

NISOURCE INC/DE
Form 10-K
February 28, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

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 35-2108964

(State or other jurisdiction of incorporation or organization) (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 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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 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 Part III of this Form 10-K or any amendment to this Form 10-K.

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

The aggregate market value of Common Stock (based upon the June 30, 2010, closing price of \$14.50 on the New York Stock Exchange) held by non-affiliates was approximately \$4,016,977,544.

There were 279,294,915 shares of Common Stock, \$0.01 Par Value outstanding as of January 31, 2011.

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 10, 2011.

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DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission L.L.C.
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company Inc.
Northern Utilities	Northern Utilities, Inc.
NSR	New Source Review
PEI	PEI Holdings, Inc.
Whiting Clean Energy	Whiting Clean Energy, Inc.

Abbreviations

2010 Health Care Act	The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 signed into law by the President on March 23, 2010 and March 30, 2010, respectively
ACES	American Clean Energy and Security Act of 2009
AFUDC	Allowance for funds used during construction
AICPA	American Institute of Certified Public Accountants
Ameren	Ameren Services Company
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent
AOCI	Accumulated other comprehensive income
ARRs	Auction Revenue Rights

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ASC	Accounting Standards Codification
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BPAE	BP Alternative Energy North America Inc
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule

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DEFINED TERMS

CAMR	Clean Air Mercury Rule
CARE	Conservation and Ratemaking Efficiency
CCGT	Combined Cycle Gas Turbine
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
Chesapeake	Chesapeake Appalachia, L.L.C.
CO2	Carbon Dioxide
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
DOT	United States Department of Transportation
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services
IDEM	Indiana Department of Environmental Management
IFRS	International Financial Reporting Standards
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
Mcf	Million cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell Station	Dean H. Mitchell Coal Fired Generating Station

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MMDth	Million dekatherms
mw	Megawatts
mwh	Megawatts hours
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO ₂	Nitrogen dioxide
NO _x	Nitrogen oxides
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits

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DEFINED TERMS

OUCC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PJM	PJM Interconnection is a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.
PM	particulate matter
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RBS	Royal Bank of Scotland LC
RCRA	Resource Conservation and Recovery Act
RSG	Revenue Sufficiency Guarantee
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO2	Sulfur dioxide
Sugar Creek	Sugar Creek electric generating plant
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission

ITEM 1. BUSINESS

NiSource Inc.

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

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

NiSource's business segments are: Gas Distribution Operations; Gas Transmission and Storage Operations; and Electric Operations. Following is a summary of the business for each reporting segment. Refer to Item 7,

Management's Discussion and Analysis of Financial Condition and Results of Operations, for additional information for each segment.

Gas Distribution Operations

NiSource's natural gas distribution operations serve more than 3.3 million customers in seven states and operate approximately 59 thousand miles of pipeline. Through its wholly-owned subsidiary, Columbia, NiSource owns five distribution subsidiaries that provide natural gas to approximately 2.2 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, and Maryland. NiSource also distributes natural gas to approximately 795 thousand customers in northern Indiana through three subsidiaries: Northern Indiana, Kokomo Gas and Northern Indiana Fuel and Light. Additionally, NiSource's subsidiary, Columbia Gas of Massachusetts, distributes natural gas to approximately 296 thousand customers in Massachusetts.

Gas Transmission and Storage Operations

NiSource's Gas Transmission and Storage Operations subsidiaries own and operate nearly 15,000 miles of jurisdictional and non-jurisdictional pipelines and operate one of the nation's largest underground natural gas storage systems capable of storing approximately 639 Bcf of natural gas. Through its subsidiaries, Columbia Transmission, Columbia Gulf and Crossroads Pipeline, NiSource owns and operates an interstate pipeline network extending from the Gulf of Mexico to New York and the eastern seaboard. Together, these companies serve customers in 16 northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia.

NiSource's Gas Transmission and Storage Operations continue to capture growth opportunities leveraging NiSource's strategically positioned pipeline and storage assets. A number of Gas Transmission and Storage Operations' new growth projects are designed to support increasing Marcellus Shale production, while the Company also has continued to grow and adapt its system to provide critical transportation and storage services to markets across its high-demand service territory.

The Gas Transmission and Storage Operations subsidiaries are also involved in two joint ventures, Millennium and Hardy Storage, which effectively expand their facilities and throughput. Millennium pipeline, which includes 247 miles of 30-inch-diameter pipe across New York's Southern Tier and lower Hudson Valley, has the capability to transport up to 525,400 Dth per day of natural gas to markets along its route, as well as to the New York City markets through its pipeline interconnections. Millennium is jointly owned by affiliates of NiSource, DTE Energy and National Grid. Hardy Storage, which consists of underground natural gas storage 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 a joint venture of subsidiaries of Columbia Transmission and Piedmont.

Electric Operations

NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 458 thousand customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. Northern Indiana operates three coal-fired electric generating stations. The three operating facilities have

a net capability of 2,574 mw. Northern Indiana also owns and operates Sugar Creek, a CCGT plant with a 535

ITEM 1. BUSINESS

NiSource Inc.

mw capacity rating, four gas-fired generating units located at Northern Indiana's coal-fired electric generating stations with a net capability of 203 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,322 mw. Sugar Creek was purchased in May 2008 and dispatched into MISO on December 1, 2008. Northern Indiana's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,795 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities.

During the year ended December 31, 2010, Northern Indiana generated 86.7% and purchased 13.3% of its electric requirements. Northern Indiana's Mitchell Station, indefinitely shut down in 2002, is not included in the net capacity of the three coal-fired generation stations. In the order received on May 25, 2010 related to the 2008 rate case, the IURC approved a rate base that excludes the Mitchell Station. All utility plant assets of the Mitchell Station in service were retired and CWIP, materials and supplies, and base coal totaling \$4.3 million were expensed during the third quarter of 2010 as there were no future economic benefits associated with these assets.

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

Corporate and Other Operations

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

Divestiture of Non-Core Assets

In recent years, NiSource sold certain businesses judged to be non-core to NiSource's strategy. NiSource sold Whiting Clean Energy to BPAE in April 2008 for \$216.7 million which included \$16.1 million in working capital. In December 2008, NiSource sold Northern Utilities and Granite State Gas for \$209.1 million which included \$49.1 million in working capital. Columbia Gulf sold a portion of Columbia Gulf's offshore assets to Tennessee Gas Pipeline in June 2008. Lake Erie Land, a wholly-owned subsidiary of NiSource, sold its Sand Creek Golf Club assets in June 2006, to a private real estate developer. Lake Erie Land is pursuing the sale of certain other real estate assets it owns. NiSource Corporate Services is continuing to work with potential buyers to sell its Marble Cliff facility. In the fourth quarter of 2010, NiSource Corporate Services executed a purchase and sale agreement of the Marble Cliff facility with the closing date planned in the first quarter 2011. NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments.

Business Strategy

NiSource focuses its business strategy on its core, rate-regulated asset-based businesses with virtually 100% of its operating income generated from the rate-regulated businesses. With the nation's fourth largest natural gas pipeline, the largest natural gas distribution network 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

ITEM 1. BUSINESS

NiSource Inc.

purchase gas directly from producers and marketers as an open, competitive market for gas supplies has emerged. This separation or unbundling of the transportation and other services offered by pipelines and LDCs allows customers to purchase the commodity independent of services provided by the pipelines and LDCs. The LDCs continue to purchase gas and recover the associated costs from their customers. NiSource's Gas Distribution Operations subsidiaries are involved in programs that provide customers the opportunity to purchase their natural gas requirements from third parties and use the NiSource Gas Distribution Operations subsidiaries for transportation services.

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

Financing Subsidiary

NiSource Finance is a wholly-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 February 2000 under the laws of the state of Indiana. NiSource Finance's 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, 2010, NiSource had 7,604 employees of whom 3,278 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>.

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 \$7,352.8 million outstanding as of December 31, 2010. The substantial indebtedness could have important consequences to investors. For example, it could:

limit the ability to borrow additional funds or increase the cost of borrowing additional funds;

reduce the availability of cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;

limit the flexibility in planning for, or reacting to, changes in the business and the industries in which the company operates;

lead parties with whom NiSource does business to require additional credit support, such as letters of credit, in order for NiSource to transact such business;

place NiSource at a competitive disadvantage compared to competitors that are less leveraged;

increase vulnerability to general adverse economic and industry conditions; and

limit the ability of the company to execute on its growth strategy, which is dependent upon access to capital to fund its substantial investment program.

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

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

On December 14, 2010, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 19, 2010, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 24, 2011, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain ratings triggers that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. The additional collateral that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately \$18.1 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. In addition, under Northern Indiana's trade receivables sales program, an event of termination occurs if Northern Indiana's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB or Ba2 at either Standard & Poor's or Moody's, respectively. Likewise, under Columbia of Ohio's and Columbia of Pennsylvania's trade receivables sales programs, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

Additionally, as a result of NiSource's participation in certain derivative activities, a credit downgrade could cause NiSource to be required to post substantial collateral in support of past and current transactions. These collateral requirements, combined with other potential negative effects on NiSource's liquidity in the event of a credit downgrade below an investment grade rating, could have a material adverse effect on earnings potential and cash

ITEM 1A. RISK FACTORS

NiSource Inc.

flows. Lastly, a credit downgrade could adversely affect the availability and cost of capital needed to fund the growth investments which are a central element of the company's long-term business strategy.

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

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

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. The slow rate of the current economic recovery and tightened credit markets, coupled with NiSource's credit ratings, could impact NiSource's ability to raise additional capital or refinance debt at a reasonable cost. 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 benefit plans may increase due to changes in governmental regulations and participant demographics, including increased numbers of retirements or changes in life expectancy assumptions. Ultimately, significant funding requirements and increased pension expense could negatively impact NiSource's results of operations and financial position.

The majority of NiSource's net revenues is subject to economic regulation and is exposed to the impact of regulatory rate reviews and proceedings.

Virtually all of NiSource's net revenues are subject to economic regulation at either the federal or state level. As such, the net revenues generated by those regulated companies are subject to regulatory review by the applicable federal or state authority. These rate reviews determine the energy rates charged to customers and directly impact revenues. NiSource's financial results are dependent on more frequent regulatory proceedings in order to ensure timely recovery of costs. For example, the outcome of the currently pending 2010 electric rate case could have a material effect on NiSource's financial results. Additionally, the costs of complying with future changes in environmental laws and regulations are expected to be significant, and their recovery through rates will be contingent on regulatory approval. As a result of efforts to introduce market-based competition in certain of the markets where the regulated businesses conduct operations, NiSource may compete with independent marketers for customers. This competition exposes NiSource to the risk that certain stranded costs may not be recoverable and may affect results of NiSource's growth strategy and cash flows.

NiSource's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws and the recognition of environmental liabilities could impact cash flow and profitability.

NiSource's subsidiaries are subject to extensive federal, state and local environmental requirements that, among other things, regulate air emissions, water usage and discharges, remediation and the management of chemicals, hazardous waste, solid waste, and coal combustion residuals. Compliance with these legal obligations requires NiSource to make expenditures for installation of pollution control equipment, remediation, environmental monitoring, emissions fees and permits at many of NiSource's facilities. These expenditures are significant, and NiSource expects that they will continue to be significant in the future. Furthermore, if NiSource's subsidiaries fail to comply with environmental laws and regulations or cause harm to the environment or persons, even if caused by factors beyond NiSource's control, that failure or harm may result in the assessment of civil or criminal penalties and damages against NiSource and its subsidiaries.

ITEM 1A. RISK FACTORS

NiSource Inc.

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 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 they are focused on reducing GHG emissions, through legislation and/or regulation. Imposing statutory or regulatory restrictions and/or costs on GHG emissions could increase NiSource's cost of producing energy, which could impact customer demand or NiSource's profitability. Compliance costs associated with these requirements could also affect NiSource's cash flow. The cost impact of any new or amended GHG legislation or regulations would depend upon the specific requirements enacted and cannot be determined at this time.

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

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

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

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

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

ITEM 1A. RISK FACTORS

NiSource Inc.

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.

NiSource has significant goodwill and definite-lived intangible assets. An impairment of goodwill or definite-lived intangible assets could result in a significant charge to earnings.

In accordance with GAAP, NiSource tests goodwill for impairment at least annually and reviews its definite-lived intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill would also be tested for impairment when factors, examples of which include, reduced cash flow estimates, a sustained decline in stock price or market capitalization below book value, indicate that the carrying value may not be recoverable. NiSource would be required to record a charge in the financial statements during the period in which any impairment of the goodwill or definite-lived intangible assets is determined, negatively impacting the results of operations. A significant charge could impact the capitalization ratio covenant under the five-year revolving credit facility. This covenant requires NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in the 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%.

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.

ITEM 1A. RISK FACTORS

NiSource Inc.

Changes in accounting principles may adversely affect NiSource's financial results.

Future changes in accounting rules, such as IFRS, and associated changes in regulatory accounting may negatively impact the way NiSource records revenues, expenses, assets and liabilities. These changes in accounting standards may adversely affect its financial results.

Transporting and storing natural gas involves numerous risks that may result in accidents and other operating risks and costs.

Our gas distribution and storage activities involve a variety of inherent hazards and operating risks, such as leaks, accidents, including third party damages, and mechanical problems, which could cause substantial financial losses. In addition, these risks could result in serious injury to employees and non-employees, loss of human life, significant damage to property, environmental pollution and impairment of our operations, which in turn could lead to substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The location of pipelines and storage facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect our 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 higher level of maintenance costs and may be susceptible to 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 expenses, which may not be fully recoverable from customers.

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.

Growing NiSource's business by constructing new pipelines and other facilities subjects NiSource to construction risks and natural gas supply risks.

NiSource Gas Transmission & Storage Operations continues to complete and advance customer-driven growth projects across its system, primarily surrounding the Marcellus Shale production area in the states of Pennsylvania and West Virginia. These growth projects may include constructing or purchasing pipelines and treatment and processing facilities, which subjects NiSource to construction risks and risks that gas supplies will not be available. If NiSource undertakes these projects, it may not be able to complete them on schedule or at the anticipated costs. NiSource may construct or purchase these projects to capture anticipated future growth in production in the region, which may not materialize, and the construction may occur over an extended period of time, and NiSource will not receive material increases in revenue and cash flows until after the completion of the project. 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.

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.

ITEM 1A. RISK FACTORS

NiSource Inc.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

NiSource Inc.

Discussed below are the principal properties held by NiSource and its subsidiaries as of December 31, 2010.

Gas Distribution Operations. NiSource's Gas Distribution Operations subsidiaries own and operate a total of 58,608 miles of pipelines and certain related facilities. This includes: (i) for the six distribution companies of its Columbia system, 41,144 miles of pipelines, 1,350 reservoir acres of underground storage, eight storage wells, liquid propane facilities with a capacity of 3.3 million gallons, an LNG facility with a total capacity of 22.3 million gallons and one compressor station with 800 hp of installed capacity, (ii) for its Northern Indiana system, 15,443 miles of pipelines, 27,129 reservoir acres of underground storage, 82 storage wells, two compressor stations with a total of 4,000 hp of installed capacity and an LNG facility with a storage capacity of 48.6 million gallons, (iii) for its Northern Indiana Fuel and Light system, 970 miles of pipelines, and (iv) for its Kokomo Gas system, 1,051 miles of pipelines and an LNG facility with a capacity of 4.9 million gallons. The physical properties of the NiSource gas utilities are located throughout Ohio, Indiana, Pennsylvania, Virginia, Kentucky, Maryland, and Massachusetts.

Gas Transmission and Storage Operations. NiSource Gas Transmission and Storage subsidiaries own and operate 14,772 miles of jurisdictional interstate natural gas transmission pipeline. Columbia Transmission owns and leases approximately 775 thousand acres of underground storage, 3,518 storage wells, 11,193 miles of interstate pipeline and 91 compressor stations with 624,179 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 3,377 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 202 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 Gas Transmission and Storage Operations' offices are headquartered in Houston, Texas.

Electric Operations. NiSource generates, transmits and distributes electricity through its subsidiary Northern Indiana to approximately 458 thousand customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. Northern Indiana operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,574 mw. Northern Indiana also owns and operates Sugar Creek, a CCGT plant with a 535 mw capacity rating, four gas-fired generating units located at Northern Indiana's coal-fired electric generating stations with a net capability of 203 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,322 mw. Sugar Creek was purchased in May 2008 and dispatched into MISO on December 1, 2008. Northern Indiana's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,795 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities.

During the year ended December 31, 2010, Northern Indiana generated 86.7% and purchased 13.3% of its electric requirements. Northern Indiana's Mitchell Station, indefinitely shut down in 2002, is not included in the net capacity of the three coal-fired generation stations. In the order received on May 25, 2010 related to the 2008 rate case, the IURC approved a rate base that excludes the Mitchell Station. All utility plant assets of the Mitchell Station in service were retired and construction work-in-process (CWIP), materials and supplies, and base coal totaling \$4.3 million were expensed during the third quarter of 2010 as there were no future economic benefits associated with these assets.

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 held in fee and are 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 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 in fee 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

ITEM 2. PROPERTIES

NiSource Inc.

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.

ITEM 3. LEGAL PROCEEDINGS**NiSource Inc.****1. Tawney, et al. v. Columbia Natural Resources, Inc., Roane County, WV Circuit Court**

The Plaintiffs, who are West Virginia landowners, filed a lawsuit in early 2003 in the West Virginia Circuit Court for Roane County, West Virginia (the Trial Court) against CNR alleging that CNR underpaid royalties on gas produced on their land by improperly deducting post-production costs and not paying a fair value for the gas. Plaintiffs also claimed that Defendants fraudulently concealed the deduction of post-production charges. In December 2004, the Trial Court granted Plaintiffs' motion to add NiSource and Columbia as Defendants. The Trial Court later certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from CNR (and its predecessors or successors) on lands lying within the boundary of the state of West Virginia. Although NiSource sold CNR in 2003, NiSource remained obligated to manage this litigation and was responsible for the majority of any damages awarded to Plaintiffs. On January 27, 2007, the jury hearing the case returned a verdict against all Defendants in the amount of \$404.3 million inclusive of both compensatory and punitive damages; Defendants subsequently filed their Petition for Appeal, which was later amended, with the West Virginia Supreme Court of Appeals (the Appeals Court), which refused the petition on May 22, 2008. On August 22, 2008, Defendants filed Petitions to the United States Supreme Court for writ of certiorari. Given the Appeals Court's earlier refusal of the appeal, NiSource adjusted its reserve in the second quarter of 2008 to reflect the portion of the Trial Court judgment for which NiSource would be responsible, inclusive of interest. This amount was included in Legal and environmental reserves, on the Consolidated Balance Sheet as of December 31, 2008. On October 24, 2008, the Trial Court preliminarily approved a Settlement Agreement with a total settlement amount of \$380 million. The settlement received final approval by the Trial Court on November 22, 2008. NiSource's share of the settlement liability is up to \$338.8 million. NiSource complied with its obligations under the Settlement Agreement to fund \$85.5 million in the qualified settlement fund by January 13, 2009. Additionally, NiSource provided a letter of credit on January 13, 2009 in the amount of \$254 million and thereby complied with its obligation to secure the unpaid portion of the settlement, which was terminated on December 29, 2010. The Trial Court entered its Order discharging the judgment on January 20, 2009 and is supervising the administration of the settlement proceeds. As of December 31, 2010, NiSource has contributed a total of \$330.5 million into the qualified settlement fund, \$277.3 million of which was contributed prior to December 31, 2009. As of December 31, 2010, \$8.3 million of the maximum settlement liability has not been paid. NiSource contributed an additional \$2.7 million subsequent to December 31, 2010. NiSource will be required to make additional payments, pursuant to the settlement, upon notice from the Class Administrator.

2. Environmental Protection Agency Notice of Violation

On September 29, 2004, the EPA issued an NOV to Northern Indiana for alleged violations of the CAA and the Indiana SIP. The NOV alleges that modifications were made to certain boiler units at three of Northern Indiana's generating stations between the years 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana, EPA, Department of Justice, and IDEM have agreed to settle the NOV.

The parties reached a settlement in a consent decree that was filed in the United States District Court for the Northern District of Indiana on January 13, 2011. The consent decree covers Northern Indiana's four coal generating stations: Bailly, Michigan City, R.M. Schahfer, and D.H. Mitchell. Northern Indiana must surrender environmental permits for D.H. Mitchell's coal-fired boilers, which have not been used to generate power since 2002. At the other generating stations, Northern Indiana must install additional control equipment, including three new SO₂ control devices and one new NO_x control device. The consent decree also imposes emissions limits for NO_x, SO₂, and particulate, and annual tonnage limits for NO_x and SO₂. In addition, Northern Indiana must surrender certain NO_x and SO₂ allowances, pay fines of \$3.5 million, and invest \$9.5 million in environmental mitigation projects. Northern Indiana is estimating the cost of NSR related capital improvements at \$550.0 to \$650.0 million, which will be expended between 2010 and 2018. Northern Indiana believes the capital costs will likely be recoverable from ratepayers.

3. Majorsville Operations Center PADEP Notice of Violation

In 1995, Columbia Transmission entered into an AOC with the EPA that requires Columbia Transmission to characterize and remediate environmental contamination at thousands of locations along Columbia Transmission's

ITEM 3. LEGAL PROCEEDINGS

NiSource Inc.

pipeline system. One of the facilities subject to the AOC is the Majorsville Operations Center, which was remediated under an EPA approved Remedial Action Work Plan in summer 2008. Pursuant to the Remedial Action Work Plan, Columbia Transmission completed a project that stabilized residual oil contained in soils at the site and in sediments in an adjacent stream. Columbia Transmission continues to monitor this site subject to EPA oversight.

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

ITEM 4. (Removed and Reserved)

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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, 2011.

Name	Age	Office(s) Held in Past 5 Years
Robert C. Skaggs, Jr	56	Chief Executive Officer of NiSource since July 2005. President of NiSource since October 2004.
Christopher A. Helms	56	Executive Vice President and Group Chief Executive Officer since January 2008. Pipeline Group President of NiSource from April 2005 to December 2007.
Carrie J. Hightman	53	Executive Vice President and Chief Legal Officer of NiSource since December 2007. President, AT&T Illinois from April 2001 through October 2006.
Stephen P. Smith	49	Executive Vice President and Chief Financial Officer of NiSource since August 2008. Executive Vice President of NiSource from June 2008 to August 2008. Senior Vice President of Shared Services for American Electric Power Company from January 2008 to May 2008. Senior Vice President and Treasurer, American Electric Power Company from January 2004 to December 2007.
Jimmy D. Staton	50	Executive Vice President and Group Chief Executive Officer since March 2008. Senior Vice President, Gas Delivery, Dominion Resources, Inc. from January 2006 to 2008.
Robert D. Campbell	51	Senior Vice President, Human Resources, of NiSource since May 2006. Senior Vice President, Human Resources, NiSource Corporate Services since September 2005.
Glen L. Kettering	56	Senior Vice President, Corporate Affairs, since March 2006.
Jon D. Veurink	46	Vice President, Controller & Chief Accounting Officer since February 2010.

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Vice President at NiSource Corporate Services Company from October 2009 to February 2010.

Vice President, Controller & Chief Accounting Officer, Exelon Generation LLC from January 2004 to 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.

	2010		2009	
	High	Low	High	Low
First Quarter	16.03	14.24	11.40	7.79
Second Quarter	16.80	14.13	11.82	9.64
Third Quarter	17.91	14.19	14.03	11.41
Fourth Quarter	17.96	16.65	15.82	12.83

As of December 31, 2010, NiSource had 32,313 common stockholders of record and 278,855,291 shares outstanding. Holders of shares of NiSource's common stock are entitled to receive dividends when, 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 \$0.92 per share for the years ended December 31, 2010, 2009, and 2008. At its January 19, 2011 meeting, the Board declared a quarterly common dividend of \$0.23 per share, payable on February 18, 2011 to holders of record on January 31, 2011.

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.

ITEM 6. SELECTED FINANCIAL DATA**NiSource Inc.**

Year Ended December 31, <i>(in millions except per share data)</i>	2010	2009	2008	2007	2006
Statement of Income Data:					
Gross Revenues					
Gas Distribution	\$ 3,094.0	\$ 3,296.2	\$ 5,171.3	\$ 4,332.5	\$ 4,083.7
Gas Transportation and Storage	1,261.4	1,239.5	1,132.4	1,089.6	1,027.0
Electric	1,386.7	1,213.2	1,357.0	1,358.6	1,300.0
Other	679.9	901.7	1,219.5	1,082.0	1,008.8
Total Gross Revenues	6,422.0	6,650.6	8,880.2	7,862.7	7,419.5
Net Revenues (Gross Revenues less Cost of Sales, excluding depreciation and amortization)	3,447.9	3,332.6	3,246.9	3,187.4	3,082.9
Operating Income	921.3	801.0	919.0	916.4	915.4
Income from Continuing Operations	294.6	230.5	370.6	303.0	333.7
Results from Discontinued Operations - net of taxes	(2.6)	(12.8)	(291.6)	18.4	(51.9)
Cumulative Effect of Change in Accounting Principle - net of taxes	-	-	-	-	0.4
Net Income	292.0	217.7	79.0	321.4	282.2
Balance Sheet Data:					
Total Assets	19,938.8	19,271.7	20,032.2	18,009.9	18,169.1
Capitalization					
Common stockholders' equity	4,923.2	4,854.1	4,728.8	5,076.6	5,013.6
Long-term debt, excluding amounts due within one year	5,936.1	5,969.1	5,945.7	5,596.3	5,148.1
Total Capitalization	\$ 10,859.3	\$ 10,823.2	\$ 10,674.5	\$ 10,672.9	\$ 10,161.7
Per Share Data:					
Basic Earnings (Loss) Per Share (\$)					
Continuing operations	1.06	0.84	1.35	1.10	1.23
Discontinued operations	(0.01)	(0.05)	(1.06)	0.07	(0.19)
Basic Earnings Per Share	1.05	0.79	0.29	1.17	1.04
Diluted Earnings (Loss) Per Share (\$)					
Continuing operations	1.05	0.84	1.35	1.10	1.22
Discontinued operations	(0.01)	(0.05)	(1.06)	0.07	(0.19)
Diluted Earnings Per Share	1.04	0.79	0.29	1.17	1.03
Other Data:					
Dividends paid per share (\$)	0.92	0.92	0.92	0.92	0.92
Shares outstanding at the end of the year (in thousands)	278,855	276,638	274,262	274,177	273,654
Number of common shareholders	32,313	34,299	36,194	38,091	40,401
Capital expenditures (\$ in millions)	803.8	777.2	1,299.9	786.5	627.1
Number of employees	7,604	7,616	7,981	7,607	7,439

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 incurred \$96.7 million in early redemption fees, primarily attributable to early redemption premiums and unamortized discounts and fees, which is recorded as a loss on the early extinguishment of long-term debt reducing income from continuing operations.

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

For 2009, Gas Distribution and Other gross revenues decreased due to a significant decline in natural gas commodity prices. Please see the Gas Distribution Operations segment discussion for further information on the change in market conditions.

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

NiSource Inc.

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

During the fourth quarter of 2007, Whiting Clean Energy redeemed its outstanding long-term notes. The associated redemption premium of \$40.6 million was recorded as a loss on early extinguishment of long-term debt.

In 2007, Northern Indiana detected an error in its unbilled revenue calculation and revised its estimate for unbilled electric and gas revenues. As a result, this correction reduced net revenues by \$25.5 million in the fourth quarter of 2007.

In 2007, NiSource adopted the new measurement date provisions of the amended ASC topic for retirement benefits which decreased Total Assets by approximately \$80.2 million, decreased Total Liabilities by approximately \$76.8 million and decreased total Common stockholders' equity by approximately \$3.4 million, net of taxes.

In 2006, NiSource adopted the amended ASC topic for retirement benefits which increased Total Assets by approximately \$491.2 million, increased Total Liabilities by approximately \$347.6 million and increased total Common stockholders' equity by approximately \$143.6 million, net of taxes.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**NiSource Inc.**

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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 under the Public Utility Holding Company Act of 2005 whose subsidiaries are engaged in the transmission, storage and distribution of natural gas in the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England and the generation, transmission and distribution of electricity in Indiana. NiSource generates virtually 100% of its operating income through these rate-regulated businesses. A significant portion of NiSource's operations is subject to seasonal fluctuations in sales. During the

heating season, which is primarily from November through March, net revenues from gas sales are more significant, and during the cooling season, which is primarily from June through September, net revenues from electric sales and transportation services are more significant than in other months.

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

NiSource Inc.

For the twelve months ended December 31, 2010, NiSource reported income from continuing operations of \$294.6 million, or \$1.06 per basic share, compared to \$230.5 million, or \$0.84 per basic share for the same period in 2009.

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

Electric Operations net revenues increased \$121.5 million from 2009. This increase was primarily the result of higher industrial usage and margins of \$45.1 million due to improved economic conditions, warmer weather of approximately \$35 million, and a \$17.1 million increase in environmental trackers, which are partially offset in operating expenses. Additionally, there was an increase of \$14.6 million in off-system sales, including a reduction of \$8.2 million in off-system sales in 2009 resulting from a FAC settlement.

NiSource's Gas Transmission and Storage Operations net revenues increased \$18.5 million primarily due to increased demand and commodity margin revenues from growth projects of \$22.9 million and an increase of \$8.3 million due to the recognition of revenue for a previously deferred gain for native gas contributed to Hardy Storage Company from Columbia Transmission following Hardy Storage securing permanent financing. These increases in revenue were partially offset by a decrease in shorter term transportation and storage services of \$23.1 million.

The effective tax rate decreased to 32.4% compared to 41.8% for the comparable period last year. The decrease is due to NiSource recording a \$15.2 million reduction in income tax expense in the third quarter of 2010 as a result of a rate case settlement by Columbia of Pennsylvania that requires the company to flow through certain tax benefits to customers in current rates. Additionally, the company experienced increases in income tax expense in 2009 for additional deferred income tax expense related to state apportionment changes.

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

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 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.

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.

Four-Point Platform for Growth

NiSource's four key initiatives to build a platform for long-term, sustainable growth continue to comprise commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and process and expense management.

Commercial and Regulatory Initiatives

Rate Development and Other Regulatory Matters. NiSource is moving forward with regulatory initiatives across several gas distribution company markets, at Northern Indiana, and at Columbia Gulf. 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 November 19, 2010, Northern Indiana filed a petition for new electric base rates and charges. The filing requests an increase in base rates calculated to produce additional gross revenue of \$75.7 million when compared to a normalized test year ended June 30, 2010. This is calculated to provide the opportunity to earn a return of 7.70% on net original cost rate base of \$2,706 million. If approved, the rates from this new petition would replace any other existing rates, including those that may be approved by effect of the August 25, 2010 rate order for the 2008 rate case. The proposed rates would ease bill impacts on residential customers, while still allowing Northern Indiana

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to continue investing in service, reliability and infrastructure improvements. Northern Indiana filed the proceeding under the IURC's minimum standard filing requirements prescribing timeframes for issuance of an order if required information is supplied as part of the rate case filing. The IURC held its prehearing conference on December 17, 2010 and issued a prehearing conference order on January 5, 2011. The parties agreed to and the IURC ordered a procedural schedule that includes a bifurcated hearing. The evidentiary hearing on Northern Indiana's case-in-chief is scheduled for the week of February 28, 2011, and the evidentiary hearing for the remainder of the case is scheduled for the weeks of July 11, 2011 and July 25, 2011. The case is scheduled to be fully briefed by September 30, 2011 and an Order is anticipated by the end of 2011 with the implementation of new rates anticipated in the first quarter of 2012.

On January 14, 2011, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC, seeking a revenue increase of approximately \$37.8 million annually, and seeking to implement a levelized distribution charge for its residential class that would mitigate revenue volatility associated with volumetric rates and provide residential customers with clear price signals. Columbia of Pennsylvania expects that the Pennsylvania PUC will issue an order in the third or fourth quarter of 2011 with rates going into effect in the fourth quarter.

On May 3, 2010, Northern Indiana filed a natural gas rate case with the IURC. Northern Indiana entered into a comprehensive settlement with all parties on August 24, 2010. The Settlement Agreement was approved in entirety by Order issued on November 4, 2010 and new rates were placed into effect November 5, 2010. The order resulted in a decrease in revenue of approximately \$14.9 million when compared to a normalized test year ended December 31, 2009. The IURC authorized Northern Indiana to increase the monthly fixed charge for residential customers from \$6.36 to \$11.00. The IURC also approved revised depreciation accrual rates for gas plant and authorized Northern Indiana to reduce current period gas plant depreciation expense by up to \$25.7 million annually for the next four years or until further order of the IURC, whichever occurs first.

On May 3, 2010, Columbia of Virginia filed a base rate case with the VSCC seeking an annual revenue increase of \$13.0 million to recover an updated level of costs upon the expiration of its Performance Based Regulation Plan on December 31, 2010. Columbia of Virginia also sought a Weather Normalization Adjustment (WNA), cost recovery of certain gas related items through its Purchased Gas Adjustment (PGA) mechanism rather than base rates, and forward looking adjustments predicted to occur during the rate year ending December 31, 2011. On November 16, 2010, Columbia of Virginia, the VSCC Staff and the other parties filed a Proposed Stipulation and Recommendation (Stipulation) that would result in an annual revenue increase of \$4.9 million, including authorization of the WNA and recovery of certain gas related items through the PGA mechanism. The Chief Hearing Examiner issued a Report on December 2, 2010 recommending approval of the Stipulation. The VSCC issued a Final Order on December 17, 2010 adopting the Stipulation. New rates became effective January 1, 2011.

On January 28, 2010, Columbia of Pennsylvania filed a base rate case with the Pennsylvania PUC. On June 25, 2010, Columbia of Pennsylvania and the other active parties filed a Joint Petition for Settlement that would result in an annual revenue increase of \$12.0 million. On August 18, 2010, the Pennsylvania PUC entered a final order approving the Joint Petition for Settlement and new rates went into effect on October 1, 2010.

On January 28, 2010, Columbia of Maryland filed a base rate case with the Maryland PSC, seeking a revenue increase of \$2.2 million annually in order for Columbia of Maryland to earn the rate of return authorized by the PSC in its 2008 rate case. On May 10, 2010, the parties filed a Joint Motion for Approval of Stipulation and Settlement Agreement that would result in an annual revenue increase of approximately \$1.7 million. The Maryland PSC issued a final order approving the Settlement, and new rates went into effect on May 28, 2010.

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 proposes a revenue increase of approximately \$50.0 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. New rates are expected to be effective by May 2011, subject to refund.

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On September 1, 2010 Northern Indiana, NIFL and Kokomo filed to merge into one company (Northern Indiana). NIFL and Kokomo also filed rate proceedings on September 1, 2010. On February 23, 2011, a stipulation and settlement agreement was filed that provides for the merger and settlement of the rate proceedings. The settlement stipulates that all of Northern Indiana's existing services, rates and charges will be applicable in the former NIFL and Kokomo territories, including one unified Gas Cost Adjustment mechanism. The application of Northern Indiana's rates in the former NIFL and Kokomo territories will result in a decrease in revenue of approximately \$0.8 million, when compared to a normalized test year ended March 31, 2010. This is primarily offset by reductions in depreciation expense. A settlement hearing is scheduled for March 23, 2011 and an order is anticipated in the second quarter of 2011.

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

Bear Garden Station. In August 2008, Columbia of Virginia entered into an agreement with Dominion Virginia Power to install facilities to serve a 580 mw combined cycle generating station in Buckingham County, VA, known as the Bear Garden station. The project required approximately 13.3 miles of 24-inch steel pipeline and associated facilities to serve the station. In March 2009, the VSCC approved Dominion Virginia Power Company's planned Bear Garden station. Columbia of Virginia's facilities constructed to serve the Bear Garden station were placed into service in July 2010.

Commercial Growth and Expansion of the Gas Transmission and Storage Business

During 2010, Gas Transmission and Storage Operations advanced or completed more than \$150 million in strategic growth projects serving the Marcellus Shale production area and capable of providing market access to more than 500,000 Dth per day of natural gas.

East Lateral Project. Gas Transmission and Storage Operations segment initiated a \$4.7 million project in 2010 that, with modification of existing facilities on the Columbia Gulf East Lateral, allows it to provide firm transportation services for up to 300,000 Dth per day. Firm transportation contracts for 250,000 Dth per day have been executed for five-year terms. Gas Transmission and Storage received FERC approval to complete this project, which will be put into service on April 1, 2011.

Line WB Expansion Project. Gas Transmission and Storage Operations segment is expanding its WB system through an approximately \$14 million investment in additional facilities to provide transportation service on a firm basis from Loudoun, Virginia to Leach, Kentucky. The expansion will allow 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 have been executed, some of which began in January 2011. Gas Transmission and Storage Operations segment requested and received FERC approval and anticipates completing construction on all of the facilities in the third quarter of 2011.

Southern Appalachian Project. As a continuation of its strategy to provide transportation services to producers of Marcellus and Appalachian gas, Gas Transmission and Storage Operations segment is expanding Line SM-116 to transport approximately 38,500 Dth per day on a firm basis. This additional capacity is supported by executed binding precedent agreements. These additional facilities will be constructed at a cost of nearly \$4 million. Gas Transmission and Storage Operations segment requested and received FERC approval to complete this project with service expected to commence in April 2011.

Cobb Compressor Station Project. This project continues the Gas Transmission and Storage Operations segment strategy to meet producers' near-term, incremental transportation demand in the Appalachian Basin. Shippers have also executed precedent agreements for a total of approximately 25,500 Dth per day of long-term firm transportation service associated with a facility expansion at Cobb Compressor Station in Kanawha County, West Virginia. The Cobb Compressor Station expansion totaled approximately \$15 million in construction costs and was placed into service on May 17, 2010.

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Majorsville, PA Project. The Gas Transmission and Storage Operations segment executed three separate projects totaling approximately \$80 million in the Majorsville, PA vicinity to aggregate Marcellus Shale gas production for downstream transmission. Fully contracted, the pipeline and compression assets allow Gas Transmission and Storage Operations 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.

In 2010, Columbia Transmission received approval from the FERC to refunctionalize certain transmission assets to gathering and transferred these pipeline facilities to a newly formed affiliate, NiSource Midstream Services, LLC. These facilities are included in providing non-FERC jurisdiction gathering services to producers in the Majorsville, PA vicinity. Two of the three projects were completed and placed into service on August 1, 2010, creating an integrated gathering and processing system serving Marcellus production in southwestern Pennsylvania and northern West Virginia. Precedent agreements were executed by anchor shippers in the fourth quarter of 2009, which were superseded by the execution of long-term service agreements in August and September 2010. In the fourth quarter, construction began on the third project on a pipeline to deliver residue gas from the Majorsville MarkWest Liberty processing plants to the Texas Eastern Wind Ridge compressor station in southwestern Pennsylvania to provide significant additional capacity to eastern markets. This third project is expected to go in service in the first quarter of 2011.

Clendenin Project. Construction began in 2010 to modify existing facilities in the Clendenin area in West Virginia to move Marcellus production to liquid market centers. The Clendenin project allows Gas Transmission and Storage Operations segment to meet incremental transportation demand of up to 150,000 Dth per day. Long term firm transportation contracts for 130,000 Dth have been executed, some which began in the third quarter 2010 and others that will begin in the second quarter 2011. Total capital required for the Clendenin project is approximately \$18 million.

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:

On December 8, 2010, NiSource Finance issued \$250.0 million of 6.25% senior unsecured notes that mature December 15, 2040.

On December 1, 2010, NiSource Finance announced that it was commencing a cash tender offer for up to \$250.0 million aggregate principal amount of its outstanding 10.75% notes due 2016 and 6.80% notes due 2019. A condition of the offering was that all validly tendered 2016 notes would be accepted for purchase before any 2019 notes were accepted. On December 14, 2010, NiSource Finance announced that approximately \$272.9 million of the aggregate principal amount of its outstanding 10.75% notes due 2016 were validly tendered. Based upon the principal amount of the 2016 notes tendered, NiSource Finance increased the maximum aggregate principal amount of 2016 notes it would purchase from \$250.0 million to \$325.0 million and terminated the portion of the tender offer related to its 6.80% notes due 2019. On December 30, 2010, NiSource Finance announced that \$273.1 million of 2016 notes were successfully tendered.

On November 15, 2010, NiSource Finance redeemed \$681.8 million of its 7.875% unsecured notes.

On September 14, 2010, the company completed a \$400 million equity offering of common stock. This offering was structured as a forward equity agreement. Refer to Note 14, Common Stock, in the Notes to Consolidated Financial Statements for more information regarding this transaction.

On March 15, 2010, Columbia of Pennsylvania entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CPRC, a wholly-owned subsidiary of Columbia of Pennsylvania. CPRC, in turn, is party to an agreement with BTMU, also dated March 15, 2010, under the terms of which it sells an undivided percentage ownership interest in its accounts receivable to a commercial paper conduit

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sponsored by BTMU. The maximum seasonal program limit under the terms of the agreement is \$75 million. CPRC's agreement with the commercial paper conduit has a scheduled termination date of March 14, 2011 and can be renewed if mutually agreed to by both parties. As of December 31, 2010, \$46.6 million of accounts receivable had been transferred by CPRC.

Credit Ratings. On December 14, 2010, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 19, 2010, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 24, 2011, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Process and Expense Management

Refer to Note 3, Impairments, Restructuring and Other Charges, in the Notes to Consolidated Financial Statements for information on process and expense management.

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 twelve months ended December 31, 2010, NiSource reported income from continuing operations of \$294.6 million, or \$1.06 per basic share, compared to \$230.5 million, or \$0.84 per basic share in 2009. Income from continuing operations for the twelve months ended December 31, 2008 was \$370.6 million, or \$1.35 per basic share. Including results from discontinued operations, NiSource reported 2010 net income of \$292.0 million, or \$1.05 per basic share, 2009 net income of \$217.7 million, or \$0.79 per basic share, and 2008 net income of \$79.0 million, or \$0.29 per basic share.

Comparability of line item operating results was impacted by regulatory and tax trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses were offset by increases in net revenues and had essentially no impact on income from continuing operations. A decrease in operating expenses of \$7.6 million for the 2010 year was offset by a corresponding decrease to net revenues reflecting these tracked costs. In the 2009 period, an increase in operating expenses of \$16.3 million for trackers was offset by a corresponding increase to net revenues reflecting recovery of these costs. These fluctuations in 2010 and in 2009 were largely attributable to the changes in the recovery of uncollectible accounts.

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

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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 twelve months ended December 31, 2010, were \$3,447.9 million, a \$115.3 million increase compared with 2009. Net revenues increased primarily due to increased Electric Operations net revenues of \$121.5 million and increased Gas Transmission and Storage Operations net revenues of \$18.5 million, partially offset by lower Gas Distribution Operations net revenues of \$6.9 million.

Electric Operations net revenues increased as a result of higher industrial usage and margins of \$45.1 million due to improved economic conditions, warmer weather of approximately \$35 million, and a \$17.1 million increase in environmental trackers, which are partially offset in operating expenses. Additionally, there was an increase of \$14.6 million in off-system sales, including a reduction of \$8.2 million in off-system sales in 2009 resulting from a FAC settlement and an increase in residential margins of \$6.6 million.

Gas Transmission and Storage Operations net revenues increased primarily due to increased demand and commodity margin revenues as a result of growth projects of \$22.9 million and an increase of \$8.3 million due to the recognition of revenue for a previously deferred gain for native gas contributed to Hardy Storage Company from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, there was a \$5.6 million increase in regulatory trackers, which are offset in expense and \$5.4 million of fees received from a contract buy-out during the period. These increases in revenue were partially offset by a decrease in shorter term transportation and storage services of \$23.1 million and a decrease of \$9.1 million in mineral rights leasing revenues.

Gas Distribution Operations net revenues decreased due to lower regulatory and tax trackers of \$20.4 million, offset in expense and decreased residential and commercial margins of \$20.1 million. Additionally, there was an accrual related to a prior period contract of \$5.7 million established at Columbia of Massachusetts, customer credits of \$5.6 million issued as a result of a rate case, and a decrease in forfeited discounts and late payments of \$5.0 million. These decreases were partially offset by an increase in regulatory and service programs of \$51.7 million. This includes impacts from rate cases at various utilities, the implementation of new rates under Columbia of Ohio's approved infrastructure replacement program, and the revenue normalization program at Columbia of Virginia.

Total consolidated net revenues for the twelve months ended December 31, 2009 were \$3,332.6 million, an \$85.7 million increase compared with 2008. Net revenues increased primarily due to increased Gas Distribution Operations net revenues of \$66.7 million and increased Gas Transmission and Storage Operations net revenues of \$65.4 million, partially offset by lower Electric Operations net revenues of \$41.0 million.

Gas Distribution Operations net revenues were higher due to increased revenues of \$97.2 million from regulatory initiatives including impacts from rate proceedings, partially offset by decreased residential and industrial customer usage of \$22.0 million, a \$13.0 million decrease in off-system sales and the impact of warmer weather of approximately \$8 million.

Within Gas Transmission and Storage Operations, net revenues increased due to increases in firm capacity reservation fees of \$29.5 million, shorter-term transportation and storage services of \$18.6 million and mineral rights leasing of \$12.2 million. The increase in firm capacity reservation fees was the result of growth projects such as the Eastern Market Expansion, the Ohio Storage Expansion and new Appalachian supply contracts.

Electric Operations net revenues decreased due to the impact of cooler weather of approximately \$18 million, lower industrial usage of \$17.4 million, which was significantly impacted by economic conditions, lower capacity and energy sales into the PJM Interconnection of \$13.5 million, \$9.1 million of lower off-system sales

and \$9.5 million lower emission allowance sales, partially offset by increased residential and commercial usage of \$12.4 million and lower non-recoverable purchased power of \$10.1 million. The

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major steel company customers operated at full capacity for the first half of 2008. Production decreased sharply in October 2008, bottoming near 50% in May 2009. Since then, NiSource has seen growth in its power sales to these customers.

Expenses

Operating expenses were \$2,541.6 million in 2010, a decrease of \$6.0 million from the comparable 2009 period. This decrease was primarily due to decreased restructuring charges of \$27.2 million, lower impairment charges of \$21.3 million, lower uncollectible costs of \$12.8 million, decreased legal reserves of \$12.0 million, and decreased trackers of \$7.5 million, offset in net revenues. The decreases above were partially offset by an increase of \$36.1 million in payroll and benefits expense, an increase of \$20.0 million in maintenance costs, including integrity management pipeline costs, and an increase of \$7.0 million in depreciation costs due to the increased capital expenditures.

Operating expenses were \$2,547.6 million in 2009, an increase of \$207.4 million from the comparable 2008 period. This increase was mainly due to higher employee and administrative expenses of \$102.3 million, which primarily resulted from higher pension expense of \$84.8 million, net of deferring \$10.7 million of pension costs under the regulatory order that was granted to Columbia of Ohio in July 2009, and higher payroll and benefits expense of \$29.6 million. Operating expenses also increased as a result of restructuring charges of \$27.2 million, impairment charges of \$22.8 million in 2009, higher depreciation of \$22.0 million, \$21.6 million in increased legal reserves, and increased trackers of \$16.3 million offset in net revenues. The increase in benefits expense is due in part to a \$12.7 million adjustment that decreased expense in the third quarter of 2008, which resulted from the misclassification of certain claims in 2007.

Equity Earnings in Unconsolidated Affiliates

Equity Earnings in Unconsolidated Affiliates were \$15.0 million in 2010, a decrease of \$1.0 million compared with 2009. Equity Earnings in Unconsolidated Affiliates includes investments in Millennium and Hardy Storage which are integral to the Gas Transmission and Storage Operations business. Equity earnings decreased primarily resulting from lower earnings from Columbia Transmission's investment in Millennium, driven by higher interest costs and hedge loss amortization related to Millennium's August 2010 debt refinancing.

Equity Earnings in Unconsolidated Affiliates were \$16.0 million in 2009 compared to \$12.3 million in 2008. Equity earnings from Millennium, which was placed into service on December 22, 2008, totaled \$12.1 million for 2009, net of an \$8.1 million reduction resulting from interest rate hedges relating to Millennium's decision to delay permanent financing until 2010.

Other Income (Deductions)

Other Income (Deductions) in 2010 reduced income \$485.2 million compared to a reduction of \$405.2 million in 2009. The decrease in other income was primarily due to a \$96.7 million loss on the early extinguishment of long-term debt, partially offset by a decrease in interest expense of \$7.0 million. Interest expense decreased primarily due to the \$681.8 million November 2010 long-term debt maturity, the \$385.0 million December 2009 term loan repayment, the maturity of the company's \$417.6 million November 2009 floating rate note, and lower short-term interest rates. The interest expense benefits were partially offset by incremental interest expense associated with the issuance of \$250.0 million of long-term debt in December 2010, the issuance of the \$500.0 million December 2009 long-term debt and the effect of the adoption of new accounting requirements related to the company's accounts receivable facilities. Additionally, other, net increased from an expense of \$1.4 million in 2009 to income of \$3.8 million in 2010 related to the classification of interest expense as a result of the adoption of the new accounting requirements noted above.

Other Income (Deductions) in 2009 reduced income \$405.2 million compared to a reduction of \$362.4 million in 2008. Interest expense increased primarily due to incremental interest expense associated with the issuance of \$700 million of long-term debt in May 2008, the issuance of \$600 million of long-term debt in March 2009 and a \$385 million two-year term loan entered into in April 2009, partially offset by the open market repurchase of

\$100 million of long-term debt in January 2009, the \$250.6 million tender offer repurchase of long-term debt in April 2009 and lower short-term interest rates. Other, net was a loss of \$1.4 million compared to income of \$17.6 million for 2008

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primarily due to the sale of an investment in 2008 at a gain and lower interest income in 2009. On August 27, 2008, NiSource Development Company sold its interest in JOF Transportation Company to Lehigh Service Corporation for a pre-tax gain of \$16.7 million. JOF Transportation Company held a 40% interest in Chicago South Shore & South Bend Railroad Co. and a 40% interest in Indiana Illinois Development Company, LLC.

Income Taxes

The effective income tax rates were 32.4%, 41.8%, and 33.4% in 2010, 2009 and 2008, respectively. The 9.4% decrease in the overall effective tax rate in 2010 versus 2009 was primarily due to the 2010 rate settlements resulting in the flow through of certain tax benefits in rates. In 2009, the company recorded in its tax provision the impact of certain nondeductible expenses, which increased tax expense \$5.3 million, additional deferred income tax expense of \$9.7 million related primarily to state income tax apportionment changes, and a reduction in AFUDC-Equity that increased tax expense by \$3.2 million. In 2008, the effective tax rate was reduced by \$14.9 million for the change in Massachusetts state taxes discussed below.

In the fourth quarter of 2010, NiSource received permission from the Internal Revenue Service to change its method of accounting for capitalized overhead costs under Section 263A of the Internal Revenue Code. The change is 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 the third quarter of 2010, NiSource recorded a \$15.2 million reduction to income tax expense in connection with the Pennsylvania PUC approval of the Columbia of Pennsylvania base rate case settlement on August 18, 2010. The adjustment to income tax expense results 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 Internal Revenue Service.

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

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. Under the new tax accounting method, NiSource recorded federal and state income tax receivables of \$295.7 million. In October 2009, \$263.5 million of these refunds were received. The remaining refunds were received in December 2009 and throughout 2010. The loss for the 2008 tax year resulted in \$1.2 million of additional federal income tax expense due to the elimination of Section 199 deductions. The impact of certain state restrictions on loss carrybacks and carryforwards resulted in a net charge to state income tax expense of \$5.5 million.

During the third quarter of 2008, the Governor of Massachusetts signed into law a bill that significantly changed the Massachusetts corporate income tax regime. Under the law, which became effective for tax years beginning on or after January 1, 2009, NiSource calculates its Massachusetts income tax liability on a unitary basis, meaning that the income tax obligation to the Commonwealth of Massachusetts is determined based on an apportioned share of all of NiSource's income, rather than just the income of NiSource's subsidiaries doing business in Massachusetts. Because of NiSource's substantial operations outside of Massachusetts, the new law had the impact of reducing the deferred income tax liability to Massachusetts. NiSource recognized the impact of this tax law change as a \$14.9

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million reduction in income tax expense in 2008. Income tax expense for 2009 and 2010 reflects the impact of the law on a prospective basis.

Discontinued Operations

Discontinued operations reflected a loss of \$2.6 million, or \$0.01 loss per basic share, in 2010, a loss of \$12.8 million, or \$0.05 loss per basic share, in 2009, and a loss of \$291.6 million, or \$1.06 loss per basic share, in 2008.

The losses in 2010 and 2009 include activities associated with CER, and other former subsidiaries where NiSource has retained certain liabilities, as well as for impairment charges in 2009 associated with certain properties to be sold by NDC Douglas Properties.

The loss in 2008 is primarily attributable to an adjustment to the reserve for the Tawney litigation and losses from businesses disposed during the year. During 2008 NiSource recorded an after-tax loss of \$108.2 million for the dispositions of Northern Utilities, Granite State Gas and Whiting Clean Energy. In the first quarter of 2008, NiSource began accounting for the operations of Northern Utilities, Granite State Gas and Whiting Clean Energy as discontinued operations. As such, net income of \$4.4 million was classified as discontinued operations for the year ended 2008.

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, 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 2011.

Operating Activities

Net cash from operating activities for the twelve months ended December 31, 2010 was \$725.4 million, a decrease of \$940.8 million from a year ago. During 2010, the refunding of the 2009 over-recovered gas costs resulted in a \$250.4 million use of working capital. During 2009, gas price decreases and the collection of the 2008 under-recovered gas cost resulted in a \$324.4 million source of working capital. Although there have been no changes in the operation of the accounts receivable securitization programs, the application of new accounting guidance, ASC 860, attributed to substantially all of the \$243.9 million use of working capital associated with accounts receivable in 2010. Furthermore, higher gas prices and volumes attributed to the higher than normal accounts receivable at December 31, 2008 creating a \$258.9 million source of working capital when collected in 2009. This same pricing and volume scenario contributed to higher than normal accounts payable at December 31, 2008, resulting in a \$191.5 million use of working capital when paid in 2009.

Tawney Settlement. NiSource's share of the settlement liability is up to \$338.8 million. The Trial Court entered its Order discharging the judgment on January 20, 2009 and is supervising the administration of the settlement proceeds. For 2010, 2009 and 2008, NiSource contributed \$53.2 million, \$252.3 million and \$25.0 million, respectively, into the qualified settlement fund which is recorded as net operating activities used for discontinued operations in the Statements of Consolidated Cash Flows. As of December 31, 2010, \$8.3 million of the maximum settlement liability had not been paid. NiSource has contributed approximately an additional \$2.7 million subsequent to December 31, 2010. NiSource will be required to make additional payments, pursuant to the settlement, upon notice from the Class Administrator. Refer to Part I, Item 3, Legal Proceedings, for additional information.

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Pension and Other Postretirement Plan Funding. In 2010, NiSource contributed \$161.8 million to its pension plans and \$50.0 million to its postretirement medical and life plans. In 2011, NiSource expects to make contributions of approximately \$149.7 million to its pension plans and approximately \$49.3 million to its postretirement medical and life plans. At December 31, 2010, NiSource's pension and other post-retirement benefit plans were underfunded by \$578.4 million and \$429.2 million, respectively.

Investing Activities

The tables below reflect actual capital expenditures and certain other investing activities by segment for 2008, 2009 and 2010, and estimates for 2011.

<i>(in millions)</i>	2011E	2010	2009	2008
Gas Distribution Operations	\$ 491.1	\$ 409.7	\$ 343.2	\$ 369.7
Gas Transmission and Storage Operations	327.5	302.0	287.4	383.8
Electric Operations	258.4	190.3	162.6	552.4
Corporate and Other Operations	23.0	9.6	5.4	0.7
Total	\$ 1,100.0	\$ 911.6	\$ 798.6	\$ 1,306.6

For 2011, the projected capital program and certain other investing activities are expected to be \$1,100.0 million, which is \$188.4 million higher than the 2010 capital program. This increased spending is mainly due to higher expenditures for the infrastructure replacement programs in the Gas Distribution Operations segment and increased growth expenditures in the Electric Operations segment. The program is expected to be funded through a combination of cash flow from operations, equity, and short-term debt.

For 2010, capital expenditures and certain other investing activities were \$911.6 million, an increase of \$113.0 million compared to 2009. A significant amount of the increase was due to increased capital expenditures within Gas Distribution Operations of \$66.5 million, due to higher expenditures for the infrastructure replacement programs in the Gas Distribution Operations segment. Additionally, capital expenditures increased within Electric Operations and Gas Transmission and Storage Operations by \$27.7 million and \$14.6 million, respectively. The increase within Electric Operations was the result of maintenance spending on generation, distribution, and transmission projects. The increase within Gas Transmission and Storage Operations is primarily due to higher expenditures on maintenance projects.

For 2009, capital expenditures and certain other investing activities were \$798.6 million, a decrease of \$508.0 million versus 2008. A significant amount of the decrease was due to lower capital expenditures within Electric Operations of \$389.8 million, due to increased 2008 capital expenditures for the purchase of Sugar Creek. Capital expenditures decreased within Gas Distribution Operations and Gas Transmission and Storage Operations by \$26.5 million and \$96.4 million, respectively. The decrease within Gas Distribution Operations segment was primarily due to lower expenditures on maintenance activities. The decrease within the Gas Transmission and Storage Operations segment was primarily due to lower expenditures on growth projects relative to 2008.

In 2008, NiSource received proceeds from the sale of Whiting Clean Energy, Northern Utilities, and Granite State of \$216.7 million, \$187.3 million, and \$14.3 million, respectively. Since these businesses were reported as discontinued operations, these amounts are included within, Net Investing Activities from Discontinued Operations, on the Statements of Consolidated Cash Flows. On May 30, 2008, Northern Indiana purchased Sugar Creek for approximately \$330 million to address the need for additional capacity.

Restricted cash was \$202.9 million and \$174.7 million as of December 31, 2010 and 2009, respectively. The increase in restricted cash was due primarily to the change in forward gas prices which resulted in increased margin deposits on open derivative contracts used within NiSource's risk management and energy marketing activities.

NiSource received insurance proceeds for capital repairs of \$5.0 million, \$62.7 million, and \$46.7 million related to hurricanes and other items in 2010, 2009, and 2008, respectively.

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Contributions to equity investees were \$87.9 million, \$26.4 million, and \$39.2 million for 2010, 2009 and 2008, respectively. The increase in 2010 was the result of cash required for Millennium's long-term debt refinancing.

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. NiSource Finance maintains a \$1.5 billion five-year revolving credit facility with a syndicate of banks which has a termination date of July 7, 2011. This facility provides a reasonable cushion of short-term liquidity for general corporate purposes including meeting cash requirements driven by volatility in natural gas prices, and provides for the issuance of letters of credit. NiSource currently intends to negotiate a new revolving credit facility during the first quarter of 2011. During September 2008, NiSource Finance entered into an additional \$500 million six-month revolving credit agreement with a syndicate of banks led by Barclays Capital that was originally due to expire on March 23, 2009. However, on February 13, 2009, the six-month credit facility was terminated in conjunction with the closing of a new two-year bank term loan. The two year term loan was subsequently repaid in December 2009 with proceeds from the December 4, 2009, \$500.0 million debt offering.

NiSource Finance had outstanding credit facility borrowings of \$1,107.5 million at December 31, 2010, at a weighted average interest rate of 0.78%, and borrowings of \$103.0 million at December 31, 2009, at a weighted average interest rate of 0.59%. The increase in borrowings compared to 2009 is mainly the result of the maturity of \$681.8 million of its 7.875% unsecured notes in November of 2010 and the cash tender offer of \$273.1 million of its 10.75% notes due 2016 and the related early redemption premiums.

As of December 31, 2010 and December 31, 2009, NiSource Finance had \$32.5 million and \$87.8 million, respectively, of stand-by letters of credit outstanding of which \$14.2 million and \$85.0 million were under the five-year revolving credit facility. A letter of credit of \$254 million was issued on January 13, 2009 to cover payments related to the Tawney settlement, which was terminated on December 29, 2010.

As of December 31, 2010, an aggregate of \$378.3 million of credit was available under the credit facility.

Debt Covenants. NiSource is subject to one financial covenant under its five-year revolving credit facility. This covenant requires NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in the 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%. As of December 31, 2010, the ratio was 59.9%.

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 include 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.

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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.

Credit Ratings. On December 14, 2010, Fitch affirmed the senior unsecured ratings for NiSource at BBB-, and the existing ratings of all other subsidiaries. Fitch's outlook for NiSource and all of its subsidiaries is stable. On November 19, 2010, Moody's Investors Service affirmed the senior unsecured ratings for NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's outlook for NiSource and all of its subsidiaries is stable. On February 24, 2011, Standard & Poor's affirmed the senior unsecured ratings for NiSource and its subsidiaries at BBB-. Standard & Poor's outlook for NiSource and all of its subsidiaries is stable. Although all ratings continue to be investment grade, a downgrade by Standard & Poor's, Moody's or Fitch would result in a rating that is below investment grade.

Certain NiSource affiliates have agreements that contain ratings triggers that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard & Poor's or Baa3 by Moody's. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. The collateral requirement from a downgrade below the ratings trigger levels would amount to approximately \$18.1 million. In addition to agreements with ratings triggers, there are other agreements that contain adequate assurance or material adverse change provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business. Under Northern Indiana's trade receivables sales program, an event of termination occurs if Northern Indiana's debt rating is withdrawn by either Standard & Poor's or Moody's or falls below BB or Ba2 at either Standard & Poor's or Moody's, respectively. Likewise, under Columbia of Ohio's trade receivables sales program, an event of termination occurs if NiSource's debt rating is withdrawn by either Standard & Poor's or Moody's, or falls below BB- or Ba3 at either Standard & Poor's or Moody's, respectively.

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 table below excludes all amounts classified as current liabilities on the Consolidated Balance Sheets, other than current maturities of long-term debt and current interest payments on long-term debt. The total contractual obligations in existence at December 31, 2010 and their maturities were:

<i>(in millions)</i>	Total	2011	2012	2013	2014	2015	After
Long-term debt	\$ 5,951.8	\$ 27.7	\$ 315.9	\$ 613.9	\$ 561.9	\$ 230.0	\$ 4,202.4
Capital leases	51.9	9.2	9.0	7.5	7.5	6.4	12.3
Interest payments on long-term debt	2,943.0	369.4	367.2	321.9	301.6	285.5	1,297.4
Operating leases	194.6	39.5	33.1	26.1	22.3	14.2	59.4
Energy commodity contracts	640.1	258.3	124.2	101.7	76.8	79.1	-
Service obligations:							
Pipeline service obligations	1,662.5	257.4	253.9	197.6	162.9	147.9	642.8
IBM service obligations	399.9	94.4	90.4	89.2	86.4	39.5	-
Vertex Outsourcing LLC service obligations	53.7	12.1	12.0	11.9	11.8	5.9	-
Other service obligations	202.8	143.4	53.6	5.8	-	-	-
Other liabilities	158.0	158.0	-	-	-	-	-
Total contractual obligations	\$ 12,258.3	\$ 1,369.4	\$ 1,259.3	\$ 1,375.6	\$ 1,231.2	\$ 808.5	\$ 6,214.3

NiSource calculated estimated interest payments for long-term debt as follows: for the fixed-rate debt, interest is calculated based on the applicable rates and payment dates; for variable-rate debt, interest rates are used that are in place as of December 31, 2010. For 2011, NiSource projects that it will be required to make interest payments of approximately \$399.6 million, which includes \$369.4 million of interest payments related to its long-term debt outstanding as of December 31, 2010. At December 31, 2010, NiSource also had \$1,382.5 million in short-term borrowings outstanding.

NiSource Corporate Services has a license agreement with Rational Systems, LLC for pipeline business software requiring semi-annual payments of \$2.9 million, which is recorded as a capital lease.

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

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

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2011 to 2045, require NiSource to pay fixed monthly charges.

On December 12, 2007, NiSource Corporate Services amended its agreement with IBM to provide business process and support functions to NiSource. NiSource Corporate Services continues to pay IBM for the amended services under a combination of fixed or variable charges, with the variable charges fluctuating based on the actual need for such services. Under the amended Agreement, at December 31, 2010, NiSource Corporate Services expects to pay approximately \$400 million to IBM in service fees over the remaining four and a half year term. In February 2011, NiSource elected to reduce certain services which will effectively lower the service obligation by approximately \$30 million over the remaining service agreement. 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 unrecovered capital investments, and IBM wind-down expense. This termination fee could be a material amount depending on the events giving rise to 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 approximately \$53.7 million to Vertex Outsourcing LLC in service fees over the remaining four and a half year term. Upon termination of the agreement by NiSource for any reason (other than material breach by Vertex Outsourcing LLC), NiSource may be required to pay a termination charge not to exceed \$12.4 million.

Northern Indiana has contracts with three major rail operators providing for coal transportation services for which there are certain minimum payments. These service contracts extend for various periods through 2013 and are included within, Other service obligations, in the table of contractual commitments.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on July 1, 1992, and Northern Indiana pays for the services under a combination of fixed and variable charges. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period. Estimated minimum payments for this agreement are included within, Other service obligations, in the table of contractual commitments.

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 2011. Plan contributions beyond 2011 are dependent upon a number of factors, including actual returns on plan assets, which cannot be reliably estimated. In 2011, NiSource expects to make contributions of approximately \$149.7

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million to its pension plans and approximately \$49.3 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 \$6.0 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.

In the fourth quarter of 2008, NiSource received final approval by the West Virginia Circuit Court for Roane County regarding a settlement agreement regarding the Tawney proceeding. NiSource's share of the settlement liability is up to \$338.8 million. NiSource complied with its obligations under the Settlement Agreement to fund \$85.5 million in the qualified settlement fund by January 13, 2009. Additionally, NiSource provided a letter of credit on January 13, 2009 in the amount of \$254.0 million and thereby complied with its obligation to secure the unpaid portion of the settlement, which was terminated on December 29, 2010. As of December 31, 2010, NiSource had contributed a total of \$330.5 million into the qualified settlement fund. As of December 31, 2010, \$8.3 million of the maximum settlement liability had not been paid. NiSource has contributed approximately \$2.7 million subsequent to December 31, 2010.

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 \$313.4 million in 2011, which are not included in the table above.

Off Balance Sheet Items

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

NiSource has issued guarantees that support up to approximately \$195 million of commodity-related payments for its current and former subsidiaries involved in energy marketing activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling \$250 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees outstanding. Refer to Note 20-A, Guarantees and Indemnities, in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

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

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Management Committee that requires constant communication, judgment and knowledge of specialized products and markets. NiSource's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the energy business, NiSource's risk management policies and procedures continue to evolve and are subject to ongoing review and modification.

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

Commodity Price Risk

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

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

During 2010 and 2009, no income was recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. 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 2009, NiSource reclassified \$126.4 million (\$75.1 million, net of tax) related to its cash flow hedges from accumulated other comprehensive income (loss) to earnings due to the probability that certain forecasted transactions would not occur related to the unregulated natural gas marketing business that NiSource had planned to sell. No amounts were reclassified in 2010 or 2008. 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 accumulated other comprehensive income (loss) of approximately \$0.8 million of loss, net of taxes. Refer to Note 9, Risk Management and Energy Marketing Activities, in the Notes to Consolidated Financial Statements for further information on NiSource's various derivative programs for managing commodity price risk.

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

Interest Rate Risk

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements 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 \$14.7 million and \$19.2 million for the years 2010 and 2009, respectively.

Contemporaneously with the pricing of the 5.25% notes and 5.45% notes issued September 16, 2005, NiSource Finance settled \$900 million of forward starting interest rate swap agreements with six counterparties. NiSource

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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.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of \$660 million with six counterparties having a 6 1/2-year term. NiSource Finance received payments based upon a fixed 7.875% interest rate and paid a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. As discussed below, on September 15, 2008, NiSource Finance terminated a fixed-to-variable interest rate swap agreement with Lehman Brothers having a notional amount of \$110.0 million. On November 15, 2010, the term of the remaining \$550.0 million of interest rate swaps expired, and the swaps were terminated.

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

As of December 31, 2010, \$500.0 million of NiSource Finance's existing long-term debt is subject to fluctuations in interest rates as a result of these fixed-to-variable interest rate swap transactions.

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.

The parent company of one of NiSource's interest rate swap counterparties, Lehman Brothers Holdings Inc., filed for Chapter 11 bankruptcy protection on September 14, 2008, which constituted an event of default under the swap agreement between NiSource Finance and Lehman Brothers Special Financing Inc. As a result, on September 15, 2008, NiSource Finance terminated the fixed-to-variable interest rate swap agreement with Lehman Brothers having a notional value of \$110 million. The mark-to-market close-out value of this swap at the September 15, 2008 termination date was determined to be \$4.8 million and was fully reserved in the third quarter of 2008.

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-

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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

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the gas marketing group that utilizes a variance/covariance methodology. The daily market exposure for the gas marketing portfolio on an average, high and low basis was \$0.1 million, \$0.3 million and zero during 2010, respectively. Prospectively, management has set the VaR limit at \$0.8 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk.

Refer to Critical Accounting Policies included in this Item 7 and Note 1-U, Accounting for Risk Management and Energy Marketing Activities, and Note 9, Risk Management and Energy Marketing 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.

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 \$1,802.2 million and \$1,688.7 million at December 31, 2010, and \$1,882.4 million and \$1,602.6 million at December 31, 2009, respectively. For additional information, refer to Note 8, Regulatory Matters, in the Notes to Consolidated Financial Statements.

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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 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 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 \$335.4 million at December 31, 2010. 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.

Accounting for Risk Management Activities. Under ASC Topic 815, *Derivatives and Hedging*, the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation. Unrealized and realized gains and losses are recognized each period as components of accumulated other comprehensive income (loss), earnings, or regulatory assets and liabilities depending on the nature of such derivatives. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to accumulated other comprehensive income (loss) and are recognized in earnings concurrent with the disposition of the hedged risks. For fair value hedges, the gains and losses are recorded in earnings each period along 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 in revenues through rates.

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 recorded currently in earnings.

Although NiSource applies some judgment in the assessment of hedge effectiveness to designate certain derivatives as hedges, the nature of the contracts used to hedge the underlying risks is such that there is a high correlation of the changes in fair values of the derivatives and the underlying risks. NiSource generally uses NYMEX exchange-traded natural gas futures and options contracts and over-the-counter swaps based on published indices to hedge the risks underlying its natural-gas-related businesses. NiSource had \$399.8 million and \$410.9 million of price risk management assets, of which \$61.1 million and \$68.2 million related to hedges, at December 31, 2010 and 2009, respectively, and \$355.5 million and \$360.3 million of price risk management liabilities, of which \$1.2 million and \$1.5 million related to hedges, at December 31, 2010 and 2009, respectively. There were no unrealized gains or losses recorded to accumulated other comprehensive income (loss), net of taxes, as of December 31, 2010 and 2009.

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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**NiSource Inc.**

Goodwill. NiSource's goodwill assets at December 31, 2010 were \$3,677.3 million, most of which resulted from the acquisition of Columbia on November 1, 2000. The goodwill balance also includes \$13.3 million for Northern Indiana Fuel and Light and \$5.5 million for Kokomo Gas. 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 June 30, 2010. The goodwill test utilized both an income approach and a market approach. In performing the goodwill test, NiSource made certain required key assumptions, such as long-term growth rates, discount rates and fair market values.

These key assumptions required significant judgment by management which are subjective and forward-looking in nature. To assist in making these judgments, NiSource utilized third-party valuation specialists in both determining and testing key assumptions used in the analysis. NiSource based its assumptions on projected financial information that it believes is reasonable; however, actual results may differ materially from those projections. For example, with regard to NiSource's discount rate assumptions used in the June 30, 2010 test results, a 1% change in the discount rate would change the fair value of the Columbia Distribution Operations and Columbia Transmission Operations reporting units by approximately \$1.2 billion for both the Columbia Distribution and Columbia Transmission operations.

Although there was no goodwill asset impairment as of June 30, 2010, 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 continues to stay below book value for an extended period of time. No impairment triggers were identified in the third or fourth quarter of 2010.

Refer to Notes 1-J and 6, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

Long-lived Asset Impairment Testing. NiSource's Consolidated Balance Sheets contain long-lived assets other than goodwill and intangible assets which are not subject to recovery under ASC Topic 980, *Regulated Operations*. 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. When an asset's carrying value exceeds the undiscounted estimated future cash flows associated with the asset, the asset is considered to be impaired to the extent that the asset's fair value is less than its carrying value. Refer to Note 1 -K, "Long-lived Assets," and Note 3, "Impairments, Restructuring and Other Charges," in the Notes to Consolidated Financial Statements for additional information.

Contingencies. A contingent liability is recognized when it is probable that an environmental, tax, legal or other liability has been incurred and the amount of loss can reasonably be estimated. Accounting for contingencies requires significant management judgment regarding the estimated probabilities and ranges of exposure to a potential liability. Estimates of the loss and associated probability are made based on the current facts available, including present laws and regulations. Management's assessment of the contingent liability could change as a result of future events or as more information becomes available. Actual amounts could differ from estimates and can have a material impact on NiSource's results of operations and financial position. Refer to Note 20, "Other Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional information.

Asset Retirement Obligations. Entities are required to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. In the absence of quoted market prices, fair value of asset retirement obligations are estimated using present value techniques, using various assumptions including estimates of the amounts and timing of future cash flows associated with retirement activities, inflation rates and credit-adjusted risk free rates. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries defer the difference between the amounts recognized

for depreciation and accretion and the amount collected, or expected to be collected, in rates. Refer to

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

NiSource Inc.

Note 7, Asset Retirement Obligations, in the Notes to Consolidated Financial Statements for additional information.

Revenue. 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.

Taxes. Deferred income taxes are recognized for all temporary differences between the financial statement and tax basis of assets and liabilities at currently enacted income tax rates.

Additional deferred income tax assets and liabilities are required for temporary differences where regulators prohibit deferred income tax treatment for ratemaking purposes. Regulatory assets or liabilities, corresponding to such additional deferred tax assets or liabilities, may be recorded to the extent recoverable from or payable to customers through the ratemaking process. Amounts applicable to income taxes due from and due to customers primarily represent differences between the book and tax basis of net utility plant in service.

Recently Adopted Accounting Pronouncements

Refer to Note 2, Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements for information on recently adopted accounting pronouncements.

Recently Issued Accounting Pronouncements

There are no recently issued accounting pronouncements that will materially impact NiSource.

International Financial Reporting Standards

In February 2010, the SEC expressed its commitment to the development of a single set of high quality globally accepted accounting standards and directed its staff to execute a work plan addressing specific areas of concern regarding the potential incorporation of IFRS for the U.S. In October 2010, the SEC staff issued its first public progress report on the work plan and reported, among other things, that many large jurisdictions using IFRS have adopted IFRS by either converging their local standards to IFRS (convergence approach) or by endorsing individual standards over time (endorsement approach). The SEC is expected to vote in the second half of 2011 on whether to require the use of IFRS and by what method. Additionally, in December 2010 the SEC chairman publicly stated that companies would be allowed a minimum of four years to adjust if the use of IFRS is mandated.

In the fourth quarter of 2010, NiSource completed a comprehensive assessment of IFRS to understand the key accounting and reporting differences compared to U.S. GAAP and to assess the potential organizational, process and system impacts that would be required. The accounting differences between U.S. GAAP and IFRS are complex and significant in many aspects, and conversion to IFRS would have broad impacts across NiSource. In addition to financial statement and disclosure changes, converting to IFRS would involve changes to processes and controls, regulatory and management reporting, financial reporting systems, and other areas of the organization. As a part of the IFRS assessment project, a preliminary conversion roadmap was created for reporting IFRS. This IFRS conversion roadmap, and NiSource's strategy for addressing a potential mandate of IFRS, will be re-assessed when the SEC makes its determination on whether to require the use of IFRS and by what method.

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.

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

NiSource Inc.

Bargaining Unit Contract

As of December 31, 2010, NiSource had 7,604 employees of whom 3,278 were subject to collective bargaining agreements. These agreements expire at various times beginning in September 2011 through June 2015.

2010 Health Care Act

The 2010 Health Care Act includes a provision eliminating, effective January 1, 2013, the tax deductibility of retiree health care costs to the extent of federal subsidies received under the Retiree Drug Subsidy program. When the Retiree Drug Subsidy was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, NiSource recorded a deferred tax asset reflecting the exclusion of the expected future Retiree Drug Subsidy from taxable income. At the same time, an offsetting regulatory liability was established to reflect NiSource's obligation to reduce income taxes collected in future rates. ASC Topic 740, *Income Taxes*, requires the impact of a change in tax law to be immediately recognized in continuing operations in the income statement for the period that includes the enactment date. In the first quarter of 2010, NiSource reversed its deferred tax asset of \$6.2 million related to previously excludable Retiree Drug Subsidy payments expected to be received after January 1, 2013, which was completely offset by the reversal of the related regulatory liability. There was no impact on income tax expense recorded in the Statements of Consolidated Income for the period ended December 31, 2010.

A provision of the 2010 Health Care Act requires the elimination, effective January 1, 2011, of lifetime and restrictive annual benefit limits from certain active medical plans. The NiSource Consolidated Flex Medical Plan (the Consolidated Flex Plan), a component welfare benefit plan of the NiSource Life and Medical Benefits Program, covered both active and retired employees and capped lifetime benefits to certain retirees. NiSource examined the provisions of the 2010 Health Care Act and determined the enactment of the law in the first quarter of 2010 qualified as a significant event requiring remeasurement of other postretirement benefit obligations and plan assets as of March 31, 2010. Effective September 1, 2010, NiSource amended the Consolidated Flex Plan and established the NiSource Post-65 Retiree Medical Plan (the Post-65 Retiree Plan) as a separate ERISA plan. In accordance with the amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan, Medicare supplement plan options for NiSource post-age 65 retirees and their eligible post-age 65 dependents are now offered under the Post-65 Retiree Plan, a retiree-only plan, and not under the Consolidated Flex Plan. The Post-65 Retiree Plan is not subject to the provisions of the 2010 Health Care Act requiring elimination of lifetime and restrictive annual benefit limits. The amendment of the Consolidated Flex Plan and the establishment of the Post-65 Retiree Plan required a second remeasurement of other postretirement benefit obligations and plan assets as of September 1, 2010. The effect of the change in the legislation and the plan amendment resulted in an increase to the other postretirement benefit obligation, net of plan assets, of \$31.0 million and corresponding increases to regulatory assets and AOCI of \$29.4 million and \$1.6 million, respectively. Net periodic postretirement benefit cost for 2010 was also increased by approximately \$2.2 million.

Dodd-Frank Financial Reform Bill

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 will 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 derivative market, requiring certain OTC transactions to be cleared through a clearing house and requiring cash margins to be posted for those transactions. Many regulations will be issued to implement the Act over the next twelve to twenty four months. NiSource is currently reviewing the Act and is unable to determine the final impact that the Act will have on its operations until these regulations have been issued.

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

NiSource Inc.

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 Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Gas Distribution Operations**

Year Ended December 31, (<i>in millions</i>)	2010	2009	2008
Net Revenues			
Sales Revenues	\$ 3,668.1	\$ 3,902.4	\$ 5,740.6
Less: Cost of gas sold (excluding depreciation and amortization)	2,065.6	2,293.0	4,197.9
Net Revenues	1,602.5	1,609.4	1,542.7
Operating Expenses			
Operation and maintenance	870.8	871.0	798.3
Depreciation and amortization	239.3	248.1	228.8
Impairment and (gain)/loss on sale of assets, net	-	(1.5)	(2.3)
Other taxes	159.7	164.0	181.8
Total Operating Expenses	1,269.8	1,281.6	1,206.6
Operating Income	\$ 332.7	\$ 327.8	\$ 336.1
Revenues (\$ in Millions)			
Residential	\$ 2,134.8	\$ 2,508.2	\$ 3,228.8
Commercial	707.7	864.6	1,125.4
Industrial	215.4	239.7	311.9
Off-System Sales	295.4	253.5	915.5
Other	314.8	36.4	159.0
Total	\$ 3,668.1	\$ 3,902.4	\$ 5,740.6
Sales and Transportation (MMDth)			
Residential sales	258.0	265.2	278.0
Commercial sales	166.8	169.4	174.2
Industrial sales	385.9	335.9	373.2
Off-System Sales	71.9	59.7	96.8
Other	1.0	0.8	1.0
Total	883.6	831.0	923.2
Heating Degree Days			
Normal Heating Degree Days	5,547	5,624	5,771
% Colder (Warmer) than Normal	(2%)	0%	2%

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Customers

Residential	3,039,874	3,032,597	3,037,504
Commercial	281,473	279,144	280,195
Industrial	7,668	7,895	8,003
Other	65	79	76
Total	3,329,080	3,319,715	3,325,778

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Gas Distribution Operations (continued)**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. 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.

Market Conditions

During 2010, Gas Distribution Operations gross revenues decreased due to lower natural gas commodity prices experienced throughout the year. Spot prices for the winter of 2010-2011 have primarily been in the \$3.36 - \$4.91/Dth range compared to prices in the \$3.00 - \$6.50/Dth range experienced during the winter of 2009-2010. Year over year demand reflected moderate recovery from the 2009-2010 lows, but the combination of strong supplies and storage levels remaining at high levels kept gas prices in a narrow range.

Entering the 2010-2011 winter season, storage levels were 13 Bcf and 327 Bcf ahead of the prior year and 5 year average inventory levels, respectively. During the summer of 2010, prices ranged between \$3.30 and \$5.17/Dth which were consistent with those prices experienced in the summer of 2009.

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 2008, 2009 and 2010 and estimates for 2011.

<i>(in millions)</i>	2011E	2010	2009	2008
System Growth	\$ 75.5	\$ 94.1	\$ 86.1	\$ 75.8
Maintenance and Other	415.6	315.6	257.1	293.9
Total	\$ 491.1	\$ 409.7	\$ 343.2	\$ 369.7

The Gas Distribution Operations segment's capital expenditures and other investing activities were \$409.7 million in 2010 and are projected to be \$491.1 million in 2011. Capital expenditures for 2010 were higher than 2009 by approximately \$66.5 million primarily due to increased spending on infrastructure replacement projects. The

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

NiSource Inc.

Gas Distribution Operations (continued)

increase in the capital expenditures budget from 2010 to 2011 is primarily attributable to additional spending on infrastructure replacement programs in Ohio, Kentucky, Pennsylvania and Massachusetts.

Capital expenditures for 2009 were lower than 2008 by approximately \$26.5 million primarily due to decreased spending on maintenance projects.

Bear Garden Station

In August 2008, Columbia of Virginia entered into an agreement with Dominion Virginia Power to install facilities to serve a 580 mw combined cycle generating station in Buckingham County, VA, known as the Bear Garden station. The project required approximately 13.3 miles of 24-inch steel pipeline and associated facilities to serve the station. In March 2009, the VSCC approved Dominion Virginia Power Company's planned Bear Garden station. Columbia of Virginia's facilities constructed to serve the Bear Garden station were placed into service in July 2010.

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. The NiSource distribution companies have experienced an increase in usage by industrial customers due to improved general economic conditions. A significant portion of the LDCs' operating costs are fixed in nature. 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. Columbia of Ohio recently 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. In regulatory proceedings in 2009, Columbia of Massachusetts and Columbia of Virginia received approval of decoupling mechanisms which adjust revenues to an approved benchmark level through a volumetric adjustment factor. Each of the states in which the NiSource LDCs operate have different requirements regarding the procedure for establishing such changes and NiSource is seeking similar changes through regulatory proceedings for its other gas distribution utilities.

Environmental Matters

Currently, various environmental matters impact the Gas Distribution Operations segment. As of December 31, 2010, 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.

Restructuring

Refer to Note 3, *Impairments, Restructuring and Other Charges*, in the Notes to Consolidated Financial Statements for information regarding restructuring initiatives.

Sale of Northern Utilities

On December 1, 2008, NiSource completed its sale of Northern Utilities and Granite State Gas to Unitil Corporation. The final sale amount was \$209.1 million, which included \$49.1 million in working capital. Northern Utilities is a local gas distribution company serving 52 thousand customers in 44 communities in Maine and New Hampshire. In the first quarter of 2008, NiSource began accounting for the operations of Northern Utilities as discontinued operations. As such, a net loss of \$0.5 million and net income of \$6.2 million for Northern Utilities, which affected the Gas Distribution Operations segment, was classified as net income from discontinued operations for the years ended December 31, 2009 and 2008, respectively. There was no impact in 2010. Refer to Note 4, *Discontinued Operations and Assets and Liabilities Held for Sale*, in the Notes to Consolidated Financial Statements for additional information. NiSource acquired Northern Utilities and Granite State Gas in 1999 as part of the company's larger acquisition of Columbia of Massachusetts. NiSource is retaining its ownership of Columbia of Massachusetts as a core component of the company's long-term, investment-driven growth strategy.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Gas Distribution Operations (continued)****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 2010 was about 2% warmer than normal and was about 1% warmer than 2009, decreasing net revenues by approximately \$3 million for the year ended December 31, 2010 compared to 2009.

Weather in the Gas Distribution Operations service territories for 2009 approximated normal and was about 3% warmer than 2008, decreasing net revenues by approximately \$8 million for the year ended December 31, 2009 compared to 2008.

Throughput

Total volumes sold and transported for the year ended December 31, 2010 were 883.6 MMDth, compared to 831.0 MMDth for 2009. This increase reflected higher sales to industrial customers attributable mainly to the improved economy and higher off-system sales.

Total volumes sold and transported for the year ended December 31, 2009 were 831.0 MMDth, compared to 923.2 MMDth for 2008. This decrease reflected lower sales to residential and industrial customers due to warmer weather and lower industrial usage due to the economy's slowdown and lower off-system sales volumes resulting primarily from market conditions during 2009 that presented fewer opportunities to sell gas to non-traditional customers.

Net Revenues

Net revenues for 2010 were \$1,602.5 million, a decrease of \$6.9 million from 2009. This decrease in net revenues was primarily due to decreased regulatory and tax trackers of \$20.4 million, offset in expense, and decreased residential and commercial margins of \$20.1 million. Additionally, there was an accrual related to a prior period contract established at Columbia of Massachusetts of \$5.7 million, additional customer credits of \$5.6 million issued as the result of a rate case, a decrease in forfeited discounts and late payments of \$5.0 million, and the impact of warmer weather of approximately \$3 million. These decreases were partially offset by an increase in regulatory and service programs of \$51.7 million. This includes impacts from rate cases at various utilities, the implementation of new rates under Columbia of Ohio's approved infrastructure replacement program, and for the revenue normalization program at Columbia of Virginia.

Net revenues for 2009 were \$1,609.4 million, an increase of \$66.7 million from 2008. This increase in net revenues was primarily due to regulatory and service programs including impacts from rate cases at various utilities of \$97.2 million and increased trackers of \$4.9 million offset in expense, partially offset by decreased industrial and residential customer margins of \$22.0 million, lower off-system sales revenues of \$13.0 million and the impact of warmer weather of approximately \$8 million.

At Northern Indiana, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased gas costs from prior periods per regulatory order. These amounts are primarily reflected in the Other gross revenues statistic provided at the beginning of this segment discussion. The adjustment to Other gross revenues for the twelve months ended December 31, 2010 and 2009 was a revenue increase of \$270.6 million and a revenue decrease of \$121.1 million, respectively, primarily due to the volatility in gas prices experienced over the past

two years.

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

NiSource Inc.

Gas Distribution Operations (continued)

Operating Income

For 2010, operating income for the Gas Distribution Operations segment was \$332.7 million, an increase of \$4.9 million compared to the same period in 2009 primarily attributable to lower operating expenses of \$11.8 million, partially offset by decreased net revenues described above. Operating expenses decreased due to lower net regulatory and tax trackers, offset in revenue, of \$20.4 million, decreased uncollectible expenses of \$10.1 million and lower depreciation costs of \$8.8 million primarily due to new approved depreciation rates. These decreases in operating expenses were partially offset by increased payroll and benefits expense of \$20.1 million and environmental costs of \$3.3 million.

For 2009, operating income for the Gas Distribution Operations segment was \$327.8 million, a decrease of \$8.3 million compared to the same period in 2008 primarily attributable to higher operating expenses of \$75.0 million, partially offset by increased net revenues described above. Operating expenses increased due to higher employee and administrative costs of \$44.6 million, increased depreciation expense of \$19.3 million, higher uncollectible costs of \$5.5 million, increased net regulatory and tax trackers of \$4.9 million that are offset in net revenues and increased maintenance costs of \$3.6 million. The increase in employee and administrative expense was primarily due to higher pension cost of \$31.8 million, net of the \$10.7 million deferral of increased pension cost for Columbia of Ohio.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Gas Transmission and Storage Operations**

Year Ended December 31, (<i>in millions</i>)	2010	2009	2008
Operating Revenues			
Transportation revenues	\$ 728.4	\$ 724.6	\$ 682.5
Storage revenues	198.7	190.8	178.9
Other revenues	22.1	15.3	3.9
Operating Revenues	949.2	930.7	865.3
Operating Expenses			
Operation and maintenance	399.1	382.2	326.5
Depreciation and amortization	130.7	121.5	117.6
Impairment and (gain)/loss on sale of assets, net	(0.1)	(1.4)	7.3
Other taxes	57.4	55.9	56.5
Total Operating Expenses	587.1	558.2	507.9
Equity Earnings in Unconsolidated Affiliates	15.0	16.0	12.3
Operating Income	\$ 377.1	\$ 388.5	\$ 369.7
Throughput (MMDth) *			
Columbia Transmission	1,092.4	1,029.8	1,000.0
Columbia Gulf	848.4	894.1	990.2
Crossroads Gas Pipeline	25.4	33.9	36.3
Intrasegment eliminations	(568.7)	(566.4)	(538.0)
Total	1,397.5	1,391.4	1,488.5

* Represents billed throughput for all periods presented.

Growth Projects Placed into Service

Cobb Compressor Station Project. This project continues the Gas Transmission and Storage Operations segment strategy to meet producers' near-term, incremental transportation demand in the Appalachian Basin. Shippers have also executed precedent agreements for a total of approximately 25,500 Dth per day of long-term firm transportation service associated with a facility expansion at Cobb Compressor Station in Kanawha County, West Virginia. The Cobb Expansion totaled approximately \$15 million in construction costs and was placed into service on May 17, 2010.

Majorsville, PA Project. The Gas Transmission and Storage Operations segment executed three separate projects totaling approximately \$80 million in the Majorsville, PA vicinity to aggregate Marcellus Shale gas production for downstream transmission. Fully contracted, the pipeline and compression assets allow Gas Transmission and Storage 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.

In 2010, Columbia Transmission received approval from the FERC to refunctionalize certain transmission assets to gathering and transferred these pipeline facilities to a newly formed affiliate, NiSource Midstream Services, LLC. These facilities are included in providing non-FERC jurisdiction gathering services to producers in the Majorsville, PA vicinity. Two of the three projects were completed and placed into service on August 1, 2010, creating an integrated gathering and processing system serving Marcellus production in southwestern Pennsylvania and northern West Virginia. Precedent agreements were executed by anchor shippers in the fourth quarter of 2009, which were superseded by the execution of long-term service agreements in August and September 2010. In the fourth quarter, construction began on the third project on a pipeline 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 third project is expected to go in service in the first quarter 2011.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Gas Transmission and Storage Operations (continued)**

Clendenin Project. Construction began in 2010 to modify existing facilities in the Clendenin area in West Virginia to move Marcellus production to liquid market centers. The Clendenin project allows Gas Transmission and Storage Operations segment to meet incremental transportation demand of up to 150,000 Dth per day. Long-term firm transportation contracts for 130,000 Dth have been executed, some of which began in the third quarter 2010 and others that will begin in the second quarter 2011. Total capital required for the Clendenin project is approximately \$18 million.

Projects Placed into Service in 2009. During 2009, Gas Transmission and Storage Operations segment placed a number of projects into service. The Line 1570 project allowed Columbia Transmission to gather and transport phased in gas volumes of up to 150,000 Dth per day in October 2008 and March 2009, with facilities substantially completed and incremental volumes delivered in fourth quarter of 2009 and during 2010. The Columbia Penn project provided phased in access to pipeline capacity in conjunction with production increases in the Marcellus Shale formation that underlies Columbia Transmission's transmission and storage network in the region in February and November 2009. The Eastern Market Expansion project allowed Columbia Transmission to expand its facilities to provide additional storage and transportation services and to replace certain existing facilities, adding 97,000 Dth per day of storage and transportation deliverability beginning on April 1, 2009. The Ohio Storage project expanded two Ohio storage fields, adding capacity of nearly 7 Bcf and 103,400 Dth per day of deliverability beginning in May 2009 with full service achieved during the fourth quarter of 2009 under FERC authorized market-based rates. The Appalachian Expansion project included a new compressor station and added 100,000 Dth per day of transportation capacity beginning on July 1, 2009. The Easton Compressor Station project increased delivery capacity of 30,000 Dth per day commencing in the fourth quarter of 2009. The Eastern Market Expansion, Ohio Storage, and Appalachian Expansion projects are all fully subscribed on a firm basis.

Growth Projects in Progress

East Lateral Project. Gas Transmission and Storage Operations segment initiated a \$4.7 million project in 2010 that, with modification of existing facilities on the Columbia Gulf East Lateral, allows it to provide firm transportation services for up to 300,000 Dth per day. Firm transportation contracts for 250,000 Dth per day have been executed for five-year terms. Gas Transmission and Storage received FERC approval to complete this project, which will be put into service on April 1, 2011.

Line WB Expansion Project. Gas Transmission and Storage Operations segment is expanding its WB system through an approximately \$14 million investment in additional facilities to provide transportation service on a firm basis from Loudoun, Virginia to Leach, Kentucky. The expansion will allow 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 have been executed, some of which began in January 2011. Gas Transmission and Storage requested and received FERC approval and anticipates completing construction on all facilities in the third quarter of 2011.

Southern Appalachian Project. As a continuation of its strategy to provide transportation services to producers of Marcellus and Appalachian gas, the Gas Transmission and Storage Operations segment is expanding Line SM-116 to transport approximately 38,500 Dth per day on a firm basis. This additional capacity is supported by executed binding precedent agreements. These additional facilities will be constructed at a cost of nearly \$4 million. The segment requested and received FERC approval to complete this project with service expected to commence in April 2011.

Regulatory Matters

Refer to Note 8, Regulatory Matters, in the Notes to Consolidated Financial Statements for information on regulatory matters for the Gas Transmission and Storage Operations segment.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Gas Transmission and Storage Operations (continued)**Capital Expenditures and Other Investing Activities

The table below reflects actual capital expenditures and other investing activities by category for 2008, 2009 and 2010 and estimates for 2011.

<i>(in millions)</i>	2011E	2010	2009	2008
System Growth	\$ 152.9	\$ 152.4	\$ 171.2	\$ 253.4
Maintenance and Other	174.6	149.6	116.2	130.4
Total	\$ 327.5	\$ 302.0	\$ 287.4	\$ 383.8

Capital expenditures in the Gas Transmission and Storage Operations segment in 2010 increased by \$14.6 million relative to 2009, primarily due to increased expenditures on maintenance projects. The capital expenditure program and other investing activities in 2011 are projected to be approximately \$327.5 million, which is an increase of \$25.5 million over 2010. The increase in Maintenance and Other from 2010 to 2011 is attributable to Integrity Management Pipeline spending and planned pipeline replacements.

Capital expenditures in the Gas Transmission and Storage Operations segment in 2009, decreased by \$96.4 million relative to 2008, primarily due to lower expenditures on growth projects.

Sales and Percentage of Physical Capacity Sold

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

Firm service contracts require pipeline capacity to be reserved for a given customer between certain receipt and delivery points. Firm customers generally pay a capacity reservation fee based on the amount of capacity being reserved regardless of whether the capacity is used, plus an incremental usage fee when the capacity is used. Annual capacity reservation revenues derived from firm service contracts generally remain constant over the life of the contract because the revenues are based upon capacity reserved and not whether the capacity is actually used. The high percentage of revenue derived from capacity reservation fees mitigates the risk of revenue fluctuations within the Gas Transmission and Storage Operations segment due to changes in near-term supply and demand conditions. For 2010, approximately 91.2% of the transportation revenues were derived from capacity reservation fees paid under firm contracts and 5.6% of the transportation revenues were derived from usage fees under firm contracts. This is compared to approximately 89.3% of the transportation revenues derived from capacity reservation fees paid under firm contracts and 3.8% of transportation revenues derived from usage fees under firm contracts for 2009.

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. Gas Transmission and Storage 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 2010 and 2009, approximately 3.2% and 6.9%, respectively, of the transportation revenues were derived from interruptible contracts.

Hartsville Compressor Station

In 2008, tornados damaged Columbia Gulf s Hartsville Compressor Station in Tennessee and immediately thereafter, construction began on both temporary and permanent facilities while installation of temporary horsepower was completed and capacity restored. Damage claims were settled with insurance companies in 2008. Late in 2009, construction of a permanent compression solution was completed. In early 2010, testing was completed and permanent, environmentally advantageous horsepower that is more efficient, cleaner-burning and

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

NiSource Inc.

Gas Transmission and Storage Operations (continued)

quieter was placed into service. Replacement of the remaining temporary facilities that were constructed to restore system capabilities with a permanent solution was completed in 2010. Columbia Gulf incurred \$6.2 million, \$12.2 million and \$47.0 million in 2010, 2009 and 2008, respectively, in reconstruction costs.

Insurance proceeds attributable to capital replacement related to the aforementioned incident totaled \$45.3 million and \$30.1 million in 2009 and 2008, respectively. At December 31, 2010 and 2009, there were no claims outstanding for tornado damages.

Hurricanes

In 2004 and 2005, hurricanes Ivan, Katrina and Rita damaged certain Columbia Gulf property, including pipeline assets and related facilities. In 2009, Columbia Gulf incurred \$2.6 million in capital costs to complete the repairs from hurricanes, bringing the total costs recorded to repair damages to nearly \$59 million over a multi-year period, which were principally capital expenditures recovered through insurance. Costs to repair damages were recognized when costs were incurred or when information became available to estimate the damages incurred.

Insurance claims related to hurricanes were settled in December 2008 for \$40.8 million, of which \$11.5 million and \$16.8 million in proceeds was received in 2009, and 2008, respectively. Additional proceeds were collected prior to 2007. Insurance proceeds covered capital replacement, operation and maintenance losses, and business interruption, fuel costs and other losses. At December 31, 2010 and 2009, there were no claims outstanding for hurricane damages.

Environmental Matters

Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of December 31, 2010, 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 Transmission and Storage Operations segment.

Sale of Granite State Gas

On December 1, 2008, NiSource completed its sale of Northern Utilities and Granite State Gas to Unitil Corporation. The final sale amount was \$209.1 million, which included \$49.1 million in working capital. The working capital amount was adjusted based upon the final settlement that occurred in the first quarter of 2009. Granite State Gas is an 86-mile FERC regulated gas transmission pipeline primarily located in Maine and New Hampshire. In the first quarter of 2008, NiSource began accounting for the operations of Granite State Gas as discontinued operations. As such, net income of \$0.6 million from continuing operations for Granite State Gas, which affected the Gas Transmission and Storage Operations segment, was classified as net income from discontinued operations for the year ended December 31, 2008. There was no effect to net income from discontinued operations for 2010 or 2009. Refer to Note 4, Discontinued Operations and Assets and Liabilities Held for Sale, in the Notes to Consolidated Financial Statements for additional information.

Restructuring Plan

Refer to Note 3, Impairments, Restructuring and Other Charges, in the Notes to Consolidated Financial Statements for information regarding restructuring initiatives.

Throughput

Columbia Transmission provides transportation and storage services for LDCs and other customers within its market area, 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Gas Transmission and Storage Operations (continued)**

Throughput for the Gas Transmission and Storage Operations segment totaled 1,397.5 MMDth for 2010, compared to 1,391.4 MMDth for the same period in 2009. The increase of 6.1 MMDth is due to increased production from the Marcellus Shale area being offset by reduced receipts elsewhere on the system. A warmer than normal summer and colder winter have helped keep overall system volumes comparable with the prior year. On the Columbia Gulf system, increased throughput out of the Haynesville, Fayetteville and Barnett shales have offset declining volumes from Gulf of Mexico area receipts. At the same time, the weather mentioned above has helped keep demand for gas from Columbia Gulf to Columbia Transmission comparable with last year.

Throughput for the Gas Transmission and Storage Operations segment totaled 1,391.4 MMDth for 2009, compared to 1,488.5 MMDth in 2008. The decrease of 97.1 MMDth is due primarily to lower Columbia Gulf deliveries partially offset by increased Columbia Transmission volumes transported from new Columbia Transmission contracts.

Operating Revenues

Operating revenues were \$949.2 million for 2010, an increase of \$18.5 million from 2009. The increase in operating revenues was primarily due to increased demand and commodity margin revenues as a result of the growth projects of \$22.9 million and an increase of \$8.3 million due to the recognition of revenue for a previously deferred gain for native gas contributed to Hardy Storage from Columbia Transmission following Hardy Storage securing permanent financing. Additionally, there was a \$5.6 million increase in regulatory trackers, which are offset in expense, \$5.4 million of fees received from a contract buy-out during the period, and a \$3.5 million increase in mineral rights royalty revenues. These increases in revenue were partially offset by a decrease in shorter term transportation and storage services of \$23.1 million and a decrease of \$9.1 million in mineral rights leasing revenues.

Operating revenues were \$930.7 million for 2009, an increase of \$65.4 million from 2008. The increase in operating revenues was primarily from increased firm capacity reservation fees of \$29.5 million principally from growth projects such as the Eastern Market Expansion and the Ohio Storage Expansion, as well as for new Appalachian supply contracts, increased shorter-term transportation and storage services of \$18.6 million, mineral rights leasing revenues of \$12.2 million, increased trackers of \$9.2 million offset in operating expense and the impact of a regulatory settlement of \$9.0 million that occurred in 2008, partially offset by the impact of \$5.3 million of contract buyouts in 2008.

Operating Income

Operating income of \$377.1 million in 2010 decreased \$11.4 million from 2009, primarily due to increased operating expenses of \$28.9 million and lower equity earnings of \$1.0 million, partly offset by higher net operating revenues described above. Operating expenses increased as a result of higher maintenance and outside service costs of \$22.0 million, including pipeline integrity management costs. Additionally, employee and administration expenses increased \$18.5 million, primarily due to increased pension contributions, depreciation increased \$9.2 million as a result of increased capital expenditures, regulatory trackers, which are offset in revenue, increased \$5.6 million, and materials and supplies cost increased \$3.2 million. These increases were partially offset by a decrease of \$19.9 million in restructuring charges recorded in 2009 and lower environmental costs of \$2.9 million. Equity earnings decreased \$1.0 million primarily resulting from lower earnings from Columbia Transmission's investment in Millennium, driven by higher interest costs and hedge loss amortization related to Millennium's August 2010 debt refinancing.

Operating income of \$388.5 million in 2009 increased \$18.8 million from 2008, primarily due to increased net revenues described above and higher equity earnings of \$3.7 million, partly offset by an increase in operating expenses of \$50.3 million. Operating expenses increased as a result of restructuring charges of \$19.9 million, \$9.2 million of increased trackers offset in net revenues, higher capacity lease costs of \$6.6 million, higher maintenance costs of \$4.0 million and higher environmental expenses of \$4.0 million. These increases in operating expenses were partially offset by a \$1.4 million net gain on the sale of certain offshore assets of Columbia Gulf. Equity earnings increased by \$3.7 million primarily resulting from higher earnings from Columbia Transmission's investment in

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

NiSource Inc.

Gas Transmission and Storage Operations (continued)

Millennium, net of \$8.1 million in expense resulting from interest rate hedges related to Millennium's decision to delay permanent financing until 2010.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Electric Operations**

Year Ended December 31, (<i>in millions</i>)	2010	2009	2008
Net Revenues			
Sales revenues	\$ 1,394.7	\$ 1,221.4	\$ 1,362.7
Less: Cost of sales (excluding depreciation and amortization)	508.3	456.5	556.8
Net Revenues	886.4	764.9	805.9
Operating Expenses			
Operation and maintenance	381.3	391.5	320.7
Depreciation and amortization	211.0	205.6	209.6
(Gain)/loss on sale of assets	-	0.3	(0.3)
Other taxes	58.6	50.8	56.7
Total Operating Expenses	650.9	648.2	586.7
Operating Income	\$ 235.5	\$ 116.7	\$ 219.2
Revenues (\$ in millions)			
Residential	\$ 393.2	\$ 360.2	\$ 367.6
Commercial	372.7	369.3	364.7
Industrial	508.9	452.8	525.8
Wholesale	30.4	19.3	57.1
Other	89.5	19.8	47.5
Total	\$ 1,394.7	\$ 1,221.4	\$ 1,362.7
Sales (Gigawatt Hours)			
Residential	3,625.6	3,241.4	3,345.9
Commercial	3,919.9	3,833.9	3,915.8
Industrial	8,459.0	7,690.9	9,305.4
Wholesale	817.1	600.6	737.2
Other	186.4	158.9	138.2
Total	17,008.0	15,525.7	17,442.5
Cooling Degree Days	977	515	705
Normal Cooling Degree Days	808	808	808
% Warmer (Colder) than Normal	21%	(36%)	(13%)

Electric Customers

Residential	400,522	400,016	400,640
Commercial	53,877	53,617	53,438
Industrial	2,432	2,441	2,484
Wholesale	15	15	9
Other	740	746	754
Total	457,586	456,835	457,325

Electric Supply

On October 29, 2009, Northern Indiana filed its 2009 Integrated Resource Plan with the IURC. The plan evaluates demand-side and supply-side resource alternatives to reliably and cost-effectively meet Northern Indiana customers future energy requirements over the next twenty years. With the effects of the present economy, existing resources are projected to be sufficient through 2012 to serve customers needs. Therefore, Northern Indiana's two requests for proposals to secure additional new sources of electric power issued on October 24, 2008 were not acted upon.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**NiSource Inc.****Electric Operations (continued)**

With numerous variables contributing to uncertainty in the near-term outlook, Northern Indiana continues to monitor and assess economic, regulatory and legislative activity, and will update its resource plan as appropriate.

On July 24, 2008, the IURC issued an order approving Northern Indiana's proposed purchase power agreements with subsidiaries of Iberdrola Renewables for wind-generated power from Iowa and South Dakota. Under these agreements Northern Indiana purchases up to approximately 100 mw of wind power. Northern Indiana began purchasing wind power in April 2009. Although a state or federal renewable portfolio standard is not yet established, Northern Indiana expects that its wind power purchase agreements would qualify as eligible purchases under any such standard.

Market Conditions

Northern Indiana's mwh sales to the steel-related industry accounted for approximately 63.6% and 62.6% of the total industrial mwh sales for the twelve months ended December 31, 2010 and 2009, respectively. The industrial sales volumes and revenues recovered in 2010 as compared to 2009, due to the partial economic recovery of the steel industry from its 2009 recession lows. The U.S. steel industry continues to adjust to changing market conditions. Predominant factors are global and domestic manufacturing and construction demand, industry consolidation, increased steelmaking capacity in China and India, and gross margin volatility. Steel-related mwh volumes and demands have stabilized considerably since the volatility of the 2008-2009 period and the steel producers in Northern Indiana Electric's service territory continue to see modest increases in production.

Capital Expenditures and Other Investing Activities

The table below reflects actual capital expenditures and other investing activities by category for 2008, 2009 and 2010 and estimates for 2011.

<i>(in millions)</i>	2011E	2010	2009	2008
System Growth	\$ 85.9	\$ 25.8	\$ 32.7	\$ 376.1
Maintenance and Other	172.5	164.5	129.9	176.3
Total	\$ 258.4	\$ 190.3	\$ 162.6	\$ 552.4

The Electric Operations' capital expenditure program and other investing activities in 2010 were higher by \$27.7 million versus 2009. The increase in capital was primarily attributable to increased maintenance projects in the generation fleet. Capital expenditures in the segment are projected to be approximately \$258.4 million in 2011, which is an increase of \$68.1 million. This increase is mainly due to environmental tracker capital for Flue Gas Desulfurization (FGD) projects in the generation fleet.

The Electric Operations' capital expenditure program and other investing activities in 2009 were lower by \$389.8 million compared to 2008. The decrease in capital expenditures was primarily attributable to the acquisition of Sugar Creek in 2008.

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, 2010, 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.

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

NiSource Inc.

Electric Operations (continued)

Restructuring

Refer to Note 3, Impairments, Restructuring and Other Charges, in the Notes to Consolidated Financial Statements for information regarding restructuring initiatives.

Sales

Electric Operations sales were 17,008.0 gwh for the year 2010, an increase of 1,482.3 gwh compared to 2009. The increase occurred primarily from higher industrial volumes as a result of improvement in overall economic conditions. Additionally, warmer weather in 2010 has resulted in an increase in sales.

Electric Operations sales were 15,525.7 gwh for the year 2009, a decrease of 1,916.8 gwh compared to 2008. The decrease occurred across all customer bases compared to the prior year primarily as a result of the economic downturn and the impact of unfavorable weather. Industrial customer volumes sold were down approximately 17%, primarily due to a sharp decline in major steel companies' production in October 2008, which bottomed near 50% in May 2009. Since then, NiSource has seen growth in its power sales to these customers.

Net Revenues

Electric Operations' net revenues were \$886.4 million for 2010, an increase of \$121.5 million from 2009. This increase was primarily the result of higher industrial usage and margins of \$45.1 million due to improved economic conditions, warmer weather of approximately \$35 million, and a \$17.1 million increase in environmental trackers, which are partially offset in operating expenses. Additionally, there was an increase of \$14.6 million in off-system sales, including a reduction of \$8.2 million in off-system sales in 2009 resulting from a FAC settlement and an increase in residential margins of \$6.6 million.

Electric Operations' net revenues were \$764.9 million for 2009, a decrease of \$41.0 million from 2008. This decrease was primarily the result of cooler weather of approximately \$18 million, lower industrial margins of \$17.4 million mainly due to economic conditions, lower Sugar Creek revenues from capacity and energy sales into the PJM Interconnection of \$13.5 million, lower emission allowance sales of \$9.5 million and lower off-system sales of \$9.1 million. These decreases in net revenues were partially offset by higher residential and commercial margins of \$12.4 million and lower non-recoverable purchased power costs of \$10.1 million.

At Northern Indiana, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased fuel costs from prior periods per regulatory order. These amounts are primarily reflected in the Other gross revenues statistic provided at the beginning of this segment discussion. The adjustment to Other gross revenues for the twelve months ended December 31, 2010 and 2009 was a revenue increase of \$54.9 million and a revenue reduction of \$20.2 million, respectively.

Operating Income

Operating income for 2010 was \$235.5 million, an increase of \$118.8 million from 2009. The increase in operating income was due to increased net revenues described above partially offset by an increase in operating expenses of \$2.7 million. The increase in operating expenses was the result of an increase of \$7.8 million in other taxes, primarily property, a charge of \$5.9 million for inventory disposal and other costs associated with the rate case, higher electric generation costs of \$5.5 million, and an increase of \$5.4 million in depreciation costs. These were partially offset by \$10.0 million for a legal reserve which was recorded in 2009, a \$6.0 million reduction in the environmental reserve, \$3.6 million for lower restructuring costs, and \$3.2 million in lower uncollectible costs.

Operating income for 2009 was \$116.7 million, a decrease of \$102.5 million from 2008. The decrease in operating income was due to increased operating expenses of \$61.5 million and lower net revenues described above. Operating expenses increased due primarily to higher employee and administrative costs of \$51.1 million, increased legal reserves of \$13.0 million, higher electric generation and maintenance expenses of \$6.2 million and \$3.7 million of restructuring charges. These increases in operating expenses were partially offset by lower property taxes of \$6.3 million, lower environmental expense of \$5.4 million and lower depreciation of \$4.0 million. The increase in employee and administrative expense was primarily due to higher pension cost of \$42.6 million. The decrease in

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

NiSource Inc.

Electric Operations (continued)

depreciation expense is mostly due to the impact of an \$8.3 million adjustment recorded by Northern Indiana during the second quarter of 2008.

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.

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission L.L.C.
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
NDC Douglas Properties	NDC Douglas Properties, Inc.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company Inc.
Northern Utilities	Northern Utilities, Inc.
NSR	New Source Review
PEI	PEI Holdings, Inc.
Whiting Clean Energy	Whiting Clean Energy, Inc.

Abbreviations

2010 Health Care Act	The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 signed into law by the President on March 23, 2010 and March 30, 2010, respectively
ACES	American Clean Energy and Security Act of 2009
AFUDC	Allowance for funds used during construction
AICPA	American Institute of Certified Public Accountants
Ameren	Ameren Services Company
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent

AOCI	Accumulated other comprehensive income
ARRs	Auction Revenue Rights
ASC	Accounting Standards Codification
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP AE	BP Alternative Energy North America Inc

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**NiSource Inc.****DEFINED TERMS**

BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CARE	Conservation and Ratemaking Efficiency
CCGT	Combined Cycle Gas Turbine
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
Chesapeake	Chesapeake Appalachia, L.L.C.
CO ₂	Carbon Dioxide
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
DOT	United States Department of Transportation
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EPA	United States Environmental Protection Agency
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services
IDEM	Indiana Department of Environmental Management
IFRS	International Financial Reporting Standards
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission

LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied Natural Gas
Mcf	Million cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell Station	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
mw	Megawatts

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NiSource Inc.

DEFINED TERMS

mwh	Megawatts hours
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO ₂	Nitrogen dioxide
NO _x	Nitrogen oxides
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUCC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIPP	Percentage of Income Plan
PJM	PJM Interconnection is a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.
PM	particulate matter
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RBS	Royal Bank of Scotland LC
RCRA	Resource Conservation and Recovery Act
RSG	Revenue Sufficiency Guarantee
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO ₂	Sulfur dioxide
Sugar Creek	Sugar Creek electric generating plant
VaR	Value-at-risk and instrument sensitivity to market factors
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission

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, 2010 and 2009, and the related consolidated statements of income, of common stockholders' equity and comprehensive income (loss), and of cash flows for each of the three years in the period ended December 31, 2010. 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 a 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, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, 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, 2010, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Columbus, Ohio
February 28, 2011

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, 2010, based on criteria established in Internal Control – Integrated Framework 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 at Item 9A. 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, 2010, based on the criteria established in Internal Control – Integrated Framework 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, 2010, of the Company and our report dated February 28, 2011 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Columbus, Ohio
February 28, 2011

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**NiSource Inc.****STATEMENTS OF CONSOLIDATED INCOME**

Year Ended December 31, <i>(in millions, except per share amounts)</i>	2010	2009	2008
Net Revenues			
Gas Distribution	\$ 3,094.0	\$ 3,296.2	\$ 5,171.3
Gas Transportation and Storage	1,261.4	1,239.5	1,132.4
Electric	1,386.7	1,213.2	1,357.0
Other	679.9	901.7	1,219.5
Gross Revenues	6,422.0	6,650.6	8,880.2
Cost of Sales (excluding depreciation and amortization)	2,974.1	3,318.0	5,633.3
Total Net Revenues	3,447.9	3,332.6	3,246.9
Operating Expenses			
Operation and maintenance	1,655.9	1,654.7	1,458.1
Depreciation and amortization	596.3	589.3	567.0
Impairment and loss on sale of assets, net	2.0	19.7	7.6
Other taxes	287.4	283.9	307.5
Total Operating Expenses	2,541.6	2,547.6	2,340.2
Equity Earnings in Unconsolidated Affiliates	15.0	16.0	12.3
Operating Income	921.3	801.0	919.0
Other Income (Deductions)			
Interest expense, net	(392.3)	(399.3)	(380.0)
Other, net	3.8	(1.4)	17.6
Loss on early extinguishment of long-term debt	(96.7)	(4.5)	-
Total Other Deductions	(485.2)	(405.2)	(362.4)
Income from Continuing Operations before Income Taxes	436.1	395.8	556.6
Income Taxes	141.5	165.3	186.0
Income from Continuing Operations	294.6	230.5	370.6
Loss from Discontinued Operations - net of taxes	(2.7)	(10.3)	(183.4)
Gain (Loss) on Disposition of Discontinued Operations - net of taxes	0.1	(2.5)	(108.2)
Net Income	\$ 292.0	\$ 217.7	\$ 79.0

Basic Earnings (Loss) Per Share (\$)

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Continuing operations	\$	1.06	\$	0.84	\$	1.35
Discontinued operations		(0.01)		(0.05)		(1.06)
Basic Earnings Per Share	\$	1.05	\$	0.79	\$	0.29
Diluted Earnings (Loss) Per Share (\$)						
Continuing operations	\$	1.05	\$	0.84	\$	1.35
Discontinued operations		(0.01)		(0.05)		(1.06)
Diluted Earnings Per Share	\$	1.04	\$	0.79	\$	0.29
Dividends Declared Per Common Share	\$	0.92	\$	0.92	\$	0.92
Basic Average Common Shares Outstanding (millions)		277.8		275.1		274.0
Diluted Average Common Shares (millions)		280.1		275.8		275.4

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**NiSource Inc.****CONSOLIDATED BALANCE SHEETS**

<i>(in millions)</i>	December 31, 2010	December 31, 2009
ASSETS		
Property, Plant and Equipment		
Utility Plant	\$ 19,494.9	\$ 19,041.1
Accumulated depreciation and amortization	(8,492.6)	(8,387.1)
Net utility plant	11,002.3	10,654.0
Other property, at cost, less accumulated depreciation	94.7	34.0
Net Property, Plant and Equipment	11,097.0	10,688.0
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	7.9	14.6
Unconsolidated affiliates	200.9	165.8
Other investments	139.7	129.2
Total Investments and Other Assets	348.5	309.6
Current Assets		
Cash and cash equivalents	9.2	16.4
Restricted cash	202.9	174.7
Accounts receivable (less reserve of \$37.4 and \$39.6, respectively)	1,079.3	808.6
Income tax receivable	99.0	24.9
Gas inventory	298.2	384.8
Underrecovered gas and fuel costs	135.7	40.2
Materials and supplies, at average cost	83.8	102.3
Electric production fuel, at average cost	46.0	59.9
Price risk management assets	159.5	173.3
Exchange gas receivable	62.7	72.5
Regulatory assets	151.8	238.3
Assets of discontinued operations and assets held for sale	-	1.4
Prepayments and other	120.8	126.3
Total Current Assets	2,448.9	2,223.6
Other Assets		
Price risk management assets	240.3	237.6
Regulatory assets	1,650.4	1,644.1

Goodwill	3,677.3	3,677.3
Intangible assets	308.6	319.6
Postretirement and postemployment benefits assets	35.1	19.8
Deferred charges and other	132.7	152.1
 Total Other Assets	 6,044.4	 6,050.5
 Total Assets	 \$ 19,938.8	 \$ 19,271.7

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**NiSource Inc.****CONSOLIDATED BALANCE SHEETS (continued)**

<i>(in millions, except share amounts)</i>	December 31, 2010	December 31, 2009
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders' Equity		
Common stock - \$0.01 par value, 400,000,000 shares authorized; 278,855,291 and 276,638,021 shares issued and outstanding, respectively	\$ 2.8	\$ 2.8
Additional paid-in capital	4,103.9	4,057.6
Retained earnings	901.8	865.5
Accumulated other comprehensive loss	(57.9)	(45.9)
Treasury stock	(27.4)	(25.9)
 Total Common Stockholders' Equity	 4,923.2	 4,854.1
Long-term debt, excluding amounts due within one year	5,936.1	5,969.1
 Total Capitalization	 10,859.3	 10,823.2
 Current Liabilities		
Current portion of long-term debt	34.2	719.7
Short-term borrowings	1,382.5	103.0
Accounts payable	581.8	502.3
Dividends payable	0.1	0.2
Customer deposits and credits	318.1	301.2
Taxes accrued	221.1	212.9
Interest accrued	114.4	125.4
Overrecovered gas and fuel costs	11.8	220.4
Price risk management liabilities	173.9	190.1
Exchange gas payable	266.1	222.2
Deferred revenue	6.8	27.3
Regulatory liabilities	92.9	43.8
Accrued liability for postretirement and postemployment benefits	23.3	23.6
Liabilities of discontinued operations and liabilities held for sale	-	0.6
Legal and environmental reserves	86.0	146.1
Other accruals	336.4	310.8
 Total Current Liabilities	 3,649.4	 3,149.6
 Other Liabilities and Deferred Credits		
Price risk management liabilities	181.6	170.2
Deferred income taxes	2,209.7	2,018.2
Deferred investment tax credits	33.7	39.6

Deferred credits	68.6	72.4
Deferred revenue	0.3	8.5
Accrued liability for postretirement and postemployment benefits	1,039.6	1,134.2
Liabilities of discontinued operations and liabilities held for sale	-	6.2
Regulatory liabilities and other removal costs	1,595.8	1,558.8
Asset retirement obligations	138.8	138.2
Other noncurrent liabilities	162.0	152.6
 Total Other Liabilities and Deferred Credits	 5,430.1	 5,298.9
 Commitments and Contingencies (Refer to Note 20)	 -	 -
 Total Capitalization and Liabilities	 \$ 19,938.8	 \$ 19,271.7

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 CASH FLOWS**

Year Ended December 31, <i>(in millions)</i>	2010	2009	2008
Operating Activities			
Net Income	\$ 292.0	\$ 217.7	\$ 79.0
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:			
Loss on early extinguishment of debt	96.7	4.5	-
Depreciation and amortization	596.3	589.3	567.0
Net changes in price risk management assets and liabilities	(5.5)	(9.1)	25.7
Deferred income taxes and investment tax credits	200.1	378.2	137.8
Deferred revenue	(20.4)	4.3	(24.0)
Stock compensation expense and 401(k) profit sharing contribution	30.9	9.6	9.5
(Gain) Loss on sale of assets	(0.1)	(3.6)	4.3
Loss on impairment of assets	2.1	23.3	3.4
Income from unconsolidated affiliates	(14.8)	(15.1)	(25.3)
(Gain) Loss on disposition of discontinued operations - net of taxes	(0.1)	2.5	108.2
Loss from discontinued operations - net of taxes	2.7	10.3	183.4
Amortization of discount/premium on debt	10.3	13.0	7.7
AFUDC equity	(6.1)	(5.4)	(5.4)
Distribution Received from Equity Earnings	12.9	-	-
Changes in Assets and Liabilities:			
Accounts receivable	(243.9)	258.9	(202.4)
Income tax receivable	51.5	(24.9)	-
Inventories	103.3	128.7	(82.4)
Accounts payable	37.7	(191.4)	(30.0)
Customer deposits and credits	(25.0)	25.3	42.3
Taxes accrued	(117.0)	116.2	(89.7)
Interest accrued	(10.7)	5.3	20.8
(Under) Overrecovered gas and fuel costs	(250.4)	324.4	3.6
Exchange gas receivable/payable	(14.2)	(10.0)	(71.9)
Other accruals	56.4	(7.7)	14.5
Prepayments and other current assets	(11.5)	23.9	(27.5)
Regulatory assets/liabilities	163.9	105.2	(91.8)
Postretirement and postemployment benefits	(146.6)	(49.1)	(9.2)
Deferred credits	(2.6)	6.2	36.3
Deferred charges and other noncurrent assets	7.9	(21.9)	38.7
Other noncurrent liabilities	(13.2)	12.1	(34.8)
Net Operating Activities from Continuing Operations	782.6	1,920.7	587.8
Net Operating Activities used for Discontinued Operations	(57.2)	(254.5)	(2.5)
Net Cash Flows from Operating Activities	725.4	1,666.2	585.3

Investing Activities

Capital expenditures	(803.8)	(777.2)	(1,299.9)
Insurance recoveries	5.0	62.7	46.7
Proceeds from disposition of assets	0.5	5.7	47.8
Restricted cash (withdrawals) deposits	(28.2)	111.9	(228.8)
Contributions to equity investees	(87.9)	(26.4)	(39.2)
Distributions from equity investees	23.8	2.9	-
Other investing activities	(53.1)	(42.0)	(38.1)
Net Investing Activities used for Continuing Operations	(943.7)	(662.4)	(1,511.5)
Net Investing Activities from Discontinued Operations	0.4	7.6	397.2
Net Cash Flows used for Investing Activities	(943.3)	(654.8)	(1,114.3)

Financing Activities

Issuance of long-term debt	244.6	1,460.0	959.3
Retirement of long-term debt	(977.7)	(1,169.8)	(40.6)
Repurchase of long-term debt	-	-	(254.0)
Premium and other costs to retire debt	(93.0)	-	-
Change in short-term debt, net	1,279.5	(1,060.5)	102.5
Issuance of common stock	14.4	10.6	1.3
Acquisition of treasury stock	(1.5)	(2.6)	-
Dividends paid - common stock	(255.6)	(253.3)	(252.4)
Net Cash Flows from (used for) Financing Activities	210.7	(1,015.6)	516.1

Change in cash and cash equivalents from continuing operations	49.6	242.7	(407.6)
Cash (contributions to) receipts from discontinued operations	(56.8)	(246.9)	393.6
Cash and cash equivalents at beginning of period	16.4	20.6	34.6
Cash and Cash Equivalents at End of Period	\$ 9.2	\$ 16.4	\$ 20.6

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 LONG-TERM DEBT**

As of December 31, (<i>in millions</i>)	2010	2009
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	48.5
Total long-term debt of Columbia of Massachusetts	40.0	48.5
Columbia Energy Group: Subsidiary debt - Capital lease obligations	0.5	0.9
Total long-term debt of Columbia Energy Group	0.5	0.9
NiSource Capital Markets, Inc: Senior Notes - 6.78%, due December 1, 2027 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 (a)	3.0 106.0	3.0 106.0
Total long-term debt of NiSource Capital Markets, Inc.	109.0	109.0
NiSource Corporate Services, Inc. Capital lease obligations - Interest rate of 3.264% due between December 1, 2012 and September 30, 2015 Interest rate of 6.709% due between December 31, 2014 and January 1, 2018 Interest rate of 9.840% due June 30, 2015 Interest rate of 5.586% due September 30, 2015	2.3 30.1 0.8 0.8	- 32.1 0.9 0.2
Total long-term debt of NiSource Corporate Services, Inc.	34.0	33.2
NiSource Development Company, Inc.: NDC Douglas Properties, Inc. - Notes Payable-- Interest rates between 4.000% and 8.385% with a weighted average interest rate of 7.21% and various maturities between May 1, 2013 and July 1, 2041 (a)	10.7	10.3

Total long-term debt of NiSource Development Company, Inc.	10.7	10.3
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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 LONG-TERM DEBT (continued)**

As of December 31, <i>(in millions)</i>	2010	2009
NiSource Finance Corporation:		
Long-Term Notes -		
5.21% - due November 28, 2012	315.0	315.0
6.15% - due March 1, 2013	545.0	545.0
5.40% - due July 15, 2014	500.0	500.0
5.36% - due November 28, 2015	230.0	230.0
10.75% - due March 15, 2016	326.9	600.0
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
6.125% - due March 1, 2022	500.0	500.0
5.89% - due November 28, 2025	265.0	265.0
6.25% - due December 15, 2040	250.0	-
Fair value adjustment of notes for interest rate swap agreements	61.1	47.4
Unamortized premium and discount on long-term debt	(32.5)	(36.1)
Total long-term debt of NiSource Finance Corporation	5,350.5	5,356.3
Northern Indiana Public Service Company:		
Pollution control bonds -		
Reoffered interest rates between 5.20% and 5.85%, with a weighted average interest rate of 5.64% and various maturities between June 1, 2013 and April 1, 2019 ^(a)	244.0	244.0
Medium-term notes -		
Issued at interest rates between 7.02% and 7.69%, with a weighted average interest rate of 7.45% and various maturities between July 8, 2013 and August 4, 2027 ^(a)	145.5	164.2
Wind generation projects notes -		
Variable rate of 3.25% at December 31, 2010 with amounts due at July 1, 2014 and October 28, 2014	2.6	3.5
Unamortized discount on long-term debt	(0.7)	(0.8)
Total long-term debt of Northern Indiana Public Service Company	391.4	410.9

Total long-term debt, excluding amount due within one year	\$	5,936.1	\$	5,969.1
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(a) Interest rates and maturities shown are as of December 31, 2010. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**NiSource Inc.****STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)**

<i>(in millions)</i>	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total	Comprehensive Income
Balance							
January 1, 2008	\$ 2.7	\$ (23.3)	\$ 4,011.0	\$ 1,074.5	\$ 11.7	\$ 5,076.6	
Comprehensive Income:							
Net Income	-	-	-	79.0	-	79.0	\$ 79.0
Other comprehensive income, net of tax:							
Loss on available for sale securities Unrealized ^(a)	-	-	-	-	(4.0)	(4.0)	(4.0)
Net unrealized losses on derivatives qualifying as cash flow hedges ^(b)	-	-	-	-	(147.4)	(147.4)	(147.4)
Unrecognized Pension Benefit and Other Postretirement Benefit Costs ^(d)	-	-	-	-	(32.3)	(32.3)	(32.3)
Total comprehensive loss							\$ (104.7)
Dividends:							
Common stock Issued:	-	-	-	(252.4)	-	(252.4)	
Employee stock purchase plan	-	-	0.9	-	-	0.9	
Long-term incentive plan	-	-	7.4	-	-	7.4	
	-	-	1.0	-	-	1.0	

Dividend reinvestment plan						
Amortization of unearned compensation	-	-	0.4	-	-	0.4

Balance						
December 31,						
2009	\$ 2.8	\$ (25.9)	\$ 4,057.6	\$ 865.5	\$ (45.9)	\$ 4,854.1

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 AND COMPREHENSIVE INCOME (LOSS) (continued)**

<i>(in millions)</i>	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total	Comprehensive Income (Loss)
Balance December 31, 2009	\$ 2.8	\$ (25.9)	\$ 4,057.6	\$ 865.5	\$ (45.9)	\$ 4,854.1	
Comprehensive Income (Loss):							
Net Income	-	-	-	292.0	-	292.0	\$ 292.0
Other comprehensive income (loss), net of tax:							
Gain on available for sale securities:							
Unrealized ^(a)	-	-	-	-	1.1	1.1	1.1
Net unrealized losses on derivatives qualifying as cash flow hedges ^{(b), (c)}	-	-	-	-	(13.8)	(13.8)	(13.8)
Unrecognized Pension Benefit and Other Postretirement Benefit Costs ^(d)	-	-	-	-	0.7	0.7	0.7
Total comprehensive income							\$ 280.0
Dividends:							