NISOURCE INC/DE
Form 10-K
February 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
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)
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12-b-2 of the Exchange Act.

Large accelerated filer 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 Act). Yes ¨ No þ

The aggregate market value of Common Stock (based upon the June 29, 2012, closing price of $24.75 on the New York Stock Exchange) held by non-affiliates was approximately $7,017,170,104.

There were 311,188,068 shares of Common Stock, $0.01 Par Value outstanding as of February 12, 2013.

Documents Incorporated by Reference

Part III of this report incorporates by reference specific portions of the Registrant’s Notice of Annual Meeting and Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2013.

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DEFINED TERMS

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

NiSource Subsidiaries and Affiliates	
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission L.L.C.
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
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 Inc.
NiSource Midstream	NiSource Midstream Services, L.L.C.
PEI	PEI Holdings, Inc.
Pennant	Pennant Midstream, L.L.C.
Whiting Clean Energy	Whiting Clean Energy, Inc.
Abbreviations	
2010 Health Care Act	The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 signed into law by the President on March 23, 2010 and March 30, 2010, respectively
AFUDC	Allowance for funds used during construction
AICPA	American Institute of Certified Public Accountants
AMI	Area of Mutual Interest
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent

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DEFINED TERMS

AOCI	Accumulated other comprehensive income
ARP	Alternative Regulatory Plan
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.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
Ccf	Hundred cubic feet
CCGT	Combined Cycle Gas Turbine
CCRs	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
CO2	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DSIC	Distribution System Improvement Charge
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours

Hilcorp	Hilcorp Energy Company

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DEFINED TERMS

hp	Horsepower
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IFA	Indiana Finance Authority
IFRS	International Financial Reporting Standards
IIG	Indiana Industrial Group
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
kV	Kilovolt
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
MACT	Maximum Achievable Control Technology
Mcf	Thousand cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station
Mizuho	Mizuho Corporate Bank Ltd.
MMDth	Million dekatherms
mw	Megawatts
mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NLMK	Novolipetsk Steel
NOV	Notice of Violation
NO2	Nitrogen dioxide
NOx	Nitrogen oxides
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
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PM	Particulate matter
PNC	PNC Bank N.A.
PPS	Price Protection Service
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

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DEFINED TERMS

RDAF	Revenue decoupling adjustment factor
RTO	Regional Transmission Organization
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO2	Sulfur dioxide
Sugar Creek	Sugar Creek electric generating plant
TIRF	Targeted Infrastructure Reinvestment Factor
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission
WACOG	Weighted Average Cost of Gas

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ITEM 1. BUSINESS
NISOURCE INC.

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

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

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

Gas Distribution Operations

NiSource’s natural gas distribution operations serve more than 3.3 million customers in seven states and operate approximately 58,000 miles of pipeline. Through its subsidiary, Columbia, NiSource owns five distribution subsidiaries that provide natural gas to approximately 2.2 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, and Maryland. NiSource's subsidiary Northern Indiana also distributes natural gas to approximately 798,000 customers in northern Indiana. Additionally, NiSource’s subsidiary, Columbia Gas of Massachusetts, distributes natural gas to approximately 303,000 customers in Massachusetts.

Gas Transmission and Storage Operations

NiSource’s Gas Transmission and Storage Operations subsidiaries own and operate approximately 15,000 miles of pipeline and operate one of the nation’s largest underground natural gas storage systems capable of storing approximately 637.8 Bcf of natural gas. Through its subsidiaries, Columbia Transmission, Columbia Gulf and Crossroads Pipeline, NiSource owns and operates an interstate pipeline network extending from the Gulf of Mexico to New York and the eastern seaboard. Together, these companies serve customers in 16 northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia.

NiSource’s Gas Transmission and Storage Operations continue to develop a range of supply-driven growth initiatives, including mineral leasing and optimization, midstream projects and traditional pipeline expansion opportunities that leverage NiSource’s strategically positioned pipeline and storage assets. A number of Gas Transmission and Storage Operations’ new growth projects are designed to support increasing Marcellus and Utica shale production, while the segment also has continued to grow and adapt its system to provide critical transportation and storage services to markets across its high-demand service territory.

NiSource Midstream is an unregulated business that is a provider of midstream services including gathering, treating, conditioning, processing, compression and liquids handling. NiSource Midstream has entered into two fee-based transactions designed to support growing production in the Utica and Marcellus resource plays. The first transaction involves the construction of 57 miles of gathering pipeline capable of delivering 425 Mcf of gas per day produced from the Marcellus shale formation. The second transaction is a joint venture with 50 miles of gathering pipeline capable of gathering 600 Mcf per day and a gas processing plant with a capacity of 200 Mcf per day. Both projects are anchored by volumetric and acreage dedications from experienced resource play production companies.

NEVCO is an unregulated business that manages the company's mineral rights positions in the Marcellus and Utica shale areas. NEVCO has entered into multiple transactions to develop its minerals position including a joint venture with an established resource play producer to form an AMI in which NEVCO combined its production rights from a certain acreage position in northeast Ohio with the producer's much larger acreage position in the same area. The transaction resulted in NEVCO participating in the development of the entire acreage position through a non-operating working interest as well as an overriding royalty interest.

The Gas Transmission and Storage Operations subsidiaries are also involved in the joint ventures, Millennium and Hardy Storage, which effectively expand their facilities and throughput. Millennium, which includes 253 miles of 30-inch-diameter pipe across New York’s Southern Tier and lower Hudson Valley, has the capability to transport up to 525,400 Dth per day of natural gas to markets along its route, as well as to the New York City markets through its pipeline interconnections. Millennium is jointly owned by affiliates of NiSource, DTE Energy and National Grid. Hardy Storage, which consists of underground natural gas storage

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facilities in West Virginia, has a working storage capacity of 12 Bcf and the ability to deliver 176,000 Dth of natural gas per day. Hardy Storage is jointly owned by affiliates of Columbia Transmission and Piedmont.

Electric Operations

NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 458,000 customers in 20 counties in the northern part of Indiana and engages in electric wholesale and transmission transactions. Northern Indiana operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,540 mw. Northern Indiana also owns and operates Sugar Creek, a CCGT plant with a 535 mw capacity rating, four gas-fired generating units located at Northern Indiana’s coal-fired electric generating stations with a net capability of 206 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,291 mw. Northern Indiana’s transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,800 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities. During the year ended December 31, 2012, Northern Indiana generated 74.1% and purchased 25.9% of its electric requirements.

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

Corporate and Other Operations

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

Divestiture of Non-Core Assets

In recent years, NiSource sold certain businesses judged to be non-core to NiSource’s strategy. Lake Erie Land, a wholly-owned subsidiary of NiSource, is pursuing the sale of the real estate assets it owns. NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting its low income housing investments. NiSource began marketing to sell the service plan and leasing business lines of its Retail Services business in 2012. The sale of these business lines closed in January 2013. NiSource is also 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.

Business Strategy

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

Competition and Changes in the Regulatory Environment

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

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

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ITEM 1. BUSINESS
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Electric Competition. Northern Indiana currently dispatches all power from its plants into the MISO. Transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff.

Financing Subsidiary

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

Other Relevant Business Information

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

As of December 31, 2012, NiSource had 8,286 employees of whom 3,360 were subject to collective bargaining agreements.

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

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

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ITEM 1A. RISK FACTORS
NISOURCE INC.

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

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

NiSource had total consolidated indebtedness of $8,103.2 million outstanding as of December 31, 2012. The substantial indebtedness could have important consequences to investors. For example, it could:

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

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

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

On December 11, 2012, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 16, 2012, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 29, 2012, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. The collateral requirement that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately $27.8 million. In addition to agreements with ratings triggers, there are other agreements that contain "adequate assurance" or "material adverse change" provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business. Under Columbia of Pennsylvania's trade receivables sales program, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

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

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

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

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ITEM 1A. RISK FACTORS
NISOURCE INC.

Adverse economic and market conditions or increases in interest rates could reduce net revenue growth, increase costs, decrease future net income and cash flows and impact capital resources and liquidity needs.
While the national economy is experiencing some recovery from the recent downturn, NiSource cannot predict how robust the recovery will be or whether or not it will be sustained.
Continued sluggishness in the economy impacting NiSource’s operating jurisdictions could adversely impact NiSource’s ability to grow its customer base and collect revenues from customers, which could reduce net revenue growth and increase operating costs. An increase in the interest rates NiSource pays would adversely affect future net income and cash flows. In addition, NiSource depends on debt to finance its operations, including both working capital and capital expenditures, and would be adversely affected by increases in interest rates. If the current economic recovery remains slow or credit markets again tighten, NiSource’s ability to raise additional capital or refinance debt at a reasonable cost could be negatively impacted. Refer to Note 16, “Long-Term Debt,” in the Notes to Consolidated Financial Statements for information related to outstanding long-term debt and maturities of that debt.
Capital market performance and other factors may decrease the value of benefit plan assets, which then could require significant additional funding and impact earnings.
The performance of the capital markets affects the value of the assets that are held in trust to satisfy future obligations under defined benefit pension and other postretirement benefit plans. NiSource has significant obligations in these areas and holds significant assets in these trusts. These assets are subject to market fluctuations and may yield uncertain returns, which fall below NiSource’s projected rates of return. A decline in the market value of assets may increase the funding requirements of the obligations under the defined benefit pension and other postretirement benefit plans. Additionally, changes in interest rates affect the liabilities under these benefit plans; as interest rates decrease, the liabilities increase, which could potentially increase funding requirements. Further, the funding requirements of the obligations related to these benefits plans may increase due to changes in governmental regulations and participant demographics, including increased numbers of retirements or changes in life expectancy assumptions. Ultimately, significant funding requirements and increased pension expense could negatively impact NiSource’s results of operations and financial position.
The majority of NiSource’s net revenues is subject to economic regulation and is exposed to the impact of regulatory rate reviews and proceedings.
Most of NiSource’s net revenues are subject to economic regulation at either the federal or state level. As such, the net revenues generated by those regulated companies are subject to regulatory review by the applicable federal or state authority. These rate reviews determine the energy rates charged to customers and directly impact revenues. NiSource’s financial results are dependent on frequent regulatory proceedings in order to ensure timely recovery of costs. Additionally, the costs of complying with future changes in environmental laws and regulations are expected to be significant, and their recovery through rates will be contingent on regulatory approval.
As a result of efforts to introduce market-based competition in certain of the markets where the regulated businesses conduct operations, NiSource may compete with independent marketers for customers. This competition exposes NiSource to the risk that certain stranded costs may not be recoverable and may affect results of NiSource’s growth strategy and cash flows.

NiSource’s costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws and the recognition of environmental liabilities could impact cash flow and profitability.
NiSource’s subsidiaries are subject to extensive federal, state and local environmental requirements that, among other things, regulate air emissions, water usage and discharges, remediation and the management of chemicals, hazardous waste, solid waste, and coal combustion residuals. Compliance with these legal obligations requires NiSource to make expenditures for installation of pollution control equipment, remediation, environmental monitoring, emissions fees and permits at many of NiSource’s facilities. These expenditures are significant, and NiSource expects that they will continue to be significant in the future. Furthermore, if NiSource’s subsidiaries fail to comply with environmental laws

and regulations or cause harm to the environment or persons, even if caused by factors beyond NiSource’s control, that failure or harm may result in the assessment of civil or criminal penalties and damages against NiSource and its subsidiaries.

Existing environmental laws and regulations may be revised and new laws and regulations seeking to protect the environment may be adopted or become applicable to NiSource’s subsidiaries. Revised or additional laws and regulations could result in significant additional expense and operating restrictions on NiSource’s facilities or increased compliance costs, which may not

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be fully recoverable from customers and would, therefore, reduce net income. Moreover, such costs could materially affect the continued economic viability of one or more of NiSource's facilities.

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

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

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

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

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

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

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

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

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

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

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ITEM 1A. RISK FACTORS
NISOURCE INC.

NiSource has significant goodwill and definite-lived intangible assets. An impairment of goodwill or definite-lived intangible assets could result in a significant charge to earnings.
In accordance with GAAP, NiSource tests goodwill for impairment at least annually and reviews its definite-lived intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill would also be tested for impairment when factors, examples of which include reduced cash flow estimates, a sustained decline in stock price or market capitalization below book value, indicate that the carrying value may not be recoverable. NiSource would be required to record a charge in the financial statements during the period in which any impairment of the goodwill or definite-lived intangible assets is determined, negatively impacting the results of operations. A significant charge could impact the capitalization ratio covenant under certain financing agreements. A covenant in the five-year revolving credit facility requires NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%. As of December 31, 2012, the ratio was 59.3%.
Changes in taxation and the ability to quantify such changes could adversely affect NiSource’s financial results.
NiSource is subject to taxation by the various taxing authorities at the federal, state and local levels where it does business. Legislation or regulation which could affect NiSource’s tax burden could be enacted by any of these governmental authorities. NiSource cannot predict the timing or extent of such tax-related developments which could have a negative impact on the financial results. Additionally, NiSource uses its best judgment in attempting to quantify and reserve for these tax obligations. However, a challenge by a taxing authority, NiSource’s ability to utilize tax benefits such as carryforwards or tax credits, or a deviation from other tax-related assumptions may cause actual financial results to deviate from previous estimates.
Changes in accounting principles may adversely affect NiSource’s financial results.
Future changes in accounting rules, such as IFRS, and associated changes in regulatory accounting may negatively impact the way NiSource records revenues, expenses, assets and liabilities. These changes in accounting standards may adversely affect its financial results.

Transportation and storage of natural gas, as well as generation, transmission and distribution of electricity involve numerous risks that may result in accidents and other operating risks and costs.
NiSource's gas distribution and gas transmission and storage activities, as well as generation, transmission, and distribution of electricity, involve a variety of inherent hazards and operating risks, such as gas leaks, downed power lines, accidents, including third party damages, large scale outages, and mechanical problems, which could cause substantial financial losses. In addition, these risks could result in serious injury or loss of life to employees and the general public, significant damage to property, environmental pollution and impairment of its operations, which in turn could lead to substantial losses to NiSource. In accordance with customary industry practice, NiSource maintains insurance against some, but not all, of these risks and losses. The location of pipelines and storage facilities, or generation, transmission, substations and distribution facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect NiSource's financial position and results of operations.
Aging infrastructure may lead to increased costs and disruptions in operations that could negatively impact NiSource’s financial results.
NiSource has risks associated with aging infrastructure assets. The age of these assets may result in a need for replacement, a higher level of maintenance costs and unscheduled outages despite diligent efforts by NiSource to properly maintain these assets through inspection, scheduled maintenance and capital investment. The failure to operate these assets as desired could result in NiSource’s inability to meet firm service obligations, adversely impact revenues, and could result in increased capital expenditures and expenses, which may not be fully recoverable from

customers.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

Climate change, natural disasters, acts of terrorism, cyber-attacks or other catastrophic events may disrupt operations and reduce the ability to service customers.
A disruption or failure of natural gas transmission, storage or distribution systems or within electric generation, transmission or distribution systems in the event of a major hurricane, tornado, terrorist attack or other catastrophic event could cause delays in completing sales, providing services, or performing other critical functions. NiSource has experienced disruptions in the past from hurricanes and tornadoes and other events of this nature. The cost, availability and sufficiency of insurance for these risks could adversely affect NiSource’s results of operations, financial position and cash flows.
There is also a concern that climate change may exacerbate the risks to physical infrastructure associated with heat and extreme weather conditions. Climate change and the costs that may be associated with its impacts have the potential to affect NiSource’s business in many ways, including increasing the cost NiSource incurs in providing its products and services, impacting the demand for and consumption of its products and services (due to change in both costs and weather patterns), and affecting the economic health of the regions in which NiSource operates.
Additionally, NiSource's information systems experience ongoing, often sophisticated, cyber-attacks by a variety of sources with the apparent aim to breach NiSource's cyber defenses. Although NiSource attempts to maintain adequate defenses to these attacks and works through industry groups and trade associations to identify common threats and assess NiSource's countermeasures, a security breach of NiSource's information systems could (i) impact the reliability of NiSource's generation, transmission, storage and distribution systems and potentially negatively impact NiSource's compliance with certain mandatory reliability standards, (ii) subject NiSource to harm associated with theft or inappropriate release of certain types of information such as system operating information or information, personal or otherwise, relating to NiSource's customers or employees, or (iii) impact NiSource's ability to manage NiSource's businesses.
NiSource's capital projects subject it to construction risks and natural gas costs and supply risks.
NiSource Gas Transmission & Storage Operations continues to complete and advance customer-driven growth projects across its system, primarily surrounding the Marcellus and Utica shale production area in the states of Pennsylvania, Ohio and West Virginia. Additionally, NiSource is beginning its comprehensive interstate natural gas pipeline modernization program. These projects include constructing or purchasing pipelines and treatment and processing facilities, which subjects NiSource to construction risks and risks that gas supplies will not be available. Some projects may also be subject to risks related to fluctuation in gas costs. NiSource competes for these projects with companies of varying size and financial capabilities, including some that may have advantages competing for natural gas and liquid gas supplies, as well as acquisitions and other business opportunities. Similarly, NiSource Gas Distribution is engaged in an interstate natural gas pipeline modernization program to maintain system integrity and enhance service reliability and flexibility. Northern Indiana also is currently engaged in a number of capital projects, including air-quality related improvements to its electric generating stations, as well as the construction of new transmission facilities. As NiSource undertakes these projects, it may not be able to complete them on schedule or at the anticipated costs. Additionally, NiSource may construct or purchase some of these projects to capture anticipated future growth in natural gas production, which may not materialize, and may cause the construction to occur over an extended period of time. NiSource also may not receive material increases in revenue and cash flows until after the completion of the projects.

Sustained extreme weather conditions may negatively impact NiSource’s operations.
NiSource conducts its operations across a wide geographic area subject to varied and potentially extreme weather conditions, which may from time to time persist for sustained periods of time. Despite preventative maintenance efforts, persistent weather related stress on NiSource’s infrastructure may reveal weaknesses in its systems not previously known to the Company or otherwise present various operational challenges across all business segments. Although NiSource makes every effort to plan for weather related contingencies, adverse weather may affect its

ability to conduct operations in a manner that satisfies customer expectations or contractual obligations. The Company endeavors to minimize such service disruptions, but may not be able to avoid them altogether.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES
NISOURCE INC.

Discussed below are the principal properties held by NiSource and its subsidiaries as of December 31, 2012.
Gas Distribution Operations. NiSource’s Gas Distribution Operations subsidiaries own and operate a total of 57,975 miles of pipelines and certain related facilities. This includes: (i) for the six distribution companies of its Columbia system, 40,536 miles of pipelines, 1,350 reservoir acres of underground storage, eight storage wells, liquid propane facilities with a capacity of 2.9 million gallons, an LNG facility with a total capacity of 22.3 million gallons and one compressor station with 800 hp of installed capacity, and (ii) for its Northern Indiana system, 17,439 miles of pipelines, 27,129 reservoir acres of underground storage, 55 storage wells, one compressor station with a total of 4,000 hp of installed capacity and two LNG facilities with a storage capacity of 53.6 million gallons. The physical properties of the NiSource gas utilities are located throughout Ohio, Indiana, Pennsylvania, Virginia, Kentucky, Maryland, and Massachusetts.
Gas Transmission and Storage Operations. NiSource Gas Transmission and Storage subsidiaries own and operate 15,046 miles of natural gas transmission pipeline. Columbia Transmission owns and leases approximately 764,000 acres of underground storage, 3,454 storage wells, 11,425 miles of pipeline and 90 compressor stations with 622,470 hp of installed capacity. Columbia Transmission’s operations are located in Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia, and West Virginia. Columbia Gulf has 3,370 miles of transmission pipeline and 11 compressor stations with 470,238 hp of installed capacity. Columbia Gulf’s operations are located in Kentucky, Louisiana, Mississippi, Tennessee, Texas and Wyoming. Crossroads Pipeline has 203 miles of transmission pipeline and one compressor station with 3,000 hp of installed capacity. Crossroads Pipeline’s operations are located in Indiana and Ohio. NiSource Midstream owns approximately 106 miles of gathering pipeline and one compressor station with 5,280 hp of installed capacity. NEVCO owns production rights associated with Columbia Transmission's storage fields located in Ohio, Pennsylvania, and West Virginia. NiSource Gas Transmission and Storage Operations’ offices are headquartered in Houston, Texas.
Electric Operations. NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 458,000 customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. Northern Indiana operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,540 mw. Northern Indiana also owns and operates Sugar Creek, a CCGT plant with a 535 mw capacity rating, four gas-fired generating units located at Northern Indiana’s coal-fired electric generating stations with a net capability of 206 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,291 mw. Northern Indiana’s transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,800 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities. During the year ended December 31, 2012, Northern Indiana generated 74.1% and purchased 25.9 % of its electric requirements.
Corporate and Other Operations. NiSource owns the Southlake Complex, its 325,000 square foot headquarters building located in Merrillville, Indiana, and other residential and development property.
Character of Ownership. The principal offices and properties of NiSource and its subsidiaries are owned free from encumbrances, subject to minor exceptions, none of which are of such a nature as to impair substantially the usefulness of such properties. Many of the offices in various communities served are occupied by subsidiaries of NiSource under leases. All properties are subject to routine liens for taxes, assessments and undetermined charges (if any) incidental to construction. It is NiSource’s practice regularly to pay such amounts, as and when due, unless contested in good faith. In general, the electric lines, gas pipelines and related facilities are located on land not owned by NiSource and its subsidiaries, but are covered by necessary consents of various governmental authorities or by appropriate rights obtained from owners of private property. NiSource does not, however, generally have specific easements from the owners of the property adjacent to public highways over, upon or under which its electric lines and gas distribution pipelines are located. At the time each of the principal properties was purchased a title search was made. In general, no examination of titles as to rights-of-way for electric lines, gas pipelines or related facilities was made, other than examination, in certain cases, to verify the grantors’ ownership and the lien status thereof.

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ITEM 3. LEGAL PROCEEDINGS
NISOURCE INC.

Majorsville Operations Center - PADEP Notice of Violation

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

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

On June 29, 2012, Region III EPA issued two Administrative Complaints alleging that Columbia Transmission discharged dredged and/or fill material to waters of the United States in violation of the Clean Water Act during road maintenance projects in West Virginia. Columbia Transmission had self-disclosed the activities to regulatory agencies in 2010 and has removed the fill pursuant to an EPA-approved plan. Columbia Transmission estimates that the penalty for these NOVs will be $75,000. A settlement is expected in 2013.

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ITEM 4. Mine Safety Disclosures
NISOURCE INC.

Not applicable.

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SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT
NISOURCE INC.

The following is a list of the Executive Officers of the Registrant, including their names, ages and offices held, as of February 1, 2013.

Name	Age	Office(s) Held in Past 5 Years
Robert C. Skaggs, Jr.	58	Chief Executive Officer of NiSource since July 2005.
		President of NiSource since October 2004.
Carrie J. Hightman	55	Executive Vice President and Chief Legal Officer of NiSource since December 2007.
Stephen P. Smith	51	Executive Vice President and Chief Financial Officer of NiSource since August 2008.
		Executive Vice President of NiSource from June 2008 to August 2008.
		Senior Vice President of Shared Services for American Electric Power Company from January 2008 to May 2008.
Jimmy D. Staton	52	Executive Vice President and Group Chief Executive Officer since March 2008.
		Senior Vice President, Gas Delivery, Dominion Resources, Inc. from January 2006 to 2008.
Jim L. Stanley	57	Executive Vice President and Group Chief Executive Officer of NiSource since October 2012.
		Senior Vice President, Duke Energy from June 2010 to September 2012.
		President, Duke Energy Indiana from November 2006 to May 2010.
Joseph Hamrock	49	Executive Vice President and Group Chief Executive Officer of NiSource since May 2012.
		President and Chief Operating Officer, American Electric Power Company - Ohio from 2008 to May 2012.
Robert D. Campbell	53	Senior Vice President, Human Resources, of NiSource since May 2006.
Glen L. Kettering	58	Senior Vice President, Corporate Affairs, since March 2006.
Jon D. Veurink	48	Vice President, Controller and Chief Accounting Officer since February 2010.
		Vice President at NiSource Corporate Services from October 2009 to February 2010.
		Vice President, Controller and Chief Accounting Officer, Exelon Generation L.L.C. from January 2004 until September 2009.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NISOURCE INC.

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

	2012		2011	
	High	Low	High	Low
First Quarter	24.55	22.32	19.61	17.71
Second Quarter	25.79	23.59	20.67	18.62
Third Quarter	26.15	23.93	22.91	17.95
Fourth Quarter	25.97	23.14	23.97	20.31

As of December 31, 2012, NiSource had 28,823 common stockholders of record and 310,280,867 shares outstanding.

Holders of shares of NiSource's common stock are entitled to receive dividends when, as and if declared by NiSource's Board out of funds legally available. The policy of the Board has been to declare cash dividends on a quarterly basis payable on or about the 20th day of February, May, August and November. NiSource paid quarterly common dividends totaling $0.94 per share for the year ended December 31, 2012 and $0.92 per share for the years ended 2011, and 2010. At its January 25, 2013 meeting, the Board declared a quarterly common dividend of $0.24 per share, payable on February 20, 2013 to holders of record on February 4, 2013.

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

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ITEM 6. SELECTED FINANCIAL DATA
NISOURCE INC.

The selected data presented below as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 are derived from the Consolidated Financial Statements of NiSource. The data should be read in connection with the Consolidated Financial Statements including the related notes included in Item 8 of this Form 10-K.

Year Ended December 31, (dollars in millions except per share data)	2012	2011	2010	2009	2008
Statement of Income Data:					
Gross Revenues					
Gas Distribution	$1,959.8	$2,917.9	$3,094.0	$3,296.2	$5,171.3
Gas Transportation and Storage	1,462.4	1,354.6	1,261.4	1,239.5	1,132.4
Electric	1,507.7	1,427.7	1,379.3	1,214.2	1,359.7
Other	131.3	274.5	636.5	861.2	1,182.9
Total Gross Revenues	5,061.2	5,974.7	6,371.2	6,611.1	8,846.3
Net Revenues (Gross Revenues less Cost of Sales, excluding depreciation and amortization)	3,519.7	3,428.9	3,407.4	3,301.4	3,220.0
Operating Income	1,042.7	890.1	891.8	786.2	894.5
Income from Continuing Operations	410.6	294.8	276.8	221.5	355.5
Results from Discontinued Operations - net of taxes	5.5	4.3	5.8	(4.5)	(283.9)
Net Income	416.1	299.1	282.6	217.0	71.6
Balance Sheet Data:					
Total Assets	21,844.7	20,708.3	19,913.4	19,262.5	20,023.7
Capitalization					
Common stockholders' equity	5,554.3	4,997.3	4,897.5	4,837.8	4,713.2
Long-term debt, excluding amounts due within one year	6,819.1	6,267.1	5,936.1	5,969.1	5,945.7
Total Capitalization	$12,373.4	$11,264.4	$10,833.6	$10,806.9	$10,658.9
Per Share Data:					
Basic Earnings (Loss) Per Share ($)					
Continuing operations	$1.41	$1.05	$1.00	$0.81	$1.30
Discontinued operations	0.02	0.01	0.02	(0.02)	(1.03)
Basic Earnings Per Share	$1.43	$1.06	$1.02	$0.79	$0.27
Diluted Earnings (Loss) Per Share ($)					
Continuing operations	$1.37	$1.02	$0.99	$0.80	$1.29
Discontinued operations	0.02	0.01	0.02	(0.02)	(1.03)
Diluted Earnings Per Share	$1.39	$1.03	$1.01	$0.78	$0.26
Other Data:					
Dividends paid per share ($)	$0.94	$0.92	$0.92	$0.92	$0.92
Shares outstanding at the end of the year (in thousands)	310,281	281,854	278,855	276,638	274,262
Number of common shareholders	28,823	30,663	32,313	34,299	36,194
Capital expenditures ($ in millions)	$1,585.1	$1,125.2	$803.8	$777.2	$1,299.9
Number of employees	8,286	7,957	7,604	7,616	7,981

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On September 4, 2012, Columbia Transmission filed a customer settlement with the FERC in support of its comprehensive pipeline modernization program, which was approved on January 24, 2013. As a result of this settlement, Columbia Transmission's gross revenues decreased $81.7 million, partially offset by a decrease in depreciation costs of $33.4 million.

- On February 14, 2012, Columbia of Ohio held its first standard choice offer auction which resulted in a retail price adjustment of $1.53 per Mcf. On February 14, 2012, the PUCO issued an entry that approved the results of the auction with the new retail price adjustment level effective April 1, 2012. As a result of the implementation of the standard choice offer, Columbia of Ohio reports lower gross revenues and lower cost of sales. There is no impact on net revenues.

- During 2012, NiSource began marketing to sell the service plan and leasing business lines of its Retail Service 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

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ITEM 6. SELECTED FINANCIAL DATA
NISOURCE INC.

accordance with GAAP. Additionally, the results of operations and cash flows are classified as discontinued operations for all periods presented. The sale of the business lines closed in January 2013.

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

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

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

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

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

- For 2008, the Results from Discontinued Operations – net of taxes includes the after tax loss on disposition related to the sales of Whiting Clean Energy, Northern Utilities and Granite State Gas of $32.3 million, $63.3 million and $12.5 million, respectively, and an adjustment of $188.0 million for litigation.

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

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

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

Note regarding forward-looking statements

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

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

CONSOLIDATED REVIEW

Executive Summary

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

September, net revenues from electric sales and transportation services are more significant than in other months.
For the twelve months ended December 31, 2012, NiSource reported income from continuing operations of $410.6 million, or $1.41 per basic share, compared to $294.8 million, or $1.05 per basic share for the same period in 2011.

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

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

- Electric Operations' net revenues increased $130.0 million from the same period in 2011, primarily due to the implementation of the electric rate case. Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for more information.

- Loss on early extinguishment of long-term debt decreased $53.9 million in 2012 due to early redemption fees related to tender offers finalized in the fourth quarter of 2011. Refer to Note 16 "Long-Term Debt," in the Notes to Consolidated Financial Statements for more information.

- Equity earnings increased by $17.6 million compared to the prior year, primarily from increased earnings at Millennium, as demand and commodity revenues have increased. Refer to the Gas Transmission and Storage Operations segment discussion for more information regarding Millennium.

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

- NiSource incurred higher interest expense of $41.5 million resulting from issuances of long-term debt of $400.0 million in June 2011, $500.0 million in November 2011, $250.0 million in April 2012, $750.0 million in June 2012 and the expiration of the Sugar Creek deferral. These increases were partially offset by the repurchase of $125.3 million of the 2016 and $124.7 million of the 2013 notes in November 2011 and lower short-term borrowings and rates.

- Depreciation and amortization increased $26.2 million due primarily to higher capital expenditures and the additional depreciation related to the Sugar Creek facility due to the expiration of the deferral as a result of the electric rate case. This was partially offset by lower depreciation and amortization due to the Columbia Transmission customer settlement.

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

Platform for Growth

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

Commercial and Regulatory Initiatives

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

On January 2, 2013, Columbia of Pennsylvania filed a petition with the Pennsylvania PUC, seeking authority to implement a Distribution System Improvement Charge ("DSIC"), with a proposed effective date of March 3, 2013. DSIC has been available to water companies in Pennsylvania for several years, and was authorized for other utilities as of January 1, 2013 with the passage of Act 11 of 2012. Columbia of Pennsylvania is the first natural gas utility in Pennsylvania to seek DSIC approval. If approved by tariff, Columbia of Pennsylvania would be able to recover the cost of infrastructure not previously reflected in rate base that has been placed in service during the three-month period ending one month prior to the effective date of the DSIC. After the initial charge is established, the DSIC is updated quarterly to recover the cost of further plant additions. The DSIC cannot exceed 5% of distribution revenues. Once new base rates are established under a base rate proceeding, the DSIC will be set back to zero. This represents a significant opportunity to mitigate rate lag by permitting recovery of infrastructure costs without seeking that recovery in a full base rate proceeding.

On November 21, 2012, the IURC approved ECR-20 for net capital expenditures of $227.1 million. On February 1, 2013, Northern Indiana filed ECR-21, the filing implementing the ECT, which included $376.4 million of net capital expenditures and operation and maintenance and depreciation expenses of $1.1 million for the period ended December 31, 2012.

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 February 8, 2013, the parties reached a unanimous settlement in principle on all issues in the case, which the parties publicly disclosed to the Pennsylvania PUC on February 13, 2013. The terms of the settlement will be made public when the parties to the case submit a joint petition for approval of that settlement to the Pennsylvania PUC, which is due on March 18, 2013. Columbia of Pennsylvania expects that the Pennsylvania PUC will issue an order in the second quarter of 2013, with rates going into effect in the third quarter of 2013.

On September 4, 2012, Columbia Transmission reached an agreement with a majority of its customers and filed a customer settlement in support of its comprehensive interstate natural gas pipeline modernization program with the FERC. Only one party, the PSC of Maryland, filed a (limited) protest to the Settlement. On October 4, 2012, Columbia Transmission filed its reply addressing the issues raised by the PSC of Maryland. 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 proposes initial refunds totaling $50.0 million, adjustments to base rates and depreciation, and a Capital Cost Recovery Mechanism (CCRM), a tracker mechanism that provides recovery and return on the $1.5 billion program investment. Additional details of the settlement are as follows:

- A $50.0 million refund to max rate contract customers. The payment will be paid in the next monthly billing cycle that is at least 15 days after Columbia Transmission received the final FERC order approving the settlement;
- Base rate reductions, the first retroactive to January 1, 2012, which equates to approximately $35 million in revenues annually and the second beginning January 1, 2014, which equates to approximately $25 million in revenues annually thereafter;
- The CCRM 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 mechanism 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 CCRM will give Columbia Transmission the opportunity to recover its revenue requirement associated with the $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 expenditure. The CCRM applies to Columbia Transmission's transportation shippers. The CCRM will not exceed $300.0 million per year, subject to a 15% annual tolerance and a total cap of $1.5 billion for the entire five-year Initial Term;
- Depreciation rate reduction to 1.5% and elimination of negative salvage rate, retroactive to January 1, 2012, which equates to approximately $35 million in reduced annual expenses that is linked to the base rate reduction above;
- A revenue sharing mechanism pursuant to which Columbia Transmission will share 75% of specified revenues earned in excess of an annual threshold;
- A moratorium through January 31, 2018 on changes to Columbia Transmission's reduced transportation base rates; and
-

A commitment from Columbia Transmission that it will file a general NGA Section 4(e) rate application to be effective no later than February 1, 2019.

In 2012, Columbia Transmission recorded the $50.0 million refund obligation and the impact of the retroactive base rate reduction, which amounted to $31.7 million, and the reduction in depreciation expense that amounted to $33.4 million. The FERC approved the settlement on January 24, 2013. Refunds to customers are expected in March 2013. On December 9, 2011, Columbia of Ohio filed a Notice of Intent to file an application to extend its Infrastructure Replacement Program. Columbia of Ohio filed an amended Notice of Intent and an amended Motion for Waiver on March 5, 2012. On May 8, 2012, Columbia of Ohio filed its application and supporting exhibits and testimony. On September 26, 2012 the parties filed a Joint Stipulation and Recommendation that provided for the extension of Columbia of Ohio's IRP process for an additional five years and settlement of all issues. On November 28, 2012, the PUCO issued an Opinion and Order in which it approved the stipulation.

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

On March 22, 2011, Northern Indiana filed a petition with the IURC for a certificate of public convenience and necessity and associated relief for the construction of additional environmental projects required to comply with the NOV consent decree lodged in the United States District Court for the Northern District of Indiana on January 13, 2011 and EPA Regulations. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information. This petition was trifurcated into three separate phases. On December 28, 2011, February 15, 2012 and September 5, 2012, the IURC issued orders approving estimated project costs of approximately $800 million and granting the requested ratemaking and accounting relief associated with these projects through annual and semi-annual tracker filings.

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 an order 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.

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

Commercial Growth and Expansion of the Gas Transmission and Storage Business

During 2012, Gas Transmission and Storage Operations placed into service strategic growth projects, primarily serving the Marcellus Shale production area. Below is a discussion of these projects as well as projects that are currently on-going.

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

Rimersburg Expansion Project. The Gas Transmission and Storage Operations segment invested approximately $8 million for this project that added capacity to north central Pennsylvania to meet the growing demands of producers in the area. The project expands Line 134 from the Brinker compressor station to the Iowa regulator, adding approximately 19,000 Dth per day of additional capacity, all of which has been sold through precedent agreements. The project was placed into service in May 2012.

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

Big Pine Gathering System Project. The Gas Transmission and Storage Operations segment is making an investment of approximately $160 million, which includes right-of-way acquisitions and installation, refurbishment and operation of approximately 57 miles of pipeline facilities in the hydrocarbon-rich Western Pennsylvania shale production region. The newly constructed pipeline will have an initial combined capacity of 425,000 Dth per day. Natural gas will initially be sourced from XTO Energy Inc., a subsidiary of ExxonMobil, Butler County, Pennsylvania production, and delivered to Columbia Transmission and two other third-party pipelines in Pennsylvania. Pipe and rights of way were acquired and cleared with construction underway. The project is expected to be fully in service by April 2013.

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Power Plant Generation Project. The Gas Transmission and Storage Operations segment is spending approximately $36 million on an expansion project, which includes new pipeline and modifications to existing compression assets, with Virginia Power Services Energy Corporation, Inc., the energy manager for Virginia Electric and Power Company. This project will expand the Columbia Transmission system in order to provide up to nearly 250,000 Dth per day of transportation capacity under a long-term, firm contract. The project is expected to be ready for commercial operations by mid-2014.

West Side Expansion. The Gas Transmission and Storage Operations segment is planning to invest approximately $200 million in new pipeline and compression to increase supply origination from the Smithfield and Waynesburg areas on the Columbia Transmission system and provides a backhaul transportation path to Gulf Coast markets on the Columbia Gulf system. This investment will increase capacity up to 444,000 Dth per day from the Smithfield and Waynesburg areas and up to 540,000 Dth per day from Leach to Rayne transporting Marcellus production under long-term, firm contracts. The project is expected to be in service by the fourth quarter 2014 with limited interim service provided in 2012 through 2014.

East Side Expansion. The Gas Transmission and Storage Operations segment entered into binding precedent agreements with customers to develop its East Side Expansion project, which will provide access for Marcellus supplies to the Northeastern and Mid-Atlantic Markets. The approximately $210 million project will add up to 300,000 Dth per day of capacity through pipeline looping and interconnects. The project is expected to be placed in service in mid-2015.

Financial Management of the Balance Sheet

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

- As of December 31, 2012, NiSource maintained approximately $974.4 million in net available liquidity.

- On September 10, 2012, NiSource settled its Forward Agreements by physically delivering the 24,265,000 shares of NiSource common stock and receiving cash proceeds of $339.1 million.

- On June 14, 2012, NiSource Finance issued $250.0 million of 3.85% senior unsecured notes that mature on February 15, 2023 and $500.0 million of 5.25% senior unsecured notes that mature on February 15, 2043.

- 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 reduced the cost of borrowing.

- On May 15, 2012, NiSource increased its quarterly dividend by 4.3%, resulting in an increase in the annualized Common Stock dividend from $0.92 to $0.96 per share.

- On April 5, 2012, NiSource Finance negotiated a $250.0 million three-year bank term loan with a syndicate of banks which matures on April 3, 2015. Borrowings under the term loan have an effective cost of LIBOR plus 137 basis points.

Credit Ratings. On December 11, 2012, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November

16, 2012, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 29, 2012, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Ethics and Controls

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

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

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Results of Operations

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

Income from Continuing Operations and Net Income

For the year ended December 31, 2012, NiSource reported income from continuing operations of $410.6 million, or $1.41 per basic share, compared to $294.8 million, or $1.05 per basic share in 2011. Income from continuing operations for the year ended December 31, 2010 was $276.8 million, or $1.00 per basic share.

Including results from discontinued operations, NiSource reported 2012 net income of $416.1 million, or $1.43 per basic share, 2011 net income of $299.1 million, or $1.06 per basic share, and 2010 net income of $282.6 million, or $1.02 per basic share.

Comparability of line item operating results was impacted by regulatory and tax trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses were offset by increases in net revenues and had essentially no impact on income from continuing operations. A decrease in operating expenses of $3.4 million for the 2012 year was offset by a corresponding decrease to net revenues reflecting these tracked costs. In the 2011 period, a decrease in operating expenses of $40.4 million for trackers was offset by a corresponding decrease to net revenues reflecting recovery of these costs.

Net Revenues

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

Total consolidated net revenues for the year ended December 31, 2012, were $3,519.7 million, a $90.8 million increase compared with 2011. Net revenues increased primarily due to increased Electric Operations' net revenues of $130.0 million partially offset by lower Gas Distribution Operations' net revenue of $53.6 million and decreased Gas Transmission and Storage Operations' net revenues of $5.2 million.

- Electric Operations’ net revenues increased primarily due to increased industrial, commercial and residential usage and margins of $66.5 million mainly due to the implementation of the electric rate case. Additionally, there were lower revenue credits of $57.6 million as the electric rate case discontinued these credits. Net revenues also increased as a result of an increase in a RTO recovery mechanism of $10.6 million and the recognition of emission allowances that were deferred in previous periods of $6.2 million. These increases were partially offset by a decrease in environmental cost recovery of $21.3 million due to the plant balance eligible for recovery being reset to zero as a result of the electric rate case.

- Gas Distribution Operations’ net revenues decreased primarily due to lower regulatory and tax trackers, which are offset in expense, of $53.7 million, and the effects of warmer weather of $36.9 million. These decreases in net revenues were partially offset by an increase of $34.9 million for regulatory and service programs, including the impact of new rates under Columbia of Ohio's approved infrastructure replacement program and the 2011 rate case at Columbia of Pennsylvania.

- Gas Transmission and Storage Operations’ net revenues decreased primarily due to the customer settlement at Columbia Transmission which decreased net revenues by $81.7 million. This decrease was partially offset by increased regulatory trackers, which are offset in expense, of $48.6 million, higher demand margin revenue of $21.9 million primarily as a result of growth projects placed into service and an increase of $8.3 million from the impact of higher rates at Columbia Gulf.

Total consolidated net revenues for the twelve months ended December 31, 2011 were $3,428.9 million, a $21.5 million increase compared with 2010. Net revenues increased primarily due to increased Gas Transmission and Storage Operations' net revenues of $56.4 million and increased Electric Operations' net revenues of $7.1 million, partially offset by lower Gas Distribution Operations' net revenues of $21.5 million.

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

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

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

Expenses

Operating expenses were $2,509.2 million in 2012, a decrease of $44.2 million from the comparable 2011 period. This decrease was primarily due to a decrease in operation and maintenance expenses of $43.6 million, lower impairment charges of $20.6 million and decreased other taxes of $6.2 million, partially offset by an increase in depreciation and amortization of $26.2 million. The decrease in operation and maintenance is due primarily to decreased environmental costs attributable to the 2011 MGP remediation refresh and a decrease in employee and administrative costs driven largely by a decrease in pension contributions at Gas Transmission and Storage Operations. These decreases in operation and maintenance expenses were partially offset by increased MISO fees which were previously deferred and the 2011 electric rate case resulted in the expiration of the deferral, higher outside services, and increased regulatory trackers, which are offset in revenue. Lower impairment costs are primarily due to the $14.7 million impairment related to Lake Erie Land recorded in the fourth quarter of 2011. These decreases were partially offset by an increase in depreciation and amortization primarily as a result of the expiration of deferrals of depreciation expense for Sugar Creek as a result of the 2011 electric rate case and higher depreciation due to increased capital expenditures. These increases were partially offset by lower depreciation and amortization as a result of the Columbia Transmission customer settlement.

Operating expenses were $2,553.4 million in 2011, an increase of $22.8 million from the comparable 2010 period. This increase was primarily due to an increase in operation and maintenance expenses of $59.8 million, higher impairment charges of $14.8 million and increased other taxes of $7.3 million. The increase in operation and maintenance is due primarily to an increase in employee and administrative costs driven largely by an increase in pension contributions at Gas Transmission and Storage Operations. As provided by its rate cases, GAAP pension expense is deferred to a regulatory asset and pension contributions are recorded to expense. Additionally, during fourth quarter of 2011, NiSource reviewed its current estimates for future environmental remediation costs related to the Company's MGP sites. Following the review, NiSource revised its estimates based on expected remediation activities and experience with similar facilities and recorded $35.5 million of expense at subsidiaries for which environmental expense is not probable of recovery from customers. Higher impairment costs relate to the additional impairment of $14.7 million recorded in the fourth quarter of 2011 related to Lake Erie Land. These increases were partially offset by a decrease of $59.1 million in depreciation and amortization expense primarily as a result of the new depreciation rates at Northern Indiana as a result of the implementation of the gas rate case.

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Equity Earnings in Unconsolidated Affiliates
Equity Earnings in Unconsolidated Affiliates were $32.2 million in 2012, an increase of $17.6 million compared with 2011. Equity Earnings in Unconsolidated Affiliates includes investments in Millennium and Hardy Storage which are integral to the Gas Transmission and Storage Operations business. Equity earnings increased primarily from increased earnings at Millennium due to higher demand and commodity revenues.

Equity Earnings in Unconsolidated Affiliates were $14.6 million in 2011, a decrease of $0.4 million compared with 2010. Equity Earnings in Unconsolidated Affiliates includes investments in Millennium and Hardy Storage which are integral to the Gas Transmission and Storage Operations business. Equity earnings decreased primarily resulting from lower earnings from Columbia Transmission's investment in Millennium.
Other Income (Deductions)
Other Income (Deductions) in 2012 reduced income $416.6 million compared to a reduction of $438.1 million in 2011. The decrease in other deductions is due to a loss on early extinguishment of debt of $53.9 million in the prior year. Also, there was an increase in other, net due primarily to an increase in AFUDC at Northern Indiana. These increases to Other Income were partially offset by increased interest expense of $41.5 million. Interest expense increased primarily due to the issuances of long-term debt of $400.0 million in June 2011, $500.0 million in November 2011, $250.0 million in April 2012, $750.0 million in June 2012, and the expiration of the Sugar Creek deferral. These increases were partially offset by the repurchase of $125.3 million of the 2016 and $124.7 million of the 2013 notes in November 2011 and lower short-term borrowings and rates.

Other Income (Deductions) in 2011 reduced income $438.1 million compared to a reduction of $485.2 million in 2010. The increase in other income is due to a decrease in the loss on early extinguishment of debt of $42.8 million in the current year as a result of less redemptions of high interest debt in the fourth quarter of 2011 as compared to the fourth quarter of 2010. Also, there was a decrease in interest expense of $15.5 million. Interest expense decreased due to the repurchase of a portion of the 2016 and 2013 notes in November 2011 and a portion of the 2016 notes in December 2010 and a long-term debt maturity of $681.8 million in November 2010. The benefits were partially offset by incremental interest expense associated with a swap maturity in November 2010, the issuance of $500.0 million of long-term debt in November 2011, $400.0 million in June 2011 and $250.0 million in December 2010, and higher average short-term borrowings and rates. These decreases were partially offset by an increase of $11.1 million in other, net due primarily to an increase in charitable contributions in the current year.
Income Taxes
The effective income tax rates were 34.4%, 34.8%, and 31.9% in 2012, 2011 and 2010, respectively. The change in effective income tax rate was relatively flat in 2012 compared to 2011. The 2.9% increase in the overall effective tax rate in 2011 versus 2010 was primarily due to a tax rate change in Indiana in 2011 and the 2010 rate settlements that resulted in the flow through of certain tax benefits in rates.
On May 12, 2011, the governor of Indiana signed into law House Bill 1004, which among other things, lowers the corporate income tax rate from 8.5% to 6.5% over four years beginning on July 1, 2012. The reduction in the tax rate will impact deferred income taxes and tax related regulatory assets and liabilities recoverable in the rate making process. In addition, other deferred tax assets and liabilities, primarily deferred tax assets related to Indiana net operating loss carry forward, will be reduced to reflect the lower rate at which these temporary differences and tax benefits will be realized. In the second quarter of 2011, NiSource recorded tax expense of $6.8 million to reflect the effect of this rate change. The expense is largely attributable to the re-measurement of the Indiana net operating loss at the 6.5% rate. The majority of the Company's tax temporary differences are related to Northern Indiana's utility plant. The re-measurement of these temporary differences at 6.5% was recorded as a reduction of a regulatory asset.

The 2010 Health Care Act includes a provision eliminating, effective January 1, 2013, the tax deductibility of retiree health care costs to the extent of federal subsidies received under the Retiree Drug Subsidy program. When the Retiree Drug Subsidy was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, NiSource recorded a deferred tax asset reflecting the exclusion of the expected future Retiree Drug Subsidy from taxable income. At the same time, an offsetting regulatory liability was established to reflect NiSource's obligation to reduce income taxes collected in future rates. ASC Topic 740 – Income Taxes requires the impact of a change in tax law to be immediately recognized in continuing operations in the income statement for the period that includes the enactment date. In the first quarter of 2010, NiSource reversed its deferred tax asset of $6.2 million related to previously excludable Retiree Drug Subsidy payments expected to be received after January 1, 2013, which was completely offset by the reversal of the related regulatory liability.

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Discontinued Operations
Discontinued operations reflected income of $5.5 million, or $0.02 per basic share, in 2012, $4.3 million, or $0.01 per basic share, in 2011 and income of $5.7 million, or $0.02 per basic share, in 2010.
The income in 2012, 2011 and 2010 include activities associated with the service plan and leasing business lines of NiSource's Retail Services business, partially offset by losses at CER and other former subsidiaries where NiSource has retained certain liabilities. During 2012, NiSource began actively marketing 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 are classified as discontinued operations for all periods presented. The sale of the business lines closed in January 2013 resulting in gain from the disposal of discontinued operations of $36.3 million after taxes which will be recorded in the first quarter of 2013.

Liquidity and Capital Resources
A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, are subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries and perform necessary maintenance of facilities. NiSource believes that through income generated from operating activities, amounts available under its short-term revolver, commercial paper program, long-term debt agreements and NiSource's ability to access the capital markets there is adequate capital available to fund its operating activities and capital expenditures in 2013.
Operating Activities
Net cash from operating activities for the year ended December 31, 2012 was $1,275.5 million, an increase of $405.3 million from a year ago. The increase in net cash from operating activities was primarily due to pension and postretirement contributions of $51.0 million in 2012 compared to $447.1 million in 2011.
Net cash from operating activities for the year ended December 31, 2011 was $870.2 million, an increase of $144.8 million from the prior year. During 2011, gas price decreases and the collection of the 2010 under-recovered gas cost resulted in a $127.5 million source of working capital related to under-recovered gas costs. The $219.6 million source of working capital associated with accounts receivable in 2011 was primarily due to warmer weather in 2011. These sources of working capital were partially offset by a decrease in working capital of $141.8 million related to inventories primarily due to an increase in the weighted average cost rate. Additionally, there was a use of working capital related to accounts payable of $154.8 million in the current year as a result of a decrease in gas purchases due to warmer weather in December 2011 compared to December 2010.
Pension and Other Postretirement Plan Funding. In 2012, NiSource contributed $3.7 million to its pension plans and $47.3 million to its postretirement medical and life plans. In 2013, NiSource expects to make contributions of approximately $11.3 million to its pension plans and approximately $40.4 million to its postretirement medical and life plans. At December 31, 2012, NiSource's pension and other post-retirement benefit plans were underfunded by $631.0 million and $462.5 million, respectively.

Investing Activities
The tables below reflect actual capital expenditures and certain other investing activities by segment for 2010, 2011 and 2012, and estimates for 2013.

(in millions)	2013E	2012	2011	2010

Gas Distribution Operations	$655.2	$649.4	$539.4	$409.7
Gas Transmission and Storage Operations	697.6	489.6	301.5	302.0
Electric Operations	434.1	422.8	267.7	190.3
Corporate and Other Operations	26.2	23.3	22.0	9.6
Total	$1,813.1	$1,585.1	$1,130.6	$911.6

For 2013, the projected capital program and certain other investing activities are expected to be $1,813.1 million, which is $228.0 million higher than the 2012 capital program. This increased spending is mainly due to higher expenditures at the Gas Transmission and Storage Operations segment for integrity management pipeline spending and planned pipeline replacements related to the modernization replacement program.

For 2012, the capital expenditures and certain other investing activities were $1,585.1 million, an increase of $454.5 million compared to 2011. This increased spending is mainly due to higher expenditures for the infrastructure replacement programs in the Gas Distribution Operations segment, increased spending in the Gas Transmission and Storage Operations segment for various growth projects primarily in the Marcellus and Utica Shale areas, as well as expenditures under its modernization replacement program. Additionally, there were increased expenditures in the Electric Operations segment due primarily to the FGD projects.

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

Restricted cash was $46.8 million and $160.6 million as of December 31, 2012 and 2011, respectively. The decrease in restricted cash was primarily a result of the winding down of NiSource's unregulated natural gas marketing business.

NiSource received insurance proceeds for capital repairs of $6.5 million, zero and $5.0 million in 2012, 2011 and 2010, respectively.

Contributions to equity investees were $20.4 million, $6.4 million, and $87.9 million for 2012, 2011 and 2010, respectively. The increase in 2012 was the result of cash required for Millennium's expansion projects.

Financing Activities

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

Credit Facilities. 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.

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.

NiSource Finance had $44.0 million borrowings outstanding under its five-year revolving credit facility at December 31, 2012 and borrowings of $725.0 million at December 31, 2011, at a weighted average interest rate of 3.73% and 1.99%, respectively. In addition, NiSource Finance had $499.6 million in commercial paper outstanding at December 31, 2012, at a weighted average interest rate of 1.11% and $402.7 million in commercial paper outstanding at December 31, 2011, at a weighted average interest rate of 1.01%.

As of December 31, 2012 and December 31, 2011, NiSource had $233.3 million and $231.7 million, respectively, of short-term borrowings recorded on the Consolidated Balance Sheets and cash from financing activities in the same amount relating to its accounts receivable securitization facilities. See Note 19, "Transfers of Financial Assets" in the notes to Consolidated Financial Statements.

As of December 31, 2012 NiSource had $36.4 million of stand-by letters of credit outstanding of which $18.3 million were under the revolving credit facility. At December 31, 2011, NiSource had $37.5 million of stand-by letters of credit outstanding of which $19.2 million were under the revolving credit facility.

As of December 31, 2012, an aggregate of $938.1 million of credit was available under the credit facility.

Forward Agreements. On September 14, 2010, NiSource and Credit Suisse Securities (USA) LLC, as forward seller, closed an underwritten registered public offering of 24,265,000 shares of NiSource's common stock. All of the shares sold were borrowed and delivered to the underwriters by the forward seller. In connection with the public offering, NiSource entered into forward sale agreements ("Forward Agreements") with an affiliate of the forward seller covering an aggregate of 24,265,000 shares of NiSource's common stock. On September 10, 2012, NiSource settled the Forward Agreements by physically delivering the 24,265,000 shares of NiSource common stock and receiving cash proceeds of $339.1 million. Cash proceeds related to the settlement of the Forward Agreements are recorded in the issuance of common stock line in the financing activities section of the Statement of Consolidated Cash Flows for the period ended December 31, 2012. Additionally, refer to Note 1-M, "Earnings Per Share" in the Notes to Consolidated Financial Statements, for information regarding the dilutive impact to EPS of the Forward Agreements.

Debt Covenants. NiSource is subject to a financial covenant under its five-year revolving credit facility and its three-year term loan issued April 5, 2012, which requires NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%. As of December 31, 2012, the ratio was 59.3%.

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

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

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

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

Credit Ratings. On December 11, 2012, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 16, 2012, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 29, 2012, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain “ratings triggers” that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. The collateral requirement that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately $27.8 million. In addition to agreements with ratings triggers, there are other agreements that contain “adequate assurance” or “material adverse change” provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business. Under Columbia of Pennsylvania's trade receivables sales program, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

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NISOURCE INC.

Contractual Obligations. NiSource has certain contractual obligations requiring payments at specified periods. The obligations include long-term debt, lease obligations, energy commodity contracts and service obligations for various services including pipeline capacity and IBM outsourcing. The total contractual obligations in existence at December 31, 2012 and their maturities were:

(in millions)	Total	2013	2014	2015	2016	2017	After
Long-term debt [(1)]	$7,237.4	$489.2	$541.3	$480.0	$421.5	$589.5	$4,715.9
Capital leases [(2)]	258.1	24.9	25.2	24.5	20.9	20.9	141.7
Interest payments on long-term debt	4,227.8	373.6	363.2	356.0	328.7	300.9	2,505.4
Operating leases	172.9	43.4	39.1	28.5	22.5	15.7	23.7
Energy commodity contracts	374.2	187.1	105.9	73.8	1.5	1.5	4.4
Service obligations:							
Pipeline service obligations	1,529.5	242.5	228.4	202.4	160.4	141.0	554.8
IBM service obligations	186.8	75.0	72.3	34.3	3.4	1.8	—
Vertex Outsourcing LLC service obligations	30.7	12.3	12.3	6.1	—	—	—
Other service obligations	267.3	94.3	82.2	84.9	3.9	2.0	—
Other liabilities	51.7	51.7	—	—	—	—	—
Total contractual obligations	$14,336.4	$1,594.0	$1,469.9	$1,290.5	$962.8	$1,073.3	$7,945.9

(1) Long-term debt balance excludes unamortized discounts of $41.3 million and non-recourse debt of $5.5 million related to NDC Douglas Properties.

(2) Capital lease payments shown above are inclusive of interest totaling $84.6 million. Also included are minimum lease payments for an office building that the Company will not occupy until 2014.

NiSource calculated estimated interest payments for long-term debt as follows: for the fixed-rate debt, interest is calculated based on the stated coupon and payment dates; for variable-rate debt, interest rates are used that are in place as of December 31, 2012. For 2013, NiSource projects that it will be required to make interest payments of approximately $433.5 million, which includes $373.6 million of interest payments related to its long-term debt outstanding as of December 31, 2012. At December 31, 2012, NiSource also had $776.9 million in short-term borrowings outstanding.

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

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

In July 2008, the IURC issued an order approving Northern Indiana's purchase power agreements with subsidiaries of Iberdrola Renewables, Buffalo Ridge I LLC and Barton Windpower LLC. These agreements provide Northern Indiana the opportunity and obligation to purchase up to 100 mw of wind power commencing in early 2009. The contracts extend 15 and 20 years, representing 50 mw of wind power each. No minimum quantities are specified within these agreements due to the variability of electricity production from wind, so no amounts related to these contracts are included in the table above. Upon any termination of the agreements by Northern Indiana for any reason (other than material breach by Buffalo Ridge I LLC or Barton Windpower LLC), Northern Indiana may be required to pay a termination charge that could be material depending on the events giving rise to termination and the timing of the termination. Northern Indiana began purchasing wind power in April 2009.

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2013 to 2045, require NiSource to pay fixed monthly charges.
NiSource Corporate Services continues to pay IBM to provide business process and support functions to NiSource for amended services under a combination of fixed or variable charges, with the variable charges fluctuating based on the actual need for such services. In December 2011, NiSource elected to extend certain information technology services. Under the amended agreement, at December 31, 2012, NiSource Corporate Services expects to pay $186.8 million to IBM in service fees as shown in the table above.
NiSource Corporate Services signed a service agreement with Vertex Outsourcing LLC, a business process outsourcing company, to provide customer contact center services for NiSource subsidiaries through June 2015. Services under this contract commenced

on July 1, 2008, and NiSource Corporate Services pays for the services under a combination of fixed and variable charges, with the variable charges fluctuating based on actual need for such services. Based on the currently projected usage of these services, NiSource Corporate Services expects to pay $30.7 million to Vertex Outsourcing LLC in service fees over the remaining two and one-half year term.

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

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on July 1, 1992 and expired on June 30, 2012. The agreement was renewed effective July 1, 2012 for ten years and Northern Indiana will continue to pay for the services under a combination of fixed and variable charges. In accordance with GAAP, the renewed agreement was evaluated to determine whether the arrangement qualified as a lease. Based on the terms of the agreement, the arrangement qualified for capital lease accounting. As the effective date of the new agreement was July 1, 2012, NiSource capitalized this lease beginning in the third quarter of 2012. Future payments for this capital lease are included within "Capital leases" in the table of contractual obligations.

NiSource's expected payments included within "Other liabilities" in the table of contractual commitments above contains employer contributions to pension and other postretirement benefits plans expected to be made in 2013. Plan contributions beyond 2013 are dependent upon a number of factors, including actual returns on plan assets, which cannot be reliably estimated at this time. In 2013, NiSource expects to make contributions of approximately $11.3 million to its pension plans and approximately $40.4 million to its postretirement medical and life plans. Refer to Note 12, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for more information.

Not included in the table above are $28.4 million of estimated federal and state income tax liabilities, including interest. If or when such amounts may be settled is uncertain and cannot be estimated at this time. Refer to Note 11, "Income Taxes," in the Notes to Consolidated Financial Statements for more information.

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

NiSource also has obligations associated with income, property, gross receipts, franchise, payroll, sales and use, and various other taxes and expects to make tax payments of approximately $328.0 million in 2013, which are not included in the table above.

Off Balance Sheet Items

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

NiSource has issued guarantees that support up to approximately $52.2 million of commodity-related payments for its current and former subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $250.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets.

Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.
NiSource has other guarantees outstanding. Refer to Note 20-A, “Guarantees and Indemnities,” in the Notes to Consolidated Financial Statements for additional information about NiSource’s off balance sheet arrangements.

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NISOURCE INC.

Market Risk Disclosures

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

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

Commodity Price Risk

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

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

All derivatives classified as hedges are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as regulatory assets or liabilities as appropriate. During 2012 and 2011, no income was recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind-down of the unregulated natural gas marketing business. During 2012, NiSource settled a majority of the contracts related to the reserve noted above and wrote off $43.8 million of price risk assets. Additionally, NiSource has a notes receivable balance related to the settlements of $12.1 million as of December 31, 2012.

Refer to Note 9, "Risk Management and Energy Marketing Activities," in the Notes to Consolidated Financial Statements for further information on NiSource's various derivative programs for managing commodity price risk.

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

Interest Rate Risk

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under its revolving credit agreement, commercial paper program and accounts receivable