NISOURCE INC/DE
Form 10-Q
November 02, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)
Yesþ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.
Large accelerated filer þ Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 309,755,140 shares outstanding at October 24, 2012.

1

Table of Contents

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED September 30, 2012
Table of Contents

Table of Contents

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates	
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission, L.L.C.
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corp.
NiSource Midstream	NiSource Midstream & Minerals Group, L.L.C. and subsidiaries
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
PEI	PEI Holdings, Inc.
Pennant	Pennant Midstream, L.L.C.
Whiting Clean Energy	Whiting Clean Energy, Inc.
Abbreviations	
AFUDC	Allowance for funds used during construction
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent
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

Table of Contents

DEFINED TERMS (continued)

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
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund)
CSAPR	Cross-State Air Pollution Rule
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECT	Environmental Cost Tracker
ECR	Environmental Cost Recovery
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	U.S. Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
Hilcorp	Hilcorp Energy Company
hp	Horsepower
IDEM	Indiana Department of Environmental Management
IFRS	International Financial Reporting Standards
IRP	Infrastructure Replacement Program
IURC	Indiana Utility Regulatory Commission
kV	kilovolt
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last in first out
Mcf	Million cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station

4

Table of Contents

DEFINED TERMS (continued)

Mizuho	Mizuho Corporate Bank Ltd.
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO2	Nitrogen dioxide
NOx	Nitrogen oxide
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUCC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
Piedmont	Piedmont Natural Gas Company, Inc.
PJM	PJM Interconnection (a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.)
PNC	PNC Bank N.A.
PM	particulate matter
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RA	Resource Adequacy
RBS	Royal Bank of Scotland PLC
RCRA	Resource Conservation and Recovery Act
RDAF	revenue decoupling adjustment factor
RTO	Regional Transmission Organization
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO2	Sulfur dioxide
TIRF	Targeted Infrastructure Reinvestment Factor
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entities
VSCC	Virginia State Corporation Commission
WACOG	Weighted Average Cost of Gas

PART I

ITEM 1. FINANCIAL STATEMENTS
NiSource Inc.

Condensed Statements of Consolidated Income (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	2012	2011	2012	2011
Net Revenues				
Gas Distribution	$226.3	$326.7	$1,382.6	$2,199.1
Gas Transportation and Storage	278.3	283.3	1,043.7	993.6
Electric	418.0	404.7	1,147.7	1,100.4
Other	50.9	54.0	106.9	235.5
Gross Revenues	973.5	1,068.7	3,680.9	4,528.6
Cost of Sales (excluding depreciation and amortization)	233.7	323.1	1,105.1	1,956.5
Total Net Revenues	739.8	745.6	2,575.8	2,572.1
Operating Expenses				
Operation and maintenance	422.9	407.2	1,222.6	1,236.8
Depreciation and amortization	126.0	134.9	420.1	403.7
Impairment and (gain)/loss on sale of assets, net	(0.7)	0.4	(3.8)	1.1
Other taxes	62.4	59.2	215.9	220.0
Total Operating Expenses	610.6	601.7	1,854.8	1,861.6
Equity Earnings in Unconsolidated Affiliates	8.0	3.5	24.2	8.8
Operating Income	137.2	147.4	745.2	719.3
Other Income (Deductions)				
Interest expense, net	(107.9)	(95.7)	(314.4)	(279.9)
Other, net	2.2	1.6	5.3	5.5
Total Other Deductions	(105.7)	(94.1)	(309.1)	(274.4)
Income from Continuing Operations before Income Taxes	31.5	53.3	436.1	444.9
Income Taxes	11.5	17.0	152.1	158.7
Income from Continuing Operations	20.0	36.3	284.0	286.2
Loss from Discontinued Operations - net of taxes	(0.7)	(1.6)	(1.9)	(1.8)
Net Income	$19.3	$34.7	$282.1	$284.4
Basic Earnings Per Share				
Continuing operations	$0.06	$0.13	$0.99	$1.02
Discontinued operations	—	(0.01)	—	(0.01)
Basic Earnings Per Share	$0.06	$0.12	$0.99	$1.01
Diluted Earnings Per Share				
Continuing operations	$0.06	$0.13	$0.95	$1.00
Discontinued operations	—	(0.01)	—	(0.01)
Diluted Earnings Per Share	$0.06	$0.12	$0.95	$0.99
Dividends Declared Per Common Share	$0.24	$0.23	$0.94	$0.92
Basic Average Common Shares Outstanding	290.3	280.8	285.9	280.1
Diluted Average Common Shares	300.0	289.0	296.7	287.4

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

Table of Contents

ITEM 1. FINANCIAL STATEMENTS (continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, net of taxes)	2012	2011	2012	2011
Net Income	$19.3	$34.7	$282.1	$284.4
Other comprehensive income (loss)				
Net unrealized gain (loss) on available-for-sale securities(1)	0.7	(0.7)	(1.8)	0.1
Net unrealized gain on cash flow hedges(2)	0.8	0.4	2.7	2.1
Unrecognized pension benefit and OPEB costs(3)	0.7	0.4	2.0	1.3
Total other comprehensive income	2.2	0.1	2.9	3.5
Total Comprehensive Income	$21.5	$34.8	$285.0	$287.9

(1) Net unrealized gains (losses) on available-for-sale securities, net of $0.3 million tax expense and $0.6 million tax benefit in the third quarter of 2012 and 2011, respectively, and $1.5 million tax benefit and zero tax expense for the first nine months of 2012 and 2011, respectively.

(2) Net unrealized gains on derivatives qualifying as cash flow hedges, net of $0.6 million and $0.3 million tax expense in the third quarter of 2012 and 2011, respectively, and $1.8 million and $1.4 million tax expense for the first nine months of 2012 and 2011, respectively. Net unrealized gains on cash flow hedges includes gains of $0.2 million related to the unrealized gains and losses of interest rate swaps held by NiSource's unconsolidated equity method investments for the third quarter of 2012 and 2011. Net unrealized gains on cash flow hedges include gains of $0.7 million and $0.6 million related to the unrealized gains and losses of interest swaps held by NiSource's unconsolidated equity method investments for the nine months ended September 30, 2012 and 2011, respectively.

(3) Unrecognized pension benefit and OPEB costs, net of $0.2 million and $0.3 million tax expense in the third quarter of 2012 and 2011, and $1.0 million and $0.9 million tax expense for the first nine months of 2012 and 2011, respectively.

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

Table of Contents

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Consolidated Balance Sheets (unaudited)

(in millions)	September 30, 2012	December 31, 2011
ASSETS		
Property, Plant and Equipment		
Utility Plant	$21,303.8	$20,337.8
Accumulated depreciation and amortization	(8,956.8)	(8,670.2)
Net utility plant	12,347.0	11,667.6
Other property, at cost, less accumulated depreciation	195.7	132.5
Net Property, Plant and Equipment	12,542.7	11,800.1
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	0.2	0.2
Unconsolidated affiliates	215.7	204.7
Other investments	196.0	150.9
Total Investments and Other Assets	411.9	355.8
Current Assets		
Cash and cash equivalents	12.3	11.5
Restricted cash	65.1	160.6
Accounts receivable (less reserve of $31.3 and $30.5, respectively)	526.2	854.8
Income tax receivable	56.0	0.9
Gas inventory	385.2	427.6
Underrecovered gas and fuel costs	33.5	20.7
Materials and supplies, at average cost	99.7	87.6
Electric production fuel, at average cost	54.8	50.9
Price risk management assets	103.6	137.2
Exchange gas receivable	30.9	64.9
Regulatory assets	190.6	169.7
Prepayments and other	280.8	261.8
Total Current Assets	1,838.7	2,248.2
Other Assets		
Price risk management assets	72.1	188.7
Regulatory assets	1,870.3	1,978.2
Goodwill	3,677.3	3,677.3
Intangible assets	289.4	297.6
Postretirement and postemployment benefits assets	41.7	31.5
Deferred charges and other	94.5	130.9
Total Other Assets	6,045.3	6,304.2
Total Assets	$20,838.6	$20,708.3

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

Table of Contents

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	September 30, 2012	December 31, 2011
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders’ Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 309,597,086 and 281,853,571 shares issued and outstanding, respectively	$3.1	$2.8
Additional paid-in capital	4,579.3	4,167.7
Retained earnings	925.7	917.0
Accumulated other comprehensive loss	(56.8)	(59.7)
Treasury stock	(40.5)	(30.5)
Total Common Stockholders’ Equity	5,410.8	4,997.3
Long-term debt, excluding amounts due within one year	6,819.7	6,267.1
Total Capitalization	12,230.5	11,264.4
Current Liabilities		
Current portion of long-term debt	823.3	327.3
Short-term borrowings	225.3	1,359.4
Accounts payable	300.1	434.8
Dividends payable	74.3	—
Customer deposits and credits	263.6	313.6
Taxes accrued	172.0	220.9
Interest accrued	82.9	111.9
Overrecovered gas and fuel costs	52.6	48.9
Price risk management liabilities	110.2	167.8
Exchange gas payable	124.7	168.2
Deferred revenue	30.9	10.1
Regulatory liabilities	171.1	112.0
Accrued liability for postretirement and postemployment benefits	26.6	26.6
Legal and environmental reserves	36.8	43.9
Other accruals	232.7	301.0
Total Current Liabilities	2,727.1	3,646.4
Other Liabilities and Deferred Credits		
Price risk management liabilities	32.9	138.9
Deferred income taxes	2,758.5	2,541.9
Deferred investment tax credits	25.8	29.0
Deferred credits	86.0	78.9
Noncurrent deferred revenue	22.8	—
Accrued liability for postretirement and postemployment benefits	939.7	953.8
Regulatory liabilities and other removal costs	1,617.1	1,663.9
Asset retirement obligations	152.0	146.4
Other noncurrent liabilities	246.2	244.7
Total Other Liabilities and Deferred Credits	5,881.0	5,797.5
Commitments and Contingencies (Refer to Note 18)	—	—
Total Capitalization and Liabilities	$20,838.6	$20,708.3

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

Table of Contents

ITEM 1. FINANCIAL STATEMENTS (continued)

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

Nine Months Ended September 30, (in millions)	2012	2011
Operating Activities		
Net Income	$282.1	$284.4
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:		
Depreciation and amortization	420.1	403.7
Net changes in price risk management assets and liabilities	(19.4)	14.1
Deferred income taxes and investment tax credits	140.1	168.9
Deferred revenue	2.1	(4.2)
Stock compensation expense and 401(k) profit sharing contribution	33.0	27.4
Gain on sale of assets	(3.8)	(0.1)
Loss on impairment of assets	—	1.2
Income from unconsolidated affiliates	(22.9)	(8.0)
Loss from discontinued operations - net of taxes	1.9	1.8
Amortization of debt related costs	7.3	6.6
AFUDC equity	(4.7)	(3.2)
Distributions of earnings received from equity investees	25.1	10.9
Changes in Assets and Liabilities:		
Accounts receivable	333.9	561.4
Income tax receivable	(55.1)	97.8
Inventories	19.6	(171.4)
Accounts payable	(151.0)	(325.1)
Customer deposits and credits	(50.0)	(36.8)
Taxes accrued	(48.7)	(63.7)
Interest accrued	(29.0)	(46.6)
Overrecovered gas and fuel costs	(9.1)	147.1
Exchange gas receivable/payable	(9.5)	(117.9)
Other accruals	(90.9)	(32.9)
Prepayments and other current assets	48.3	31.1
Regulatory assets/liabilities	96.3	35.4
Postretirement and postemployment benefits	(11.6)	(163.5)
Deferred credits	7.6	(2.0)
Deferred charges and other noncurrent assets	28.1	(6.3)
Other noncurrent liabilities	4.1	32.6
Net Operating Activities from Continuing Operations	943.9	842.7
Net Operating Activities used for Discontinued Operations	(2.1)	(48.6)
Net Cash Flows from Operating Activities	941.8	794.1
Investing Activities		
Capital expenditures	(1,024.3)	(774.2)
Insurance Recoveries	3.0	—
Proceeds from disposition of assets	23.6	9.4
Restricted cash withdrawals	95.8	22.8
Contributions to equity investees	(11.3)	(0.2)
Other investing activities	(38.1)	(59.7)
Net Cash Flow used for Investing Activities	(951.3)	(801.9)

Financing Activities		
Issuance of long-term debt	991.4	395.3
Retirement of long-term debt	(11.6)	(36.5)
Premiums and other debt related costs	(3.4)	(8.2)
Change in short-term borrowings, net	(1,133.7)	(148.5)
Issuance of common stock	376.4	15.1
Acquisition of treasury stock	(10.0)	(3.1)
Dividends paid - common stock	(198.8)	(193.3)
Net Cash Flow from Financing Activities	10.3	20.8
Change in cash and cash equivalents from continuing operations	2.9	61.6
Cash contributions to discontinued operations	(2.1)	(48.6)
Cash and cash equivalents at beginning of period	11.5	9.2
Cash and Cash Equivalents at End of Period	$12.3	$22.2

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

Table of Contents
ITEM 1. FINANCIAL STATEMENTS (continued)
NISOURCE INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

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

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.

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

Immaterial Restatement

As indicated in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, NiSource made correcting adjustments to its historical financial statements including for the three and nine months ended September 30, 2011 relating to deferred revenue, environmental asset recovery, OPEB over-reimbursement, and OPEB regulatory assets. NiSource does not believe that these corrections, individually or in the aggregate, are material to its financial statements (unaudited) for the three and nine months ended September 30, 2011. For additional information on these corrections, see Note 1, Nature of Operations and Summary of Significant Accounting Policies, and Note 26, Quarterly Financial Data (Unaudited), of the Consolidated Financial Statements of NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

The following table sets forth the effects of the correcting adjustments to Net Income for the three and nine months ended September 30, 2011:

Increase/(Decrease) in Net Income (in millions)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Previously reported Net Income	$34.7	$278.8
Deferred revenue	—	(0.6)
Environmental asset recovery	—	8.0
OPEB over-reimbursement	(0.1)	(0.5)
OPEB regulatory asset	—	2.4
Total corrections	(0.1)	9.3
Income taxes	(0.1)	3.7
Corrected Net Income	$34.7	$284.4

ITEM 1. FINANCIAL STATEMENTS (continued)
NISOURCE INC.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

The following table sets forth the effects of the correcting adjustments on affected line items within the Condensed Statement of Consolidated Income (unaudited) for the three and nine months ended September 30, 2011:

Condensed Statements of Consolidated Income (unaudited)

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
(in millions, except per share amounts)	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Net Revenues				
Electric	$404.7	$404.7	$1,101.0	$1,100.4
Gross Revenues	1,068.7	1,068.7	4,529.2	4,528.6
Total Net Revenues	745.6	745.6	2,572.7	2,572.1
Operation and maintenance	407.1	407.2	1,242.1	1,236.8
Depreciation and amortization	134.9	134.9	408.3	403.7
Total Operating Expenses	601.6	601.7	1,871.5	1,861.6
Operating Income	147.5	147.4	710.0	719.3
Income from Continuing Operations before Income Taxes	53.4	53.3	435.6	444.9
Income Taxes	17.1	17.0	155.0	158.7
Income from Continuing Operations	36.3	36.3	280.6	286.2
Net Income	$34.7	$34.7	$278.8	$284.4
Basic Earnings Per Share ($)				
Continuing operations	$0.13	$0.13	$1.00	$1.02
Basic Earnings Per Share	$0.12	$0.12	$0.99	$1.01
Diluted Earnings Per Share ($)				
Continuing operations	$0.13	$0.13	$0.98	$1.00
Diluted Earnings Per Share	$0.12	$0.12	$0.97	$0.99

These corrections affected certain line items within net cash flows from operating activities on the Condensed Statement of Consolidated Cash Flows (unaudited) for the nine months ended September 30, 2011, with no net effect on total net cash flows from operating activities.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Comprehensive Income. In June 2011, the FASB issued Accounting Standards Update 2011-05, which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The update does not change the items that must be reported in other comprehensive income. In December 2011, the FASB issued Accounting Standards Update 2011-12, which indefinitely defers the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the Condensed Statements of Consolidated Income (unaudited) and the Condensed Statements of Consolidated Comprehensive Income (unaudited), as required by Accounting Standards Update 2011-05. For public entities, these updates are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. NiSource adopted the guidance on January 1, 2012 by presenting the Condensed Statements of Consolidated Income (unaudited) and the Condensed

Statements of Consolidated Comprehensive Income (unaudited) as two separate but consecutive statements.

Goodwill Impairment. In September 2011, the FASB issued Accounting Standards Update 2011-08, which gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit for the goodwill impairment test. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As NiSource performs its annual Goodwill impairment test during the second quarter of its fiscal year, NiSource considered the provisions of this new standard and determined not to elect the option for the second quarter of 2012. NiSource will continue to evaluate whether to elect the option going forward.

Recently Issued Accounting Pronouncements

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

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS includes the incremental effects of the various long-term incentive compensation plans and the Forward Agreements (refer to Note 4 "Forward Equity Agreement" for additional information). The calculation of diluted earnings per share excludes stock options which had an anti-dilutive effect. These options were zero and 2.8 million for the three months ended September 30, 2012 and 2011, respectively, and zero and 3.3 million for the nine months ended September 30, 2012 and 2011, respectively. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2012	2011	2012	2011
Denominator				
Basic average common shares outstanding	290,328	280,765	285,891	280,112
Dilutive potential common shares				
Stock options	197	19	159	—
Shares contingently issuable under employee stock plans	434	1,119	393	1,087
Shares restricted under stock plans	654	376	626	342
Forward Agreements	8,399	6,731	9,609	5,814
Diluted Average Common Shares	300,012	289,010	296,678	287,355

4. Forward Equity Agreement

On September 14, 2010, NiSource and Credit Suisse Securities (USA) LLC, as forward seller, closed an underwritten registered public offering of 24,265,000 shares of NiSource's common stock. All of the shares sold 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 Condensed Statement of Consolidated Cash Flows (unaudited) for the period ended September 30, 2012. Additionally, refer to Note 3, "Earnings Per Share," for information regarding the dilutive impact to EPS of the Forward Agreements.

5. Discontinued Operations and Assets and Liabilities Held for Sale

There were no significant assets or liabilities of discontinued operations and held for sale on the Condensed Consolidated Balance Sheets (unaudited) at September 30, 2012 and December 31, 2011.

Table of Contents

Results from discontinued operations, which primarily arise from changes in estimate for certain liabilities for Columbia Propane and NiSource’s former exploration and production subsidiary, CER, are provided in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2012	2011	2012	2011
Loss from discontinued operations	(1.2)	(2.7)	(3.1)	(2.8)
Income tax benefit	(0.5)	(1.1)	(1.2)	(1.0)
Loss from Discontinued Operations - net of taxes	$(0.7)	$(1.6)	$(1.9)	$(1.8)

6. Asset Retirement Obligations

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

Changes in NiSource’s liability for asset retirement obligations for the nine months ended September 30, 2012 and 2011 are presented in the table below:

(in millions)	2012	2011
Balance as of January 1,	$146.4	$138.8
Accretion expense	0.8	0.5
Accretion recorded as a regulatory asset/liability	6.6	5.8
Settlements	(0.7)	(1.7)
Change in estimated cash flows	(1.1)	(2.9)
Balance as of September 30,	$152.0	$140.5

7. Regulatory Matters

Gas Distribution Operations Regulatory Matters

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

On December 28, 2011, the IURC issued an order approving Northern Indiana's portfolio of gas energy efficiency programs and authorizing the recovery of program costs associated with those programs through semi-annual tracker filings.

On March 15, 2012, the IURC approved a settlement agreement with Northern Indiana and all participating parties to extend its product and services contained in its current gas ARP indefinitely.

On May 19, 2008, Columbia of Ohio filed an application with the PUCO to defer environmental remediation expenses. On September 24, 2008, the PUCO approved the application. Each year Columbia of Ohio must report on the amounts deferred during the previous year. On December 6, 2011, Columbia of Ohio filed its annual deferral report for the twelve months ended November 30, 2011. PUCO Staff filed its Comments on January 5, 2012, and objected to deferral of costs for a Toledo remediation project. Columbia of Ohio capitalized $2.4 million in costs associated with the Toledo project which will be proposed for recovery as a component of future rate base.

On September 14, 2012, Columbia of Massachusetts filed its Peak Period Gas Adjustment Factor, Pension Expense Factor, Residential Assistance Adjustment Factor and Peak Period Revenue Decoupling Factor, each with a proposed effective date of November 1, 2012.

On April 13, 2012, Columbia of Massachusetts submitted a filing with the Massachusetts DPU requesting an annual revenue requirement increase of $29.2 million. Columbia of Massachusetts filed using a historic test year ended

December 31, 2011. Additionally, Columbia of Massachusetts proposed rate-year, rate base treatment, as well as modification to the TIRF. The rate-year, rate base treatment has been proposed to reduce the impact of regulatory lag. The Massachusetts DPU issued an order on

14

November 1, 2012 approving an annual revenue increase of $7.8 million, effective November 1, 2012. Columbia of Massachusetts is continuing to evaluate the order.

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 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.

On October 3, 2011, Columbia of Ohio filed an application with the PUCO, requesting authority to defer incurred charges to a regulatory asset for debt-based post-in-service carrying charges, depreciation and property taxes associated with Columbia of Ohio’s capital program. Interested parties filed comments on Columbia of Ohio’s application by February 17, 2012. Columbia of Ohio filed Reply Comments on February 27, 2012. Columbia of Ohio filed supplemental reply comments on July 26, 2012 and Staff filed sur-reply comments on August 15, 2012. On August 29, 2012, the Commission issued a Finding and Order in which it approved Columbia of Ohio's application subject to certain modifications contained therein and granted the appropriate accounting as modified by the Finding and Order. On September 28, 2012, the Office of the Ohio Consumers' Counsel filed an application for rehearing in which it contested the cap mechanism set forth in the PUCO Order. Columbia of Ohio filed a memorandum contra the application for rehearing on October 8, 2012. The PUCO denied the Ohio Consumer's Counsel's application for rehearing on October 24, 2012.

On November 30, 2011, Columbia of Ohio filed a Notice of Intent to file an application to adjust rates associated with Rider IRP and Rider DSM. On February 28, 2012, Columbia of Ohio filed its application to adjust rates associated with IRP and DSM Riders. The DSM Rider tracks and recovers costs associated with Columbia of Ohio’s energy efficiency and conservation programs. The application sought to increase the annual revenue from the riders by approximately $27.9 million. On April 10, 2012, Columbia of Ohio reached a settlement with parties allowing for an increase in annual revenue from the Riders of approximately $27 million. On April 25, 2012, the PUCO issued an Entry that provided for approval of the settlement with new rates effective April 29, 2012.

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 March 30, 2012, Columbia of Ohio filed an application with the PUCO that requests authority to establish a regulatory asset for corporate OPEB expenses allocated to Columbia of Ohio. The amount that Columbia of Ohio sought authority to defer is $2.1 million. By Entry dated July 18, 2012, the PUCO approved the application.

On April 19, 2012, Columbia of Ohio filed an application that requests authority to increase its uncollectible expense rider rate in order to generate an additional $14.6 million in annual revenue in order to offset anticipated increases in uncollectible expenses. On May 30, 2012, the PUCO issued an Entry that provided for approval of Columbia of Ohio’s April 19, 2012 application for adjustment of its uncollectible expense rider with the new rate effective May 30, 2012.

On April 30, 2012, Columbia of Ohio filed an application to adjust its Interim, Emergency and Temporary Percentage of Income Payment Plan Rider (“PIPP”) from $0.1274 per Mcf to $0.0294 per Mcf to provide for the passback of an overrecovery of approximately $10.9 million and the recovery of its annual change in PIPP arrears. The PUCO approved the application and the revised PIPP Rider went into effect for the first billing unit of July 2012.

In 2009, the PUCO granted Columbia of Ohio an exemption from the regulation of natural gas commodity prices. The 2009 Order also shielded Columbia of Ohio's capacity contract levels from prudency audits for three years, and approved a mechanism for sharing off-system sales and capacity release revenues for three years. On October 4, 2012, Columbia of Ohio and other parties filed a non-unanimous stipulation that would extend key provisions of the 2009 agreement for an additional five years.

On April 12, 2012, Columbia of Virginia filed an application with the VSCC for approval to amend and extend its CARE Plan for an additional three year period beginning January 1, 2013. The Amended CARE Plan includes incentives for residential and small general service customers to actively pursue conservation and energy efficiency measures, a surcharge designed to recover the costs of such measures on a real-time basis, and a performance-based incentive for the delivery of conservation and energy efficiency benefits. The Amended CARE Plan also includes a rate decoupling mechanism designed to mitigate the impact of declining customer usage. On April 27, 2012, the VSCC issued a procedural order inviting comments from the VSCC Staff and interested persons. The VSCC Staff and Columbia of Virginia reached a comprehensive settlement of the issues in the case and filed a Joint Motion requesting VSCC approval of the settlement terms on July 13, 2012. On August 6, 2012, the VSCC issued a Final Order approving the settlement and extending the CARE Plan through 2015.

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 seeking to implement a Revenue Normalization Adjustment for its residential class that would 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 is seeking 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. 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.

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

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

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

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

Gas Transmission and Storage Operations Regulatory Matters

Columbia Transmission Customer Settlement. 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 on September 4, 2012. Only one party, the Public Service Commission of Maryland, filed a (limited) protest to the Settlement. On October 4, 2012, Columbia Transmission filed its reply addressing the issues raised by the Public Service Commission of Maryland. The parties have asked the FERC to approve the settlement before the end of 2012. Columbia Transmission expects to invest approximately $1.5 billion over a five-year period to modernize its system to improve system integrity and enhance service reliability and flexibility. The settlement with firm customers includes an initial five-year term with provisions for potential extensions thereafter. The settlement 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 $300.0 million annual investment. Additional details of the settlement are as follows:

- An immediate $50.0 million refund to max rate contract customers to be paid in two installments of $25.0 million. The first payment is expected to be paid in the next monthly billing cycle that is at least 15 days after Columbia Transmission receives a final FERC order approving the settlement. The second installment is expected to be paid the later of January 31, 2013, or in the next monthly billing cycle that is at least 15 days after a final FERC order.
- 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 $25.0 million in revenues annually thereafter;

16

Table of Contents
ITEM 1. FINANCIAL STATEMENTS (continued)
NISOURCE INC.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

- 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 $300.0 million annual 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

Columbia Transmission petitioned for FERC approval of the settlement as filed preferably no later than December 1, 2012, to allow the parties to the agreement to begin receiving the benefits of the settlement without delay. On September 30, 2012, Columbia Transmission recorded the $50.0 million refund obligation and a pro rata share of the retroactive base rate reduction, which amounted to $22.9 million, and the pro rata reduction in depreciation expense that amounted to $24.9 million.

Columbia Gulf Rate Case. On October 28, 2010, Columbia Gulf filed a rate case with the FERC, proposing a rate increase and tariff changes. Among other things, the filing proposed a revenue increase of approximately $50 million to cover increases in the cost of services, which includes adjustments for operation and maintenance expenses, capital investments, adjustments to depreciation rates and expense, rate of return, and increased federal, state and local taxes. On November 30, 2010, the FERC issued an Order allowing new rates to become effective by May 2011, subject to refund. Columbia Gulf placed new rates into effect, subject to refund, on May 1, 2011. Columbia Gulf and the active parties to the case negotiated a settlement, which was filed with the FERC on September 9, 2011. On September 30, 2011, the Chief Judge severed the issues relating to a contesting party for separate hearing and decision. On October 4, 2011, the Presiding Administrative Law Judge certified the settlement agreement as uncontested to the FERC with severance of the contesting party from the settlement. On November 1, 2011, Columbia Gulf began billing interim rates to customers. On December 1, 2011, the FERC issued an order approving the settlement without change. The key elements of the settlement, which was a “black box agreement”, include: (1) increased base rate to $0.1520 per Dth and (2) establishing a postage stamp rate design. No protests to the order were filed and therefore, pursuant to the Settlement, the order became final on January 1, 2012 which made the settlement effective on February 1, 2012. On February 2, 2012, the Presiding Administrative Law Judge issued an initial decision granting a joint motion terminating the remaining litigation with the contesting party and allowing it to become a settling party. The FERC issued an order on March 15, 2012, affirming the initial decision, which terminated the remaining litigation with the contesting party. Refunds of approximately $16 million, accrued as of December 31, 2011, were disbursed to settling parties in March 2012.

Electric Operations Regulatory Matters

Significant Rate Developments. On July 18, 2011, Northern Indiana filed with the IURC a settlement in its 2010 Electric Rate Case with the OUCC, Northern Indiana Industrial Group, NLMK Indiana and Indiana Municipal Utilities Group. The settlement agreement limited the proposed base rate impact to the residential customer class to a 4.5% increase. The parties have also agreed to a rate of return of 6.98% based upon a 10.2% return on equity. The settlement also resolves all pending issues related to compliance with the August 25, 2010 Order in the 2008 Electric Rate Case. On December 21, 2011, the IURC issued an Order approving the Settlement Agreement as filed, and new electric base rates became effective on December 27, 2011. On January 20, 2012, the City of Hammond filed an appeal of the IURC’s December 21, 2011 Order and subsequently, on June 4, 2012, filed a motion to dismiss the appeal. The motion was granted on June 27, 2012.

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an Order adopting most aspects of the settlement. The Order approving the settlement provided that certain electric customers of Northern Indiana would receive bill credits of approximately $55.1 million each year. The credits continued at approximately the same annual level and per the same methodology, until the IURC approval and implementation of new customer

rates, which occurred on December 27, 2011. The recovery of the final reconciliation of the credits will be completed in the fourth quarter of 2012. Credits amounting to $(4.7) million and $38.6 million were recognized for electric customers for the first nine months of 2012 and 2011, respectively.
On December 9, 2009, the IURC issued an Order in its generic DSM investigation proceeding establishing an overall annual energy savings goal of 2% to be achieved by Indiana jurisdictional electric utilities in 10 years, with interim savings goals established in years one through nine.

On July 27, 2011, the IURC issued an order approving Northern Indiana's portfolio of electric energy efficiency programs authorizing the recovery of program costs and on August 8, 2012, approved recovery of lost margins associated with those programs through semi-annual tracker filings.
Cost Recovery and Trackers. A significant portion of Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, “summary” regulatory proceeding in Indiana.

As part of a multi-state effort to strengthen the electric transmission system serving the Midwest, Northern Indiana anticipates making investments in two projects, a 100-mile, 345 kV transmission project and a 66-mile, 765 kV transmission project in Indiana. These projects are reviewed and authorized by the MISO and are scheduled to be in service during the latter part of the decade. On July 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. On September 12, 2012, Northern Indiana filed with the FERC for construction work in progress in rate base and abandoned plant cost recovery for the 66-mile, 765 kV project. On October 16, 2012, Northern Indiana filed for FERC approval of forward looking rates, which would allow for the more timely recovery of Northern Indiana's investment in transmission assets. On February 8, 2012, Pioneer Transmission, LLC filed a complaint with the FERC, seeking to obtain 100 percent of the investment rights in this second project. In response on July 19, 2012, the FERC issued an order which denied the complaint filed by Pioneer Transmission, LLC and affirmed that Northern Indiana and Duke Energy are the appropriate parties to share equally in the development of the 66-mile 765 kV transmission project extending between Reynolds, Indiana and Greentown, Indiana. On August 20, 2012, Pioneer Transmission, LLC, Northern Indiana, and MISO filed a settlement agreement resolving the Pioneer complaint case establishing Northern Indiana's right to develop 50 percent of the project. The Settlement is currently pending at the FERC.
In the Order issued on August 25, 2010, the IURC approved a semi-annual RTO tracker for recovery of MISO non-fuel costs and revenues and off-system sales sharing and ordered that purchased power costs and fuel-related MISO charge types be recovered in the FAC. The IURC also approved a semi-annual purchase capacity tracker referred to as the RA Tracker. Similar treatment was requested in the 2010 Electric Rate Case filing and approved in the December 21, 2011 Order approving the Settlement Agreement. The implementation of such trackers coincides with the implementation of new customer rates. On August 22, 2012, the IURC issued an order authorizing Northern Indiana to retain certain revenues under MISO Schedule 26-A to support investments in Northern Indiana's Multi-Value Projects under MISO's 2011 transmission expansion plan.
As part of the August 25, 2010 Order, a new “purchase power benchmark” became effective. This purchase power benchmark superseded the one made effective by a settlement in October 2007. The benchmark is based upon the costs of power generated by a hypothetical natural gas fired unit using gas purchased and delivered to Northern Indiana. During the first nine months of 2012 and 2011, there were no non-recoverable purchased power costs.
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 18-C, “Environmental Matters,” for additional information. This petition has

since been 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.

8. Risk Management Activities

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

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

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

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

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

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

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

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

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

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

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

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

NiSource is in the process of winding down its unregulated natural gas marketing business, where gas financial contracts are utilized to economically hedge expected future gas purchases associated with forward gas agreements. These financial contracts, as well as the associated forward physical sales contracts, are derivatives and are marked-to-market with all associated gains and losses recognized to income. NiSource established a reserve of $1.1 million and $25.6 million against certain derivatives as of September 30, 2012 and December 31, 2011, respectively. This amount represents reserves related to the creditworthiness of certain customers, fair value of future cash flows, and the cost of maintaining significant amounts of restricted cash. The physical sales contracts marked-to-market had a fair value of approximately $44.4 million at September 30, 2012 and $136.8 million at December 31, 2011, while the financial derivative contracts marked-to-market had a fair value loss of $42.5 million at September 30, 2012, and $155.5 million at December 31, 2011. 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 $17.7 million as of September 30, 2012.

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

Global to offset the loss positions of the open contracts on November 3, 2011. NiSource affiliates are monitoring the activity in the bankruptcy case and have filed a proof of claim at the Court's direction. As of September 30, 2012, NiSource affiliates maintained a reserve for the $1.2 million difference between the initial margin posted with MF Global and the cash transferred to the court-designated replacement broker as a loss contingency.

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

	September 30, 2012	December 31, 2011
Commodity Price Risk Program:		
Gas price volatility program derivatives (MMDth)	36.4	26.1
Price Protection Service program derivatives (MMDth)	1.6	1.0
DependaBill program derivatives (MMDth)	0.4	0.3
Regulatory incentive program derivatives (MMDth)	—	0.9
Gas marketing program derivatives (MMDth)[1]	12.0	28.5
Gas marketing forward physical derivatives (MMDth)[2]	11.8	27.1
Electric energy program FTR derivatives (mw)[3]	12,925.1	8,578.5

[1]Basis contract volumes not included in the above table were 11.8 MMDth and 15.9 MMDth as of September 30, 2012 and December 31, 2011, respectively.

[2]Basis contract volumes not included in the above table were 12.6 MMDth and 29.9 MMDth as of September 30, 2012 and December 31, 2011, respectively.

[3]Megawatt hours reported in thousands

Interest Rate Risk Activities. NiSource recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure. NiSource Finance has entered into various "receive fixed" and "pay floating" interest rate swap agreements which modify the interest rate characteristics of a portion of its outstanding long-term debt from fixed to variable rate. These interest rate swaps also serve to hedge the fair market value of NiSource Finance's outstanding debt portfolio. As of September 30, 2012, NiSource had $7.4 billion of outstanding fixed rate debt, of which $500.0 million is subject to fluctuations in interest rates as a result of the fixed-to-variable interest rate swap transactions. These interest rate swaps are designated as fair value hedges. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness for the nine months ended September 30, 2012 and 2011.

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

Contemporaneously with the issuance on September 16, 2005 of $1 billion of its 5.25% and 5.45% notes, maturing September 15, 2017 and 2020, respectively, NiSource Finance settled $900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of $35.5 million which is being amortized from AOCI to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88%, respectively. As of September 30, 2012, AOCI includes $10.1 million related to forward starting interest rate swap settlement, net of tax. These derivative contracts are accounted for as a cash flow hedge.

As of September 30, 2012, NiSource holds a 47.5% interest in Millennium. As NiSource reports Millennium as an equity method investment, NiSource is required to recognize a proportional share of Millennium's OCI. NiSource's proportionate share of the remaining unrealized loss associated with a settled interest rate swap is $18.9 million, net of tax, as of September 30, 2012. Millennium is amortizing the unrealized loss related to these terminated interest rate swaps into earnings using the effective interest method through interest expense as interest payments are made. NiSource records its proportionate share of the amortization as Equity Earnings in Unconsolidated Affiliates in the

Condensed Statements of Consolidated Income (unaudited).

21

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

Asset Derivatives (in millions)	September 30, 2012	December 31, 2011
Balance Sheet Location	Fair Value	Fair Value (1)
Derivatives designated as hedging instruments		
Interest rate risk activities		
Price risk management assets (current)	$0.1	$—
Price risk management assets (noncurrent)	40.3	56.7
Total derivatives designated as hedging instruments	$40.4	$56.7
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management assets (current)	$103.5	$141.8
Price risk management assets (noncurrent)	31.8	150.0
Total derivatives not designated as hedging instruments	$135.3	$291.8
Total Asset Derivatives	$175.7	$348.5

(1)During the fourth quarter of 2011, NiSource recorded reserves of $22.6 million ($4.6 million current and $18.0 million noncurrent) on certain commodity price risk assets related to the wind down of the unregulated natural gas marketing business. As of September 30, 2012, NiSource has fully reversed these assets as all contracts have been settled. The non-designated price risk asset amounts above are shown gross and have not been adjusted for the reserves.

Liability Derivatives (in millions)	September 30, 2012	December 31, 2011
Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	$0.1	$0.4
Price risk management liabilities (noncurrent)	—	0.1
Total derivatives designated as hedging instruments	$0.1	$0.5
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	$110.1	$167.4
Price risk management liabilities (noncurrent)	32.9	138.8
Total derivatives not designated as hedging instruments	$143.0	$306.2
Total Liability Derivatives	$143.1	$306.7

Table of Contents
ITEM 1. FINANCIAL STATEMENTS (continued)
NISOURCE INC.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Sept. 30, 2012	Sept. 30, 2011	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of (Loss) Gain Reclassified from AOCI into Income (Effective Portion) Sept. 30, 2012	Sept. 30, 2011
Commodity price risk programs	$0.2	$(0.2)	Cost of Sales	$—	$0.1
Interest rate risk activities	0.4	0.4	Interest expense, net	(0.7)	(0.7)
Total	$0.6	$0.2		$(0.7)	$(0.6)

Nine Months Ended (in millions)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivative (Effective Portion) Sept. 30, 2012	Sept. 30, 2011	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) Sept. 30, 2012	Sept. 30, 2011
Commodity price risk programs	$0.8	$0.3	Cost of Sales	$(0.8)	$0.9
Interest rate risk activities	1.2	1.2	Interest expense, net	(2.0)	(2.0)
Total	$2.0	$1.5		$(2.8)	$(1.1)

Three Months Ended (in millions)

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) September 30, 2012	September 30, 2011
Commodity price risk programs	Cost of Sales	$—	$—
Interest rate risk activities	Interest expense, net	—	—
Total		$—	$—

Nine Months Ended (in millions)

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) September 30, 2012	September 30, 2011
Commodity price risk programs	Cost of Sales	$—	$—
Interest rate risk activities	Interest expense, net	—	—
Total		$—	$—

It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in AOCI of approximately $0.1 million of loss, net of taxes.

Table of Contents
ITEM 1. FINANCIAL STATEMENTS (continued)
NISOURCE INC.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Derivatives in Fair Value Hedging Relationships

Three Months Ended (in millions)

Derivatives in Fair Value Hedging Relationships	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives	
		September 30, 2012	September 30, 2011
Interest rate risk activities	Interest expense, net	$(8.3)	$(3.0)
Total		$(8.3)	$(3.0)

Nine Months Ended (in millions)

Derivatives in Fair Value Hedging Relationships	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives	
		September 30, 2012	September 30, 2011
Interest rate risk activities	Interest expense, net	$(16.5)	$(3.5)
Total		$(16.5)	$(3.5)

Three Months Ended (in millions)

Hedged Item in Fair Value Hedge Relationships	Location of Gain Recognized in Income on Related Hedged Item	Amount of Gain Recognized in Income on Related Hedged Items	
		September 30, 2012	September 30, 2011
Fixed-rate debt	Interest expense, net	$8.3	$3.0
Total		$8.3	$3.0

Nine Months Ended (in millions)

Hedged Item in Fair Value Hedge Relationships	Location of Gain Recognized in Income on Related Hedged Item	Amount of Gain Recognized in Income on Related Hedged Items	
		September 30, 2012	September 30, 2011
Fixed-rate debt	Interest expense, net	$16.5	$3.5
Total		$16.5	$3.5

Derivatives not designated as hedging instruments

Three Months Ended (in millions)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Realized/Unrealized Gain (Loss) Recognized in Income on Derivatives *	
		September 30, 2012	September 30, 2011
Commodity price risk programs	Gas Distribution revenues	$—	$(0.1)
Commodity price risk programs	Other revenues	5.0	16.6
Commodity price risk programs	Cost of Sales	2.4	(7.4)
Total		$7.4	$9.1

* For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, gains of $6.8 million and $9.4 million for the three months ended September 30, 2012 and 2011, respectively, were deferred as allowed by regulatory orders. These amounts will be amortized to income over future periods of up to twelve months as specified in a regulatory order.

Nine Months Ended (in millions)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Realized/Unrealized Gain (Loss) Recognized in Income on Derivatives *	
		September 30, 2012	September 30, 2011
Commodity price risk programs	Gas Distribution revenues	$0.3	$(21.8)
Commodity price risk programs	Other revenues	11.0	35.0
Commodity price risk programs	Cost of Sales	(16.8)	(15.3)
Total		$(5.5)	$(2.1)

* For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, losses of $8.3 million and $9.8 million for the nine months ended September 30, 2012 and 2011, respectively, were deferred as allowed per regulatory orders. These amounts will be amortized to income over future periods of up to twelve months as specified in a regulatory order.

NiSource's derivative instruments measured at fair value as of September 30, 2012 and December 31, 2011 do not contain any credit-risk-related contingent features.

Certain NiSource affiliates have physical commodity purchase agreements that contain "ratings triggers" that require increases in collateral if the credit rating of NiSource or certain of its affiliates are rated below BBB- by Standard & Poor's or below Baa3 by Moody's. These agreements are primarily for the physical purchase or sale of natural gas and electricity. The collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $2.2 million. In addition to agreements with ratings triggers, there are some agreements that contain "adequate assurance" or "material adverse change" provisions that could result in additional credit support such as letters of credit and cash collateral to transact business.

NiSource had $62.9 million and $158.2 million of cash on deposit with brokers for margin requirements associated with open derivative positions reflected within "Restricted cash" on the Condensed Consolidated Balance Sheets (unaudited) as of September 30, 2012 and December 31, 2011, respectively.

Table of Contents
ITEM 1. FINANCIAL STATEMENTS (continued)
NISOURCE INC.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

9. Fair Value Disclosures

A. Fair Value Disclosures
Recurring Fair Value Measurements. The following tables present financial assets and liabilities measured and recorded at fair value on NiSource’s Condensed Consolidated Balance Sheets (unaudited) on a recurring basis and their level within the fair value hierarchy as of September 30, 2012 and December 31, 2011:

Recurring Fair Value Measurements September 30, 2012 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2012
Assets				
Commodity Price risk management assets:				
Physical price risk programs	$—	$44.8	$—	$44.8
Financial price risk programs	89.3	1.4	—	90.7
Interest rate risk activities	—	40.2	—	40.2
Available-for-sale securities	33.4	85.7	—	119.1
Total	$122.7	$172.1	$—	$294.8
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	$—	$0.4	$—	$0.4
Financial price risk programs	141.9	0.6	0.2	142.7
Total	$141.9	$1.0	$0.2	$143.1

Recurring Fair Value Measurements December 31, 2011 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2011
Assets				
Commodity Price risk management assets:				
Physical price risk programs	$—	$140.7	$—	$140.7
Financial price risk programs (1)	148.3	2.5	0.3	151.1
Interest rate risk activities	—	56.7	—	56.7
Available-for-sale securities	32.9	63.1	—	96.0
Total	$181.2	$263.0	$0.3	$444.5
Liabilities				
Commodity Price risk management liabilities:				
Physical price risk programs	$—	$3.9	$—	$3.9
Financial price risk programs	301.1	1.7	—	302.8
Total	$301.1	$5.6	$—	$306.7

(1)During the fourth quarter of 2011, NiSource recorded a reserve of $22.6 million on certain assets related to the wind down of the unregulated natural gas marketing business. The financial price risk program amount above is shown gross and has not been adjusted for the reserve.

Price risk management assets and liabilities include commodity exchange-traded and non-exchange-based derivative contracts. Exchange-traded derivative contracts are based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-

line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2.
Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures. As of September 30, 2012 and 2011, there were no material transfers between fair value hierarchies. Additionally there were no changes in the method or significant assumptions used to estimate the fair value of NiSource's financial instruments.
To determine the fair value of derivatives associated with NiSource's unregulated natural gas marketing business, certain reserves were calculated. These reserves were primarily determined by evaluating the credit worthiness of certain customers, fair value of future cash flows, and the cost of maintaining restricted cash. Refer to Note 8, "Risk Management Activities" for additional information on price risk assets.
Price risk management assets also include fixed-to-floating interest-rate swaps, which are designated as fair value hedges, as a means to achieve NiSource's targeted level of variable-rate debt as a percent of total debt. NiSource uses a calculation of future cash inflows and estimated future outflows related to the swap agreements, which are discounted and netted to determine the current fair value. Additional inputs to the present value calculation include the contract terms, as well as market parameters such as current and projected interest rates and volatility. As they are based on observable data and valuations of similar instruments, the interest-rate swaps are categorized in Level 2 in the fair value hierarchy. Credit risk is considered in the fair value calculation of the interest rate swap.
Available-for-sale securities are investments pledged as collateral for trust accounts related to NiSource's wholly-owned insurance company. Available-for-sale securities are included within "Other investments" in the Condensed Consolidated Balance Sheets (unaudited). Securities classified within Level 1 include U.S. Treasury debt securities which are highly liquid and are actively traded in over-the-counter markets. NiSource values corporate and mortgage-backed debt securities using a matrix pricing model that incorporates market-based information. These securities trade less frequently and are classified within Level 2. Total gains and losses from available-for-sale securities are included in other comprehensive income (loss). The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale debt securities at September 30, 2012 and December 31, 2011 were:

(in millions)	Amortized Cost	Total Gains	Total Losses	Fair Value
Available-for-sale debt securities, September 30, 2012				
U.S. Treasury	$36.7	$2.0	$—	$38.7
Corporate/Other	77.7	2.8	(0.1)	80.4
Total Available-for-sale debt securities	$114.4	$4.8	$(0.1)	$119.1

(in millions)	Amortized Cost	Total Gains	Total Losses	Fair Value
Available-for-sale debt securities, December 31, 2011				
U.S. Treasury	$36.7	$1.7	$—	$38.4

Corporate/Other	56.3	1.6	(0.3)	57.6
Total Available-for-sale debt securities	$93.0	$3.3	$(0.3)	$96.0

For the three months ended September 30, 2012 and 2011, the net realized gain on the sale of available-for-sale U.S. Treasury debt securities was zero and $0.1 million, respectively. For both the three months ended September 30, 2012 and 2011, the net realized gains on sale of available-for-sale Corporate/Other bond debt securities was $0.1 million. For the nine months ended September 30, 2012 and 2011, the net realized gain on the sale of available-for-sale U.S. Treasury debt securities was $0.3 million and $0.4 million, respectively. For the nine months ended September 30, 2012 and 2011, the net realized gain on sale of available-for-sale Corporate/Other bond debt securities was $0.1 million and $1.0 million, respectively.

Table of Contents
ITEM 1. FINANCIAL STATEMENTS (continued)
NISOURCE INC.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

The cost of maturities sold is based upon specific identification. At September 30, 2012, all of the U.S. Treasury debt securities have maturities of greater than one year. At September 30, 2012, approximately $2.8 million of Corporate/Other bonds have maturities of less than a year while the remaining securities have maturities of greater than one year.
The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the three and nine months ended September 30, 2012 and 2011:

Three Months Ended September 30, 2012 (in millions)	Other Derivatives	
Balance as of July 1, 2012	$(0.3	)
Total gains or (losses) (unrealized/realized)		
Included in regulatory assets/liabilities	0.1	
Balance as of September 30, 2012	$(0.2	)
Change in unrealized gains/(losses) relating to instruments still held as of September 30, 2012	$(0.2	)

Three Months Ended September 30, 2011 (in millions)	Other Derivatives	
Balance as of July 1, 2011	$(0.8	)
Total gains or (losses) (unrealized/realized)		
Included in regulatory assets/liabilities	0.4	
Purchases	(0.2	)
Settlements	0.2	
Balance as of September 30, 2011	$(0.4	)
Change in unrealized gains/(losses) relating to instruments still held as of September 30, 2011	$(1.1	)

Nine Months Ended September 30, 2012 (in millions)	Other Derivatives	
Balance as of January 1, 2012	$0.3	
Total gains or (losses) (unrealized/realized)		
Included in regulatory assets/liabilities	(0.5	)
Balance as of September 30, 2012	$(0.2	)
Change in unrealized gains/(losses) relating to instruments still held as of September 30, 2012	$(0.2	)

Nine Months Ended, September 30, 2011 (in millions)	Other Derivatives	
Balance as of January 1, 2011	$0.2	
Total gains or (losses) (unrealized/realized)		
Included in regulatory assets/liabilities	(0.7	)
Purchases	(1.1	)
Settlements	1.2	
Balance as of September 30, 2011	$(0.4	)

Change in unrealized gains/(losses) relating to instruments still held as of September 30, 2011	$(1.1)

28

Table of Contents
ITEM 1. FINANCIAL STATEMENTS (continued)
NISOURCE INC.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Non-recurring Fair Value Measurements. There were no significant non-recurring fair value measurements recorded during the nine months ended September 30, 2012 and 2011.
B. Other Fair Value Disclosures for Financial Instruments. NiSource has certain financial instruments that are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature, including cash and cash equivalents, restricted cash, notes receivable, customer deposits and short-term borrowings. NiSource’s long-term borrowings are recorded at historical amounts unless designated as a hedged item in a fair value hedge.
The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value.
Long-term Debt. The fair values of these securities are estimated based on the quoted market prices for the same or similar issues or on the rates offered for securities of the same remaining maturities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value. These fair value measurements are classified as Level 2 within the fair value hierarchy. For the quarters ending September 30, 2012 and 2011, there were no changes in the method or significant assumptions used to estimate the fair value of the financial instruments.

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

(in millions)	Carrying Amount as of Sept. 30, 2012	Estimated Fair Value as of Sept. 30, 2012	Carrying Amount as of Dec. 31, 2011	Estimated Fair Value as of Dec. 31, 2011
Long-term debt (including current portion)	$7,643.0	$8,827.9	$6,594.4	$7,369.4

10. Transfers of Financial Ass