NISOURCE INC/DE
Form 10-K
February 18, 2014

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, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-16189
NiSource Inc.
(Exact name of registrant as specified in its charter)

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

(877) 647-5990
(Registrant's telephone number, including area code)
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 Jun. 28, 2013, closing price of $28.64 on the New York Stock Exchange) held by non-affiliates was approximately $8,906,811,018.74.

There were 313,991,406 shares of Common Stock, $0.01 Par Value outstanding as of February 13, 2014.

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 13, 2014.

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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
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission, L.L.C.
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission L.L.C.
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
NEVCO	NiSource Energy Ventures, L.L.C.
NIPSCO	Northern Indiana Public Service Company
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation
NiSource Midstream	NiSource Midstream Services, L.L.C.
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company Inc.
Pennant	Pennant Midstream, L.L.C.

Abbreviations	
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
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

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DEFINED TERMS

Board	Board of Directors
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
Ccf	Hundred cubic feet
CCGT	Combined Cycle Gas Turbine
CCRM	Capital Cost Recovery Mechanism
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
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
Hilcorp	Hilcorp Energy Company
hp	Horsepower
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
INDIEC	Indiana Industrial Energy Consumers, Inc.
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
kV	Kilovolt

LDAF	Local Distribution Adjustment Factor

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DEFINED TERMS

LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
MACT	Maximum Achievable Control Technology
MATS	Mercury and Air Toxics Standards
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
NGL	Natural Gas Liquids
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
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PM	Particulate matter
PNC	PNC Bank N.A.
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RA	Resource Adequacy
RBS	Royal Bank of Scotland PLC
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
TDSIC	Transmission, Distribution and Storage System Improvement Charge
TIRF	Targeted Infrastructure Reinvestment Factor
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 NiSource Gas Distribution Group, Inc., a natural gas distribution holding company, and Columbia, a transmission and storage holding company, whose subsidiaries provide service to customers in the Midwest, the Mid-Atlantic and the Northeast; NIPSCO, a gas and electric company providing service to customers in northern Indiana. 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; Columbia Pipeline Group 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 approximately 3.4 million customers in seven states and operate approximately 58,000 miles of pipeline. Through its wholly-owned subsidiary NiSource Gas Distribution Group, Inc., NiSource owns six distribution subsidiaries that provide natural gas to approximately 2.6 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland and Massachusetts. Additionally, NiSource also distributes natural gas to approximately 803,000 customers in northern Indiana through its wholly-owned subsidiary NIPSCO.

Columbia Pipeline Group Operations

NiSource's Columbia Pipeline Group Operations subsidiaries own and operate approximately 15,000 miles of interstate pipelines and operate one of the nation's largest underground natural gas storage systems, capable of storing approximately 642 Bcf of natural gas. Through its subsidiaries, Columbia Transmission, Columbia Gulf, NiSource Midstream 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 Columbia Pipeline Group Operations continue to develop a range of 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 Columbia Pipeline Group 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 supports the growing production in the Utica and Marcellus resource plays. NiSource Midstream constructed 57 miles of gathering pipeline capable of delivering 425 MMcf of gas per day produced from the Marcellus shale formation. NiSource Midstream, through a wholly owned subsidiary, has a joint venture with 50 miles of wet gas gathering pipeline capable of gathering 600 MMcf per day, a gas processing plant with a capacity of 200 MMcf per day, and a NGL pipeline from the processing plant in development with an initial capacity of 45,000 barrels per day that can be expanded to 90,000 barrels per day. The gathering pipeline and processing plant are anchored by volumetric and acreage dedications from an experienced resource play production company.

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 and an overriding royalty interest.

NEVCO has also retained the right to participate as a non-operating working interest owner in one of the fields it has subleased. NEVCO may participate up to a 12.5% interest in any unit that includes acres that have been subleased to a producer. This option was exercised in 2013 with positive results and NEVCO plans to continue to participate in additional drilling opportunities.

The Columbia Pipeline Group Operations subsidiaries are also involved in the other 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 natural gas to markets along its route, as well

ITEM 1. BUSINESS
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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 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 NIPSCO to approximately 460,000 customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. NIPSCO owns and operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,540 mw. NIPSCO also owns and operates Sugar Creek, a CCGT plant with net capacity of 535 mw, four gas-fired generating units located at NIPSCO'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. NIPSCO's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,802 circuit miles. NIPSCO is interconnected with five neighboring electric utilities. During the year ended December 31, 2013, NIPSCO generated 77.3% and purchased 22.7% of its electric requirements.

NIPSCO 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. NIPSCO transferred functional control of its electric transmission assets to the MISO and transmission service for NIPSCO 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. On September 1, 2013, NiSource sold the commercial and industrial natural gas portfolio of its unregulated natural gas marketing business. The sale included the physical contracts and associated financial hedges that comprise the portfolio, as well as the gas inventory and customer deposits of the business.

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 also sold the commercial and industrial natural gas portfolio of its unregulated natural gas marketing business in September 2013.

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

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transportation services. The Columbia Pipeline Group Operations compete for transportation customers based on the type of service a customer needs, operating flexibility, available capacity and price under tariff provisions.

Electric Competition. Indiana electric utilities generally enjoy exclusive service areas under Indiana regulations and retail electric customers in Indiana do not have the ability to choose their electric supplier. NIPSCO faces non-utility competition from other energy sources, such as self-generation by large industrial customers and other distributed energy sources.

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, 2013, NiSource had 8,477 employees of whom 3,318 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 $8,834.0 million outstanding as of December 31, 2013. 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 January 31, 2014, Moody's Investors Service upgraded the senior unsecured rating for NiSource to Baa2 from Baa3 and NiSource’s commercial paper rating to P-2 from P-3. Additionally, the rating for NIPSCO was upgraded to Baa1 from Baa2 and the rating for Columbia of Massachusetts was affirmed at Baa2. Moody's outlook for NiSource and all of its subsidiaries is stable. On December 9, 2013, 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 February 25, 2013, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor'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 $35.4 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.

These 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; natural gas production activity, including production facilitated by hydraulic fracturing and horizontal drilling, could be less than anticipated, which could adversely affect NiSource’s gas transmission, storage and midstream business expansion opportunities; and, therefore, the actual results of NiSource’s financial management of the balance sheet, and process and expense management, could deviate materially from planned outcomes. In addition, NiSource’s growth plan relies on the continued view of natural gas as an economically and

ITEM 1A. RISK FACTORS
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ecologically attractive fuel. Any developments that cause natural gas no longer to be seen as a favored fuel could adversely affect our results of operations and growth prospects.

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 are subject to economic regulation and are 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 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 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.

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ITEM 1A. RISK FACTORS
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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 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 and the ability to recover under regulatory mechanisms could affect NiSource's financial position, operating results 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 also is 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. NiSource is subject to a financial covenant under its five-year revolving credit facility and its three year term loan, 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, 2013, the ratio was 60.0%.
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 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 condition and results of operations.

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, impairment of its operations, adverse regulatory rulings and reputational harm, 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 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 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.

A cyber-attack on any of NiSource's or certain third party computer systems upon which NiSource relies may adversely affect its ability to operate.

NiSource is reliant on technology to run its businesses, which are dependent upon financial and operational computer systems to process critical information necessary to conduct various elements of its business, including the generation, transmission and distribution of electricity, operation of its gas pipelines and storage facilities and the recording and reporting of commercial and financial transactions to regulators, investors and other stakeholders. Any failure of NiSource's computer systems, or those of its customers, suppliers or others with whom it does business, could materially disrupt NiSource's ability to operate its business and could result in a financial loss and possibly do harm to NiSource's reputation.

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's Columbia Pipeline Group Operations continues to complete and advance customer-driven expansion projects across its system and develop its midstream business through gathering and processing activities, primarily surrounding the Marcellus and Utica shale production area in the states of Pennsylvania, Ohio and West Virginia. Additionally, NiSource is executing on its comprehensive interstate natural gas pipeline modernization program. These modernization projects include constructing or replacing pipelines and other facilities, which subjects NiSource to construction risks and risks that gas supplies may not be available. Some expansion projects may also be subject to risks related to fluctuation in construction and gas costs. Both modernization and expansion projects are reliant on the contractual performance of vendors and suppliers of materials and supplies and services. Nonperformance or underperformance could subject NiSource to increased costs. Further, NiSource is subject to regulatory approval of various projects. Delays in this process could increase costs of the projects.

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 Operations is engaged in an intrastate natural gas pipeline modernization program to maintain system integrity and enhance service reliability and flexibility. NIPSCO 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.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

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.
Growing competition in the gas transportation and storage industries could result in the failure by customers to renew existing contracts.
As a consequence of the increase in competition and the shift in natural gas production areas, customers such as LDCs and other end users, 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 and cash flows.
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, 2013.

Gas Distribution Operations. NiSource's Gas Distribution Operations subsidiaries own and operate a total of 58,146 miles of pipelines and certain related facilities. This includes: (i) for the six distribution companies of its Columbia system, 40,588 miles of pipelines, 1,350 reservoir acres of underground storage, eight storage wells, liquid propane facilities with a capacity of 2.6 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 NIPSCO system, 17,558 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.

Columbia Pipeline Group Operations. Columbia Pipeline Group subsidiaries own and operate 14,780 miles of natural gas transmission pipeline. Columbia Transmission owns and leases approximately 769,000 acres of underground storage, 3,446 storage wells, 11,161 miles of pipeline and 89 compressor stations with 617,185 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 119 miles of gathering pipeline and one compressor station with 7,100 hp of installed capacity. NEVCO owns production rights associated with Columbia Transmission's storage fields located in Ohio, Pennsylvania, and West Virginia. Columbia Pipeline Group Operations' offices are headquartered in Houston, Texas.

Electric Operations. NiSource generates, transmits and distributes electricity through its subsidiary NIPSCO to approximately 460,000 customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. NIPSCO operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,540 mw. NIPSCO also owns and operates Sugar Creek, a CCGT plant with a 535 mw capacity rating, four gas-fired generating units located at NIPSCO'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. NIPSCO's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,802 circuit miles. NIPSCO is interconnected with five neighboring electric utilities. During the year ended December 31, 2013, NIPSCO generated 77.3% and purchased 22.7% 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.

None.

ITEM 4. MINE SAFETY DISCLOSURES

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, 2014.

Name	Age	Office(s) Held in Past 5 Years
Robert C. Skaggs, Jr.	59	Chief Executive Officer of NiSource since July 2005.
		President of NiSource since October 2004.
Carrie J. Hightman	56	Executive Vice President and Chief Legal Officer of NiSource since December 2007.
Stephen P. Smith	52	Executive Vice President and Chief Financial Officer of NiSource since August 2008.
Jim L. Stanley	58	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	50	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	54	Senior Vice President, Human Resources, of NiSource since May 2006.
Glen L. Kettering	59	Senior Vice President, Corporate Affairs, since March 2006, and interim Group Chief Executive Officer of NiSource since January 1, 2014.
Jon D. Veurink	49	Vice President, Controller and Chief Accounting Officer of NiSource 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.

	2013		2012	
	High	Low	High	Low
First Quarter	29.38	24.85	24.55	22.32
Second Quarter	31.39	27.11	25.79	23.59
Third Quarter	31.48	28.27	26.15	23.93
Fourth Quarter	33.48	30.09	25.97	23.14

As of December 31, 2013, NiSource had 26,965 common stockholders of record and 313,675,911 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 $0.98, $0.94 and $0.92 per share for the years ended December 31, 2013, 2012 and 2011, respectively. At its January 31, 2014 meeting, the Board declared a quarterly common dividend of $0.25 per share, payable on February 20, 2014 to holders of record on February 10, 2014.
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, 2013, 2012, 2011, 2010 and 2009 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)	2013	2012	2011	2010	2009
Statement of Income Data:					
Gross Revenues					
Gas Distribution	$2,226.3	$1,959.8	$2,917.9	$3,094.0	$3,296.2
Gas Transportation and Storage	1,643.2	1,462.4	1,354.6	1,261.4	1,239.5
Electric	1,563.4	1,507.7	1,427.7	1,379.3	1,214.2
Other	224.4	101.0	50.8	51.2	41.2
Total Gross Revenues	5,657.3	5,030.9	5,751.0	5,785.9	5,791.1
Net Revenues (Gross Revenues less Cost of Sales, excluding depreciation and amortization)	3,841.8	3,514.0	3,447.5	3,406.2	3,288.9
Operating Income	1,143.4	1,040.1	914.4	899.0	782.8
Income from Continuing Operations	490.9	408.8	309.6	281.0	219.5
Results from Discontinued Operations - net of taxes	41.2	7.3	(10.5)	1.6	(2.5)
Net Income	532.1	416.1	299.1	282.6	217.0
Balance Sheet Data:					
Total Assets	22,653.9	21,844.7	20,708.3	19,913.4	19,262.5
Capitalization					
Common stockholders’ equity	5,886.6	5,554.3	4,997.3	4,897.5	4,837.8
Long-term debt, excluding amounts due within one year	7,593.2	6,819.1	6,267.1	5,936.1	5,969.1
Total Capitalization	$13,479.8	$12,373.4	$11,264.4	$10,833.6	$10,806.9
Per Share Data:					
Basic Earnings (Loss) Per Share ($)					
Continuing operations	$1.57	$1.40	$1.10	$1.01	$0.80
Discontinued operations	0.13	0.03	(0.04)	0.01	(0.01)
Basic Earnings Per Share	$1.70	$1.43	$1.06	$1.02	$0.79
Diluted Earnings (Loss) Per Share ($)					
Continuing operations	$1.57	$1.36	$1.07	$1.00	$0.80
Discontinued operations	0.13	0.03	(0.04)	0.01	(0.02)
Diluted Earnings Per Share	$1.70	$1.39	$1.03	$1.01	$0.78
Other Data:					
Dividends paid per share ($)	$0.98	$0.94	$0.92	$0.92	$0.92
Shares outstanding at the end of the year (in thousands)	313,676	310,281	281,854	278,855	276,638
Number of common shareholders	26,965	28,823	30,663	32,313	34,299
Capital expenditures ($ in millions)	$2,046.0	$1,585.1	$1,125.2	$803.8	$777.2
Number of employees	8,477	8,286	7,957	7,604	7,616

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During 2012, NiSource began marketing to sell the service plan and leasing business lines of its Retail Services business. As of December 31, 2012, the assets and liabilities of the business lines met the criteria to be classified as held for sale in accordance with GAAP. Additionally, the results of operations and cash flows are classified as discontinued operations for all periods presented. The sale of the business lines closed in January 2013 resulting in an after tax gain on disposition of $36.4 million for the year ended December 31, 2013.

- Effective June 1, 2012, NiSource received approval from the FERC to implement a new surcharge to recover the costs of certain operational purchases and sales required to ensure a sufficient amount of flowing supply into Columbia Transmission’s system in northern Ohio in order to both meet its firm service obligations to customers and its storage operational requirements. Net revenues associated with this service, recorded in other revenue and offset in expense, were $170.5 million and $53.6 million for 2013 and 2012, respectively.

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ITEM 6. SELECTED FINANCIAL DATA
NISOURCE INC.

- 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 2012 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.

- 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.

- 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.

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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, 2013, NiSource reported income from continuing operations of $490.9 million, or $1.57 per basic share, compared to $408.8 million, or $1.40 per basic share for the same period in 2012.

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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:

- Regulatory and service programs at Gas Distribution Operations increased net revenues by $53.8 million primarily due to the rate cases at Columbia of Massachusetts and Columbia of Pennsylvania and the impacts from the implementation of rates under Columbia of Ohio's approved infrastructure replacement program. Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for more information.

- Net revenues at Columbia Pipeline Group Operations increased by $50.3 million due to the current period impacts of the 2012 customer settlement at Columbia Transmission. Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for more information.

- Colder weather in 2013 resulted in an increase in income from continuing operations of $37.6 million compared to the prior year. Weather statistics are provided in the Gas Distribution and Electric Operations' segment discussions.

- Net revenues increased by $28.9 million as a result of the return on environmental capital investment recovery at Electric Operations due to an increased plant balance eligible for recovery. Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for more information.

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

- Employee and administrative expense increased by $60.5 million due primarily to greater labor expense due to a growing workforce, timing of outages and maintenance and IT support and enhancement projects.

- Depreciation and amortization increased $15.4 million primarily as a result of higher capital expenditures related to projects placed in service. NiSource's capital expenditures were approximately $2.0 billion in 2013 and are projected to be approximately $2.2 billion in 2014.

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

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

The Settlement includes a CCRM, a tracker mechanism that will allow Columbia Transmission to recover, through an additive capital demand rate, its revenue requirement for capital investments made under Columbia Transmission's long-term plan to modernize its interstate transmission system. The CCRM provides for a 14% revenue requirement with a portion designated as a recovery of increased taxes other than income taxes. The additive demand rate is earned on costs associated with projects placed

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

into service by October 31 each year. The initial additive demand rate was effective on February 1, 2014. The CCRM will give Columbia Transmission the opportunity to recover its revenue requirement associated with $1.5 billion investment in the modernization program, while maintaining competitive rates for its shippers. The CCRM recovers the revenue requirement associated with qualifying modernization costs that Columbia Transmission incurs after satisfying the requirement associated with $100 million in annual capital maintenance expenditures. The CCRM applies to Columbia Transmission's transportation shippers. The CCRM will not exceed $300 million per year in investment in eligible facilities, subject to a 15% annual tolerance and a total cap of $1.5 billion for the entire five-year initial term. On December 31, 2013, Columbia Transmission made its first annual CCRM filing, with billing rates effective February 1, 2014. Through this filing, Columbia Transmission will begin collecting its revenue requirements for the $299.2 million spent on eligible modernization facilities in 2013. For the first CCRM period, these revenue requirements will total approximately $38.9 million. On January 30, 2014, the FERC approved Columbia Transmission's first year CCRM filing.

On November 25, 2013, Columbia of Ohio filed a Notice of Intent to file an application to adjust rates associated with its IRP and DSM Riders. Columbia of Ohio will file its Application by February 28, 2014. Columbia of Ohio will be seeking to increase revenues by approximately $30.5 million.

On November 19, 2013, NIPSCO placed the first of two FGD units in service at its Schahfer generating station. The first unit is part of approximately $860 million in environmental investments planned at NIPSCO's electric generating facilities. A second unit at Schahfer is scheduled to be placed in service by the end of 2014. Construction continues on the FGD project at NIPSCO's Michigan City generating station, with anticipated completion by the end of 2015.

On October 30, 2013, the IURC issued an order on ECR-22 approving NIPSCO's request to begin earning a return on $478.8 million of net capital expenditures. On January 31, 2014, NIPSCO filed ECR-23 which included $583.5 million of net capital expenditures for the period ending December 31, 2013.

On October 10, 2013, the IURC issued an order approving NIPSCO's MATS Compliance Projects. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for more information on the MATS rule. The Order approved estimated capital costs of $59.3 million and granted the requested ratemaking relief and accounting treatment associated with these projects through the annual EERM and semi-annual ECRM tracker filings.

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

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

On July 19, 2013, NIPSCO filed its electric TDSIC with the IURC. The filing included the seven year plan of eligible investments for a total of approximately $1.1 billion with the majority of the spend occurring in years 2016 through 2020. On February 17, 2014, the IURC issued an order approving NIPSCO's seven year plan of eligible investments. The Order also granted NIPSCO

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ratemaking relief associated with the eligible investments through a rate adjustment mechanism, described above. NIPSCO anticipates filing its first semi-annual tracker petition in the third quarter of 2014.

On October 3, 2013, NIPSCO filed its gas TDSIC seven year plan of eligible investments for a total of approximately $710 million with the IURC. An order is expected by the second quarter of 2014.
On June 18, 2013, NIPSCO, the OUCC and other customer stakeholder groups filed a unanimous agreement with the IURC to extend NIPSCO's 2010 natural gas customer rate settlement through 2020. The Settlement Agreement was approved by order issued on August 28, 2013 with the stipulation that, on or before November 2020, NIPSCO must file a general rate case.

On May 29, 2013, Columbia of Kentucky filed an application with the Kentucky PSC requesting an increase of approximately $16.6 million in base rate revenues, the use of a forecasted test period and a revenue normalization adjustment to recognize changes in customer usage not included in Columbia of Kentucky's current weather normalization adjustment. A stipulation, signed by all parties and resolving all issues, was filed on November 5, 2013. On December 13, 2013, the Kentucky PSC issued an order approving the stipulation providing for, among other terms, an increase of $7.7 million in revenues using a forecasted test year a recovery of Columbia of Kentucky’s investment in its pipeline replacement program on a forecasted basis, and continuation of Columbia of Kentucky's CHOICE program for three years. New rates were effective December 29, 2013.
On April 16, 2013, Columbia of Massachusetts submitted a filing with the Massachusetts DPU requesting an annual revenue requirement increase of $30.1 million. An order is expected by February 28, 2014, with new rates going into effect on March 1, 2014. Pursuant to the procedural schedule for this case, on September 3, 2013, Columbia of Massachusetts filed its updated revenue requirement of $29.5 million and on October 16, 2013, filed an updated cost of service for $30 million. Evidentiary hearings and the briefing schedule for the case have concluded. In compliance with the procedural schedule, a final revenue requirements update of $29.9 million was filed on December 16, 2013.

As part of a multi-state effort to strengthen the electric transmission system serving the Midwest, NIPSCO anticipates making investments in two projects that were authorized by the MISO and are scheduled to be in service during the latter part of the decade. On July 19, 2012 and December 19, 2012, the FERC issued orders approving construction work in progress in rate base and abandoned plant cost recovery requested by NIPSCO 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 NIPSCO's request to transition to forward looking rates, allowing more timely recovery of NIPSCO's investment in transmission assets. On August 22, 2012, the IURC issued an order authorizing NIPSCO to retain certain revenues under MISO Schedule 26-A. NIPSCO began recording revenue in the first quarter of 2013 using a forward looking rate, based on an average construction work in progress balance of $19.8 million. For the twelve months ended December 31, 2013 revenue of $2.4 million was recorded.

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 2013, Columbia Pipeline Group Operations placed into service strategic growth projects, primarily serving the Utica and Marcellus Shale production area. Below is a discussion of these projects as well as projects that are currently on-going.

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

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

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

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

In addition to the growth projects discussed above, NiSource Midstream continued to capitalize on NiSource's strategic position in the Marcellus and Utica shale production regions. Pennant is investing in the construction of 20-24 inch wet gas gathering pipeline facilities with a capacity of approximately 600 MMcf per day. In addition, Pennant is installing a gas processing facility in New Middletown, Ohio that will have an initial capacity of 200 MMcf per day and an NGL pipeline with an initial capacity of 45,000 barrels per day that can be expanded to 90,000 barrels per day. Consistent with the terms of the joint venture, NiSource Midstream will operate the gas processing facility, NGL pipeline and associated wet gas gathering system. The joint venture is designed and anticipated to serve other producers with significant acreage development in the area with an interest in obtaining capacity on the system. The construction of the facilities will allow Pennant to become a full-service solution for providers in the northern Utica shale region, offering access to wet gas gathering and processing as well as residue gas and NGL takeaway to attractive market destinations. NiSource Midstream's initial investment in this area, including the gathering pipeline, related laterals, NGL pipeline and the processing plant, will be approximately $185 million. A portion of the facilities were placed in service in the fourth quarter of 2013 and the remainder will be in service in the second and third quarters of 2014.

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, 2013, NiSource maintained approximately $1.6 billion in net available liquidity.
- On October 10, 2013, NiSource Finance issued $500.0 million of 5.65% senior unsecured notes that mature on February 1, 2045.
- On September 30, 2013, NiSource Finance amended its existing revolving credit facility with a syndicate of banks led by Barclays Capital to expand its borrowing capacity to $2.0 billion and extend the termination date to September 28, 2018. The purpose of the facility is to fund ongoing working capital requirements including the provision of liquidity support for NiSource's $1.5 billion commercial paper program, provide for issuance of letters of credit, and also for general corporate purposes. At December 31, 2013, NiSource had no outstanding borrowings under this facility.
- On August 19, 2013, NIPSCO redeemed $30.0 million of 7.16% medium term notes.
- On July 22, 2013, NIPSCO redeemed $5.0 million of 7.21% medium term notes.

- On July 8, 2013, NIPSCO redeemed $15.0 million of 7.35% medium term notes.

- On June 3, 2013, NIPSCO redeemed $18.0 million of 5.20% pollution control bonds.

- On April 15, 2013, NiSource Finance amended the term loan to add an additional lender to the syndicate of banks, increase borrowings under the term loan by $75.0 million to a total of $325.0 million and extend the maturity date to April 15, 2016. Borrowings under the term loan carried an interest rate of BBA LIBOR plus 125 basis points during 2013. Effective with Moody's credit rating upgrade on January 31, 2014, NiSource's credit spread on the term loan is 100 basis points.

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

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

Credit Ratings. On January 31, 2014, Moody's Investors Service upgraded the senior unsecured rating for NiSource to Baa2 from Baa3 and NiSource’s commercial paper rating to P-2 from P-3. Additionally, the rating for NIPSCO was upgraded to Baa1 from Baa2 and the rating for Columbia of Massachusetts was affirmed at Baa2. Moody's outlook for NiSource and all of its subsidiaries is stable. On December 9, 2013, 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 February 25, 2013, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor'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.

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, 2013, NiSource reported income from continuing operations of $490.9 million, or $1.57 per basic share, compared to $408.8 million, or $1.40 per basic share in 2012. Income from continuing operations for the year ended December 31, 2011 was $309.6 million, or $1.10 per basic share.

Including results from discontinued operations, NiSource reported 2013 net income of $532.1 million, or $1.70 per basic share, 2012 net income of $416.1 million, or $1.43 per basic share, and 2011 net income of $299.1 million, or $1.06 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. An increase in operating expenses of $118.7 million for the 2013 year was offset by a corresponding decrease to net revenues reflecting these tracked costs. In the 2012 period, a decrease in operating expenses of $3.4 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, 2013, were $3,841.8 million, a $327.8 million increase compared with 2012. Net revenues increased primarily due to increased Columbia Pipeline Group Operations' net revenues of $179.0 million, higher Gas Distribution Operations' net revenues of $140.3 million and increased Electric Operations' net revenues of $8.6 million.

- Columbia Pipeline Group Operations’ net revenues increased primarily due to higher regulatory trackers, which are offset in expense, of $119.5 million, the current period impacts of the 2012 customer settlement at Columbia Transmission, which resulted in an increase in net revenues of $50.3 million, higher demand and commodity revenue of $11.9 million from new growth projects placed into service and increased mineral rights royalty revenue of $7.0 million. These increases were partially offset by lower shorter term transportation services of $7.6 million.

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- Gas Distribution Operations' net revenues increased primarily due to an increase of $53.8 million for regulatory and service programs, including the impact from the rate cases at Columbia of Pennsylvania and Columbia of Massachusetts and the implementation of rates under Columbia of Ohio's approved infrastructure replacement program, the effects of colder weather of $47.6 million, increased trackers, which are offset in expense, of $18.7 million, an increase in residential, commercial and industrial usage of $10.8 million, and higher revenue of $5.3 million due to an increase in residential and commercial customers.
- Electric Operations' net revenues increased primarily due to an increase in the return on environmental capital investment recovery of $28.9 million due to an increased plant balance eligible for recovery, higher industrial, commercial and residential margins of $17.5 million, transmission upgrade revenue of $6.2 million, increased off-system sales of $4.9 million, higher revenue of $2.2 million due to an increase in commercial and residential customers and an increase in a RTO recovery mechanism of $2.1 million, which is offset in expense. These increases were partially offset by lower environmental cost trackers, which are offset in expense, of $19.5 million, decreased revenue related to emission allowances of $11.9 million, the effects of colder weather of $10.0 million, a decrease of $6.6 million related to the final reconciliation of the revenue credit recorded in 2012 and higher fuel handling costs of $4.3 million.

Total consolidated net revenues for the twelve months ended December 31, 2012 were $3,514.0 million, a $66.5 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 revenues of $53.9 million and decreased Columbia Pipeline Group Operations' net revenues of $5.2 million.

- Electric Operations' net revenues increased primarily due to increased industrial, commercial and residential 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.
- Columbia Pipeline Group Operations' net revenues decreased primarily due to the customer settlement at Columbia Transmission which decreased net revenues by $81.7 million. These decreases were 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.

Expenses

Operating expenses were $2,734.3 million in 2013, an increase of $228.2 million from the comparable 2012 period. This increase was primarily due to an increase in operation and maintenance expenses of $213.6 million, higher depreciation and amortization of $15.4 million and increased other taxes of $12.9 million, partially offset by an increase in the gain on sale of assets of $13.7 million. The increase in operation and maintenance is due primarily to increased regulatory trackers, which are offset in revenue, of $130.0 million, higher employee and administrative costs of $60.5 million due primarily to greater labor expense due to a growing workforce, timing of outages and maintenance and IT support and enhancement projects, increased outside services of $10.2 million, software data conversion costs of $8.9 million and a mark-to-market adjustment of corporate owned life insurance assets primarily in the prior year of $5.7 million. These increases were partially offset by lower electric generation costs of $13.1 million as a result of the timing of planned and unplanned outages. The increase in depreciation and amortization is primarily due to increased capital expenditures related to projects placed in service. The increase in gain on the sale of assets is primarily from the sale of storage base gas of $11.1 million and conveyances of mineral rights of $7.3 million, both at Columbia Pipeline Group Operations.

Operating expenses were $2,506.1 million in 2012, a decrease of $41.6 million from the comparable 2011 period. This decrease was primarily due to a decrease in operation and maintenance expenses of $41.8 million, lower impairment charges of $20.6

million and decreased other taxes of $5.4 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 Columbia Pipeline Group Operations. These decreases in operation and maintenance expenses were partially offset by increased MISO fees which were previously deferred until the 2011 electric rate case which 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.

Equity Earnings in Unconsolidated Affiliates

Equity Earnings in Unconsolidated Affiliates were $35.9 million in 2013, an increase of $3.7 million compared with 2012. Equity Earnings in Unconsolidated Affiliates primarily includes investments in Millennium and Hardy Storage which are integral to the Columbia Pipeline Group Operations business. Equity earnings increased primarily from increased earnings at Millennium.

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 Columbia Pipeline Group Operations business. Equity earnings increased primarily from increased earnings at Millennium due to higher demand and commodity revenues.

Other Income (Deductions)

Other Income (Deductions) in 2013 reduced income $390.6 million compared to a reduction of $416.6 million in 2012. The decrease in deductions is primarily due to an increase in Other, net of $22.5 million in 2013 compared to 2012. This increase is primarily attributable to a gain from insurance proceeds and AFUDC earnings. Interest expense of $414.8 million was recorded in 2013, a decrease of $3.5 million compared to the prior year. The decrease resulted from the maturity of $420.3 million of long-term debt in March 2013 and $315.0 million of long-term debt in November 2012, increased AFUDC rates and lower average short-term borrowings partially offset by higher interest expense from the issuance of $500 million of long-term debt in October 2013, $750.0 million of long-term debt in April 2013 and $750.0 million of long-term debt in June 2012.

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 NIPSCO. 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.

Income Taxes

The effective income tax rates were 34.8%, 34.4% and 35.0% in 2013, 2012 and 2011, respectively. The change in the overall effective tax rate in 2013 versus 2012 and 2012 versus 2011 were minimal. Refer to Note 11, "Income Taxes," in the Notes to Consolidated Financial Statements for further discussion of income taxes.

Discontinued Operations

Discontinued operations reflected net income of $6.3 million in 2013 compared to net income of $7.3 million in 2012 and a loss of $10.5 million in 2011. The income in 2013, 2012 and loss in 2011 relates primarily to activities associated with NiSource's Retail Services business, a settlement at NiSource's former exploration and production subsidiary, CER, NiSource's unregulated natural gas marketing business and Columbia Propane. Income in 2013 is comparable to 2012. Income in 2012 was $17.8 million higher than 2011 due primarily to a reserve at NiSource's unregulated marketing business partially offset by income at NiSource's Retail Services business. A gain on the disposition of discontinued operations of $34.9 million was recorded in 2013 as a result of a gain on the sale of the service plan and leasing business lines of NiSource's Retail Services business partially offset by a loss on the sale of NiSource's unregulated marketing business. Discontinued operations activity resulted in $0.13 earnings per basic share, $0.03 earnings per basic share and $0.04 loss per basic share for 2013, 2012 and 2011, respectively.

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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 2014.
Operating Activities
Net cash from operating activities for the year ended December 31, 2013 was $1,436.8 million, an increase of $161.3 million from a year ago. The increase in net cash from operating activities was primarily due to an increase in working capital from income tax receivables of $255.9 million primarily due to a refund from the IRS received in 2013.

Net cash from operating activities for the year ended December 31, 2012 was $1,275.5 million, an increase of $405.3 million from the prior year. The increase in net cash from operating activities was primarily due to the decrease in pension and postretirement contributions of $51.0 million in 2012 compared to $447.1 million in 2011.
Pension and Other Postretirement Plan Funding. In 2013, NiSource contributed $49.3 million to its pension plans and $54.3 million to its postretirement medical and life plans. In 2014, NiSource expects to make contributions of approximately $38.3 million to its pension plans and approximately $39.1 million to its postretirement medical and life plans. At December 31, 2013, NiSource's pension and other post-retirement benefit plans were underfunded by $260.9 million and $260.0 million, respectively.

Investing Activities
The tables below reflect actual capital expenditures and certain other investing activities by segment for 2011, 2012 and 2013, and estimates for 2014.

(in millions)	2014E	2013	2012	2011
Gas Distribution Operations	$817.3	$790.8	$649.4	$539.4
Columbia Pipeline Group Operations	807.3	797.5	489.6	301.5
Electric Operations	456.1	426.3	422.8	267.7
Corporate and Other Operations	69.3	31.4	23.3	22.0
Total	$2,150.0	$2,046.0	$1,585.1	$1,130.6

For 2014, the projected capital program and certain other investing activities are expected to be $2,150.0 million, which is $104.0 million higher than the 2013 capital program. This increased spending is mainly due to higher expenditures in the Electric Operations segment due to anticipated TDSIC and other tracker program spend, continued spending on infrastructure replacement programs in the Gas Distribution Operations segment, and increased spending in the Columbia Pipeline Group Operations segment due to an increase in system growth and equity investments as a result of the current profile of identified growth projects in 2014 partially offset by a decrease in the modernization and maintenance spend attributed to advanced spend for the modernization program in 2013.
For 2013, the capital expenditures and certain other investing activities were $2,046.0 million, an increase of $460.9 million compared to 2012. This increased spending is mainly due to higher expenditures for the modernization program and system growth and equity investments in the Marcellus and Utica Shale areas in the Columbia Pipeline Group Operations segment and increased spending in the Gas Distribution Operations segment due to increased

spending on infrastructure replacement programs. Capital spending in the Electric Operations segment in 2013 was comparable to 2012 due to continued spending on the environmental tracker capital projects in the generation fleet. For 2012, 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 Columbia Pipeline Group Operations segment for various growth

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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.

Restricted cash was \$8.0 million and \$46.8 million as of December 31, 2013 and 2012, respectively. The decrease in restricted cash was primarily a result of the sale of NiSource’s unregulated natural gas marketing business.

NiSource received insurance proceeds for capital repairs of \$6.4 million, \$6.5 million and zero in 2013, 2012 and 2011, respectively.

Contributions to equity investees were \$125.4 million, \$20.4 million, and \$6.4 million for 2013, 2012 and 2011, respectively. The \$105.0 million increase in 2013 was the result of higher contributions made by NiSource Midstream to Pennant. The increase in 2012 was the result of cash required for Millennium’s expansion projects. Refer to the Columbia Pipeline Group Operations segment discussion in the Management's Discussion and Analysis of Financial Condition and Results of Operations for information on these contributions.

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

During June 2011, NiSource Finance implemented a new commercial paper program with a program limit of up to \$500.0 million with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. The program capacity was expanded to \$1.5 billion with the addition of RBS as a fifth dealer on February 15, 2013. Commercial paper issuances are supported by available capacity under NiSource’s \$2.0 billion unsecured revolving credit facility, which expires in September 2018.

NiSource Finance had no borrowings outstanding under its revolving credit facility at December 31, 2013 and borrowings of \$44.0 million at December 31, 2012, at a weighted average interest rate of 3.73%. In addition, NiSource Finance had \$433.6 million in commercial paper outstanding at December 31, 2013, at a weighted average interest rate of 0.70% and \$499.6 million in commercial paper outstanding at December 31, 2012, at a weighted average interest rate of 1.11%.

As of December 31, 2013 and December 31, 2012, NiSource had \$265.1 million and \$233.3 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, 2013, NiSource had \$31.6 million of stand-by letters of credit outstanding of which \$14.3 million were under the revolving credit facility. At December 31, 2012, NiSource had \$36.4 million of stand-by letters of credit outstanding of which \$18.3 million were under the revolving credit facility.

As of December 31, 2013, an aggregate of \$1,552.1 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 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, 2013, the ratio was 60.0%.

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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 January 31, 2014, Moody's Investors Service upgraded the senior unsecured rating for NiSource to Baa2 from Baa3 and NiSource's commercial paper rating to P-2 from P-3. Additionally, the rating for NIPSCO was upgraded to Baa1 from Baa2 and the rating for Columbia of Massachusetts was affirmed at Baa2. Moody's outlook for NiSource and all of its subsidiaries is stable. On December 9, 2013, 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 February 25, 2013, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor'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 $35.4 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.

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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, 2013 and their maturities were:

(in millions)	Total	2014	2015	2016	2017	2018	After
Long-term debt [(1)]	$8,053.7	$521.7	$230.0	$746.5	$589.5	$800.0	$5,166.0
Capital leases [(2)]	279.6	26.4	46.7	17.1	16.7	16.8	155.9
Interest payments on long-term debt	5,953.8	451.9	424.9	398.8	371.9	315.2	3,991.1
Operating leases[(3)]	75.4	21.4	14.2	10.8	8.3	6.6	14.1
Energy commodity contracts	646.8	191.8	106.2	65.0	66.9	68.9	148.0
Service obligations:							
Pipeline service obligations	1,429.3	256.9	230.2	190.6	162.9	124.3	464.4
IBM service obligations	665.4	99.9	99.6	99.9	95.6	91.6	178.8
Vertex Outsourcing LLC service obligations	19.0	12.7	6.3	—	—	—	—
Other service obligations	254.8	66.5	63.1	64.9	59.8	0.5	—
Other liabilities	77.4	77.4	—	—	—	—	—
Total contractual obligations	$17,455.2	$1,726.6	$1,221.2	$1,593.6	$1,371.6	$1,423.9	$10,118.3

[(1)] Long-term debt balance excludes unamortized discounts of $53.7 million and non-recourse debt of $5.4 million related to NDC Douglas Properties.

[(2)] Capital lease payments shown above are inclusive of interest totaling $100.4 million. Also included are minimum lease payments for an office building that the Company will not occupy until 2014.

[(3)]Operating lease balances do not include amounts for fleet leases that can be renewed beyond the initial lease term. The Company anticipates renewing the leases beyond the initial term, but the anticipated payments associated with the renewals do not meet the definition of expected minimum lease payments and therefore are not included above. Expected payments are $26.6 million in 2014, $29.5 million in 2015, $25.5 million in 2016, $20.4 million in 2017, $14.6 million in 2018 and $11.8 million thereafter.

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, 2013. For 2014, NiSource projects that it will be required to make interest payments of approximately $486.2 million, which includes $451.9 million of interest payments related to its long-term debt outstanding as of December 31, 2013. At December 31, 2013, NiSource also had $698.7 million in short-term borrowings outstanding.

NiSource Corporate Services has a license agreement with Rational Systems, LLC for pipeline business software requiring payments of $5.8 million and $25.6 million in 2014 and 2015, respectively, which are 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 NIPSCO's purchase power agreements with subsidiaries of Iberdrola Renewables, Buffalo Ridge I LLC and Barton Windpower LLC. These agreements provide NIPSCO the opportunity and obligation to purchase up to 100 mw of wind power generated 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 generation from wind, so no amounts related to these contracts are included in the table above. Upon any termination of the agreements by NIPSCO for any reason (other than material breach by Buffalo Ridge I LLC or Barton Windpower LLC), NIPSCO 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. NIPSCO 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 2014 to 2024, require NiSource to pay fixed monthly charges.

On December 31, 2013, NiSource Corporate Services signed a seven year agreement with IBM to continue to provide business process and support functions to NiSource under a combination of fixed or variable charges, with the variable charges fluctuating based on the actual need for such services. The agreement is effective January 1, 2014 with a commencement date of April 1, 2014 and will include some targeted service enhancements as well as continue existing IT support services and a few additional support

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services. Under the existing and new agreements, at December 31, 2013, NiSource Corporate Services expects to pay approximately $665.4 million to IBM in service and project fees as shown in the table above. Upon any termination of the agreement by NiSource for any reason (other than material breach by IBM), NiSource may be required to pay IBM a termination charge that could include a breakage fee, repayment of IBM's capital investments not yet recovered and IBM's wind-down expenses. This termination fee could be material depending on the events giving rise to the termination and the timing of the termination.

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 $19.0 million to Vertex Outsourcing LLC in service fees over the remaining one and a half year term.

NIPSCO 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 2018 and are included within "Other service obligations" in the table of contractual obligations.

NIPSCO 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 NIPSCO 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 2014. Plan contributions beyond 2014 are dependent upon a number of factors, including actual returns on plan assets, which cannot be reliably estimated at this time. In 2014, NiSource expects to make contributions of approximately $38.3 million to its pension plans and approximately $39.1 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 $24.0 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 $332.5 million in 2014, 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 purchase and sale agreement guarantees totaling $73.5 million, which guarantee purchaser performance or seller performance under covenants, obligations, liabilities, representations or warranties under the agreements. No amounts related to the purchase and sale 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.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
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. These include but are not limited to market, operational, financial, compliance and strategic risk types. In recognition of the increasingly varied and complex nature of the energy business, NiSource’s risk management processes, policies and procedures continue to evolve and are subject to ongoing review and modification.

Commodity Price Risk
Commodity price risk 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 the approved use of derivative instruments used to manage this market risk. 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. NiSource is not involved in speculative energy trading activity.
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 2013 and 2012, no income was recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. Refer to Note 9, “Risk Management 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, term loan, commercial paper program and accounts receivable programs, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase (or decrease) in short-term interest rates of 100 basis points (1%) would have increased (or decreased) interest expense by $14.2 million for the years 2013 and 2012, respectively.
Contemporaneously with the issuance on September 16, 2005 of $1.0 billion of 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 as an increase to interest expense over the term of the underlying debt, resulting in an effective

interest rate of 5.67% and 5.88% respectively.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties which will expire on July 15, 2014. NiSource Finance receives payments based upon a fixed 5.40% interest rate and pays a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps.

As of December 31, 2013, $825 million of NiSource Finance’s existing long-term debt is subject to fluctuations in interest rates as a result of the fixed-to-variable interest rate swap transactions that reprice every six months in January and July, and the $325.0 million term loan which reprices monthly based on 1-month BBA LIBOR plus a credit spread. Effective with Moody's credit rating upgrade on January 31, 2014, NiSource's credit spread on the term loan is 1.00% per annum.

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NISOURCE INC.

Credit Risk
Due to the nature of the industry, credit risk is embedded in many of NiSource's business activities. NiSource's extension of credit is governed by a Corporate Credit Risk Policy. In addition, Risk Management Committee guidelines are in place which document management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation efforts. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of commercial operations. Credit risk arises due to the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For forward commodity contracts, credit risk arises when counterparties are obligated to deliver or purchase defined commodity units of gas or power to NiSource at a future date per execution of contractual terms and conditions. Exposure to credit risk is measured in terms of both current obligations and the market value of forward positions net of any posted collateral such as cash, letters of credit and qualified guarantees of support.
NiSource closely monitors the financial status of its banking credit providers and interest rate swap counterparties. NiSource evaluates the financial status of its banking partners through the use of market-based metrics such as credit default swap pricing levels, and also through traditional credit ratings provided by the major credit rating agencies.
Fair Value Measurement
NiSource measures certain financial assets and liabilities at fair value. The level of the fair value hierarchy disclosed is based on the lowest level of input that is significant to the fair value measurement. NiSource's financial assets and liabilities include price risk assets and liabilities, available-for-sale securities and a deferred compensation plan obligation.
Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. NiSource uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures.

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

Refer to Note 18, "Fair Value Disclosures," in the Notes to the Consolidated Financial Statements for additional information on NiSource's fair value measurements.

Market Risk Measurement

Refer to “Critical Accounting Policies” included in this Item 7 and Note 1-U, “Accounting for Risk Management Activities,” and Note 9, “Risk Management Activities,” in the Notes to Consolidated Financial Statements for further discussion of NiSource’s risk management.

Other Information

Critical Accounting Policies

NiSource applies certain accounting policies based on the accounting requirements discussed below that have had, and may continue to have, significant impacts on NiSource’s results of operations and Consolidated Balance Sheets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
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Basis of Accounting for Rate-Regulated Subsidiaries. ASC Topic 980, Regulated Operations, provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. The total amounts of regulatory assets and liabilities reflected on the Consolidated Balance Sheets were $1,665.0 million and $1,730.0 million at December 31, 2013, and $2,187.2 million and $1,764.9 million at December 31, 2012, respectively. For additional information, refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for the application of ASC Topic 980, Regulated Operations. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery is approved by the appropriate regulatory bodies that would meet the requirements under GAAP for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of ASC Topic 980, Regulated Operations, NiSource would be required to apply the provisions of ASC Topic 980-20, Discontinuation of Rate-Regulated Accounting. In management's opinion, NiSource's regulated subsidiaries will be subject to ASC Topic 980, Regulated Operations for the foreseeable future.

Certain of the regulatory assets reflected on NiSource's Consolidated Balance Sheets require specific regulatory action in order to be included in future service rates. Although recovery of these amounts is not guaranteed, NiSource believes that these costs meet the requirements for deferral as regulatory assets. Regulatory assets requiring specific regulatory action amounted to $150.7 million at December 31, 2013. If NiSource determined that the amounts included as regulatory assets were not recoverable, a charge to income would immediately be required to the extent of the unrecoverable amounts.

Pensions and Postretirement Benefits. NiSource has defined benefit plans for both pensions and other postretirement benefits. The calculation of the net obligations and annual expense related to the plans requires a significant degree of judgment regarding the discount rates to be used in bringing the liabilities to present value, long-term returns on plan assets and employee longevity, among other assumptions. Due to the size of the plans and the long-term nature of the associated liabilities, changes in the assumptions used in the actuarial estimates could have material impacts on the measurement of the net obligations and annual expense recognition. For further discussion of NiSource's pensions and other postretirement benefits, see Note 12, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements.

Goodwill. NiSource's goodwill assets at December 31, 2013 were $3,666.2 million, most of which resulted from the acquisition of Columbia on November 1, 2000. In addition, NIPSCO Gas Distribution Operations' goodwill assets at December 31, 2013, related to the purchase of Northern Indiana Fuel and Light in March 1993 and Kokomo Gas in February 1992, were $17.8 million. As required, NiSource tests for impairment of goodwill on an annual basis and on an interim basis when events or circumstances indicate that a potential impairment may exist. NiSource's annual goodwill test takes place in the second quarter of each year and was most recently finalized as of May 1, 2013. NiSource completed a quantitative ("step 1") fair value measurement of its reporting units during the May 1, 2012 goodwill test. The test indicated that the fair value of each of the reporting units that carry or are allocated goodwill substantially exceeded their carrying values, indicating that no impairment existed under the step 1 annual impairment test. For the current year a qualitative ("step 0") test was performed as of May 1, 2013. NiSource assessed various assumptions, events and circumstances that would have affected the estimated fair value of the reporting units in its baseline May 1, 2012 test. The results of this assessment indicated that it is not more likely than not that its reporting unit fair values are less than the reporting unit carrying values and no impairments are necessary.

Although there was no goodwill asset impairment as of May 1, 2013, an interim impairment test could be triggered by the following: actual earnings results that are materially lower than expected, significant adverse changes in the operating environment, an increase in the discount rate, changes in other key assumptions which require judgment and are forward looking in nature, or if NiSource's market capitalization stays below book value for an extended period of time. No impairment triggers were identified subsequent to May 1, 2013.

During the first quarter of 2013, as part of the sale of the service plan and leasing business lines of its Retail Services business, NiSource allocated $10.0 million of goodwill from Columbia Distribution Operations to the sale and allocated $1.0 million of

goodwill from NIPSCO Gas Distribution Operations to the sale. Refer to Note 4, "Discontinued Operations and Assets and Liabilities Held for Sale" for more information.
Refer to Notes 1-J and 6, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

Revenue Recognition. Revenue is recorded as products and services are delivered. Utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include estimates for electricity and gas delivered but not billed. Note 1-L, "Revenue Recognition," in the Notes to Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

There are no recently issued accounting pronouncements which the Company expects to have a current or prospective material impact on its Consolidated Financial Statements or Notes to the Consolidated Financial Statements.

Environmental Matters

NiSource is subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. NiSource believes that it is in substantial compliance with those environmental regulations currently applicable to NiSource's business and operations. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters.

Bargaining Unit Contract

As of December 31, 2013, NiSource had 8,477 employees of whom 3,318 were subject to collective bargaining agreements. Agreements were reached with the respective unions whose collective bargaining agreements were set to expire during 2013. Two additional collective bargaining contracts, covering approximately 1,945 employees, are set to expire during 2014.

Dodd-Frank Financial Reform Act

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

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RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

NiSource’s operations are divided into three primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Columbia Pipeline Group Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in 16 northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia along with unregulated businesses that include midstream services and development of mineral rights positions. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana.

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NISOURCE INC.
Gas Distribution Operations

Year Ended December 31, (in millions)	2013	2012	2011
Net Revenues			
Sales Revenues	$3,053.8	$2,660.7	$3,457.9
Less: Cost of gas sold (excluding depreciation and amortization)	1,419.7	1,166.9	1,910.2
Net Revenues	1,634.1	1,493.8	1,547.7
Operating Expenses			
Operation and maintenance	824.8	757.3	831.0
Depreciation and amortization	201.4	189.9	171.5
Impairment and loss on sale of assets, net	1.2	0.6	1.0
Other taxes	161.3	154.7	167.8
Total Operating Expenses	1,188.7	1,102.5	1,171.3
Operating Income	$445.4	$391.3	$376.4

Revenues ($ in Millions)			
Residential	$1,901.0	$1,685.2	$2,220.9
Commercial	654.0	549.0	724.8
Industrial	194.3	174.3	218.0
Off-System Sales	266.4	176.2	267.2
Other	38.1	76.0	27.0
Total	$3,053.8	$2,660.7	$3,457.9
Sales and Transportation (MMDth)			
Residential sales	272.3	226.5	254.5
Commercial sales	172.9	156.2	168.6
Industrial sales	494.5	478.2	431.8
Off-System Sales	70.4	61.5	62.4
Other	0.4	0.3	0.3
Total	1,010.5	922.7	917.6
Heating Degree Days	5,698	4,799	5,434
Normal Heating Degree Days	5,610	5,664	5,633
% Colder (Warmer) than Normal	2 %	(15)%	(4)%
Customers			
Residential	3,079,575	3,058,839	3,039,579
Commercial	281,535	280,842	280,521
Industrial	7,663	7,552	7,861
Other	22	22	19
Total	3,368,795	3,347,255	3,327,980

Competition

Gas Distribution Operations competes with investor-owned, municipal, and cooperative electric utilities throughout its service area, and to a lesser extent, with other regulated natural gas utilities and propane and fuel oil suppliers. Gas Distribution Operations continues to be a strong competitor in the energy market as a result of strong customer preference for natural gas. Competition with providers of electricity is generally strongest in the residential and commercial markets of Kentucky, southern Ohio, central Pennsylvania and western Virginia where electric rates are primarily driven by low-cost, coal-fired generation. In Ohio and Pennsylvania, similar gas provider competition is also common. Natural gas competes with fuel oil and propane in the Massachusetts market mainly due to the installed base of fuel oil and propane-based heating which, over time, has comprised a declining percentage of the overall market.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

Market Conditions

During 2013, spot prices at the Henry Hub for the winter through December 2013 have primarily been in the $3.360 - $4.520/Dth range compared to prices in the $3.02 - $3.70/Dth range experienced during the winter through December 2012.

Entering the 2013-2014 winter season, national storage levels were 112 Bcf below the prior year and 57 Bcf above the 5 year average inventory levels (based on 11/7/2013 Energy Information Administration storage report). During the summer of 2013, prices ranged between $3.270 and $4.375/Dth which were higher than those prices experienced in the summer of 2012.

All NiSource Gas Distribution Operations companies have state-approved recovery mechanisms that provide a means for full recovery of prudently incurred gas costs. Gas costs are treated as pass-through costs and have no impact on the net revenues recorded in the period. The gas costs included in revenues are matched with the gas cost expense recorded in the period and the difference is recorded on the Consolidated Balance Sheets as under-recovered or over-recovered gas cost to be included in future customer billings.

The Gas Distribution Operations companies have pursued non-traditional revenue sources within the evolving natural gas marketplace. These efforts include the sale of products and services upstream of the companies' service territory, the sale of products and services in the companies' service territories, and gas supply cost incentive mechanisms for service to their core markets. The upstream products are made up of transactions that occur between an individual Gas Distribution Operations company and a buyer for the sales of unbundled or rebundled gas supply and capacity. The on-system services are offered by NiSource to customers and include products such as the transportation and balancing of gas on the Gas Distribution Operations company system. The incentive mechanisms give the Gas Distribution Operations companies an opportunity to share in the savings created from such things as gas purchase prices paid below an agreed upon benchmark and its ability to reduce pipeline capacity charges with their customers. Certain Gas Distribution Operations companies continue to offer choice opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in their respective jurisdictions.

Capital Expenditures and Other Investing Activities

The table below reflects actual capital expenditures and other investing activities by category for 2011, 2012 and 2013 and estimates for 2014.

(in millions)	2014E	2013	2012	2011
System Growth	$159.7	$166.8	$126.4	$81.5
Maintenance and Other	657.6	624.0	523.0	457.9
Total	$817.3	$790.8	$649.4	$539.4

The Gas Distribution Operations segment's capital expenditures and other investing activities were $790.8 million in 2013 and are projected to be $817.3 million in 2014. Capital expenditures for 2013 were higher than 2012 by approximately $141.4 million primarily due to increased spending on infrastructure replacement projects. The estimated 2014 capital expenditures are comparable to 2013 and continue to reflect spending on infrastructure replacement programs in Ohio, Kentucky, Pennsylvania, Virginia, Maryland and Massachusetts. Capital expenditures for 2012 were higher than 2011 by approximately $110.0 million primarily due to increased spending on infrastructure replacement projects.

Regulatory Matters

Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for information on significant rate developments and cost recovery and trackers for the Gas Distribution Operations segment.

Customer Usage. Increased efficiency of natural gas appliances and improvements in home building codes and standards has contributed to a long-term trend of declining average use per customer. Usage for the year ended December 31, 2013 increased from the same period last year primarily due to colder weather compared to prior year. While historically, rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput, rather than in a fixed charge, operating costs are largely incurred on a fixed basis, and do not fluctuate due to changes in customer usage. As a result, the NiSource LDCs have pursued changes in rate design to more effectively match recoveries with costs incurred. Each of the states in which the NiSource LDCs operate has different requirements regarding the procedure for establishing changes to rate design. Columbia of Ohio restructured its rate design through a base rate proceeding and has adopted a “de-coupled” rate design which more closely links the recovery of fixed costs with fixed charges. Columbia of Massachusetts and Columbia of Virginia

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

received regulatory approval of decoupling mechanisms which adjust revenues to an approved benchmark level through a volumetric adjustment factor. Columbia of Maryland has received regulatory approval to implement a residential class revenue normalization adjustment, a decoupling mechanism whereby monthly revenues that exceed or fall short of approved levels are reconciled in subsequent months. In a prior base rate proceeding, Columbia of Pennsylvania implemented a higher fixed residential customer charge. In its 2010 rate case, NIPSCO implemented a higher fixed customer charge for residential and small customer classes moving toward full straight fixed variable rate design. This rate design was also incorporated in the settlement of the 2011 merger of the three Indiana LDCs: NIPSCO, Kokomo Gas and Northern Indiana Fuel and Light.

Environmental Matters

Currently, various environmental matters impact the Gas Distribution Operations segment. As of December 31, 2013, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Distribution Operations segment.

Springfield, MA Incident

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

Weather

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

Weather in the Gas Distribution Operations service territories for 2013 was about 2% colder than normal and was about 19% colder than 2012, increasing net revenues by approximately $48 million for the year ended December 31, 2013 compared to 2012.

Weather in the Gas Distribution Operations service territories for 2012 was about 15% warmer than normal and was about 12% warmer than 2011, decreasing net revenues by approximately $37 million for the year ended December 31, 2012 compared to 2011.

Throughput

Total volumes sold and transported for the year ended December 31, 2013 were 1,010.5 MMDth, compared to 922.7 MMDth for 2012. This increase is primarily attributable to colder weather compared to the prior year.

Total volumes sold and transported for the year ended December 31, 2012 were 922.7 MMDth, compared to 917.6 MMDth for 2011. This increase is primarily attributable to higher throughput to industrial customers due mainly to the improved economy, partially offset by decreased throughput to residential and commercial customers as a result of warmer weather experienced in 2012.

NiSource throughput reported does not directly correlate to the results of Gas Distribution Operations.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Gas Distribution Operations (continued)

Net Revenues
Net revenues for 2013 were $1,634.1 million, an increase of $140.3 million from the same period in 2012, due primarily to an increase of $53.8 million for regulatory and service programs, including the impact from the rate cases at Columbia of Pennsylvania and Columbia of Massachusetts and the implementation of rates under Columbia of Ohio's approved infrastructure replacement program, the effects of colder weather of $47.6 million, increased trackers, which are offset in expense, of $18.7 million, an increase in residential, commercial and industrial usage of $10.8 million, and higher revenue of $5.3 million due to an increase in residential and commercial customers.

Net revenues for 2012 were $1,493.8 million, a decrease of $53.9 million from the same period in 2011, due primarily 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.

At NIPSCO, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased gas costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustments to Other gross revenues for the twelve months ended December 31, 2013 and 2012 were a decrease of $8.1 million and an increase of $31.3 million, respectively.

Operating Income
For 2013, Gas Distribution Operations reported operating income of $445.4 million, an increase of $54.1 million from the comparable 2012 period. Operating income increased as a result of higher net revenues, as described above, partially offset by increased operating expenses. Operating expenses increased $86.2 million due to higher employee and administrative expenses of $27.1 million primarily due to a growing workforce and increased IT support and enhancement projects. Additionally, there were increased regulatory and tax trackers, which are offset in net revenue, of $18.7 million, higher depreciation of $11.5 million due to an increase in capital expenditures placed in service, increased other taxes, excluding trackers described above, of $8.7 million, higher outside services of $8.4 million, increased environmental expense of $5.6 million and higher materials and supplies of $2.2 million.

For 2012, Gas Distribution Operations reported operating income of $391.3 million, an increase of $14.9 million from the comparable 2011 period. Operating income increased due to lower operating expenses partially offset by lower net revenues, described above. Operating expenses decreased $68.8 million due to lower regulatory and tax trackers, which are offset in net revenue, of $53.7 million and decreased environmental costs of $35.0 million primarily attributable to estimated MGP remediation incurred in 2011. Additionally, operating expenses declined due to decreased employee and administrative costs, primarily pension, of $3.5 million and a decline in uncollectibles of $2.5 million. These decreases were partially offset by increased depreciation and amortization of $18.3 million as a result of an increase in capital expenditures, higher outside services of $5.9 million and increased materials and supplies of $3.6 million.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Columbia Pipeline Group Operations

Year Ended December 31, (in millions)	2013	2012	2011
Net Revenues			
Transportation revenues	$774.7	$721.8	$775.4
Storage revenues	196.4	196.7	196.1
Other revenues	208.7	83.0	34.1
Total Sales Revenue	1,179.8	1,001.5	1,005.6
Less: Cost of sales (excluding depreciation and amortization)	0.4	1.1	—
Net Revenues	1,179.4	1,000.4	1,005.6
Operating Expenses			
Operation and maintenance	623.4	476.3	473.5
Depreciation and amortization	106.9	99.3	130.0
(Gain)/loss on sale of assets and impairment, net	(18.6)	(0.6)	0.1
Other taxes	62.2	59.2	56.6
Total Operating Expenses	773.9	634.2	660.2
Equity Earnings in Unconsolidated Affiliates	35.9	32.2	14.6
Operating Income	$441.4	$398.4	$360.0
Throughput (MMDth)			
Columbia Transmission	1,124.6	1,107.7	1,117.5
Columbia Gulf	643.0	894.3	1,048.0
Crossroads Gas Pipeline	16.9	15.7	18.7
Intrasegment eliminations	(239.4)	(422.6)	(548.5)
Total	1,545.1	1,595.1	1,635.7

Growth Projects Placed into Service

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

Smithfield Project. The Columbia Pipeline Group 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 began in April 2011 and the others began in August 2011. The project was placed in service in May 2012.

Rimersburg Expansion Project. The Columbia Pipeline Group 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 Columbia Pipeline Group 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 of which began in January 2011. Final construction on all facilities was completed and placed into service in May 2012.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Columbia Pipeline Group Operations

Majorsville, PA Project. The Columbia Pipeline Group Operations segment executed three separate projects totaling approximately $80 million in the Majorsville, Pennsylvania vicinity to aggregate Marcellus Shale gas production for downstream transmission. Fully contracted, the pipeline and compression assets allow the Columbia Pipeline Group Operations segment to gather and deliver more than 325,000 Dth per day of Marcellus production gas to the Majorsville MarkWest Liberty processing plants developed by MarkWest Liberty Midstream & Resources L.L.C.

Two of the three projects were completed and placed into service in August 2010, creating an integrated gathering and processing system serving Marcellus production in southwestern Pennsylvania and northern West Virginia. The third project involved construction of a pipeline that began late in 2010 to deliver residue gas from the Majorsville MarkWest Liberty processing plant to the Texas Eastern Wind Ridge compressor station in southwestern Pennsylvania to provide significant additional capacity to eastern markets. This project was placed into service in April 2011. Long-term service agreements are in place with anchor shippers.

Clendenin Project. Construction was completed in 2011 to modify existing facilities in the Clendenin, West Virginia area to move Marcellus production to liquid market centers. This approximately $18 million capital project provides the Columbia Pipeline Group Operations segment the ability to meet incremental transportation demand of up to 150,000 Dth per day. Long-term firm transportation contracts for 133,100 Dth were executed, all which were in effect by June 2011.

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

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

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

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

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

Equity Investments

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

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Columbia Pipeline Group Operations

Pennant is investing in the construction of 20-24 inch wet gas gathering pipeline facilities with a capacity of approximately 600 MMcf per day. In addition, Pennant is installing a gas processing facility in New Middletown, Ohio that will have an initial capacity of 200 MMcf per day and an NGL pipeline with an initial capacity of 45,000 barrels per day that can be expanded to 90,000 barrels per day. Consistent with the terms of the joint venture, NiSource Midstream will operate the gas processing facility, NGL pipeline and associated wet gas gathering system. The joint venture is designed and anticipated to serve other producers with significant acreage development in the area with an interest in obtaining capacity on the system. The construction of the facilities will allow Pennant to become a full-service solution for providers in the northern Utica shale region, offering access to wet gas gathering and processing as well as residue gas and NGL takeaway to attractive market destinations. NiSource Midstream's initial investment in this area, including the gathering pipeline, related laterals, NGL pipeline and the processing plant, will be approximately $185 million. A portion of the facilities were placed in service in the fourth quarter of 2013 and the remainder will be in service in the second and third quarters of 2014.

During 2013, NiSource Midstream made cash contributions to Pennant totaling $108.9 million. Cash contributions of $2.9 million were made to Pennant during 2012. In January 2014, NiSource Midstream made a cash contribution to Pennant of $4.2 million to fund its continued construction activities.

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

Millennium. Millennium operates approximately 250 miles of pipeline under the jurisdictional authority of the FERC. The Millennium pipeline has the capability to transport natural gas to markets along its route, which lies between Corning, New York and Ramapo, New York, as well as to the New York City market through its pipeline interconnections. Columbia Transmission owns a 47.5% interest in Millennium and acts as operator for the pipeline in partnership with DTE Millennium Company and National Grid Millennium LLC, which each own an equal remaining share of the company.

During 2013 and 2012, Columbia Transmission made contributions to Millennium to fund its share of capital projects of $16.6 million and $17.6 million, respectively. For the same respective periods, Columbia Transmission received distributions of earnings of $29.0 million and $31.4 million.

Millennium began two projects in 2012 that will add nearly 30,000 hp of compression to its system. The first project went into service on June 1, 2013 and increased capacity at its interconnections with Algonquin Gas Transmission, with a total investment of approximately $50 million. The second project includes a total investment of approximately $40 million that will increase capacity by 175,000 Dth per day with interconnections to other third-party facilities. The second project is expected to be in service by April 1, 2014. Columbia Transmission's share of the above investments is limited to its 47.5% interest in Millennium.

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

During 2013, NiSource received $3.1 million of available accumulated earnings. For the same period last year, NiSource received $3.5 million of available accumulated earnings. NiSource made no contributions during 2013 or 2012.

Regulatory Matters

Refer to Note 8, “Regulatory Matters,” in the Notes to Consolidated Financial Statements for information on regulatory matters for the Columbia Pipeline Group Operations segment.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Columbia Pipeline Group Operations (continued)

Capital Expenditures and Other Investing Activities
The table below reflects actual capital expenditures and other investing activities by category for 2011, 2012 and 2013 and estimates for 2014.

(in millions)	2014E	2013	2012	2011
System Growth and Equity Investments	$375.0	$321.2	$235.0	$81.5
Modernization and Maintenance	432.3	476.3	254.6	220.0
Total	$807.3	$797.5	$489.6	$301.5

Capital expenditures in the Columbia Pipeline Group Operations segment in 2013 increased by $307.9 million compared to 2012 due to the modernization program and system growth and equity investments in the Marcellus and Utica Shale areas. The capital expenditure program and other investing activities in 2014 are projected to be approximately $807.3 million, which is an increase of $9.8 million over 2013. The increase from 2013 to 2014 is expected due to an increase in system growth and equity investments spend as a result of the current profile of identified growth projects in 2014 partially offset by a decrease in the modernization and maintenance spend attributed to advanced spend for the modernization program in 2013. Capital expenditures for 2012 were higher than 2011 by approximately $188.1 million due to system growth in the Marcellus Shale area.

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

Firm service contracts require pipeline capacity to be reserved for a given customer between certain receipt and delivery points. Firm customers generally pay a "capacity reservation" fee based on the amount of capacity being reserved regardless of whether the capacity is used, plus an incremental usage fee when the capacity is used. Annual capacity reservation revenues derived from firm service contracts generally remain constant over the life of the contract because the revenues are based upon capacity reserved and not whether the capacity is actually used. The high percentage of revenue derived from capacity reservation fees mitigates the risk of revenue fluctuations within the Columbia Pipeline Group Operations segment due to changes in near-term supply and demand conditions. The following percentages exclude the impact of intrasegment revenues, tracker-related revenues and the $50 million refund recorded in the third quarter of 2012 resulting from the Columbia Transmission customer settlement. For the year ended December 31, 2013, approximately 93.1% of the transportation revenues were derived from capacity reservation fees paid under firm contracts and 5.0% of the transportation revenues were derived from usage fees under firm contracts compared to 91.4% and 5.7%, respectively, for the twelve months ended December 31, 2012.

Interruptible transportation service is typically short term in nature and is generally used by customers that either do not need firm service or have been unable to contract for firm service. These customers pay a usage fee only for the volume of gas actually transported. The ability to provide this service is limited to available capacity not otherwise used by firm customers, and customers receiving services under interruptible contracts are not assured capacity in the pipeline facilities. Columbia Pipeline Group Operations provides interruptible service at competitive prices in order to capture short term market opportunities as they occur and interruptible service is viewed by management as an important strategy to optimize revenues from the gas transmission assets. For the year ended December 31, 2013 and

2012, approximately 1.9% and 2.9% respectively, of the transportation revenues were derived from interruptible contracts.

Environmental Matters

Currently, various environmental matters impact the Columbia Pipeline Group Operations segment. As of December 31, 2013, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, “Environmental Matters,” in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Columbia Pipeline Group Operations segment.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Columbia Pipeline Group Operations (continued)

Adair County, KY Incident
On February 13, 2014, a gas pipeline owned by Columbia Gulf ruptured in Adair County, Kentucky. No fatalities or serious injuries were reported and there was no material impact to commercial operations on the Columbia Gulf system. Columbia Gulf is investigating the cause of the rupture and will cooperate with the appropriate authorities in any further investigation, inspection and testing. Columbia Gulf believes any costs associated with damages, injuries and other losses related to this incident are substantially covered by insurance. Any amounts not covered by insurance are not expected to have a material impact on NiSource's consolidated financial statements.
Throughput
Columbia Transmission provides transportation and storage services for LDCs, natural gas producers and other customers across its system, which covers portions of northeastern, mid-Atlantic, midwestern, and southern states and the District of Columbia. Billed throughput for Columbia Transmission consists of deliveries off of its system excluding gas delivered to storage for later delivery. Billed throughput for Columbia Gulf reflects transportation services for gas delivered through its mainline and laterals. Crossroads Pipeline's throughput comes from deliveries it makes to its customers and other pipelines that are located in northern Indiana and Ohio. Intersegment eliminations represent gas delivered to affiliated pipelines within the segment.
Throughput for the Columbia Pipeline Group Operations segment totaled 1,545.1 MMDth for 2013, compared to 1,595.1 MMDth for the same period in 2012. The colder weather, which drove a majority of the increase on the Columbia Transmission system, was more than offset by the impact from increased production of Appalachian shale gas that resulted in fewer deliveries being made by Columbia Gulf to Columbia Transmission at Leach, Kentucky.
Throughput for the Columbia Pipeline Group Operations segment totaled 1,595.1 MMDth for 2012, compared to 1,635.7 MMDth in 2011. The decrease of 40.6 MMDth was primarily attributable to warmer winter weather in 2012, which drove a vast majority of the decrease on the Columbia Transmission system. Fewer deliveries were made on the Columbia Gulf system to Columbia Transmission at Leach, Kentucky because of the impact from increased production of Appalachian shale gas and the warmer winter weather. The increase in shale gas from the Appalachian, Haynesville and Barnett shale areas has also led to an increase in non-traditional throughput on Columbia Gulf in the form of deliveries to other interstate pipelines at liquid market centers on the Columbia Gulf system.
Net Revenues
Net revenues were $1,179.4 million for 2013, an increase of $179.0 million from the same period in 2012, primarily due to higher regulatory trackers, which are offset in expense, of $119.5 million, the current period impacts of the 2012 customer settlement at Columbia Transmission, which resulted in an increase in net revenues of $50.3 million, higher demand and commodity revenue of $11.9 million from new growth projects placed into service and increased mineral rights royalty revenue of $7.0 million. These increases were partially offset by lower shorter term transportation services of $7.6 million.

Net revenues were $1,000.4 million for 2012, a decrease of $5.2 million from the same period in 2011, primarily due to the customer settlement at Columbia Transmission which decreased net revenues by $81.7 million. Additionally, there was a decrease in condensate revenue of $4.3 million, and a settlement of $2.8 million during the second quarter of 2011 and lower retainage revenues of $2.4 million primarily due to reversal of gas retained reserves in the fourth quarter of 2011. These decreases were 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, an increase of $8.3 million from the impact of higher rates at Columbia Gulf, an increase of $6.1 million from shorter term transportation services, and higher mineral rights royalty revenue of $4.1 million.

Operating Income

Operating income was $441.4 million for 2013, an increase of $43.0 million from the comparable period in 2012. Operating income increased as a result of higher net revenues, as described above, and increased equity earnings partially offset by higher operating expenses. Operating expenses increased by $139.7 million primarily due to increased regulatory trackers, which are offset in net revenues, of $119.5 million, higher employee and administrative expenses of $19.0 million that included $8.5 million related to higher pension costs, software data conversion costs of $8.9 million and higher depreciation of $7.6 million primarily due to increased capital expenditures related to projects placed in service. These increases were partially offset by higher gains on the sale of assets of $18.0 million resulting from the sale of storage base gas and on conveyances of mineral interests. Equity earnings increased $3.7 million primarily from increased earnings at Millennium.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Columbia Pipeline Group Operations (continued)

Operating income was $398.4 million for 2012, an increase of $38.4 million from the comparable period in 2011. Operating income increased as a result of a decrease in operating expenses and an increase in equity earnings partially offset by lower net revenues, as described above. Operating expenses decreased $26.0 million primarily due to a decrease in employee and administrative costs of $44.7 million, driven primarily by decreased pension contributions, lower depreciation and amortization of $30.7 million largely as a result of the Columbia Transmission customer settlement, decreased environmental costs of $12.1 million primarily due to the 2011 environmental remediation liability adjustment, and a decrease in software costs of $4.9 million. These decreases were partially offset by increased regulatory trackers, which are offset in revenue, of $48.6 million, increased outside services of $6.2 million primarily due to the timing of maintenance projects, the write-off of capital project costs of $4.3 million, higher other taxes of $2.6 million, primarily attributable to higher property taxes on increased plant investments, higher costs associated with leases and rent of $2.1 million, and increased retainage costs of $1.9 million. Equity earnings increased $17.6 million primarily from increased earnings at Millennium due to higher demand and commodity revenues.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations

Year Ended December 31, (in millions)	2013	2012	2011
Net Revenues			
Sales revenues	$1,564.9	$1,509.7	$1,429.3
Less: Cost of sales (excluding depreciation and amortization)	542.5	495.9	545.5
Net Revenues	1,022.4	1,013.8	883.8
Operating Expenses			
Operation and maintenance	448.6	451.9	403.8
Depreciation and amortization	244.4	249.7	214.7
Impairment and (gain)/loss on sale of assets, net	—	—	0.4
Other taxes	63.9	61.4	56.5
Total Operating Expenses	756.9	763.0	675.4
Operating Income	$265.5	$250.8	$208.4

Revenues ($ in millions)			
Residential	$426.6	$410.4	$393.9
Commercial	431.5	413.7	382.1
Industrial	632.7	589.3	582.1
Wholesale	21.0	19.0	27.6
Other	53.1	77.3	43.6
Total	$1,564.9	$1,509.7	$1,429.3
Sales (Gigawatt Hours)			
Residential	3,444.7	3,524.3	3,526.5
Commercial	3,881.9	3,863.1	3,886.5
Industrial	9,339.7	9,251.0	9,257.6
Wholesale	669.7	250.8	651.6
Other	132.0	119.1	165.5
Total	17,468.0	17,008.3	17,487.7
Cooling Degree Days	798	1,054	907
Normal Cooling Degree Days	806	814	808
% (Colder) Warmer than Normal	(1)%	29%	12%
Electric Customers			
Residential	402,638	401,177	400,567
Commercial	54,452	53,969	54,029
Industrial	2,374	2,445	2,405
Wholesale	725	725	737
Other	5	6	17
Total	460,194	458,322	457,755

Electric Supply

On October 28, 2011, NIPSCO filed its 2011 Integrated Resource Plan with the IURC. The plan evaluates demand-side and supply-side resource alternatives to reliably and cost-effectively meet NIPSCO customers' future energy requirements over the next twenty years. Existing resources are expected to be sufficient, assuming favorable outcomes for environmental upgrades, to meet customers' needs for the next decade. NIPSCO continues to monitor and assess economic, regulatory and legislative activity, and will update its resource plan as appropriate.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

Market Conditions
NIPSCO's mwh sales to steel-related industries accounted for approximately 63.6% and 64.7% of the total industrial mwh sales for the year ended December 31, 2013 and 2012, respectively. NIPSCO's industrial sales volumes and revenues increased slightly in 2013 as compared to 2012 as industrial activity continued to show moderate but steady improvement. Steel-related mwh volumes and demands have stabilized considerably since the volatility of the 2008-2009 period and the steel producers in NIPSCO's service territory continue to show steady growth in their production levels.
Capital Expenditures and Other Investing Activities
The table below reflects actual capital expenditures and other investing activities by category for 2011, 2012 and 2013 and estimates for 2014.

(in millions)	2014E	2013	2012	2011
System Growth	$33.7	$42.5	$28.9	$28.0
Maintenance and Other	422.4	383.8	393.9	239.7
Total	$456.1	$426.3	$422.8	$267.7

The Electric Operations' capital expenditure program and other investing activities in 2013 were comparable to 2012 due to continued spending on the environmental tracker capital projects in the generation fleet. The estimated 2014 capital expenditures are expected to be $29.8 million higher compared to 2013. The increase in capital is primarily due to anticipated TDSIC and other tracker program spend.
The Electric Operations' capital expenditure program and other investing activities in 2012 were higher by $155.1 million versus 2011. The increase in capital was primarily attributable to increased environmental tracker capital for FGD projects in the generation fleet.
Regulatory Matters
Refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements for information on significant rate developments, MISO, and cost recovery and trackers for the Electric Operations segment.
Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of December 31, 2013, reserves have been recorded to cover probable environmental response actions. Refer to Note 20-D, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.
Sales
Electric Operations sales were 17,468.0 gwh for the year ended 2013, an increase of 459.7 gwh compared to 2012. The 2.7% increase is primarily attributable to an increase in wholesale usage as a result of increased off system sales opportunities.

Electric Operations sales were 17,008.3 gwh for the year ended 2012, a decrease of 479.4 gwh compared to 2011. The 2.7% decrease is primarily attributable to a decrease in off-system sales opportunities related to lower market prices.

Net Revenues
Net revenues were $1,022.4 million for 2013, an increase of $8.6 million from the same period in 2012, primarily due to an increase in the return on the environmental capital investment recovery of $28.9 million due to an increased plant balance eligible for recovery, higher industrial, commercial and residential margins of $17.5 million, transmission upgrade revenue of $6.2 million, increased off-system sales of $4.9 million, higher revenue of $2.2

million due to an increase in commercial and residential customers and an increase in a RTO recovery mechanism of $2.1 million, which is offset in expense. These increases were partially offset by lower environmental cost trackers, which are offset in expense, of $19.5 million, decreased revenue related to emission allowances of $11.9 million, the effects of colder weather of $10.0 million, a decrease of $6.6 million related to the final reconciliation of the revenue credit recorded in 2012 and higher fuel handling costs of $4.3 million.

Net revenues were $1,013.8 million for 2012, an increase of $130.0 million from the same period in 2011, primarily due to increased industrial, commercial and residential margins of $66.5 million mainly due to the implementation of the electric rate case.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.
Electric Operations (continued)

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. Additionally, net revenues increased $3.5 million due to recovered margins related to lost consumption due to NIPSCO's participation in energy savings programs, $2.6 million due to the effects of weather and increased environmental trackers, which are offset in expense, of $1.7 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.

At NIPSCO, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased fuel costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustment to Other gross revenues for the twelve months ended December 31, 2013 and 2012 were a revenue increase of $4.7 million and a revenue decrease of $2.2 million, respectively.

Operating Income

Operating income for 2013 was $265.5 million, an increase of $14.7 million from the same period in 2012 primarily due to an increase in net revenues, as described above, and decreased operating expenses. Operating expenses decreased $6.1 million primarily due to lower environmental trackers, which are offset in net revenues, of $19.5 million and decreased electric generation costs of $13.1 million as a result of reduced outages and maintenance. These decreases were partially offset by increased employee and administrative expenses of $16.0 million, higher depreciation and amortization, excluding trackers described above, of $3.9 million, increased other taxes of $2.5 million, and higher MISO fees of $2.1 million, which are offset in revenue by a RTO recovery mechanism.

Operating income for 2012 was $250.8 million, an increase of $42.4 million from the same period in 2011 primarily due to an increase in net revenues, as described above, partially offset by an increase in operating expenses. Operating expenses increased $87.6 million primarily due to higher depreciation costs of $35.0 million mainly related to depreciation for Sugar Creek and an increase in MISO fees of $16.0 million, both of which were previously deferred until the electric rate case resulted in the expiration of those deferrals. Additionally, operating expenses increased due to higher employee and administration expenses of $17.7 million primarily due to increased pension costs and increased employee headcount, increased electric generation costs of $9.2 million, and higher property taxes of $4.7 million as a result of increased tax rates and basis. Additionally, there was an increase due to environmental reserves of $2.8 million, increased environmental trackers, which are offset in revenue, of $1.7 million, and higher storm damage costs of $1.9 million. These increases were partially offset by decreased rate case filing expenses of $6.3 million related to the 2011 electric rate case filing.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
NISOURCE INC.

Quantitative and Qualitative Disclosures about Market Risk are reported in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk Disclosures.”

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
NISOURCE INC.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NiSource Inc.:
We have audited the accompanying consolidated balance sheets and statements of consolidated long-term debt of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the Index at item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 18, 2014

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NiSource Inc.:
We have audited the internal control over financial reporting of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2013, of the Company and our report dated February 18, 2014 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 18, 2014

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED INCOME

Year Ended December 31, (in millions, except per share amounts)	2013	2012	2011
Net Revenues			
Gas Distribution	$2,226.3	$1,959.8	$2,917.9
Gas Transportation and Storage	1,643.2	1,462.4	1,354.6
Electric	1,563.4	1,507.7	1,427.7
Other	224.4	101.0	50.8
Gross Revenues	5,657.3	5,030.9	5,751.0
Cost of Sales (excluding depreciation and amortization)	1,815.5	1,516.9	2,303.5
Total Net Revenues	3,841.8	3,514.0	3,447.5
Operating Expenses			
Operation and maintenance	1,873.9	1,660.3	1,702.1
Depreciation and amortization	577.3	561.9	535.7
(Gain)/loss on sale of assets and impairment, net	(17.5)	(3.8)	16.8
Other taxes	300.6	287.7	293.1
Total Operating Expenses	2,734.3	2,506.1	2,547.7
Equity Earnings in Unconsolidated Affiliates	35.9	32.2	14.6
Operating Income	1,143.4	1,040.1	914.4
Other Income (Deductions)			
Interest expense, net	(414.8)	(418.3)	(376.8)
Other, net	24.2	1.7	(7.4)
Loss on early extinguishment of long-term debt	—	—	(53.9)
Total Other Deductions	(390.6)	(416.6)	(438.1)
Income from Continuing Operations before Income Taxes	752.8	623.5	476.3
Income Taxes	261.9	214.7	166.7
Income from Continuing Operations	490.9	408.8	309.6
Income (Loss) from Discontinued Operations - net of taxes	6.3	7.3	(10.5)
Gain on Disposition of Discontinued Operations - net of taxes	34.9	—	—
Net Income	$532.1	$416.1	$299.1
Basic Earnings Per Share ($)			
Continuing operations	$1.57	$1.40	$1.10
Discontinued operations	0.13	0.03	(0.04)
Basic Earnings Per Share	$1.70	$1.43	$1.06
Diluted Earnings Per Share ($)			
Continuing operations	$1.57	$1.36	$1.07
Discontinued operations	0.13	0.03	(0.04)
Diluted Earnings Per Share	$1.70	$1.39	$1.03
Basic Average Common Shares Outstanding	312.4	291.9	280.4
Diluted Average Common Shares	313.6	300.4	288.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

Year Ended December 31, (in millions, net of taxes)	2013	2012	2011
Net Income	$532.1	$416.1	$299.1
Other comprehensive income (loss):			
Net unrealized (loss) gain on available-for-sale securities[1]	(2.9)	(2.3)	1.2
Net unrealized gain on cash flow hedges[2]	2.8	3.2	3.0
Unrecognized pension and OPEB benefit (costs)[3]	22.0	(6.7)	(6.0)
Total other comprehensive income (loss)	21.9	(5.8)	(1.8)
Total Comprehensive Income	$554.0	$410.3	$297.3

(1) Net unrealized (loss) gain on available-for-sale securities, net of $1.5 million and $1.7 million tax benefit, and $0.7 million tax expense in 2013, 2012 and 2011, respectively.

(2) Net unrealized gain on derivatives qualifying as cash flow hedges, net of $1.8 million and $2.1 million tax expense, and $1.1 million tax benefit in 2013, 2012 and 2011, respectively.

(3) Unrecognized pension benefit and OPEB costs, net of $14.3 million tax expense, $4.2 million tax benefit, and $3.7 million tax expense in 2013, 2012 and 2011, respectively.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2013	December 31, 2012
ASSETS		
Property, Plant and Equipment		
Utility Plant	$23,303.7	$21,642.3
Accumulated depreciation and amortization	(9,256.5)	(8,986.4)
Net utility plant	14,047.2	12,655.9
Other property, at cost, less accumulated depreciation	317.9	260.0
Net Property, Plant and Equipment	14,365.1	12,915.9
Investments and Other Assets		
Unconsolidated affiliates	373.7	243.3
Other investments	204.0	194.4
Total Investments and Other Assets	577.7	437.7
Current Assets		
Cash and cash equivalents	26.8	36.3
Restricted cash	8.0	46.8
Accounts receivable (less reserve of $23.5 and $24.0, respectively)	1,005.8	907.3
Income tax receivable	5.1	130.9
Gas inventory	354.6	326.6
Underrecovered gas and fuel costs	46.4	45.0
Materials and supplies, at average cost	101.2	97.4
Electric production fuel, at average cost	44.6	71.7
Price risk management assets	22.7	0.5
Exchange gas receivable	70.6	51.3
Assets of discontinued operations and assets held for sale	—	133.9
Regulatory assets	142.8	162.8
Prepayments and other	330.6	357.2
Total Current Assets	2,159.2	2,367.7
Other Assets		
Price risk management assets	0.5	40.7
Regulatory assets	1,522.2	2,024.4
Goodwill	3,666.2	3,677.3
Intangible assets	275.7	286.6
Deferred charges and other	87.3	94.4
Total Other Assets	5,551.9	6,123.4
Total Assets	$22,653.9	$21,844.7

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)	December 31, 2013	December 31, 2012
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders' Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 313,675,911 and 310,280,867 shares outstanding, respectively	$3.2	$3.1
Additional paid-in capital	4,690.1	4,597.6
Retained earnings	1,285.5	1,059.6
Accumulated other comprehensive loss	(43.6)	(65.5)
Treasury stock	(48.6)	(40.5)
Total Common Stockholders' Equity	5,886.6	5,554.3
Long-term debt, excluding amounts due within one year	7,593.2	6,819.1
Total Capitalization	13,479.8	12,373.4
Current Liabilities		
Current portion of long-term debt	542.1	507.2
Short-term borrowings	698.7	776.9
Accounts payable	619.0	538.9
Customer deposits and credits	262.6	269.6
Taxes accrued	254.8	235.5
Interest accrued	136.4	133.7
Overrecovered gas and fuel costs	32.2	22.1
Price risk management liabilities	1.4	8.2
Exchange gas payable	186.4	146.2
Deferred revenue	18.5	42.8
Regulatory liabilities	60.2	171.6
Accrued liability for postretirement and postemployment benefits	6.2	6.1
Liabilities of discontinued operations and liabilities held for sale	—	108.6
Legal and environmental reserves	32.3	42.2
Other accruals	327.6	309.7
Total Current Liabilities	3,178.4	3,319.3
Other Liabilities and Deferred Credits		
Price risk management liabilities	0.3	2.6
Deferred income taxes	3,277.8	2,953.3
Deferred investment tax credits	20.9	24.8
Deferred credits	91.9	84.1
Deferred revenue	17.1	—
Accrued liability for postretirement and postemployment benefits	527.5	1,107.3
Regulatory liabilities and other removal costs	1,669.8	1,593.3
Asset retirement obligations	174.4	160.4
Other noncurrent liabilities	216.0	226.2
Total Other Liabilities and Deferred Credits	5,995.7	6,152.0
Commitments and Contingencies (Refer to Note 20)	—	—
Total Capitalization and Liabilities	$22,653.9	$21,844.7

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS

Year Ended December 31, (in millions)	2013	2012	2011
Operating Activities			
Net Income	$532.1	$416.1	$299.1
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:			
Loss on early extinguishment of debt	—	—	53.9
Depreciation and amortization	577.3	561.9	535.7
Net changes in price risk management assets and liabilities	2.6	2.5	2.6
Deferred income taxes and investment tax credits	287.4	292.6	196.5
Deferred revenue	(7.2)	(8.3)	2.2
Stock compensation expense and 401(k) profit sharing contribution	50.7	45.0	39.2
(Gain) Loss on sale of assets	(17.6)	(4.1)	0.1
Loss on impairment of assets	0.1	0.3	16.7
Income from unconsolidated affiliates	(35.7)	(30.9)	(13.7)
Gain on disposition of discontinued operations - net of taxes	(34.9)	—	—
(Income) Loss from discontinued operations - net of taxes	(6.3)	(7.3)	10.5
Amortization of discount/premium on debt	9.4	9.7	8.9
AFUDC equity	(18.5)	(10.6)	(2.4)
Distributions of earnings received from equity investees	32.1	34.9	18.8
Changes in Assets and Liabilities:			
Accounts receivable	(94.8)	(51.4)	219.5
Income tax receivable	125.9	(130.0)	98.1
Inventories	(9.2)	62.4	(141.7)
Accounts payable	67.8	57.3	(154.8)
Customer deposits and credits	(6.9)	(43.9)	(3.4)
Taxes accrued	2.6	21.9	(15.8)
Interest accrued	3.8	21.8	(2.5)
Over (Under) recovered gas and fuel costs	8.6	(51.1)	127.5
Exchange gas receivable/payable	21.0	(9.2)	(107.6)
Other accruals	2.2	(26.2)	33.2
Prepayments and other current assets	(17.0)	(4.5)	(10.2)
Regulatory assets/liabilities	479.1	(51.7)	(322.9)
Postretirement and postemployment benefits	(549.1)	123.0	(92.7)
Deferred credits	10.5	4.9	(2.3)
Deferred charges and other noncurrent assets	20.3	71.9	6.9
Other noncurrent liabilities	(9.5)	(14.1)	82.0
Net Operating Activities from Continuing Operations	1,426.8	1,282.9	881.4
Net Operating Activities from (used for) Discontinued Operations	10.0	(7.4)	(11.2)
Net Cash Flows from Operating Activities	1,436.8	1,275.5	870.2
Investing Activities			
Capital expenditures	(1,879.9)	(1,498.8)	(1,122.7)
Insurance recoveries	6.4	6.5	—
Proceeds from disposition of assets	18.0	25.6	9.4
Restricted cash withdrawals	38.7	114.2	42.3

Contributions to equity investees	(125.4)	(20.4)	(6.4)
Other investing activities	(67.9)	(49.0)	(69.4)
Net Investing Activities used for Continuing Operations	(2,010.1)	(1,421.9)	(1,146.8)
Net Investing Activities from (used for) Discontinued Operations	118.7	(3.3)	(2.5)
Net Cash Flows used for Investing Activities	(1,891.4)	(1,425.2)	(1,149.3)
Financing Activities			
Issuance of long-term debt	1,307.6	991.4	890.0
Repayments of long-term debt and capital lease obligations	(510.9)	(331.6)	(286.9)
Premium and other debt related costs	(3.2)	(3.4)	(62.1)
Change in short-term debt, net	(78.1)	(582.2)	(23.1)
Issuance of common stock	43.7	383.5	24.4
Acquisition of treasury stock	(8.1)	(10.0)	(3.1)
Dividends paid - common stock	(305.9)	(273.2)	(257.8)
Net Cash Flows from Financing Activities	445.1	174.5	281.4
Change in cash and cash equivalents from continuing operations	(138.2)	35.5	16.0
Change in cash and cash equivalents from discontinued operations	128.7	(10.7)	(13.7)
Cash and cash equivalents at beginning of period	36.3	11.5	9.2
Cash and Cash Equivalents at End of Period	$26.8	$36.3	$11.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

As of December 31, (in millions)	2013	2012
Columbia of Massachusetts:		
Medium-term notes -		
Interest rates between 6.26% and 6.43% with a weighted average interest rate of 6.30% and maturities between December 15, 2025 and February 15, 2028	$40.0	$40.0
Total long-term debt of Columbia of Massachusetts	40.0	40.0
Columbia:		
Subsidiary debt - Capital lease obligations	21.4	11.1
Total long-term debt of Columbia	21.4	11.1
Capital Markets:		
Senior Notes - 6.78%, due December 1, 2027	3.0	3.0
Medium-term notes -		
Issued at interest rates between 7.82% and 7.99%, with a weighted average interest rate of 7.92% and various maturities between March 27, 2017 and May 5, 2027 (1)	106.0	106.0
Total long-term debt of Capital Markets	109.0	109.0
NiSource Corporate Services:		
Capital lease obligations -		
Interest rate of 3.290% due June 30, 2015	1.4	4.7
Interest rate of 3.264% due August 31, 2015	0.8	1.2
Interest rate of 6.709% due December 31, 2015	23.3	20.8
Interest rate of 9.840% due June 30, 2015	0.1	0.3
Interest rate of 5.586% due December 31, 2016	2.8	2.1
Total long-term debt of NiSource Corporate Services	28.4	29.1
NiSource Development Company:		
NDC Douglas Properties - Notes Payable -		
Interest rates between 4.00% and 5.56% with a weighted average interest rate of 4.69% and various maturities between May 1, 2028 and August 31, 2056 (1)	5.4	5.5
Total long-term debt of NiSource Development Company	5.4	5.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

As of December 31, (in millions)	2013	2012
NiSource Finance:		
Long-term notes -		
5.40% - due July 15, 2014	—	500.0
5.36% - due November 28, 2015	230.0	230.0
10.75% - due March 15, 2016	201.5	201.5
Variable rate - due April 15, 2016	325.0	250.0
5.41% - due November 28, 2016	90.0	90.0
5.25% - due September 15, 2017	450.0	450.0
6.40% - due March 15, 2018	800.0	800.0
6.80% - due January 15, 2019	500.0	500.0
5.45% - due September 15, 2020	550.0	550.0
4.45% - due December 1, 2021	250.0	250.0
6.125% - due March 1, 2022	500.0	500.0
3.85% - due February 15, 2023	250.0	250.0
5.89% - due November 28, 2025	265.0	265.0
6.25% - due December 15, 2040	250.0	250.0
5.95% - due June 15, 2041	400.0	400.0
5.80% - due February 1, 2042	250.0	250.0
5.25% - due February 15, 2043	500.0	500.0
4.80% - due February 15, 2044	750.0	—
5.65% - due February 1, 2045	500.0	—
Fair value adjustment of notes for interest rate swap agreements	—	40.4
Unamortized premium and discount on long-term debt	(53.2)	(40.7)
Total long-term debt of NiSource Finance	7,008.3	6,236.2
NIPSCO:		
Capital lease obligations -		
Interest rate of 3.95% due June 30, 2022	59.7	66.4
Pollution control bonds -		
Reoffered interest rates between 5.60% and 5.85%, with a weighted average interest rate of 5.67% and various maturities between November 1, 2016 and April 1, 2019 [(1)]	226.0	226.0
Medium-term notes -		
Issued at interest rates between 7.02% and 7.69%, with a weighted average interest rate of 7.57% and various maturities between June 12, 2017 and August 4, 2027 [(1)]	95.5	95.5
Wind generation projects notes -		
Variable rate of 3.25% at December 31, 2012 with amounts due at July 1, 2014 and October 28, 2014	—	0.9
Unamortized discount on long-term debt	(0.5)	(0.6)
Total long-term debt of NIPSCO	380.7	388.2
Total long-term debt, excluding amount due within one year	$7,593.2	$6,819.1

[(1)] Interest rates and maturities shown are as of December 31, 2013. Refer to Note 16 “Long-Term Debt” for changes in debt outstanding.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of January 1, 2011	$2.8	$(27.4)	$4,103.9	$876.1	$ (57.9)	$4,897.5
Comprehensive Income (Loss):						
Net Income	—	—	—	299.1	—	299.1
Other comprehensive income (loss), net of tax	—	—	—	—	(1.8)	(1.8)
Dividends:						
Common stock	—	—	—	(258.2)	—	(258.2)
Treasury stock acquired	—	(3.1)	—	—	—	(3.1)
Issued:						
Employee stock purchase plan	—	—	1.3	—	—	1.3
Long-term incentive plan	—	—	21.4	—	—	21.4
401(k) and profit sharing issuance	—	—	32.0	—	—	32.0
Dividend reinvestment plan	—	—	8.9	—	—	8.9
Tax benefits of options	—	—	0.2	—	—	0.2
Balance as of December 31, 2011	$2.8	$(30.5)	$4,167.7	$917.0	$ (59.7)	$4,997.3
Comprehensive Income (Loss):						
Net Income	—	—	—	416.1	—	416.1
Other comprehensive income (loss), net of tax	—	—	—	—	(5.8)	(5.8)
Dividends:						
Common stock	—	—	—	(273.5)	—	(273.5)
Treasury stock acquired	—	(10.0)	—	—	—	(10.0)
Issued:						
Common stock issuance	0.3	—	—	—	—	0.3
Employee stock purchase plan	—	—	1.8	—	—	1.8
Long-term incentive plan	—	—	44.6	—	—	44.6
401(k) and profit sharing issuance	—	—	36.3	—	—	36.3
Dividend reinvestment plan	—	—	8.3	—	—	8.3
Forward equity settlement	—	—	338.9	—	—	338.9
Balance as of December 31, 2012	$3.1	$(40.5)	$4,597.6	$1,059.6	$ (65.5)	$5,554.3

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of December 31, 2012	$3.1	$(40.5)	$4,597.6	$1,059.6	$ (65.5)	$5,554.3
Comprehensive Income (Loss):						
Net Income	—	—	—	532.1	—	532.1
Other comprehensive income (loss), net of tax	—	—	—	—	21.9	21.9
Dividends:						
Common stock	—	—	—	(306.2)	—	(306.2)
Treasury stock acquired	—	(8.1)	—	—	—	(8.1)
Issued:						
Common stock issuance	0.1	—	—	—	—	0.1
Employee stock purchase plan	—	—	2.9	—	—	2.9
Long-term incentive plan	—	—	43.8	—	—	43.8
401(k) and profit sharing issuance	—	—	37.8	—	—	37.8
Dividend reinvestment plan	—	—	8.0	—	—	8.0
Balance as of December 31, 2013	$3.2	$(48.6)	$4,690.1	$1,285.5	$ (43.6)	$5,886.6

Shares (in thousands)	Common Shares	Treasury Shares	Outstanding Shares
Balance January 1, 2011	280,261	(1,406)	278,855
Treasury stock acquired		(165)	(165)
Issued:			
Employee stock purchase plan	67	—	67
Long-term incentive plan	1,064	—	1,064
Dividend reinvestment	439	—	439
Retirement savings plan	1,594	—	1,594
Balance December 31, 2011	283,425	(1,571)	281,854
Treasury stock acquired		(439)	(439)
Issued:			
Employee stock purchase plan	73	—	73
Long-term incentive plan	2,692	—	2,692
Dividend reinvestment	340	—	340
Retirement savings plan	1,496	—	1,496
Forward equity settlement	24,265	—	24,265
Balance December 31, 2012	312,291	(2,010)	310,281
Treasury stock acquired		(297)	(297)
Issued:			
Employee stock purchase plan	102	—	102
Long-term incentive plan	2,037	—	2,037

Dividend reinvestment	272	—	272
Retirement savings plan	1,281	—	1,281
Balance December 31, 2013	315,983	(2,307)	313,676

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

1. Nature of Operations and Summary of Significant Accounting Policies

A. Company Structure and Principles of Consolidation. NiSource, a Delaware corporation, is a 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 derives substantially all of its revenues and earnings from the operating results of its thirteen direct subsidiaries.

The consolidated financial statements include the accounts of NiSource and its majority-owned subsidiaries after the elimination of all intercompany accounts and transactions. Investments for which at least a 20% interest is owned, certain joint ventures and limited partnership interests of more than 3% are accounted for under the equity method. Except where noted above and in the event where NiSource has significant influence, investments with less than a 20% interest are accounted for under the cost method. NiSource also consolidates variable interest entities for which NiSource is the primary beneficiary.

B. Use of Estimates. The preparation of financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Cash, Cash Equivalents, and Restricted Cash. NiSource considers all investments with original maturities of three months or less to be cash equivalents. NiSource reports amounts deposited in brokerage accounts for margin requirements as restricted cash. In addition, NiSource has amounts deposited in trust to satisfy requirements for the provision of various property, liability, workers compensation, and long-term disability insurance, which is classified as restricted cash and disclosed as an investing cash flow on the Statements of Consolidated Cash Flows.

Restricted cash was $8.0 million and $46.8 million as of December 31, 2013, and 2012, respectively. The decrease in restricted cash was primarily a result of the sale of NiSource’s unregulated natural gas marketing business.

D. Accounts Receivable and Unbilled Revenue. Accounts receivable on the Consolidated Balance Sheets includes both billed and unbilled amounts as NiSource believes that total accounts receivable is a more meaningful presentation, given the factors which impact both billed and unbilled accounts receivable. Unbilled revenue is based on estimated amounts of electric energy or natural gas delivered but not yet billed to its customers. Unbilled amounts of accounts receivable relate to a portion of a customer’s consumption of gas or electricity from the date of the last cycle billing date through the last day of the month (balance sheet date). Factors taken into consideration when estimating unbilled revenue include historical usage, customer rates and weather. Accounts receivable fluctuates from year to year depending in large part on weather impacts and price volatility. NiSource’s accounts receivable on the Consolidated Balance Sheets includes unbilled revenue, less reserves, in the amounts of $321.5 million and $285.7 million for the years ended December 31, 2013 and 2012, respectively. The reserve for uncollectible receivables is the Company’s best estimate of the amount of probable credit losses in the existing accounts receivable. The Company determined the reserve based on historical experience and in consideration of current market conditions. Account balances are charged against the allowance when it is anticipated the receivable will not be recovered.

E. Investments in Debt and Equity Securities. NiSource’s investments in debt and equity securities are carried at fair value and are designated as available-for-sale. These investments are included within “Other investments” on the Consolidated Balance Sheets. Unrealized gains and losses, net of deferred income taxes, are reflected as accumulated other comprehensive income (loss). These investments are monitored for other than temporary declines in market value. Realized gains and losses and permanent impairments are reflected in the Statements of Consolidated Income. No material impairment charges were recorded for the years ended December 31, 2013, 2012 and 2011.

F. Basis of Accounting for Rate-Regulated Subsidiaries. Rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource’s regulated operations may no longer meet the criteria for regulatory accounting. In such an event, a write-down of all

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

or a portion of NiSource’s existing regulatory assets and liabilities could result. If transition cost recovery was approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of regulatory accounting, NiSource would be required to apply the provisions of Discontinuation of Rate-Regulated Accounting. In management’s opinion, NiSource’s regulated subsidiaries will be subject to regulatory accounting for the foreseeable future. Refer to Note 8, “Regulatory Matters,” in the Notes to Consolidated Financial Statements for additional information.

G. Utility Plant and Other Property and Related Depreciation and Maintenance. Property, plant and equipment (principally utility plant) is stated at cost. The rate-regulated subsidiaries record depreciation using composite rates on a straight-line basis over the remaining service lives of the electric, gas and common properties as approved by the appropriate regulators.

The weighted average depreciation provisions for utility plant, as a percentage of the original cost, for the periods ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Electric Operations	3.2 %	3.4 %	3.5 %
Gas Distribution and Transmission Operations	1.8 %	1.9 %	2.1 %

For rate-regulated companies, AFUDC is capitalized on all classes of property except organization costs, land, autos, office equipment, tools and other general property purchases. The allowance is applied to construction costs for that period of time between the date of the expenditure and the date on which such project is placed in service. The pre-tax rate for AFUDC was 2.4% in 2013, 3.3% in 2012 and 3.6% in 2011. Short-term borrowings were primarily used to fund construction efforts for all three years presented.

Generally, NiSource’s subsidiaries follow the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When regulated property that represents a retired unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, net of salvage, is charged to the accumulated provision for depreciation in accordance with composite depreciation.

In the third quarter of 2013, Columbia Transmission sold storage base gas. The difference between the sale proceeds and amounts capitalized to Utility Plant resulted in a gain of $11.1 million.

H. Carrying Charges and Deferred Depreciation. Upon completion of units 17 and 18 at the R. M. Schahfer Generating Station, NIPSCO capitalized the debt-based carrying charges and deferred depreciation in accordance with orders of the IURC, pending the inclusion of the cost of each unit in rates. Such carrying charges and deferred depreciation are being amortized over the remaining service life of each unit.

NIPSCO has capitalized debt-based carrying charges and deferred depreciation related to Sugar Creek in accordance with the February 18, 2008 Order of the IURC. The deferral of Sugar Creek debt based carrying charges and the deferral of depreciation ceased in December 2011 and deferred balances are being amortized over five years beginning January 2012. As of December 31, 2013, the remaining balance to be amortized is $42.9 million. An additional $13.9 million is deferred for consideration in NIPSCO's next electric base rate case. Management believes this amount is probable of recovery through future rates.

In 2005, the PUCO authorized Columbia of Ohio to revise its depreciation accrual rates for the period beginning January 1, 2005. The revised depreciation rates are now higher than those which would have been utilized if Columbia of Ohio were not subject to regulation. The amount of depreciation that would have been recorded for 2005 through

2013 had Columbia of Ohio not been subject to rate regulation is a combined $414.2 million, a $53.0 million decrease over the $467.2 million reflected in rates. The regulatory asset was $78.7 million and $84.8 million as of December 31, 2013 and 2012, respectively. The amount of depreciation that would have been recorded for 2013 had Columbia of Ohio not been subject to rate regulation is $66.3 million, a $6.0 million decrease over the $72.3 million reflected in rates.

I. Amortization of Software Costs. External and internal costs associated with computer software developed for internal use are capitalized. Capitalization of such costs commences upon the completion of the preliminary stage of each project. Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis generally over a

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

period of five years. NiSource amortized $36.3 million in 2013, $30.6 million in 2012 and $29.0 million in 2011 related to software costs. NiSource's unamortized software balance was $149.1 million and $142.6 million at 2013 and 2012, respectively.

J. Goodwill and Other Intangible Assets. NiSource has approximately $4 billion in goodwill and other intangible assets. Substantially all goodwill relates to the excess of cost over the fair value of the net assets acquired in the Columbia acquisition. In addition, NiSource has other intangible assets consisting primarily of franchise rights apart from goodwill that were identified as part of the purchase price allocations associated with the acquisition of Columbia of Massachusetts, a wholly-owned subsidiary of NiSource, which is being amortized on a straight-line basis over forty years from the date of acquisition. Refer to Note 6, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

K. Long-lived Assets. NiSource's Consolidated Balance Sheets contain significant long-lived assets other than goodwill and intangible assets discussed above which are not subject to recovery under regulatory accounting. As a result, NiSource assesses the carrying amount and potential earnings of these assets whenever events or changes in circumstances indicate that the carrying value could be impaired. Refer to Note 3, "Impairments and Other Charges," in the Notes to Consolidated Financial Statements for further information.

L. Revenue Recognition. Revenue is recorded as products and services are delivered. Utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include estimates for electricity and gas delivered but not billed. Cash received in advance from sales of commodities to be delivered in the future is recorded as deferred revenue and recognized as income upon delivery of the commodities. For shorter term transportation and storage service revenues, cash is received at inception of the service period resulting in the recording of deferred revenues that are recognized in revenues over the period the services are provided.

Deferred revenue also includes a gain on conveyances related to pooling of assets (production rights) in a joint undertaking intended to find, develop, or produce oil or gas from a particular property or group of properties. NiSource has a working and an overriding royalty interest in the assets. The gain was initially deferred as NiSource has a substantial obligation for future performance. NiSource recognizes the gain on conveyances into earnings as the obligation is satisfied ($7.3 million in 2013). As of December 31, 2013, remaining gains of approximately $30.0 million were deferred pending performance of future obligations.

M. 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 include the incremental effects of the various long-term incentive compensation plans and the Forward Agreements (see Note 14). The calculation of diluted earnings per share excludes stock options which had an anti-dilutive effect. These options were zero for 2013 and 2012 and 2.8 million for 2011.

The numerator in calculating both basic and diluted EPS for each year is reported net income. The computation of diluted average common shares follows:

Diluted Average Common Shares Computation	2013	2012	2011
Denominator (thousands)			
Basic average common shares outstanding	312,402	291,927	280,442
Dilutive potential common shares			
Nonqualified stock options	80	144	9
Shares contingently issuable under employee stock plans	708	557	1,017
Shares restricted under stock plans	456	544	339

Forward Agreements[1]	—	7,229	6,684
Diluted Average Common Shares	313,646	300,401	288,491

[1] On September 10, 2012, NiSource settled the Forward Agreements. Amounts included in diluted average common shares for the year ended December 31, 2012 are weighted for the period prior to settlement.

N. Estimated Rate Refunds. Certain rate-regulated subsidiaries collect revenues subject to refund pending final determination in rate proceedings. In connection with such revenues, estimated rate refund liabilities are recorded which reflect management’s current judgment of the ultimate outcomes of the proceedings. No provisions are made when, in the opinion of management, the facts and circumstances preclude a reasonable estimate of the outcome.

O. Accounts Receivable Transfer Program. Certain of NiSource's subsidiaries have agreements with third parties to sell certain accounts receivable without recourse. These transfers of accounts receivable are accounted for as secured borrowings. The entire gross receivables balance remains on the December 31, 2013 and 2012 Consolidated Balance Sheets and short-term debt is recorded in the amount of proceeds received from the commercial paper conduits involved in the transactions. Fees associated with the securitization transactions are recorded as interest expense. Refer to Note 19, "Transfers of Financial Assets," in the Notes to Consolidated Financial Statements for further information.

P. Fuel Adjustment Clause. NIPSCO defers most differences between fuel and power purchase costs and the recovery of such costs in revenue, and adjusts future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

Q. Gas Cost Adjustment Clause. All of NiSource's Gas Distribution Operations subsidiaries defer most differences between gas purchase costs and the recovery of such costs in revenues, and adjust future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

R. Gas Inventory. Both the LIFO inventory methodology and the weighted average cost methodology are used to value natural gas in storage, as approved by regulators for each of NiSource's regulated subsidiaries. Inventory valued using LIFO was $45.5 million and $48.4 million at December 31, 2013, and 2012, respectively. Based on the average cost of gas using the LIFO method, the estimated replacement cost of gas in storage was greater than the stated LIFO cost by $0.6 million at December 31, 2013 and was less than the stated LIFO cost by $13.2 million at December 31, 2012. Inventory valued using the weighted average cost methodology was $309.1 million at December 31, 2013 and $278.2 million at December 31, 2012.

S. Accounting for Exchange and Balancing Arrangements of Natural Gas. NiSource's Columbia Pipeline Group and Gas Distribution Operations subsidiaries enter into balancing and exchange arrangements of natural gas as part of their operations and off-system sales programs. NiSource records a receivable or payable for its respective cumulative gas imbalances as well as for any gas inventory borrowed or lent under a Gas Distributions Operations exchange agreement. These receivables and payables are recorded as "Exchange gas receivable" or "Exchange gas payable" on NiSource's Consolidated Balance Sheets, as appropriate.

T. Accounting for Emissions Allowances. NIPSCO has obtained SO2 and NOx emissions allowances from the EPA based upon its electric generation operations that the utility may sell, trade or hold for future use. NIPSCO utilizes the inventory model in accounting for these emissions allowances, whereby these allowances were recognized at zero cost upon receipt from the EPA. Pursuant to the December 21, 2011 IURC Order, all purchases and sales of emission allowances will be recovered or refunded through the EERM.

U. Accounting for Risk Management Activities. NiSource accounts for its derivatives and hedging activities in accordance with ASC 815. NiSource recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value, unless such contracts are exempted as a normal purchase normal sale under the provisions of the standard. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation. Refer to Note 9, "Risk Management Activities," in the Notes to Consolidated Financial Statements for additional information.

V. Income Taxes and Investment Tax Credits. NiSource records income taxes to recognize full interperiod tax allocations. Under the liability method, deferred income taxes are provided for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Previously recorded investment tax credits of the regulated subsidiaries were deferred on the balance sheet and are being amortized to book income over the regulatory life of the related properties to conform to regulatory policy.

To the extent certain deferred income taxes of the regulated companies are recoverable or payable through future rates, regulatory assets and liabilities have been established. Regulatory assets for income taxes are primarily attributable to property related tax timing differences for which deferred taxes had not been provided in the past, when regulators did not recognize such taxes as costs in the rate-making process. Regulatory liabilities for income taxes are primarily attributable to the regulated companies' obligation to refund to ratepayers deferred income taxes provided at rates higher than the current federal income tax rate. Such amounts are credited to ratepayers using either the average rate assumption method or the reverse South Georgia method.

Pursuant to the Internal Revenue Code and relevant state taxing authorities, NiSource and its subsidiaries file consolidated income tax returns for federal and certain state jurisdictions. NiSource and its subsidiaries are parties to an agreement (Tax Allocation

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

Agreement) that provides for the allocation of consolidated tax liabilities. The Tax Allocation Agreement generally provides that each party is allocated an amount of tax similar to that which would be owed had the party been separately subject to tax. Any net benefit attributable to the parent is reallocated to other members.

W. Environmental Expenditures. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and estimated site-specific costs where assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. The liability is adjusted as further information is discovered or circumstances change. The reserves for estimated environmental expenditures are recorded on the Consolidated Balance Sheets in “Legal and environmental reserves” for short-term portions of these liabilities and “Other noncurrent liabilities” for the respective long-term portions of these liabilities. Rate-regulated subsidiaries applying regulatory accounting establish regulatory assets on the Consolidated Balance Sheets to the extent that future recovery of environmental remediation costs is probable through the regulatory process. Refer to Note 20, “Other Commitments and Contingencies,” in the Notes to Consolidated Financial Statements for further information.

X. Excise Taxes. NiSource accounts for excise taxes that are customer liabilities by separately stating on its invoices the tax to its customers and recording amounts invoiced as liabilities payable to the applicable taxing jurisdiction. These types of taxes, comprised largely of sales taxes collected, are presented on a net basis affecting neither revenues nor cost of sales. NiSource accounts for other taxes for which it is liable by recording a liability for the expected tax with a corresponding charge to “Other taxes” expense.

2. Recent Accounting Pronouncements

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

3. Impairments and Other Charges

Impairments. An impairment loss shall be recognized only if the carrying amount of a long lived asset is not recoverable and exceeds its fair value. The first step of the test for impairment compares the carrying amount of the long lived asset to the fair value sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

Lake Erie Land, which is wholly-owned by NiSource and within the Company’s Corporate and Other Segment, was in the process of selling real estate over a 10-year period as a part of an agreement reached in June 2006 with a private real estate development group.

In April 2011, NiSource settled a mortgage foreclosure action against the developer, reacquired the Sand Creek Country Club, and purchased additional properties owned by the developer to be marketed along with the existing Lake Erie Land properties to prospective purchasers. This transaction qualified as a business combination in accordance with GAAP. The properties were acquired at fair value and included the Sand Creek Country Club and additional commercial properties for a total of $15.8 million as well as $3.5 million of land. As a result of these acquisitions, NiSource’s total investment in Lake Erie Land was $51.3 million. As a part of the process to sell the Lake Erie Land properties in 2011, independent appraisals were obtained. The Company compared the carrying value of the assets to the fair value, determined primarily through the independent appraisals, and recorded an impairment loss of $14.7 million. The Company has analyzed the properties for indicators of impairment and determined there were no impairment charges during 2013 and 2012. At December 31, 2013 and December 31, 2012, the total book value of these properties was $31.4 million and $35.4 million, respectively, and is included in Other investments and Other property in the Consolidated Balance Sheets. NiSource is marketing the Lake Erie Land properties, but has determined that the sale would not be probable within a year and, therefore, the properties did not meet the criteria to be classified as assets held for sale in accordance with GAAP as of December 31, 2013, and December 31, 2012. The revenue and earnings of Sand Creek Country Club are not material.

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NISOURCE INC.
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4. Discontinued Operations and Assets and Liabilities Held for Sale

On September 1, 2013, NiSource sold the commercial and industrial natural gas portfolio of its unregulated natural gas marketing business. The sale included the physical contracts and associated financial hedges that comprise the portfolio, as well as the gas inventory and customer deposits of the business. For the year ended December 31, 2013, an after tax loss of $1.5 million was included in Gain on Disposition of Discontinued Operations, net of taxes in the Statements of Consolidated Income. The assets and liabilities sold were classified as held for sale as of December 31, 2012. Refer to Note 9, "Risk Management Activities" for additional information regarding the price risk assets and liabilities of the business.

During 2012, NiSource began marketing to sell the service plan and leasing business lines of its Retail Services business. As of December 31, 2012, the assets and liabilities of the business lines met the criteria to be classified as held for sale in accordance 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 $36.4 million after taxes, which was recorded during the first quarter of 2013.

There were no assets and liabilities of discontinued operations and held for sale on the Consolidated Balance Sheet at December 31, 2013.

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

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

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

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

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NISOURCE INC.
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Results from discontinued operations are provided in the following table. These results are primarily from NiSource's Retail Services business, a settlement at NiSource's former exploration and production subsidiary, CER, NiSource's unregulated natural gas marketing business and Columbia Propane. Income in 2013 is comparable to 2012. Income in 2012 was $17.8 million higher than 2011 due primarily to a reserve at NiSource's unregulated marketing business partially offset by income at NiSource's Retail Services business.

Year Ended December 31, (in millions)	2013	2012	2011
Net Revenues from Discontinued Operations	$2.5	$37.1	$15.3
Income (Loss) from discontinued operations	11.6	11.3	(16.8)
Income tax expense (benefit)	5.3	4.0	(6.3)
Income (Loss) from Discontinued Operations - net of taxes	$6.3	$7.3	$(10.5)
Gain on Disposition of Discontinued Operations - net of taxes	$34.9	$—	$—

5. Property, Plant and Equipment

NiSource’s property, plant and equipment on the Consolidated Balance Sheets are classified as follows:

At December 31, (in millions)	2013	2012
Property Plant and Equipment		
Gas Distribution Utility[1]	$8,927.4	$8,261.7
Gas Transmission Utility	6,669.0	6,151.4
Electric Utility[1]	6,815.0	6,347.0
Common Utility	163.5	144.9
Construction Work in Process	728.8	737.3
Non-Utility and Other[2]	360.5	298.6
Total Property, Plant and Equipment	$23,664.2	$21,940.9
Accumulated Depreciation and Amortization		
Gas Distribution Utility[1]	$(2,868.7)	$(2,838.8)
Gas Transmission Utility	(2,879.0)	(2,814.9)
Electric Utility[1]	(3,426.4)	(3,265.0)
Common Utility	(82.4)	(67.7)
Non-Utility and Other[2]	(42.6)	(38.6)
Total Accumulated Depreciation and Amortization	$(9,299.1)	$(9,025.0)
Net Property, Plant and Equipment	$14,365.1	$12,915.9

[1] NIPSCO’s common utility plant and associated accumulated depreciation and amortization are allocated between Gas Distribution Utility and Electric Utility Property, Plant and Equipment.

[2] Non-Utility and Other includes the property, plant and equipment of Columbia's unregulated businesses.

6. Goodwill and Other Intangible Assets

In accordance with the provisions for goodwill accounting under GAAP, NiSource tests its goodwill for impairment annually as of May 1 each year unless indicators, events, or circumstances would require an immediate review. Goodwill is tested for impairment at a level of reporting referred to as a reporting unit, which generally is an operating segment or a component of an operating segment as defined by the FASB. NiSource's three reporting units are Columbia Distribution Operations, Columbia Transmission Operations and NIPSCO Gas Distribution Operations.

NiSource has three reporting units that are allocated goodwill. NiSource's goodwill assets at December 31, 2013 were $3.7 billion pertaining primarily to the acquisition of Columbia on November 1, 2000. Of this amount, approximately $2.0 billion is allocated to Columbia Transmission Operations and $1.7 billion is allocated to Columbia Distribution Operations. In addition, NIPSCO

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Gas Distribution Operations' goodwill assets at December 31, 2013 related to the purchase of Northern Indiana Fuel and Light in March 1993 and Kokomo Gas in February 1992 were $17.8 million.

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

In estimating the fair value of the Columbia Transmission Operations and Columbia Distribution Operations reporting units for the May 1, 2012 test, NiSource used a weighted average of the income and market approaches. The income approach utilized a discounted cash flow model. This model was based on management's short-term and long-term forecast of operating performance for each reporting unit. The two main assumptions used in the models were the growth rates, which were based on the cash flows from operations for each of the reporting units, and the weighted average cost of capital, or discount rate. The starting point for each reporting unit's cash flow from operations was the detailed five year plan, which takes into consideration a variety of factors such as the current economic environment, industry trends, and specific operating goals set by management. The discount rates were based on trends in overall market as well as industry specific variables and include components such as the risk-free rate, cost of debt, and company volatility at May 1, 2012. Under the market approach, NiSource utilized three market-based models to estimate the fair value of the reporting units: (i) the comparable company multiples method, which estimated fair value of each reporting unit by analyzing EBITDA multiples of a peer group of publicly traded companies and applying that multiple to the reporting unit's EBITDA, (ii) the comparable transactions method, which valued the reporting unit based on observed EBITDA multiples from completed transactions of peer companies and applying that multiple to the reporting unit's EBITDA, and (iii) the market capitalization method, which used the NiSource share price and allocated NiSource's total market capitalization among both the goodwill and non-goodwill reporting units based on the relative EBITDA, revenues, and operating income of each reporting unit. Each of the three market approaches were calculated with the assistance of a third party valuation firm, using multiples and assumptions inherent in today's market. The degree of judgment involved and reliability of inputs into each model were considered in weighting the various approaches. The resulting estimate of fair value of the reporting units, using the weighted average of the income and market approaches, exceeded their carrying values, indicating that no impairment exists under step 1 of the annual impairment test.

Certain key assumptions used in determining the fair values of the reporting units included planned operating results, discount rates and the long-term outlook for growth. In 2012, NiSource used discount rates of 5.60% for both Columbia Transmission Operations and Columbia Distribution Operations, resulting in excess fair values of approximately $1,643.0 million and $1,682.0 million, respectively. The results of the impairment test indicated that each of the reporting units passed step 1 of the impairment test.

Goodwill at NIPSCO Gas Distribution Operations related to the acquisition of Northern Indiana Fuel and Light and Kokomo Gas of $17.8 million was also tested for impairment as of May 1, 2012. The income approach was used to determine the fair value of the NIPSCO Gas Distribution reporting unit. Key assumptions in the income approach were a discount rate of 5.60% and a growth rate based on the cash flow from operations. These cash flows factor in the regulatory environment and planned growth initiatives. The step 1 goodwill impairment test resulted in the fair value of the NIPSCO Gas Distribution reporting unit to be above the carrying value by $356.0 million.

In September 2011, FASB issued Accounting Standards Update 2011-08, which allows entities testing goodwill for impairment the option of performing a qualitative ("step 0") assessment before calculating the fair value of a reporting unit for the goodwill impairment test. If a step 0 assessment is performed, an entity is no longer required to calculate the fair value of a reporting unit unless the entity determines that based on the qualitative step 0 assessment that it is more likely than not that its fair value is less than its carrying amount. The update was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

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

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

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NiSource considered whether there were any events or changes in circumstances subsequent to the annual test that would reduce the fair value of any of the reporting units below their carrying amounts and necessitate another goodwill impairment test. No such indicators were noted that would require a subsequent goodwill impairment testing subsequent to May 1, 2013.

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

NiSource's intangible assets, apart from goodwill, consist of franchise rights, which were identified as part of the purchase price allocations associated with the acquisition in February 1999 of Columbia of Massachusetts. These amounts were $275.7 million and $286.6 million, net of accumulated amortization of $166.5 million and $155.5 million, at December 31, 2013, and 2012, respectively and are being amortized over forty years from the date of acquisition. NiSource recorded amortization expense of $11.0 million in 2013, 2012, and 2011 related to its intangible assets. NiSource expects amortization expense to be $11.0 million a year from 2014-2018.

7. Asset Retirement Obligations

Changes in NiSource's liability for asset retirement obligations for the years 2013 and 2012 are presented in the table below:

(in millions)	2013	2012
Beginning Balance	$160.4	$146.4
Accretion expense	1.2	1.1
Accretion recorded as a regulatory asset	8.2	8.9
Additions	10.1	1.6
Settlements	(6.0)	(1.4)
Change in estimated cash flows	0.5	3.8
Ending Balance	$174.4	$160.4

NiSource has recognized asset retirement obligations associated with various legal obligations including costs to remove and dispose of certain construction materials located within many of NiSource's facilities, certain costs to retire pipeline, removal costs for certain underground storage tanks, removal of certain pipelines known to contain PCB contamination, closure costs for certain sites including ash ponds, solid waste management units and a landfill, as well as some other nominal asset retirement obligations. NiSource recognizes that there are obligations to incur significant costs to retire wells associated with gas storage operations; however, the lives of these wells are indeterminable until management establishes plans for closure. Additionally, NiSource has a significant obligation associated with the decommissioning of its two hydro facilities located in Indiana. These hydro facilities have an indeterminate life, and no asset retirement obligation has been recorded.

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 Consolidated Balance Sheets.

8. Regulatory Matters

Regulatory Assets and Liabilities

NiSource follows the accounting and reporting requirements of ASC Topic 980, which provides that regulated entities account for and report assets and liabilities consistent with the economic effect of regulatory rate-making procedures if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income or expense are deferred on the balance sheet and are recognized in the income statement as the related amounts are included in service rates and recovered from or refunded to customers.

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Regulatory assets were comprised of the following items:

At December 31, (in millions)	2013	2012
Assets		
Reacquisition premium on debt	$6.5	$8.6
R. M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation (see Note 1-H)	2.3	5.5
Unrecognized pension benefit and other postretirement benefit costs (see Note 12)	842.2	1,345.7
Other postretirement costs	67.7	66.3
Environmental costs (see Note 20-D)	68.7	77.5
Regulatory effects of accounting for income taxes (see Note 1-V)	266.8	245.7
Underrecovered gas and fuel costs (see Note 1-P and 1-Q)	46.4	45.0
Depreciation (see Note 1-H)	113.6	113.9
Uncollectible accounts receivable deferred for future recovery	10.5	6.1
Asset retirement obligations (see Note 7)	10.5	16.1
Losses on derivatives (see Note 9)	2.0	17.1
Post-in-service carrying charges	73.1	61.2
EERM operation and maintenance and depreciation deferral	5.9	9.8
MISO (see Note 8)	19.2	28.8
Sugar Creek carrying charges and deferred depreciation (see Note 1-H)	56.8	71.2
Other	119.2	113.7
Total Assets	$1,711.4	$2,232.2
Less amounts included as Underrecovered gas and fuel cost	(46.4)	(45.0)
Total Regulatory Assets reflected in Current Regulatory Assets and Other Regulatory Assets	$1,665.0	$2,187.2

Regulatory liabilities were comprised of the following items:

At December 31, (in millions)	2013	2012
Liabilities		
Overrecovered gas and fuel costs (see Notes 1-P and 1-Q)	$32.2	$22.1
Cost of removal (see Note 7)	1,435.2	1,437.5
Regulatory effects of accounting for income taxes (see Note 1-V)	60.4	76.9
Unrecognized pension benefit and other postretirement benefit costs (see Note 12)	49.4	0.4
Other postretirement costs	111.9	97.4
Percentage of income plan	—	16.0
Off-system sales margin sharing	3.7	5.8
Other	69.4	130.9
Total Liabilities	$1,762.2	$1,787.0
Less amounts included as Overrecovered gas and fuel cost	(32.2)	(22.1)
Total Regulatory Liabilities reflected in Current Regulatory Liabilities and Other Regulatory Liabilities and Other Removal Costs	$1,730.0	$1,764.9

Regulatory assets, including underrecovered gas and fuel cost, of approximately $985.9 million as of December 31, 2013 are not earning a return on investment. Regulatory assets of approximately $1,560.7 million include expenses that are recovered as

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NISOURCE INC.
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components of the cost of service and are covered by regulatory orders. These costs are recovered over a remaining life of up to 41 years. Regulatory assets of approximately $150.7 million at December 31, 2013, require specific rate action.
As noted below, regulatory assets for which costs have been incurred or accrued are included (or expected to be included, for costs incurred subsequent to the most recently approved rate case) in certain companies' rate base, thereby providing a return on invested costs. Certain regulatory assets do not result from cash expenditures and therefore do not represent investments included in rate base or have offsetting liabilities that reduce rate base.
Assets:
Reacquisition premium on debt – The unamortized premiums for debt redeemed by NIPSCO are deferred, amortized and recovered over the term of the replacement issue.
R.M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation – NIPSCO obtained approval from the IURC to capitalize the debt-based carrying charges and deferred depreciation for Schahfer Unit 17 and Unit 18 due to regulatory lag and to amortize such costs over the remaining service life of each unit.
Unrecognized pension benefit and other postretirement benefit costs – In 2007, NiSource adopted certain updates of ASC 715 which required, among other things, the recognition in other comprehensive income or loss of the actuarial gains or losses and the prior service costs or credits that arise during the period but that are not immediately recognized as components of net periodic benefit costs. Certain subsidiaries defer the costs as a regulatory asset in accordance with regulatory orders or as a result of regulatory precedent, to be recovered through base rates.
Other postretirement costs – Primarily comprised of costs approved through rate orders to be collected through future base rates, revenue riders or tracking mechanisms.
Environmental costs – Includes certain recoverable costs of investigating, testing, remediating and other costs related to gas plant sites, disposal sites or other sites onto which material may have migrated. Certain companies defer the costs as a regulatory asset in accordance with regulatory orders, to be recovered in future base rates, billing riders or tracking mechanisms.

Regulatory effects of accounting for income taxes – Represents the deferral and under collection of deferred taxes in the rate making process. In prior years, NiSource has lowered customer rates in certain jurisdictions for the benefits of accelerated tax deductions. Amounts are expensed for financial reporting purposes as NiSource recovers deferred taxes in the rate making process.
Underrecovered gas and fuel costs – Represents the difference between the costs of gas and fuel and the recovery of such costs in revenue, and is used to adjust future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions. Recovery of these costs is achieved through tracking mechanisms.
Depreciation – Primarily relates to the difference between the depreciation expense recorded by Columbia of Ohio due to a regulatory order and the depreciation expense recorded in accordance with GAAP. The regulatory asset is currently being amortized over the life of the assets. Also included is depreciation associated with the Columbia of Ohio IRP program and Capital Expenditure program. Recovery of these costs is achieved through base rates and rider mechanisms. Refer to Note 1-H for more information.
Uncollectible accounts receivable deferred for future recovery – Represents the difference between certain uncollectible expenses and the recovery of such costs to be collected through cost tracking mechanisms per regulatory orders.
Asset retirement obligations – Represents the timing difference between expense recognition for future obligations and current recovery in rates.
Losses on derivatives – Certain companies are permitted by regulatory orders to participate in commodity price programs to protect customers against the volatility of commodity prices. Unrealized and realized gains or losses related to NiSource's commodity price risk programs may be deferred per specific orders and the recovery of changes

in fair value is dependent upon the individual specific company's cost recovery or sharing mechanisms in place. Amounts for derivative gains and losses will continue to be deferred as long as the programs are in existence.

Post-in-service carrying charges – Columbia of Ohio has approval from the PUCO by regulatory order to defer debt-based post-in-service carrying charges as a regulatory asset for future recovery. As such, Columbia of Ohio capitalizes a carrying charge on eligible property, plant and equipment from the time it is placed into utility service until recovery of the property, plant and

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
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equipment is included in customer rates in base rates or through a rider mechanism. Inclusion in customer rates generally occurs when Columbia of Ohio files its next rate proceeding following the in-service date of the property, plant and equipment.
EERM operation and maintenance and depreciation deferral – NIPSCO obtained approval from the IURC to recover certain environmental related costs including operation and maintenance and depreciation expense once the environmental facilities become operational. Recovery of these costs will continue until such assets are included in rate base through an electric base rate case. The EERM deferred charges represent expenses that will be recovered from customers through an annual EERM Cost Tracker which authorizes the collection of deferred balances over a twelve month period.
MISO – As part of NIPSCO's participation in the MISO transmission service, wholesale energy and ancillary service markets, certain administrative fees and non-fuel costs have been deferred. The IURC authorized the deferral of certain non-fuel related costs until new electric rates were implemented on December 27, 2011. The deferred balances are being amortized over four years commencing January 2012.
Sugar Creek carrying charges and deferred depreciation – The IURC approved the deferral of debt-based carrying charges and the deferral of depreciation expense for the Sugar Creek assets. NIPSCO continued to defer such amounts until new electric rates were approved and implemented on December 27, 2011. Balances are being amortized over five years beginning January 2012. As of December 31, 2013, the remaining unamortized balance is $42.9 million. An additional $13.9 million is deferred for consideration in NIPSCO's next electric rate case. Management believes this amount is probable of recovery through future rates.

Liabilities:
Overrecovered gas and fuel costs – Represents the difference between the costs of gas and fuel and the recovery of such costs in revenues, and is the basis to adjust future billings for such recoveries on a basis consistent with applicable state-approved tariff provisions. Refunding of these revenues is achieved through tracking mechanisms.
Cost of removal – Represents anticipated 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 for future costs to be incurred.
Regulatory effects of accounting for income taxes – Represents amounts owed to customers for deferred taxes collected at a higher rate than the current statutory rates and liabilities associated with accelerated tax deductions owed to customers that are established during the rate making process.
Unrecognized pension benefit and other postretirement benefit costs – In 2007, NiSource adopted certain updates of ASC 715 which required, among other things, the recognition in other comprehensive income or loss of the actuarial gains or losses and the prior service costs or credits that arise during the period but that are not immediately recognized as components of net periodic benefit costs. Certain subsidiaries defer the costs as a regulatory liability in accordance with regulatory orders or as a result of regulatory precedent, to be refunded through base rates.
Other postretirement costs – Primarily represents cash contributions in excess of postretirement benefit expense that is deferred as a regulatory liability by certain subsidiaries in accordance with regulatory orders.
Percentage of income plan – Represents the difference between costs incurred under a customer assistance program by Columbia of Ohio for targeted low income customers and the recovery of such costs through cost tracking mechanisms per regulatory orders. For 2012, Columbia of Ohio was in an overcollected position for this program, which resulted in a regulatory liability that was refunded to customers.
Off-system sales margin sharing – Revenue generated from off-system sales and capacity release programs are subject to incentive sharing mechanism in which NiSource shares a defined percentage of its margins with customers. Refunding of these revenues is achieved through rate refund mechanisms.

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Gas Distribution Operations Regulatory Matters
Significant Rate Developments. On April 30, 2013, Indiana Governor Pence signed Senate Enrolled Act 560 into law. Among other provisions, this legislation provides for cost recovery outside of a base rate proceeding for new or replacement electric and gas transmission, distribution, and storage projects that a public utility undertakes for the purposes of safety, reliability, system modernization, or economic development. The cost recovery mechanism is referred to as a TDSIC. Provisions of the TDSIC require that, among other things, requests for recovery include a seven year plan of eligible investments. Once the plan is approved by the IURC, 80 percent of eligible costs can be recovered using a periodic rate adjustment mechanism. Recoverable costs include a return on, and of, the investment, including AFUDC, post in service carrying charges, operation and maintenance expenses, depreciation, and property taxes. The remaining 20 percent of recoverable costs are to be deferred for future recovery in the public utility's next general rate case. The periodic rate adjustment mechanism is capped at an annual increase of no more than two percent of total retail revenues. On October 3, 2013, NIPSCO filed its gas TDSIC seven year plan of eligible investments for a total of approximately $710 million with the IURC. An order is expected by the second quarter of 2014.
On June 18, 2013, NIPSCO, the OUCC and other customer stakeholder groups filed a unanimous agreement with the IURC to extend NIPSCO's 2010 natural gas customer rate settlement through 2020. The Settlement Agreement was approved by order issued on August 28, 2013 with the requirement that, on or before November 2020, NIPSCO must file a general rate case.

On December 28, 2011, the IURC issued an Order approving NIPSCO's proposed gas energy efficiency programs and budgets, including a conservation program and recovery of all start-up and deferred cost. A three year budget of $42.4 million was approved.

On November 25, 2013, Columbia of Ohio filed a Notice of Intent to file an application to adjust rates associated with its IRP and DSM Riders. Columbia of Ohio will file its Application by February 28, 2014. Columbia of Ohio will be seeking to increase revenues by approximately $30.5 million.

On November 30, 2012, Columbia of Ohio filed a Notice of Intent to file an application to adjust rates associated with its IRP and DSM Riders. Columbia of Ohio filed its Application on February 28, 2013 and indicated that Columbia of Ohio is seeking to increase revenues by approximately $29 million. A stipulation resolving all issues was filed on April 9, 2013, and a hearing was held on April 11, 2013. On April 24, 2013, the PUCO approved the stipulation.
On October 4, 2012, Columbia of Ohio filed a motion requesting an extension of its gas supply auction program, a continuation of its off-system sales and capacity release revenue sharing mechanism, and approval of its pipeline capacity contracts. On November 27, 2012, a non-unanimous stipulation resolving all issues was filed. After hearing, the PUCO issued an Order on January 9, 2013 that approved the stipulation. On May 1, 2013, the Ohio Partners for Affordable Energy appealed the PUCO Order to the Supreme Court of Ohio. The case has been briefed at the Supreme Court of Ohio, and the parties are awaiting the scheduling of oral argument.
On December 9, 2011, Columbia of Ohio filed a Notice of Intent to file an application to extend its IRP. 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, 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.

On May 29, 2013, Columbia of Kentucky filed an application with the Kentucky PSC requesting an increase of approximately $16.6 million in base rate revenues, the use of a forecasted test period and a revenue normalization adjustment to recognize changes in customer usage not included in Columbia of Kentucky's current weather normalization adjustment. A stipulation, signed by all parties and resolving all issues, was filed on November 5, 2013. On December 13, 2013, the Kentucky PSC issued an order approving the stipulation providing for, among other terms, an increase of $7.7 million in revenues using a forecasted test year, a recovery of Columbia of Kentucky’s investment in its pipeline replacement program on a forecasted basis, and continuation of Columbia of Kentucky's CHOICE program for three years. New rates were effective December 29, 2013.

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

On July 3, 2013, the VSCC issued an order approving an amendment to Columbia of Virginia's infrastructure tracking mechanism pursuant to the Steps to Advance Virginia's Energy (“SAVE”) Plan Act. Columbia of Virginia's five year SAVE Plan provides for recovery of costs associated with the accelerated replacement of certain facilities designed to improve system safety or reliability through a rate rider. The amendment increases authorized annual investments by $5.0 million from 2013 through 2016, to $25.0 million per year. In addition, the amendment expands the types of infrastructure eligible for the tracking mechanism and affords Columbia of Virginia additional flexibility with respect to annual and total plan limitations on expenditures.

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

On April 16, 2013, Columbia of Massachusetts submitted a filing with the Massachusetts DPU requesting an annual revenue requirement increase of $30.1 million. An order is expected by February 28, 2014, with new rates going into effect on March 1, 2014. Pursuant to the procedural schedule for this case, on September 3, 2013, Columbia of Massachusetts filed its updated revenue requirement of $29.5 million and on October 16, 2013, filed an updated cost of service for $30 million. Evidentiary hearings and the briefing schedule for the case have concluded. In compliance with the procedural schedule, a final revenue requirements update of $29.9 million was filed on December 16, 2013.

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

On April 13, 2012, Columbia of Massachusetts submitted a filing with the Massachusetts DPU requesting an annual revenue requirement increase of $29.2 million which was subsequently adjusted to $27.4 million. Columbia of Massachusetts filed using a historic test year ended December 31, 2011. Additionally, Columbia of Massachusetts proposed “rate-year, rate base” treatment for recovery of defined capital expenditures beyond the end of the historic test year, as well as expansion of eligible facilities to be recovered through modification to the TIRF. The Massachusetts DPU issued an order on November 1, 2012 approving an annual revenue increase of $7.8 million, effective November 1, 2012, rejecting the rate-year, rate-base proposal, but approving the expansion of eligible facilities to be recovered through the TIRF.

On August 2, 2013, Columbia of Massachusetts filed its 2013-2014 Peak Period LDAF and on September 16, 2013, Columbia of Massachusetts filed its 2013 Pension Expense Factor and its 2013 Residential Assistance Adjustment

Factor, each with a proposed effective date of November 1, 2013. The 2013-2014 Peak Period LDAF of $59.0 million was approved on October 30, 2013, for effect November 1, 2013. The 2013 Pension Expense Factor and 2013 Residential Assistance Adjustment Factor, components of the LDAF, were approved subject to further investigation and reconciliation.

On August 2, 2012, Columbia of Massachusetts filed its 2012-2013 Peak Period LDAF and on September 14, 2012, Columbia of Massachusetts filed its 2012 Pension Expense Factor and 2012 Residential Assistance Adjustment Factor, each with a proposed effective date of November 1, 2012. The 2012-2013 Peak Period LDAF of $33.0 million effective November 1, 2012 was approved on October 31, 2012. The 2012 Pension Expense Factor and 2012 Residential Assistance Adjustment Factor components of the LDAF were approved subject to further investigation and reconciliation.

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

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

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

Columbia Pipeline Group Operations Regulatory Matters

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

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

The Settlement includes a CCRM, a tracker mechanism that will allow Columbia Transmission to recover, through an additive capital demand rate, its revenue requirement for capital investments made under Columbia Transmission's long-term plan to modernize its interstate transmission system. The CCRM provides for a 14% revenue requirement with a portion designated as a recovery of increased taxes other than income taxes. The additive demand rate is earned on costs associated with projects placed into service by October 31 each year. The initial additive demand rate was effective on February 1, 2014. The CCRM will give Columbia Transmission the opportunity to recover its revenue requirement associated with $1.5 billion investment in the modernization program, while maintaining competitive rates for its shippers. The CCRM recovers the revenue requirement associated with qualifying modernization costs that Columbia Transmission incurs after satisfying the requirement associated with $100 million in annual capital maintenance expenditures. The CCRM applies to Columbia Transmission's transportation shippers. The CCRM will not exceed $300 million per year in investment in eligible facilities, subject to a 15% annual tolerance and a total cap of $1.5 billion for the entire five-year initial term. On December 31, 2013, Columbia Transmission made its first annual CCRM filing, with billing rates effective February 1, 2014. Through this filing, Columbia Transmission will begin collecting its revenue

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requirements for the $299.2 million spent on eligible modernization facilities in 2013. For the first CCRM period, these revenue requirements will total approximately $38.9 million. On January 30, 2014, the FERC approved Columbia Transmission's first year CCRM filing.

Chesapeake, Virginia LNG Facility Modernization. In connection with long-term extensions of their expiring service agreements, the three customers of Columbia Transmission's Chesapeake, Virginia LNG peaking facility agreed to fund upgrades to modernize the facility. Under the settlement, Columbia Transmission will invest approximately $30.0 million to upgrade the facility and each customer will extend its contract for 15 years. The settlement was filed with the FERC on February 28, 2013 and approved without modification on June 3, 2013. The project's first phase was completed in the fourth quarter of 2013. The remainder of the project is expected to be completed by mid-2015.
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 $16.0 million, accrued as of December 31, 2011, were disbursed to settling parties in March 2012.

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

Electric Operations Regulatory Matters

Significant Rate Developments. As part of a multi-state effort to strengthen the electric transmission system serving the Midwest, NIPSCO anticipates making investments in two projects that were authorized by the MISO and are scheduled to be in service during the latter part of the decade. On July 19, 2012 and December 19, 2012, the FERC issued orders approving construction work in progress in rate base and abandoned plant cost recovery requested by NIPSCO 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 NIPSCO's request to transition to forward looking rates, allowing more timely recovery of NIPSCO's investment in transmission assets. On August 22, 2012, the IURC issued an order authorizing NIPSCO to retain certain revenues under MISO Schedule 26-A. NIPSCO began recording revenue in the first quarter of 2013 using a forward looking rate, based on an average construction work in progress balance of $19.8 million. For the twelve months ended December 31, 2013 revenue of $2.4 million was recorded.

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On July 19, 2013, NIPSCO filed its electric TDSIC, further discussed above, with the IURC. The filing included the seven-year plan of eligible investments for a total of approximately $1.1 billion with the majority of the spend occurring in years 2016 through 2020. On February 17, 2014, the IURC issued an order approving NIPSCO’s seven year plan of eligible investments. The Order also granted NIPSCO ratemaking relief associated with the eligible investments through a rate adjustment mechanism, described above. NIPSCO anticipates filing its first semi-annual tracker petition in the third quarter of 2014.

On December 18, 2013, the IURC issued an Order approving NIPSCO's proposed electric energy efficiency programs and budgets through December 31, 2014, including authorization to use its energy efficiency recovery mechanism to recover costs and lost margins for 2014.

On November 12, 2013, several industrial customers, including INDIEC, filed a complaint at the FERC regarding the 12.38% base ROE used to set the MISO Transmission Owners' transmission rates and requesting a reduction in the base ROE to 9.15%. The complaint further requests that FERC limit the capital structure of MISO Transmission Owners to no more than 50% common equity for ratemaking purposes and that FERC eliminate incentive adders for membership in a RTO. NIPSCO joined in an answer defending the 12.38% base ROE and motion to dismiss the complaint filed on behalf of a group of MISO Transmission Owners on January 6, 2014. NIPSCO is unable to estimate the impact of this complaint or the timing of any potential impact at this time.

On July 18, 2011, NIPSCO 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% ROE. 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.

During 2002, NIPSCO 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 NIPSCO 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. Credits amounting to $51.0 million were recognized for electric customers for 2011. A final reconciliation of the credits was completed in the fourth quarter of 2012, which resulted in recoveries of $6.6 million in 2012.

Cost Recovery and Trackers. A significant portion of NIPSCO's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, “summary” regulatory proceeding in Indiana.

Certain operating costs of the Electric Operations are significant, recurring in nature, and generally outside the control of NIPSCO. The IURC allows for recovery of such costs via cost tracking mechanisms. Such tracking mechanisms allow for abbreviated regulatory proceedings in order for NIPSCO to implement charges and recover appropriate costs. Tracking mechanisms allow for more timely recovery of such costs as compared with more traditional cost recovery mechanisms. Examples of such mechanisms include electric energy efficiency programs, MISO non-fuel costs and revenues, resource capacity charges, and environmental related costs.

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 May 25, 2011, the IURC issued an Order approving a tracker mechanism to recover the costs associated with these energy efficiency programs. On July 27, 2011, the IURC issued an order approving NIPSCO's portfolio of electric energy efficiency programs and on August 8, 2012, approved recovery of lost margins associated with those programs through semi-annual tracker filings.

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

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On October 30, 2013, the IURC issued an order on ECR-22 approving NIPSCO's request to begin earning a return on $478.8 million of net capital expenditures. On January 31, 2014, NIPSCO filed ECR-23 which included $583.5 million of net capital expenditures for the period ending December 31, 2013.

On October 10, 2013, the IURC issued an order approving NIPSCO's MATS Compliance Projects. Refer to Note 20-D, "Environmental Matters," for additional information on the MATS rule. The Order approved estimated capital costs of $59.3 million and granted the requested ratemaking relief and accounting treatment associated with these projects through the annual EERM and semi-annual ECRM tracker filings.

On March 22, 2011, NIPSCO 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," 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 $800.0 million and granting the requested ratemaking and accounting relief associated with these projects through annual and semi-annual tracker filings.

9. Risk Management Activities

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

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

NiSource uses a variety of derivative instruments (exchange traded futures and options, physical forwards and options, commodity swaps and interest rate swaps) to effectively manage its commodity price risk and interest rate risk exposure. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recognized currently in earnings. For derivative contracts that qualify for the normal purchase and normal sales exception, a contract's fair value is not recognized in the 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 and regulatory accounting treatment. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to AOCI and are recognized in earnings concurrent with the disposition of the hedged risks. If a forecasted transaction corresponding to a cash flow hedge is no longer probable to occur, the accumulated gains or losses on the derivative are recognized currently in earnings. For fair value hedges, the gains and losses are recorded in earnings each period together with the change in the fair value of the hedged item. As a result of the rate-making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered or passed back to customers in revenues through rates. When gains and losses are recognized in earnings, they are recognized in revenues or cost of sales for derivatives that correspond to commodity risk activities and are recognized in interest expense for derivatives that correspond to interest-rate risk activities.

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

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

NIPSCO 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.

NIPSCO 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 NIPSCO 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.

NIPSCO 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. NIPSCO 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, NIPSCO 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, NIPSCO was allocated or has purchased FTRs. These FTRs help NIPSCO 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 NIPSCO was allocated ARRs based on its historical

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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.

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

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

	December 31, 2013	December 31, 2012
Commodity Price Risk Program:		
Gas price volatility program derivatives (MMDth)	17.0	26.3
Price Protection Service program derivatives (MMDth)	0.7	1.2
DependaBill program derivatives (MMDth)	0.2	0.3
Gas marketing program derivatives (MMDth) [1][3]	—	9.1
Gas marketing forward physical derivatives (MMDth) [2][3]	—	8.4
Electric energy program FTR derivatives (mw)	1,248.0	8,927.3

[1] Basis contract volumes not included in the above table were 8.2 MMDth as of December 31, 2012.
[2] Basis contract volumes not included in the above table were 9.2 MMDth as of December 31, 2012.
[3] Contract volumes are from NiSource's unregulated natural gas marketing business that was sold on September 1, 2013.

Interest Rate Risk Activities. NiSource recognizes that the prudent and selective use of derivatives may help it to lower its cost of debt capital and manage its interest rate exposure. NiSource Finance has entered into various “receive fixed” and “pay floating” interest rate swap agreements which modify the interest rate characteristics of a portion of its outstanding long-term debt from fixed to variable rate. These interest rate swaps also serve to hedge the fair market value of NiSource Finance’s outstanding debt portfolio. As of December 31, 2013, NiSource had $7.7 billion of outstanding fixed rate debt, of which $500 million is subject to fluctuations in interest rates as a result of the fixed-to-variable interest rate swap transactions. These interest rate swaps are designated as fair value hedges. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness for the twelve months ended December 31, 2013, 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 which will expire on July 15, 2014. NiSource Finance receives payments based upon a fixed 5.40% interest rate and pays a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps.

Contemporaneously with the issuance on September 16, 2005 of $1 billion of its 5.25% and 5.45% notes, maturing September 15, 2017 and 2020, respectively, NiSource Finance settled $900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of $35.5 million which is being amortized from accumulated other comprehensive loss to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88%, respectively. As of December 31, 2013, accumulated other comprehensive loss includes $8.2 million related to forward starting interest rate swap settlement. These derivative contracts are accounted for as a cash flow hedge.

As of December 31, 2013, NiSource holds a 47.5% interest in Millennium. As NiSource reports Millennium as an equity method investment, NiSource is required to recognize a proportional share of Millennium’s OCI. NiSource’s proportionate share of the remaining unrealized loss associated with a settled interest rate swap is $17.7 million, net of tax, as of December 31, 2013. 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 Statements of Consolidated Income.

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

Asset Derivatives (in millions)	December 31, 2013	December 31, 2012
Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments		
Interest rate risk activities		
Price risk management assets (current)	$21.2	$—
Price risk management assets (noncurrent)	—	40.4
Total derivatives designated as hedging instruments	$21.2	$40.4
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management assets (current)	$1.5	$0.5
Price risk management assets (noncurrent)	0.5	0.3
Assets held for sale (current)[1]	—	107.0
Total derivatives not designated as hedging instruments	$2.0	$107.8
Total Asset Derivatives	$23.2	$148.2

[1] Prior to the classification as "Assets held for sale," $15.3 million was classified as noncurrent.

Liability Derivatives (in millions)	December 31, 2013	December 31, 2012
Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	$—	$0.1
Total derivatives designated as hedging instruments	$—	$0.1
Derivatives not designated as hedging instruments		
Commodity price risk programs		
Price risk management liabilities (current)	$1.4	$8.1
Price risk management liabilities (noncurrent)	0.3	2.6
Liabilities held for sale (current)[2]	—	104.7
Total derivatives not designated as hedging instruments	$1.7	$115.4
Total Liability Derivatives	$1.7	$115.5

[2] Prior to the classification as "Liabilities held for sale," $17.7 million was classified as noncurrent.

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

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The tables below represent the amounts subject to an enforceable master netting arrangement not otherwise disclosed:
Offsetting of Derivative Assets (in millions)
As of December 31, 2013

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Net Amount
Counterparty B	$2.1	$—	$2.1	$(1.7)	$0.4
Other [1]	21.1	—	21.1	—	21.1
Total	$23.2	$—	$23.2	$(1.7)	$21.5

Offsetting of Derivative Liabilities (in millions)
As of December 31, 2013

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Net Amount
Counterparty B	$(1.7)	$—	$(1.7)	$1.7	$—
Total	$(1.7)	$—	$(1.7)	$1.7	$—

Offsetting of Derivative Assets (in millions)
As of December 31, 2012

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Net Amount
Counterparty A [2]	$71.8	$—	$71.8	$(71.8)	$—
Counterparty B	0.9	—	0.9	(0.9)	—
Other [3]	75.5	—	75.5	—	75.5
Total	$148.2	$—	$148.2	$(72.7)	$75.5

Offsetting of Derivative Liabilities (in millions)
As of December 31, 2012

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Net Amount
Counterparty A [2]	$(103.4)	$—	$(103.4)	$71.8	$(31.6)
Counterparty B	(10.8)	—	(10.8)	0.9	(9.9)
Other [3]	(1.3)	—	(1.3)	—	(1.3)
Total	$(115.5)	$—	$(115.5)	$72.7	$(42.8)

[1] Amounts in "Other" include fixed-to-variable interest rate swap agreements entered into by NiSource.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

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

(3) Amounts in "Other" include fixed-to-variable interest rate swap agreements entered into by NiSource as well as physical positions with counterparties that are part of NiSource's unregulated natural gas marketing business which was sold on September 1, 2013, and are included in assets and liabilities held for sale. Refer to Note 4, "Discontinued Operations and Assets and Liabilities Held for Sale" for additional information regarding the transaction.

The effect of derivative instruments on the Statements of Consolidated Income were:
Derivatives in Cash Flow Hedging Relationships
Twelve Months Ended (in millions)

	Amount of Gain Recognized in OCI on Derivative (Effective Portion)		
Derivatives in Cash Flow Hedging Relationships	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Commodity price risk programs	$0.1	$0.7	$—
Interest rate risk activities	—	1.5	1.6
Total	$0.1	$2.2	$1.6

	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		
Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Cost of sales	$0.1	$(0.9)	$1.1
Interest expense, net	(1.6)	(2.6)	(2.6)
Total	$(1.5)	$(3.5)	$(1.5)

There was no income statement recognition of gains or losses for the ineffective portion and amounts excluded from effectiveness testing for derivatives in cash flow hedging relationships for 2013, 2012 and 2011, respectively.
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 gain, net of taxes.
Derivatives in Fair Value Hedging Relationships
Twelve Months Ended (in millions)

	Amount of Loss Recognized in Income on Derivatives		
Derivatives in Fair Value	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011

Hedging Relationships	Location of Loss Recognized in Income on Derivatives			
Interest rate risk activities	Interest expense, net	$(19.2)	$(16.3)	$(4.4)
Total		$(19.2)	$(16.3)	$(4.4)

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

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Twelve 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 Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Interest rate risk activities	Interest expense, net	$19.2	$16.3	$4.4
Total		$19.2	$16.3	$4.4

Derivatives not designated as hedging instruments
Twelve 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 [1] Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Commodity price risk programs	Gas Distribution revenues	$0.1	$0.3	$—
Commodity price risk programs	Cost of Sales	7.3	(20.6)	(33.8)
Commodity price risk programs	(Loss) Income from Discontinued Operations - net of taxes	(0.8)	2.0	29.5
Total		$6.6	$(18.3)	$(4.3)

[1] For the amounts of realized/unrealized gain (loss) recognized in income on derivatives disclosed in the table above, a gain of $7.5 million in 2013 and losses of $20.3 million and $33.9 million for 2012 and 2011, respectively, were deferred per regulatory orders. These amounts will be amortized to income over future periods of up to twelve months per regulatory order.

NiSource has not made any material reclassifications to earnings from AOCI to Cost of Sales due to the probability that certain forecasted transactions would not occur for the twelve months ended December 31, 2013 and 2012.

NiSource’s derivative instruments measured at fair value as of December 31, 2013 and 2012 do not contain any credit-risk-related contingent features.

Certain NiSource affiliates have physical commodity purchase agreements that contain “ratings triggers” that require increases in collateral if the credit rating of NiSource or certain of its affiliates are rated below BBB- by Standard & Poor’s or below Baa3 by Moody’s. These agreements are primarily for the physical purchase or sale of natural gas and electricity. As of December 31, 2013, the collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $0.9 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 $5.9 million and $45.7 million of cash on deposit with brokers for margin requirements associated with open derivative positions reflected within “Restricted cash” on the Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012, respectively.

10. Variable Interest Entities and Equity Method Investments

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

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NiSource consolidates those VIEs for which it is the primary beneficiary. Prior to the adoption of the FASB guidance on consolidation of variable interest entities, the prevalent method for determining the primary beneficiary was through a quantitative method. With the adoption of the guidance, NiSource also considers qualitative elements in determining the primary beneficiary. These qualitative measures include the ability to control an entity and the obligation to absorb losses or the right to receive benefits.

NiSource's analysis under GAAP includes an assessment of guarantees, operating leases, purchase agreements, and other contracts, as well as its investments and joint ventures. For items that have been identified as variable interests, or where there is involvement with an identified variable interest entity, an in-depth review of the relationship between the relevant entities and NiSource is made to evaluate qualitative and quantitative factors to determine the primary beneficiary, if any, and whether additional disclosures would be required under the current standard.

NIPSCO 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 NIPSCO will continue to pay for the services under a combination of fixed and variable charges. NiSource has made an exhaustive effort to obtain information needed from Pure Air to determine the status of Pure Air as a VIE. However, NIPSCO has not been able to obtain this information and as a result, it is unclear whether Pure Air is a VIE and if NIPSCO is the primary beneficiary. NIPSCO will continue to request the information required to determine whether Pure Air is a VIE. NIPSCO has no exposure to loss related to the service agreement with Pure Air and payments under this agreement were $23.6 million and $21.6 million for the years ended December 31, 2013 and 2012, respectively. In accordance with GAAP, the renewed agreement was evaluated to determine whether the arrangement qualifies 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.

B.Equity Method Investments. Certain investments of NiSource are accounted for under the equity method of accounting. Income and losses from Millennium and Hardy Storage are reflected in Equity Earnings in Unconsolidated Affiliates on NiSource's Statements of Consolidated Income. These investments are integral to the Columbia Pipeline Group Operations business. Income and losses from all other equity investments are reflected in Other, net on NiSource's Statements of Consolidated Income. All investments shown as limited partnerships are limited partnership interests.

The following is a list of NiSource's equity method investments at December 31, 2013:

Investee	Type of Investment	% of Voting Power or Interest Held	
The Wellingshire Joint Venture	General Partnership	50.0	%
Hardy Storage Company, L.L.C.	LLC Membership	50.0	%
Pennant Midstream, L.L.C.	LLC Membership	50.0	%
Millennium Pipeline Company, L.L.C.	LLC Membership	47.5	%
House Investments - Midwest Corporate Tax Credit Fund, L.P.	Limited Partnership	12.2	%
Nth Power Technologies Fund II, L.P.	Limited Partnership	4.2	%
Nth Power Technologies Fund II-A, L.P.	Limited Partnership	4.2	%
Nth Power Technologies Fund IV, L.P.	Limited Partnership	1.8	%

As the Millennium and Hardy Storage investments are considered integral to the Columbia Pipeline Group Operations business, the following table contains condensed summary financial data. These investments are accounted for under the equity method of accounting and, therefore, are not consolidated into NiSource’s Consolidated Balance Sheets and Statements of Consolidated Income. These investments are recorded within Unconsolidated affiliates on the Consolidated Balance Sheets and NiSource’s portion of the results is reflected in Equity Earnings in Unconsolidated Affiliates on the Statements of Consolidated Income.

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Given the immaterial nature of the other equity method investments, a condensed summary of financial data was determined not to be necessary.

Year Ended December 31, (in millions)	2013	2012	2011
Millennium			
Statement of Income Data:			
Net Revenues	$157.8	$152.3	$119.3
Operating Income	101.3	97.7	63.7
Net Income	63.0	57.1	20.5
Balance Sheet Data:			
Total Assets	1,072.1	1,047.1	1,045.0
Total Liabilities	658.5	674.1	703.4
Total Members' Equity	413.6	373.0	341.6
Hardy Storage			
Statement of Income Data:			
Net Revenues	$24.4	$24.4	$24.4
Operating Income	16.5	16.4	16.5
Net Income	10.6	10.0	9.7
Balance Sheet Data:			
Total Assets	172.7	173.8	176.1
Total Liabilities	104.0	109.4	114.8
Total Members' Equity	68.7	64.4	61.3

Equity in the retained earnings of Millennium and Hardy Storage at December 31, 2013 was $20.1 million and $9.6 million, respectively. Contributions made to Pennant and Millennium were $125.4 million, $20.4 million, and $6.4 million for 2013, 2012 and 2011, respectively. Millennium distributed $29.0 million and $31.4 million of earnings to Columbia Transmission during 2013 and 2012, respectively. Hardy Storage distributed $3.1 million and $3.5 million of earnings to NiSource during 2013 and 2012, respectively.

11. Income Taxes

The components of income tax expense were as follows:

Year Ended December 31, (in millions)	2013	2012	2011
Income Taxes			
Current			
Federal	$(15.9)	$(85.8)	$(24.7)
State	(9.6)	7.8	(3.5)
Total Current	(25.5)	(78.0)	(28.2)
Deferred			
Federal	265.8	279.9	165.3
State	25.5	16.9	34.4
Total Deferred	291.3	296.8	199.7
Deferred Investment Credits	(3.9)	(4.1)	(4.8)
Income Taxes from Continuing Operations	$261.9	$214.7	$166.7

Total income taxes from continuing operations were different from the amount that would be computed by applying the statutory federal income tax rate to book income before income tax. The major reasons for this difference were as follows:

Year Ended December 31, (in millions)	2013		2012		2011	
Book income from Continuing Operations before income taxes	$752.8		$623.5		$476.3	
Tax expense at statutory federal income tax rate	263.5	35.0 %	218.3	35.0 %	166.7	35.0 %
Increases (reductions) in taxes resulting from:						
State income taxes, net of federal income tax benefit	10.5	1.4	15.9	2.5	20.3	4.3
Regulatory treatment of depreciation differences	0.3	—	(6.1)	(0.9)	(8.2)	(1.8)
Amortization of deferred investment tax credits	(3.9)	(0.5)	(4.1)	(0.7)	(4.8)	(1.1)
Nondeductible expenses	3.2	0.4	1.9	0.3	2.5	0.6
Employee Stock Ownership Plan Dividends	(3.6)	(0.5)	(3.4)	(0.5)	(3.1)	(0.7)
AFUDC-Equity	(6.5)	(0.8)	(3.1)	(0.5)	(0.6)	(0.1)
Tax accrual adjustments and other, net	(1.6)	(0.2)	(4.7)	(0.8)	(6.1)	(1.2)
Income Taxes from Continuing Operations	$261.9	34.8 %	$214.7	34.4 %	$166.7	35.0 %

The effective income tax rates were 34.8%, 34.4% and 35.0% in 2013, 2012 and 2011, respectively. The change in the overall effective tax rate between 2013, 2012, and 2011 was minimal.

On July 24, 2013, Transportation Finance Bill H3535, which was passed by the Massachusetts legislature, repealed the reduced tax rate of 6.5% for public utility corporations contained in Section 52A of Chapter 63 of the Massachusetts General Laws. Effective January 1, 2014, Columbia of Massachusetts will be taxed at 8.0%, which is the current franchise tax rate for corporations that are not public utilities. Deferred income tax expense was adjusted by $1.2 million as a result of this law change.

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

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

On May 12, 2011, the governor of Indiana signed into law House Bill 1004, which among other things, lowered 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 impacted 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, was reduced to reflect the lower rate at which these temporary differences and tax benefits will be realized. In the second quarter 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 NIPSCO’s utility plant. The re-measurement of these temporary differences at 6.5% was recorded as a reduction of a regulatory asset.

In the fourth quarter of 2010, NiSource received permission from the IRS to change its method of accounting for capitalized overhead costs under Section 263A of the Internal Revenue Code. The change was effective for the 2009 tax year. The Company recorded a net long-term receivable of $31.5 million, net of uncertain tax positions, in the fourth quarter of 2010 to reflect this change. There was no material impact on the effective tax rate as a result of this method change. In 2011, the Company revised its calculation related to the change in method and recorded an increase to the net long-term receivable of $3.3 million, net of

uncertain tax positions, to reflect the change in estimate. Excluding minor amounts of interest, the revision in estimate did not impact total income tax expense. In 2012, the IRS completed fieldwork for the audit for the years 2008-2010, and the change in method was accepted substantially as filed. Joint committee review was completed in 2013 without adjustment.
In the third quarter of 2010, NiSource recorded a $15.2 million reduction to income tax expense in connection with the Pennsylvania PUC approval a Columbia of Pennsylvania base rate case settlement on August 18, 2010. The adjustment to income tax expense resulted from the settlement agreement to flow through in current rates the tax benefits related to a tax accounting method change for certain capitalized costs approved by the IRS. As a result of the Pennsylvania PUC Order on October 14, 2011, Columbia of Pennsylvania continued to flow through in rates unamortized tax benefits of approximately $15.6 million through January 2014 related to the unit of property tax method change. As a result of a Pennsylvania PUC Order dated May 23, 2013, Columbia of Pennsylvania adjusted the flow through in rates of tax benefits so that the unamortized balance of approximately $8.2 million at June 30, 2013 would be amortized through December 2016. The amortization of excess tax benefits was $9.5 million in 2013. On a prospective basis, Columbia of Pennsylvania will recognize deferred tax expense rather than flow through in rates the tax benefits resulting from this method change.

Tangible Property Regulations and Repairs
During the third quarter of 2009, NiSource received permission from the IRS to change its tax method of capitalizing certain costs which it applied on a prospective basis to the federal and state income tax returns filed for its 2008 tax year. As a result of the new tax accounting method, NiSource recorded federal and state income tax receivables of $295.7 million. Refunds of $263.5 million were received in October 2009, with additional refunds of $25.3 million received in December 2009 and January and February 2010. The balance of the refunds was received during 2010.

On August 19, 2011, the IRS issued Revenue Procedure 2011-43, which provided a safe harbor method that taxpayers may use to determine whether certain expenditures related to electric transmission and distribution assets must be capitalized. This revenue procedure provided procedures for obtaining automatic consent from the IRS to adopt the safe harbor method for the first or second taxable year beginning after December 30, 2010. NiSource changed its method of tax accounting related to certain expenditures, including those related to electric transmission and distribution assets, in 2008. At December 31, 2011 and 2010, NiSource had $80.9 million and $107.4 million, respectively, of unrecognized tax benefits related to this method change pending resolution on audit or further guidance from the IRS or United States Treasury Department. As a result of the issuance of the revenue procedure NiSource revised its estimates and recorded tax benefits of $12.9 million in the third quarter of 2011. Excluding minor amounts of interest, the revision of estimate did not impact total income tax expense. On its 2011 federal income tax return filed in September 2012, NiSource included an automatic change in tax accounting method related to electric transmission and distribution repairs in conformity with Revenue Procedure 2011-43.

On December 27, 2011, the United States Treasury Department and the IRS issued temporary and proposed regulations effective for years beginning on or after January 1, 2012 that, among other things, provided guidance on whether expenditures qualified as deductible repairs (the “Tangible Property Regulations”). In addition to repairs related rules, the proposed and temporary regulations provided additional guidance related to capitalization of tangible property. Among other things, these rules provide guidance for the treatment of materials and supplies, dispositions of property, and related elections. On March 15, 2012, the IRS issued a directive to discontinue exam activity related to positions on this issue taken on original tax returns for years beginning before January 1, 2012 (commonly referred to as the “Stand-down Position”).

On October 2, 2012 and later incorporated by reference in the Revenue Agent's Report dated November 14, 2012 for the 2008 to 2010 tax years, NiSource received an audit adjustment that adopted the Stand-down Position. The effect of this adjustment is to allow the repairs claims as filed and to defer review until a new method is adopted in 2012 or a subsequent acceptable year.

On November 20, 2012, the Treasury Department and IRS issued Notice 2012-73, which in relevant part stated that (i) final regulations would be issued in 2013, and (ii) the final regulations will contain changes from the temporary regulations. The Notice in essence defers the requirement of adopting the temporary regulations until 2013 and the final regulations until 2014.

On September 13, 2013, the IRS and U.S. Treasury issued final regulations on the deductibility and capitalization of expenditures related to tangible property, generally effective for tax years beginning on or after January 1, 2014. Taxpayers may elect early adoption of the regulations for the 2012 or 2013 tax year. NiSource does not plan to early adopt the regulations. The final regulations do not impact the effect of Revenue Procedure 2013-24 issued on April 30, 2013 which provided guidance for repairs related to generation property. Among other things, the Revenue Procedure listed units of property and material components of

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units of property for purposes of analyzing repair versus capitalization issues. NiSource will likely adopt this Revenue Procedure for income tax filings in 2014. NiSource has evaluated the impact of the final regulations and Revenue Procedure and has determined that they do not materially affect the financial statements.

Deferred income taxes result from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The principal components of NiSource's net deferred tax liability were as follows:

At December 31, (in millions)	2013	2012
Deferred tax liabilities		
Accelerated depreciation and other property differences	$3,811.5	$3,306.6
Unrecovered gas and fuel costs	9.4	23.2
Other regulatory assets	659.2	840.0
Premiums and discounts associated with long-term debt	11.4	12.1
Total Deferred Tax Liabilities	4,491.5	4,181.9
Deferred tax assets		
Deferred investment tax credits and other regulatory liabilities	(205.4)	(191.5)
Cost of removal	(531.6)	(523.4)
Pension and other postretirement/postemployment benefits	(167.8)	(353.6)
Environmental liabilities	(51.3)	(49.0)
Net operating loss carryforward and AMT credit carryforward	(343.4)	(218.9)
Other accrued liabilities	(29.1)	(55.4)
Other, net	(60.4)	(55.9)
Total Deferred Tax Assets	(1,389.0)	(1,447.7)
Net Deferred Tax Liabilities	3,102.5	2,734.2
Less: Deferred income taxes related to current assets and liabilities [1]	(175.3)	(219.1)
Non-Current Deferred Tax Liability	$3,277.8	$2,953.3

[1] Current deferred taxes is located in Prepayments and other on the Consolidated Balance Sheets.

State income tax net operating loss benefits were recorded at their realizable value. NiSource anticipates it is more likely than not that it will realize $39.8 million and $39.4 million of these benefits as of December 31, 2013 and December 31, 2012, respectively, prior to their expiration. The remaining net operating loss carry forward represents a Federal carry forward of $298.9 million that will expire in 2033 and an Alternative Minimum Tax credit of $4.7 million that will carry forward indefinitely. The state amounts are primarily for Indiana, Pennsylvania, and West Virginia. The loss carryforward periods expire in various tax years from 2025 through 2033.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Reconciliation of Unrecognized Tax Benefits (in millions)	2013	2012	2011
Unrecognized Tax Benefits - Opening Balance	$28.5	$105.3	$129.2
Gross increases - tax positions in prior period	1.6	0.2	5.7
Gross decreases - tax positions in prior period	(21.4)	(85.4)	(29.6)
Gross increases - current period tax positions	15.1	8.4	—
Unrecognized Tax Benefits - Ending Balance	$23.8	$28.5	$105.3

Offset for outstanding IRS refunds	—	(16.0)	(87.9)
Offset for net operating loss carryforwards	(23.0)	(10.2)	(13.3)
Balance - Net of Refunds and NOL Carryforwards	$0.8	$2.3	$4.1

Based upon its intent to comply with Internal Revenue Procedures, Tangible Property Regulations and the Stand-down Position audit adjustment, NiSource determined that the unrecognized tax benefit associated with the requested change in tax accounting method filed for 2008 related to electric generation and gas transmission and distribution required a re-measurement under the provisions of ASC 740. Therefore, in the fourth quarter of 2012 NiSource recognized an income tax receivable of $85.7 million related to the 2008 and 2009 tax years and increases in net operating loss carryforwards of $6.8 million for the tax years 2010-2012, previously unrecognized. Except for interest recorded on the tax receivables, the recognition of the receivables and net operating loss carryforwards did not materially affect tax expense or net income. The IRS issued Revenue Procedure 2013-24 on April 30, 2013, which provided guidance for repairs related to generation property. Among other things, the Revenue Procedure listed units of property and material components of units of property for purposes of analyzing repair versus capitalization issues. NiSource will likely adopt this Revenue Procedure for income tax filings in 2014. NiSource has evaluated and recorded the effect of the change in method enabled by this Revenue Procedure as of December 31, 2013.

In 2010, NiSource received permission to change its method of accounting for capitalizing overhead costs. The Company recorded an unrecognized tax benefit related to this uncertain tax position of $17.6 million in 2010. In 2011, this estimate was revised to $19.9 million. In 2012, the IRS completed fieldwork for the audit for the years 2008-2010, pending Joint Committee review. The Company revised the unrecognized tax benefit related to this issue to incorporate 2012 activity. At December 31, 2012, the unrecognized tax benefits were $21.1 million. This issue was resolved in 2013.

Offsetting the liability for unrecognized tax benefits are $23.0 million of related outstanding tax receivables and net operating loss carryforwards resulting in a net balance of $0.7 million, including interest, related to the tax method change issues.

Except as discussed above, there have been no other material changes in 2013 to NiSource's uncertain tax positions recorded as of December 31, 2012.

The total amount of unrecognized tax benefits at December 31, 2013, 2012 and 2011 that, if recognized, would affect the effective tax rate is $4.0 million, $2.2 million and $2.4 million, respectively. As of December 31, 2013, NiSource did not anticipate any significant changes to its liabilities for unrecognized tax benefits over the twelve months ended December 31, 2014. As of December 31, 2012, it was reasonably possible that a $20.5 million decrease in unrecorded tax benefits could occur in 2013 due primarily to Joint Committee Taxation review of the 2008-2010 federal audit. The results of the review are described above.

NiSource recognizes accrued interest on unrecognized tax benefits, accrued interest on other income tax liabilities, and tax penalties in income tax expense. With respect to its unrecognized tax benefits, NiSource recorded $(0.8) million, $0.2 million and $(0.1) million in interest expense in the Statements of Consolidated Income for the years ended December 31, 2013, 2012 and 2011, respectively. For the years ended December 31, 2013, 2012 and 2011, NiSource reported $0.1 million, $0.9 million and $0.7 million, respectively, of accrued interest payable on unrecognized tax benefits on its Consolidated Balance Sheets. There were no accruals for penalties recorded in the Statement of Consolidated Income for the years ended December 31, 2013, 2012 and 2011 and there were no balances for accrued penalties recorded on the Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012.

NiSource is subject to income taxation in the United States and various state jurisdictions, primarily Indiana, West Virginia, Virginia, Pennsylvania, Kentucky, Massachusetts, Louisiana, Mississippi, Maryland, Tennessee, New Jersey and New York.

Because NiSource is part of the IRS's Large and Mid-Size Business program, each year's federal income tax return is typically audited by the IRS. As of December 31, 2013, tax years through 2010 have been audited and are effectively closed to further assessment, except for immaterial carryforward amounts. The audit of tax years 2011 and 2012 began in the first quarter of 2013. NiSource is also involved in the Compliance Assurance Program.

The statute of limitations in each of the state jurisdictions in which NiSource operates remain open until the years are settled for federal income tax purposes, at which time amended state income tax returns reflecting all federal income tax adjustments are filed. As of December 31, 2013, there were no state income tax audits in progress that would have a material impact on the consolidated financial statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

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

NiSource Pension and Other Postretirement Benefit Plans' Asset Management. NiSource employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and asset class volatility. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, small and large capitalizations. Other assets such as private equity funds are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying assets. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

NiSource utilizes a building block approach with proper consideration of diversification and rebalancing in determining the long-term rate of return for plan assets. Historical markets are studied and long-term historical relationships between equities and fixed income are analyzed to ensure that they are consistent with the widely accepted capital market principle that assets with higher volatility generate greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

The most important component of an investment strategy is the portfolio asset mix, or the allocation between the various classes of securities available to the pension and other postretirement benefit plans for investment purposes. The asset mix and acceptable minimum and maximum ranges established for the NiSource plan assets represents a long-term view and are listed in the following table.

In 2012, a dynamic asset allocation policy for the pension fund was approved. This policy calls for a gradual reduction in the allocation to return-seeking assets (equities, real estate, private equity and hedge funds) and a corresponding increase in the allocation to liability-hedging assets (fixed income) as the funded status of the plans increase above 90% (as measured by the projected benefit obligations of the qualified pension plans divided by the market value of qualified pension plan assets). The asset mix and acceptable minimum and maximum ranges established by the policy for the pension fund at the pension plans funded status on December 31, 2013 are as follows:

Asset Mix Policy of Funds:

	Defined Benefit Pension Plan		Postretirement Benefit Plan	
Asset Category	Minimum	Maximum	Minimum	Maximum
Domestic Equities	25%	45%	35%	55%
International Equities	15%	25%	15%	25%
Fixed Income	23%	37%	20%	50%

Real Estate/Private Equity/Hedge Funds	0%	15%	0%	0%
Short-Term Investments	0%	10%	0%	10%

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

Pension Plan and Postretirement Plan Asset Mix at December 31, 2013 and December 31, 2012:

(in millions)	Defined Benefit Pension Assets	December 31, 2013		Postretirement Benefit Plan Assets	December 31, 2013	
Asset Class	Asset Value	% of Total Assets		Asset Value	% of Total Assets	
Domestic Equities	$914.9	40.4	%	$218.0	48.0	%
International Equities	472.5	20.8	%	86.4	19.0	%
Fixed Income	638.1	28.1	%	131.8	29.0	%
Real Estate/Private Equity/Hedge Funds	125.9	5.6	%	—	—	
Cash/Other	115.9	5.1	%	18.0	4.0	%
Total	$2,267.3	100.0	%	$454.2	100.0	%

(in millions)	Defined Benefit Pension Assets	December 31, 2012		Postretirement Benefit Plan Assets	December 31, 2012	
Asset Class	Asset Value	% of Total Assets		Asset Value	% of Total Assets	
Domestic Equities	$809.0	37.4	%	$171.0	45.3	%
International Equities	453.3	21.0	%	72.9	19.3	%
Fixed Income	662.6	30.7	%	132.2	35.0	%
Real Estate/Private Equity/Hedge Funds	222.4	10.3	%	—	—	
Cash/Other	13.7	0.6	%	1.5	0.4	%
Total	$2,161.0	100.0	%	$377.6	100.0	%

The categorization of investments into the asset classes in the table above are based on definitions established by the NiSource Benefits Committee.

Fair Value Measurements. The following table sets forth, by level within the fair value hierarchy, the Master Trust and OPEB investment assets at fair value as of December 31, 2013 and 2012. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Total Master Trust and OPEB investment assets at fair value classified within Level 3 were $124.7 million and $326.7 million as of December 31, 2013 and December 31, 2012, respectively. Such amounts were approximately 5% and 13% of the Master Trust and OPEB's total investments as reported on the statement of net assets available for benefits at fair value as of December 31, 2013 and 2012, respectively.

Valuation Techniques Used to Determine Fair Value:

Level 1 Measurements

Most common and preferred stock are traded in active markets on national and international securities exchanges and are valued at closing prices on the last business day of each period presented. Cash is stated at cost which approximates their fair value, with the exception of cash held in foreign currencies which fluctuates with changes in the exchange rates. Government bonds, short-term bills and notes are priced based on quoted market values.

Level 2 Measurements

Most U.S. Government Agency obligations, mortgage/asset-backed securities, and corporate fixed income securities are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. To the extent that quoted prices are not available, fair value is determined based on a valuation model that includes inputs such as interest rate yield curves and credit spreads. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Other fixed income includes futures and options which are priced on bid valuation or settlement pricing.

Commingled funds that hold underlying investments that have prices which are derived from the quoted prices in active markets are classified as Level 2. The funds' underlying assets are principally marketable equity and fixed income securities. Units held in commingled funds are valued at the unit value as reported by the investment managers. The fair value of the investments in commingled funds has been estimated using the net asset value per share of the investments.

Level 3 Measurements

Commingled funds that hold underlying investments that have prices which are not derived from the quoted prices in active markets are classified as Level 3. The respective fair values of these investments are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Units held in commingled funds are valued at the unit value as reported by the investment managers. These investments are often valued by investment managers on a periodic basis using pricing models that use market, income, and cost valuation methods.

The hedge funds of funds invest in several strategies including fundamental long/short, relative value, and event driven. Hedge fund of fund investments may be redeemed annually, usually with 100 days' notice. Private equity investment strategies include buy-out, venture capital, growth equity, distressed debt, and mezzanine debt. Private equity investments are held through limited partnerships.

Limited partnerships are valued at estimated fair market value based on their proportionate share of the partnership's fair value as recorded in the partnerships' audited financial statements. Partnership interests represent ownership interests in private equity funds and real estate funds. Real estate partnerships invest in natural resources, commercial real estate and distressed real estate. The fair value of these investments is determined by reference to the funds' underlying assets, which are principally securities, private businesses, and real estate properties. The value of interests held in limited partnerships, other than securities, is determined by the general partner, based upon third-party appraisals of the underlying assets, which include inputs such as cost, operating results, discounted cash flows and market based comparable data. Private equity and real estate limited partnerships typically call capital over a 3 to 5 year period and pay out distributions as the underlying investments are liquidated. The typical expected life of these limited partnerships is 10-15 years and these investments typically cannot be redeemed prior to liquidation.

For the year ended December 31, 2013, there were no significant changes to valuation techniques to determine the fair value of NiSource's pension and other postretirement benefits' assets.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements

Fair Value Measurements at December 31, 2013:

(in millions)	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension plan assets:				
Cash	$9.2	$ 9.2	$—	$—
Equity securities				
U.S. equities	329.7	329.7	—	—
International equities	155.4	154.1	1.3	—
Fixed income securities				
Government	125.2	84.3	40.9	—
Corporate	166.6	—	166.6	—
Mortgages/Asset backed securities	61.5	—	61.4	0.1
Other fixed income	0.3	—	0.3	—
Commingled funds				
Short-term money markets	81.2	—	81.2	—
U.S. equities	574.9	—	574.9	—
International equities	313.9			