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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
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.)
Yesþ 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 þ 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 þ
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 312,580,862 shares outstanding at July 25, 2013.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED JUNE 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
BPAE	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)
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
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
Mcf	Thousand cubic feet
MMcf	Million cubic feet
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station

DEFINED TERMS (continued)

Mizuho	Mizuho Corporate Bank Ltd.
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO_2	Nitrogen dioxide
NOx	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_2	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)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share amounts)	2013	2012	2013	2012
Net Revenues				
Gas Distribution	$393.3	$282.6	$1,285.5	$1,156.3
Gas Transportation and Storage	366.5	356.2	835.0	765.4
Electric	384.5	377.1	761.8	729.7
Other	68.0	22.9	124.3	35.6
Gross Revenues	1,212.3	1,038.8	3,006.6	2,687.0
Cost of Sales (excluding depreciation and amortization)	359.9	238.8	1,047.6	866.2
Total Net Revenues	852.4	800.0	1,959.0	1,820.8
Operating Expenses				
Operation and maintenance	452.9	391.1	908.3	792.0
Depreciation and amortization	143.3	147.3	286.9	292.7
Gain on sale of assets, net	(0.2)	(1.5)	(0.4)	(3.1)
Other taxes	70.9	66.6	157.7	153.4
Total Operating Expenses	666.9	603.5	1,352.5	1,235.0
Equity Earnings in Unconsolidated Affiliates	8.0	8.5	15.1	16.2
Operating Income	193.5	205.0	621.6	602.0
Other Income (Deductions)				
Interest expense, net	(102.0)	(103.2)	(200.6)	(206.5)
Other, net	13.3	2.8	17.4	3.1
Total Other Deductions	(88.7)	(100.4)	(183.2)	(203.4)
Income from Continuing Operations before Income Taxes	104.8	104.6	438.4	398.6
Income Taxes	32.7	36.3	150.9	138.2
Income from Continuing Operations	72.1	68.3	287.5	260.4
(Loss) Income from Discontinued Operations - net of taxes	(0.4)	1.1	8.3	2.4
Gain on Disposition of Discontinued Operations - net of taxes	—	—	36.4	—
Net Income	$71.7	$69.4	$332.2	$262.8
Basic Earnings Per Share				
Continuing operations	$0.23	$0.25	$0.92	$0.92
Discontinued operations	—	—	0.14	0.01
Basic Earnings Per Share	$0.23	$0.25	$1.06	$0.93
Diluted Earnings Per Share				
Continuing operations	$0.23	$0.23	$0.92	$0.88
Discontinued operations	—	—	0.14	0.01
Diluted Earnings Per Share	$0.23	$0.23	$1.06	$0.89
Dividends Declared Per Common Share	$0.25	$0.24	$0.73	$0.70
Basic Average Common Shares Outstanding	312.2	284.4	311.7	283.6
Diluted Average Common Shares	313.2	295.8	312.6	294.6

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Statements of Consolidated Comprehensive Income (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, net of taxes)	2013	2012	2013	2012
Net Income	$71.7	$69.4	$332.2	$262.8
Other comprehensive income (loss)				
Net unrealized (loss) gain on available-for-sale securities[(1)]	(2.9)	0.3	(3.3)	(2.5)
Net unrealized gain on cash flow hedges[(2)]	0.5	0.9	1.4	1.9
Unrecognized pension benefit and OPEB costs[(3)]	2.7	0.7	5.4	1.3
Total other comprehensive income	0.3	1.9	3.5	0.7
Total Comprehensive Income	$72.0	$71.3	$335.7	$263.5

(1) Net unrealized (loss) gain on available-for-sale securities, net of $1.7 million tax benefit and $0.2 million tax expense in the second quarter of 2013 and 2012, respectively, and $1.8 million tax benefit for the first six months of 2013 and 2012.

(2) Net unrealized gains on derivatives qualifying as cash flow hedges, net of $0.3 million and $0.6 million tax expense in the second quarter of 2013 and 2012, and $0.9 million and $1.2 million tax expense for the first six months of 2013 and 2012, respectively.

(3) Unrecognized pension benefit and OPEB costs, net of $1.8 million and $0.3 million tax expense in the second quarter of 2013 and 2012, respectively, and $3.5 million and $0.8 million tax expense for the first six months of 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)	June 30, 2013	December 31, 2012
ASSETS		
Property, Plant and Equipment		
Utility Plant	$22,346.0	$21,642.3
Accumulated depreciation and amortization	(9,169.7)	(8,986.4)
Net utility plant	13,176.3	12,655.9
Other property, at cost, less accumulated depreciation	297.6	260.0
Net Property, Plant and Equipment	13,473.9	12,915.9
Investments and Other Assets		
Unconsolidated affiliates	279.4	243.3
Other investments	189.1	194.4
Total Investments and Other Assets	468.5	437.7
Current Assets		
Cash and cash equivalents	44.5	36.3
Restricted cash	29.3	46.8
Accounts receivable (less reserve of $32.2 and $24.0, respectively)	716.5	907.3
Income tax receivable	6.4	130.9
Gas inventory	266.0	326.6
Underrecovered gas and fuel costs	0.6	45.0
Materials and supplies, at average cost	114.9	97.4
Electric production fuel, at average cost	38.8	71.7
Price risk management assets	39.6	92.2
Exchange gas receivable	81.1	51.5
Assets of discontinued operations and assets held for sale	—	26.7
Regulatory assets	145.5	162.8
Prepayments and other	224.4	357.2
Total Current Assets	1,707.6	2,352.4
Other Assets		
Price risk management assets	33.9	56.0
Regulatory assets	1,902.2	2,024.4
Goodwill	3,666.2	3,677.3
Intangible assets	281.2	286.6
Deferred charges and other	88.1	94.4
Total Other Assets	5,971.6	6,138.7
Total Assets	$21,621.6	$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)	June 30, 2013	December 31, 2012
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders' Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 312,420,078 and 310,280,867 shares outstanding, respectively	$3.1	$3.1
Additional paid-in capital	4,646.0	4,597.6
Retained earnings	1,164.1	1,059.6
Accumulated other comprehensive loss	(62.0)	(65.5)
Treasury stock	(48.5)	(40.5)
Total Common Stockholders' Equity	5,702.7	5,554.3
Long-term debt, excluding amounts due within one year	7,616.7	6,819.1
Total Capitalization	13,319.4	12,373.4
Current Liabilities		
Current portion of long-term debt	70.7	507.2
Short-term borrowings	377.7	776.9
Accounts payable	393.0	538.9
Dividends payable	78.1	—
Customer deposits and credits	164.7	269.6
Taxes accrued	202.1	235.5
Interest accrued	125.2	133.7
Overrecovered gas and fuel costs	64.6	22.1
Price risk management liabilities	47.5	95.2
Exchange gas payable	126.3	146.2
Deferred revenue	5.1	42.8
Regulatory liabilities	80.0	171.6
Accrued liability for postretirement and postemployment benefits	6.1	6.1
Liabilities of discontinued operations and liabilities held for sale	—	3.9
Legal and environmental reserves	43.1	42.2
Other accruals	283.8	309.7
Total Current Liabilities	2,068.0	3,301.6
Other Liabilities and Deferred Credits		
Price risk management liabilities	5.0	20.3
Deferred income taxes	3,062.7	2,953.3
Deferred investment tax credits	22.9	24.8
Deferred credits	92.1	84.1
Noncurrent deferred revenue	37.2	—
Accrued liability for postretirement and postemployment benefits	1,020.3	1,107.3
Regulatory liabilities and other removal costs	1,610.5	1,593.3
Asset retirement obligations	167.1	160.4
Other noncurrent liabilities	216.4	226.2
Total Other Liabilities and Deferred Credits	6,234.2	6,169.7
Commitments and Contingencies (Refer to Note 17)	—	—
Total Capitalization and Liabilities	$21,621.6	$21,844.7

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Statements of Consolidated Cash Flows (unaudited)

Six Months Ended June 30, (in millions)	2013	2012
Operating Activities		
Net Income	$332.2	$262.8
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:		
Depreciation and amortization	286.9	292.7
Net changes in price risk management assets and liabilities	4.1	(20.1)
Deferred income taxes and investment tax credits	167.4	129.0
Deferred revenue	(0.4)	(2.2)
Stock compensation expense and 401(k) profit sharing contribution	23.0	19.7
Gain on sale of assets	(0.4)	(3.1)
Income from unconsolidated affiliates	(15.2)	(14.9)
Gain on disposition of discontinued operations - net of tax	(36.4)	—
Income from discontinued operations - net of taxes	(8.3)	(2.4)
Amortization of debt related costs	4.6	4.7
AFUDC equity	(8.0)	(3.0)
Distributions of earnings received from equity investees	12.3	17.2
Changes in Assets and Liabilities:		
Accounts receivable	194.5	304.4
Income tax receivable	124.5	0.2
Inventories	73.2	133.6
Accounts payable	(119.2)	(147.5)
Customer deposits and credits	(104.9)	(111.7)
Taxes accrued	(45.4)	(34.8)
Interest accrued	(8.5)	4.7
Overrecovered gas and fuel costs	86.9	54.1
Exchange gas receivable/payable	(49.4)	(44.7)
Other accruals	(33.3)	(92.8)
Prepayments and other current assets	36.2	35.2
Regulatory assets/liabilities	40.9	7.3
Postretirement and postemployment benefits	(79.3)	(12.6)
Deferred credits	9.5	8.5
Deferred charges and other noncurrent assets	5.2	(18.3)
Other noncurrent liabilities	(9.4)	(1.1)
Net Operating Activities from Continuing Operations	883.3	764.9
Net Operating Activities from Discontinued Operations	11.2	6.9
Net Cash Flows from Operating Activities	894.5	771.8
Investing Activities		
Capital expenditures	(801.7)	(617.9)
Proceeds from disposition of assets	0.7	2.2
Restricted cash withdrawals	17.4	75.9
Contributions to equity investees	(32.7)	(7.6)
Other investing activities	(23.6)	(19.9)
Net Investing Activities used for Continuing Operations	(839.9)	(567.3)
Net Investing Activities from (used for) Discontinued Operations	121.8	(1.6)

Net Cash Flows used for Investing Activities	(718.1)	(568.9)
Financing Activities		
Issuance of long-term debt	815.3	991.4
Retirement of long-term debt	(451.0)	(7.8)
Premiums and other debt related costs	—	(3.4)
Change in short-term borrowings, net	(399.2)	(1,031.4)
Issuance of common stock	24.1	30.0
Acquisition of treasury stock	(7.9)	(10.0)
Dividends paid - common stock	(149.5)	(130.4)
Net Cash Flows used for Financing Activities	(168.2)	(161.6)
Change in cash and cash equivalents (used for) from continuing operations	(124.8)	36.0
Cash contributions from discontinued operations	133.0	5.3
Cash and cash equivalents at beginning of period	36.3	11.5
Cash and Cash Equivalents at End of Period	$44.5	$52.8

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

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

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

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 impact on its Condensed Consolidated Financial Statements (unaudited) and Notes to Condensed Consolidated Financial Statements (unaudited).

In July 2013, the FASB issued ASU 2013-11, which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward or tax credit carryforward exists. The ASU is effective for annual periods beginning after December 15, 2013, and interim periods within those annual periods. NiSource is currently reviewing the provisions of the new standard to determine the impact on its Condensed Consolidated Financial Statements (unaudited) and Notes to Condensed Consolidated Financial Statements (unaudited) but expects that the ASU will not have a material impact.

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS includes the incremental effects of the various long-term incentive compensation plans and the forward agreements, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2013	2012	2013	2012
Denominator				
Basic average common shares outstanding	312,177	284,370	311,652	283,648
Dilutive potential common shares:				
Stock options	171	201	156	157

Shares contingently issuable under employee stock plans	350	284	327	270
Shares restricted under stock plans	471	620	466	607
Forward agreements	—	10,292	—	9,921
Diluted Average Common Shares	313,169	295,767	312,601	294,603

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

4. Discontinued Operations and Assets and Liabilities Held for Sale

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 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 disposal 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 June 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	Other Assets	Total
Gas Distribution Operations	$21.5	$4.5	$26.0
Electric Operations	—	0.7	0.7
Total	$21.5	$5.2	$26.7

Liabilities of discontinued operations and held for sale:	Other Liabilities	Total
Gas Distribution Operations	$3.3	$3.3
Electric Operations	0.6	0.6
Total	$3.9	$3.9

Total assets and liabilities of discontinued operations and held for sale in the table above relate to the service plan and leasing lines of business 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, 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).

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2013	2012	2013	2012
Revenues from Discontinued Operations	$—	$9.8	$—	$20.3
(Loss) Income from discontinued operations	(0.7)	1.9	13.4	4.1
Income tax (benefit) expense	(0.3)	0.8	5.1	1.7
(Loss) Income from Discontinued Operations - net of taxes	$(0.4)	$1.1	$8.3	$2.4
Gain on Disposition of Discontinued Operations - net of taxes	$—	$—	$36.4	$—

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 six months ended June 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	0.6	0.5
Accretion recorded as a regulatory asset/liability	4.4	4.3
Additions	3.0	—
Settlements	(0.6)	(1.5)
Change in estimated cash flows	(0.7)	—
Balance as of June 30,	$167.1	$149.7

6. Regulatory Matters
Gas Distribution Operations Regulatory Matters
Significant Rate Developments. 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. A decision on the filing is expected by the end of 2013.
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. The parties have filed comments and are awaiting a ruling from the PUCO.

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. Comments have been filed and the parties are awaiting a PUCO ruling.

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.

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 discovery, and a hearing will likely be scheduled for the fourth quarter of 2013. If approved, new rates are expected to go into effect 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 recently 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 that features a revenue increase of $55.3 million annually and the implementation of a Weather Normalization Adjustment, whereby residential charges will be 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.

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. The Maryland Office of Peoples Counsel has opposed recovery of the cost to acquire and remediate impacted property that is adjacent to the service center. Commission Staff has recommended that Columbia of Maryland recover half of the cost to acquire and remediate the adjacent property. Hearings were held in June 2013, with new rates expected to take 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 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 the subject of trackers, result in a corresponding increase in net revenues and therefore have essentially no impact on total operating income results.

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

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 provides 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, that 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.

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 purchase 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 calculated by the FERC's forward looking rate, based on an average construction work in progress balance of $19.8 million. For the six months ended June 30, 2013 revenue of $1.5 million was recorded.

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 Northern Indiana's next general rate case. The periodic rate adjustment mechanism is capped at an

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annual increase of no more than two percent in total retail revenues. On July 19, 2013, Northern Indiana filed its electric TDSIC 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.

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 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.

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, basis contracts, financial commodity swaps, and interest rate swaps) to effectively manage its commodity price risk and interest rate risk exposure. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recognized currently in earnings. For derivative contracts that qualify for the normal purchase and normal sales exception, a contract's fair value is not recognized in the 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, basis swap contracts or other derivative contracts. Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These commodity price risk programs and their respective accounting treatment are described below.

Northern Indiana, Columbia of Pennsylvania, Columbia of Kentucky 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 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 DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill in future months at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, forward physical contracts, NYMEX futures and NYMEX options have been used to secure forward gas prices. The 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.

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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.

NiSource is in the process of winding down its unregulated natural gas marketing business, where gas financial contracts are utilized to economically hedge expected future gas purchases associated with forward gas agreements. These financial contracts, as well as the associated forward physical sales contracts, are derivatives and are marked-to-market with all associated gains and losses recognized to income. NiSource established a reserve of $0.3 million and $0.7 million against certain derivatives as of June 30, 2013 and December 31, 2012, respectively. This amount represents reserves related to the creditworthiness of certain customers, fair value of future cash flows, and the cost of maintaining significant amounts of restricted cash. The physical sales contracts marked-to-market had a fair value of approximately $14.7 million at June 30, 2013, and $35.4 million at December 31, 2012, while the financial derivative contracts marked-to-market had a fair value loss of $15.0 million at June 30, 2013, and $33.2 million at December 31, 2012.

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

	June 30, 2013	December 31, 2012
Commodity Price Risk Program:		
Gas price volatility program derivatives (MMDth)	23.9	26.3
Price Protection Service program derivatives (MMDth)	0.7	1.2
DependaBill program derivatives (MMDth)	0.2	0.3
Gas marketing program derivatives (MMDth)(1)	3.9	9.1
Gas marketing forward physical derivatives (MMDth)(2)	3.8	8.4
Electric energy program FTR derivatives (mw)	3,026.7	8,927.3

(1)Basis contract volumes not included in the above table were 3.5 MMDth and 8.2 MMDth as of June 30, 2013 and December 31, 2012, respectively.

(2)Basis contract volumes not included in the above table were 4.0 MMDth and 9.2 MMDth as of June 30, 2013 and December 31, 2012, respectively.

Interest Rate Risk Activities. NiSource recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure. NiSource Finance has entered into various “receive fixed” and “pay floating” interest rate swap agreements which modify the interest rate characteristics of 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 June 30, 2013, NiSource had $7.4 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 six months ended June 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 June 30, 2013, AOCI includes $9.0 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 June 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 $18.2 million, net of tax, as of June 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).
NiSource’s location and fair value of derivative instruments on the Condensed Consolidated Balance Sheets (unaudited) were:

Asset Derivatives (in millions)	June 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)	$—	$—
Price risk management assets (noncurrent)	30.9	40.4
Total derivatives designated as hedging instruments	$30.9	$40.4
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management assets (current)	$39.6	$92.2
Price risk management assets (noncurrent)	3.0	15.6
Total derivatives not designated as hedging instruments	$42.6	$107.8
Total Asset Derivatives	$73.5	$148.2

Liability Derivatives (in millions)	June 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
Price risk management liabilities (noncurrent)	—	—
Total derivatives designated as hedging instruments	$—	$0.1
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	$47.5	$95.1
Price risk management liabilities (noncurrent)	5.0	20.3
Total derivatives not designated as hedging instruments	$52.5	$115.4
Total Liability Derivatives	$52.5	$115.5

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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The tables below represent the amounts subject to an enforceable master netting arrangement not otherwise disclosed:

Offsetting of Derivative Assets (in millions)
As of June 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	$27.9	$—	$27.9	$(27.9)	$—
Counterparty B	0.2	—	0.2	(9.5)	(9.3)
Other (1)	45.4	—	45.4	—	45.4
Total	$73.5	$—	$73.5	$(37.4)	$36.1

Offsetting of Derivative Liabilities (in millions)
As of June 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	$(41.9)	$—	$(41.9)	$27.9	$(14.0)
Counterparty B	(9.5)	—	(9.5)	9.5	—
Other (1)	(1.1)	—	(1.1)	—	(1.1)
Total	$(52.5)	$—	$(52.5)	$37.4	$(15.1)

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	$71.8	$—	$71.8	$(71.8)	$—
Counterparty B	0.9	—	0.9	(0.9)	—
Other (1)	75.5	—	75.5	—	75.5
Total	$148.2	$—	$148.2	$(72.7)	$75.5

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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	$(103.4)	$—	$(103.4)	$71.8	$(31.6)
Counterparty B	(10.8)	—	(10.8)	0.9	(9.9)
Other [1]	(1.3)	—	(1.3)	—	(1.3)
Total	$(115.5)	$—	$(115.5)	$72.7	$(42.8)

[1] Amounts in 'Other' include physical positions with counterparties that are part of NiSource's 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)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) June 30, 2013	June 30, 2012	Location of Loss Reclassified from AOCI into Income (Effective Portion)	Amount of Loss Reclassified from AOCI into Income (Effective Portion) June 30, 2013	June 30, 2012
Commodity price risk programs	$(0.1)	$0.3	Cost of Sales	$—	$(0.2)
Interest rate risk activities	—	0.4	Interest expense, net	(0.4)	(0.7)
Total	$(0.1)	$0.7		$(0.4)	$(0.9)

Six Months Ended (in millions)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivative (Effective Portion) June 30, 2013	June 30, 2012	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) June 30, 2013	June 30, 2012
Commodity price risk programs	$—	$0.6	Cost of Sales	$0.1	$(0.8)
Interest rate risk activities	—	0.8	Interest expense, net	(0.8)	(1.3)
Total	$—	$1.4		$(0.7)	$(2.1)

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 six months ended June 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 zero.

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Derivatives in Fair Value Hedging Relationships

Three Months Ended (in millions)

Derivatives in Fair Value Hedging Relationships	Location of Gain Recognized in Income on Derivatives	Amount of Gain Recognized in Income on Derivatives	
		June 30, 2013	June 30, 2012
Interest rate risk activities	Interest expense, net	$0.2	$0.8
Total		$0.2	$0.8

Six 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	
		June 30, 2013	June 30, 2012
Interest rate risk activities	Interest expense, net	$(9.5)	$(8.2)
Total		$(9.5)	$(8.2)

Three Months Ended (in millions)

Hedged Item in Fair Value Hedge Relationships	Location of Loss Recognized in Income on Related Hedged Item	Amount of Loss Recognized in Income on Related Hedged Items	
		June 30, 2013	June 30, 2012
Fixed-rate debt	Interest expense, net	$(0.2)	$(0.8)
Total		$(0.2)	$(0.8)

Six 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	
		June 30, 2013	June 30, 2012
Fixed-rate debt	Interest expense, net	$9.5	$8.2
Total		$9.5	$8.2

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 *	
		June 30, 2013	June 30, 2012
Commodity price risk programs	Gas Distribution revenues	$(0.1)	$(0.1)
Commodity price risk programs	Other revenues	10.8	7.7
Commodity price risk programs	Cost of Sales	(3.0)	9.6
Total		$7.7	$17.2

* For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, losses of $7.6 million and $4.7 million for the three months ended June 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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NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Six 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 *	
		June 30, 2013	June 30, 2012
Commodity price risk programs	Gas Distribution revenues	$—	$0.3
Commodity price risk programs	Other revenues	22.8	6.0
Commodity price risk programs	Cost of Sales	(21.5)	(11.5)
Total		$1.3	$(5.2)

* For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, losses of $1.0 million and $15.1 million for the six months ended June 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.

NiSource's derivative instruments measured at fair value as of June 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 $27.7 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 June 30, 2013 and December 31, 2012, respectively.

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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 June 30, 2013 and December 31, 2012:

Recurring Fair Value Measurements June 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 June 30, 2013
Assets				
Commodity Price risk management assets:				
Physical price risk programs	$—	$14.6	$—	$14.6
Financial price risk programs	27.6	0.4	—	28.0
Interest rate risk activities	—	30.9	—	30.9
Available-for-sale securities	22.4	86.2	—	108.6
Total	$50.0	$132.1	$—	$182.1
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	$—	$—	$—	$—
Financial price risk programs	51.3	0.2	1.0	52.5
Total	$51.3	$0.2	$1.0	$52.5

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
Assets				
Commodity Price risk management assets:				
Physical price risk programs	$—	$35.4	$—	$35.4
Financial price risk programs	71.5	0.8	0.1	72.4
Interest rate risk activities	—	40.4	—	40.4
Available-for-sale securities	27.4	84.4	—	111.8
Total	$98.9	$161.0	$0.1	$260.0
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	$—	$—	$—	$—
Financial price risk programs	115.0	0.5	—	115.5
Total	$115.0	$0.5	$—	$115.5

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,

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

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 June 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.
To determine the fair value of derivatives associated with NiSource's unregulated natural gas marketing business, certain reserves were calculated. These reserves were primarily determined by evaluating the credit worthiness of certain customers, fair value of future cash flows, and the cost of maintaining restricted cash. Refer to Note 7, "Risk Management Activities" for additional information on price risk assets.
Price risk management assets also include fixed-to-floating interest-rate swaps, which are designated as fair value hedges, as a means to achieve NiSource's targeted level of variable-rate debt as a percent of total debt. NiSource uses a calculation of future cash inflows and estimated future outflows related to the swap agreements, which are discounted and netted to determine the current fair value. Additional inputs to the present value calculation include the contract terms, as well as market parameters such as current and projected interest rates and volatility. As they are based on observable data and valuations of similar instruments, the interest-rate swaps are categorized in Level 2 in the fair value hierarchy. Credit risk is considered in the fair value calculation of the interest rate swap.
Available-for-sale securities are investments pledged as collateral for trust accounts related to NiSource's wholly-owned insurance company. Available-for-sale securities are included within "Other investments" in the Condensed 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 June 30, 2013 and December 31, 2012 were:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities, June 30, 2013				
U.S. Treasury	$27.5	$0.4	$(0.8)	$27.1
Corporate/Other	82.2	0.9	(1.6)	81.5
Total Available-for-sale debt securities	$109.7	$1.3	$(2.4)	$108.6

(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 June 30, 2013 and 2012, the net realized gain on the sale of available-for-sale U.S. Treasury debt securities was $0.2 million and $0.2 million, respectively. For the three months ended June 30, 2013 and 2012, the net realized gain on sale of available-for-sale Corporate/Other bond debt securities was $0.1 million and zero, respectively.

For the six months ended June 30, 2013 and 2012, the net realized gain on the sale of available-for-sale U.S. Treasury debt securities was $0.4 million and $0.2 million, respectively. For the six months ended June 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 June 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 June 30, 2013, approximately $4.0 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 six months ended June 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 Distributions 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 "Gain on Disposition of Discontinued Operations - net of taxes" on the Condensed Statements of Consolidated Income (unaudited).

There were no significant non-recurring fair value measurements recorded during the six months ended June 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 six months ended June 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 June 30, 2013	Estimated Fair Value as of June 30, 2013	Carrying Amount as of Dec. 31, 2012	Estimated Fair Value as of Dec. 31, 2012
Long-term debt (including current portion)	$7,687.4	$8,296.2	$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.

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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. 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 agreement expires on October 18, 2013, and can be renewed if mutually agreed to by all parties. As of June 30, 2013, $125.1 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. 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 new agreement, which expires on August 28, 2013, is $200 million, and can be further renewed if mutually agreed to by all parties. As of June 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.

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 June 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 June 30, 2013 and December 31, 2012 for Columbia of Ohio, Northern Indiana and Columbia of Pennsylvania:

(in millions)	June 30, 2013	December 31, 2012
Gross Receivables	$455.1	$525.3
Less: Receivables not transferred	195.0	292.0
Net receivables transferred	$260.1	$233.3
Short-term debt due to asset securitization	$260.1	$233.3

For the three months ended June 30, 2013 and 2012, $0.6 million and $0.9 million of fees associated with the securitization transactions were recorded as interest expense, respectively. For the six months ended June 30, 2013 and 2012, fees of $1.5 million and $2.0 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 June 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 June 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 applied the qualitative step 0 analysis to its reporting units for the annual impairment test performed as of May 1, 2013.

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 second 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 June 30, 2013 and 2012 were 31.2% and 34.7%, respectively. The effective tax rates for the six months ended June 30, 2013 and 2012 were 34.4% and 34.7%, 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.

The decrease in the three month effective tax rate of 3.5% in 2013 versus 2012 is due primarily to net state deferred income taxes that were remeasured for changes in future apportioned taxable income. This resulted in a net state income tax benefit of $3.3 million.

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.

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

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 six months ended June 30, 2013, NiSource has contributed $7.2 million to its pension plans and $20.2 million to its other postretirement benefit plans.

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

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended June 30, (in millions)	2013	2012	2013	2012
Components of Net Periodic Benefit Cost				
Service cost	$9.3	$9.4	$3.0	$2.8
Interest cost	24.3	28.2	8.1	9.3
Expected return on assets	(42.1)	(41.1)	(7.6)	(6.7)
Amortization of transition obligation	—	—	0.1	0.3
Amortization of prior service cost	0.1	0.1	(0.2)	(0.1)
Recognized actuarial loss	19.7	20.3	2.8	2.4
Settlement loss	3.6	—	—	—
Total Net Periodic Benefit Costs	$14.9	$16.9	$6.2	$8.0

	Pension Benefits		Other Postretirement Benefits	
Six Months Ended June 30, (in millions)	2013	2012	2013	2012
Components of Net Periodic Benefit Cost				
Service cost	$18.7	$18.8	$6.0	$5.6
Interest cost	48.6	56.4	16.2	18.6
Expected return on assets	(84.5)	(82.2)	(15.2)	(13.4)
Amortization of transition obligation	—	—	0.2	0.6
Amortization of prior service cost	0.2	0.2	(0.4)	(0.2)
Recognized actuarial loss	40.4	40.6	5.6	4.8
Settlement loss	24.3	—	—	—
Total Net Periodic Benefit Costs	$47.7	$33.8	$12.4	$16.0

For the quarters ended June 30, 2013 and 2012, pension and other postretirement benefit cost of approximately $2.3 million and $5.3 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 six months ended June 30, 2013 and 2012, pension and other postretirement benefit cost of approximately $25.8 million and $10.9 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 one-time 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 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. Net periodic pension benefit cost for 2013 was decreased by $4.6 million as a result of the first and second quarter remeasurements.

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

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 May 31, 2013, February 28, 2013 and December 31, 2012:

	May 31, 2013		February 28, 2013		December 31, 2012	
Actuarial Assumptions						
Discount Rate	3.75	%	3.50	%	3.63	%
Expected return on assets	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 $6.4 million and $10.7 million for the six months ended June 30, 2013 and 2012, respectively.

14. Long-Term Debt

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

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 $1.5 billion unsecured revolving credit facility, which expires in May 2017. At June 30, 2013, NiSource had $117.6 million of commercial paper outstanding.

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

During May 2012, NiSource Finance amended its existing $1.5 billion revolving credit facility with a syndicate of banks led by Barclays Capital extending the termination date to May 15, 2017 and also reducing the borrowing costs under the facility. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource’s commercial paper program, provide for issuance of letters of credit, and also for general corporate purposes. At June 30, 2013, NiSource had no outstanding borrowings under this facility.
As of June 30, 2013 and December 31, 2012, NiSource had $38.6 million and $36.4 million of stand-by letters of credit outstanding, of which $20.7 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 $260.1 million and $233.3 million as of June 30, 2013 and December 31, 2012, respectively. Refer to Note 9, “Transfers of Financial Assets,” for additional information.

(in millions)	June 30, 2013	December 31, 2012
Commercial Paper weighted average interest rate of 0.69% and 1.11% at June 30, 2013 and December 31, 2012, respectively.	$117.6	$499.6
Credit facilities borrowings weighted average interest rate of 3.73% at December 31, 2012.	—	