date: October 31, 2013

By: /s/ Jon D. Veurink  
Jon D. Veurink  
Vice President and Chief Accounting Officer  
(Principal Accounting Officer  
and Duly Authorized Officer)