Columbia Gas of Pennsylvania, Inc.
2015 General Rate Case
Docket No. R-2015-2468056
Standard Data Request
GASROR No. 10-23
Volume 2 of 2

Columbia Gas of Pennsylvania, Inc.
Standard Data Request
Rate of Return

Question No. GAS-ROR-010:

Please provide copies of all securities analysts' reports relating to the Company and/or its parent issued within the past 2 years.

Response: Columbia Gas of Pennsylvania, Inc.

Columbia Gas of Pennsylvania, Inc. (Company) is a wholly owned subsidiary of NiSource Gas Distribution, Inc. (NGD), which is a subsidiary of NiSource Inc. (Parent). There are no securities analysts reports that relate to the Company or NGD that are separate from such reports relating to the Parent.

Response: NiSource Inc.

Security analysts' reports issued within the past 2 years are attached in Attachment A – Attachment L.

Year	Attachment	Folder Name	Documents Included
2013	A	1Q	Wunderlich 1Q-2013 Morningstar 1Q-2013 Morgan Stanley 1Q-2013 KeyBanc 1Q Pre-Call Hilliard 1Q-2013 Credit Suisse 1Q-2013 BMO 1Q-2013 Barclays 1Q-2013
	B	2Q	Morningstar 2Q-2013 Morgan Stanley 2Q-2013 KeyBanc 2Q-Pre-Call Hilliard 2Q-2013 Credit Suisse 2Q-2013 Citi-NI Model Upload BMO 2Q-2013 Barclays 2Q-2013 Barclays-07/14/13 Wunderlich 2Q-2013
	C	3Q	Morgan Stanley 3Q-2013 KeyBanc 3Q-2013-Pre-Call Hilliard 3Q-2013 Credit Suisse 3Q-2013 Citi 3Q-Preview Citi 3Q-2013 BMO 3Q-2013 Barclays 3Q-2013 Morningstar 3Q-2013
	D	FIRST CPA Rate Case	Barclays 1Q- 2013 CPA Rate Case

Columbia Gas of Pennsylvania, Inc.
Standard Data Request
Rate of Return

	E	CPG Modernization Approval	Barclays 1Q FERC Modernization Approval
	F	Other Misc	KeyBanc 1Q- 2013 Price Target Upgrade Barclays-Nexus 1Q-2013 Barclays-NIPSCO-7 Year Plan BMO-Post 2013 AGA
	G	4Q	BMO 4Q- 2013 Citi 4Q- 2013 Hilliard 4Q-2013 Morgan Stanley 4Q- 2013 Morningstar 4Q-2013 Barclays 4Q- 2013 KeyBanc- 4Q Pre-call KeyBanc- Quick Alert Credit Suisse 4Q- 2013
2014	H	1Q	Barclays 1Q- 2014 BMO 1Q- 2014 Credit Suisse 1Q- 2014 Hilliard 1Q- 2014 Jeffries 1Q- 2014- Precall KeyBanc 1Q- 2014- Precall Morgan Stanley 1Q- 2014 Morningstar 1Q- 2014 Jeffries Report Initiating Coverage 2Q- 2014 Credit Suisse- 04/22/2014 Morningstar- 03/21/2014
	I	2Q	BMO 2Q- 2014 Citi 2Q- 2014 Credit Suisse 2Q- 2014 Hilliard 2Q- 2014 Jeffries 2Q- 2014- Precall KeyBanc 2Q- 2014- Precall Morgan Stanley 2Q- 2014 MorningStar 2Q- 2014
	J	3Q	BMO 3Q- 2014 Credit Suisse 3Q- 2014- Precall Credit Suisse 3Q- 2014 Hilliard 3Q- 2014 Jeffries 3Q- 2014- Precall KeyBanc 3Q- 2014- Precall Morgan Stanley 3Q- 2014 MorningStar 3Q- 2014 Wolfe 3Q- 2014
	K	Post 2014 Investor Day	Barclays- Suspending Rating BMO- Post Investor Day BMO- Pre Investor Day Credit Suisse- Post Investor Day Hilliard- Post Investor Day Jeffries- Pre Investor Day KeyBanc- Post Investor Day KeyBanc- Pre Investor Day Morgan Stanley- Post Investor Day Morgan Stanley- Pre Investor Day

Columbia Gas of Pennsylvania, Inc.
Standard Data Request
Rate of Return

			MorningStar Wolfe- Post Investor Day
	L	Misc	BMO- Post 2014 AGA Jefferies- Target/Estimate Change KeyBanc- Quick Alert: 02-13-2014 KeyBanc- Quick Alert: 08-12-2014 MorningStar- MLP Optimism US Capital Advisors- Analyst Meeting

BARCLAYS

Equity Research
Power & Utilities | North America Utilities
30 April 2013

NiSource, Inc.
Solid Q1 Results; Remain OW

Reiterating our Overweight rating: We reiterate our Overweight rating, our $32 price target, and our 2013/2014/2015 EPS estimates of $1.56/$1.68/$1.77, respectively.

Q1 adjusted EPS of $0.69 in-line; 2013 guidance reiterated: NI reported 1Q13 adj. EPS of $0.69, vs. $0.76 last year and consensus of $0.71. The q/q decline was primarily driven by the $340 million forward equity sale in September 2012. Management reiterated guidance of $1.50-1.60 for the full-year 2013, as the balance of 2013 will benefit from the completion of the Big Pine Gathering System earlier this month and the Columbia Gas of Pennsylvania rate settlement with a $55 million revenue increase, effective in July.

Good visibility with limited risk: We continue to believe that NI has one of the cleanest growth stories in the sector, with visibility for 5-7% earnings growth past 2017. Generally constructive regulatory environments with accelerated recovery mechanisms in the regulated electric and gas utilities allow for steady rate base growth. Meanwhile, the Columbia Pipeline Group segment provides attractive exposure to infrastructure build out in the Marcellus and Utica shale regions.

MLP a longer-term possibility: Although not mentioned on the call, the formation of an MLP is still a possible upside catalyst; although the lack of meaningful near-term financing needs and the relatively low cost basis of NI's current midstream assets lead us to believe that this would be a longer-term prospect.

NI: Quarterly and Annual EPS (USD)

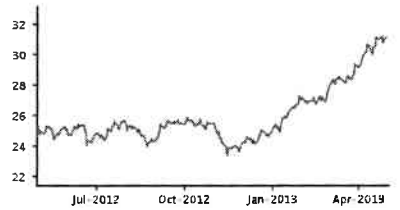
	2012	2013			2014			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.76A	0.70E	0.69A	0.71E	N/A	N/A	0.81E	-9%	N/A
Q2	0.23A	N/A	N/A	0.24E	N/A	N/A	0.26E	N/A	N/A
Q3	0.05A	N/A	N/A	0.13E	N/A	N/A	0.12E	N/A	N/A
Q4	0.44A	N/A	N/A	0.47E	N/A	N/A	0.46E	N/A	N/A
Year	1.46A	1.56E	1.56E	1.56E	1.68E	1.68E	1.67E	7%	8%
P/E	21.3		20.0			18.5			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 32.00 Unchanged
Price (29-Apr-2013)	USD 31.15
Potential Upside/Downside	+3%
Tickers	NI
Market Cap (USD mn)	9712
Shares Outstanding (mn)	311.80
Free Float (%)	99.23
52 Wk Avg Daily Volume (mn)	2.2
Dividend Yield (%)	3.0
Return on Equity TTM (%)	7.78
Current BVPS (USD)	17.90

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 31.39-23.14



Link to Barclays Live for interactive charting

North America Utilities
Daniel Ford, CFA
1.212.526.0836
daniel.x.ford@barclays.com
BCI, New York

William Zhang
1.212.526.6203
william.zhang@barclays.com
BCI, New York

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

North America Utilities — Industry View: POSITIVE

NiSource, Inc (NI)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,633	1,765	1,898	2,037	7.6%
EBIT (adj)	1,071	1,170	1,266	1,373	8.6%
Pre-tax income (adj)	656	705	766	838	8.5%
Net income (adj)	N/A	N/A	N/A	N/A	N/A
EPS (adj) ($)	1.46	1.56	1.68	1.77	6.7%
Diluted shares (mn)	291.9	293.8	295.5	307.6	1.8%
DPS ($)	0.96	1.00	1.08	1.12	5.3%

Margin and return data					Average
EBITDA (adj) margin (%)	32.2	32.1	33.4	34.7	33.1
EBIT (adj) margin (%)	21.1	21.3	22.3	23.4	22.0
Pre-tax (adj) margin (%)	12.9	12.8	13.5	14.3	13.4
Net (adj) margin (%)	8.4	8.3	8.8	9.3	8.7
ROIC (%)	8.3	8.5	8.6	8.6	8.5
ROA (%)	2.0	2.0	2.1	2.1	2.0
ROE (%)	7.7	7.9	8.3	8.3	8.1

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	12,916	14,107	15,225	16,312	8.1%
Total net assets	21,845	23,131	24,261	25,534	5.3%
Capital employed	12,881	13,809	14,788	16,061	7.6%
Shareholders' equity	5,554	5,774	6,003	6,553	5.7%
Net debt/(funds)	7,243	7,934	8,705	9,273	8.6%
Cash flow from operations	1,276	1,259	1,248	1,176	-2.7%
Capital expenditure	-1,499	-1,787	-1,750	-1,750	N/A
Free cash flow	-359	-719	-646	-571	N/A
Pre-dividend FCF	-86	-425	-327	-226	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	21.3	20.0	18.5	17.6	19.4
EV/EBITDA (adj) (x)	10.0	9.6	9.4	9.0	9.5
EV/EBIT (adj) (x)	15.2	14.6	14.1	13.4	14.3
P/BV (x)	1.6	1.6	1.5	1.5	1.6
Dividend yield (%)	3.1	3.2	3.5	3.6	3.3
Total debt/capital (%)	56.9	58.2	59.4	59.2	58.4
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics				
Payout ratio (%)	65.8	64.1	64.1	63.2
Interest cover (x)	2.6	2.5	2.5	2.6
Regulated (%)	N/A	N/A	N/A	N/A

Source: Company data, Barclays Research
Note: FY End Dec

Price (29-Apr-2013)	USD 31.15
Price Target	USD 32.00

Why Overweight? We rate NI as an Overweight because of the attractive risk/reward profile from NI's well-defined rate base growth strategy which we see as relatively low-risk. Moreover, we believe additional value can be captured in NI's shale acreage, to which we assign a value of $1.50/share.

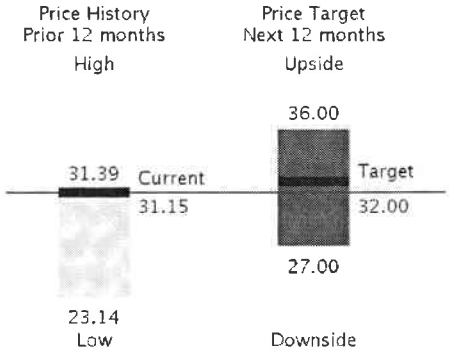
Upside case — **USD 36.00**

Our upside case assigns a 11x 2015 EV/EBITDA multiple to the Columbia Pipeline Group under an MLP scenario.

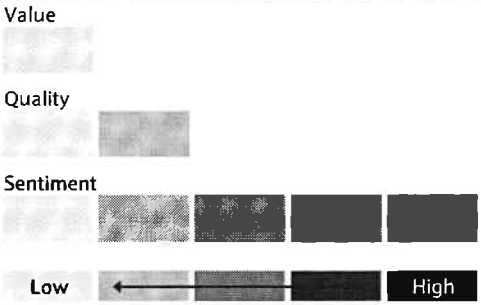
Downside case — **USD 27.00**

Our downside case assumes NI trades in-line with the regulated group's multiple on 2015 EPS.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Q1 Segment Updates

NIPSCO

NIPSCO continues to make progress on its Shahfer flue gas desulfurization (FGD) units, one of which will be completed in 4Q13 and the other in 2014. Construction has begun on the Michigan City station FGD. During the quarter, NIPSCO also began installing automated meter reading devices in its service territory, which represents a $90 million investment over 3 years. The Indiana S.B. 560 legislation will allow NIPSCO to continue to make investments with accelerated cost recovery, and will apply to distribution and transmission system modernization upgrades likely to begin in 2014.

Columbia Pipeline Group

The company is continuing to execute under its $300million per year Columbia Gas modernization settlement, and expects its first tracker filing in November 2013 for recover y in February 2014. The $200 million West Side Expansion and $210 million East Side Expansion projects are on track for completion in 4Q14 and 3Q15 respectively. In the midstream businesses, the $160 million Big Pine Gathering System project was completed earlier this month with 425 mcf/day capacity and long-term gathering agreements with XTO energy and PennEnergy. Additionally, Phase I of the Pennant JV, of which NI has a $150 million share, is on track to complete by year-end 2013.

Gas Distribution

During the quarter, Columbia Gas of Pennsylvania reached a settlement allowing a $55 million revenue increase, as well as a fully forecasted test year under the state's newly enacted Act 11. Columbia Gas of Massachusetts filed a rate case on April 16, requesting a $30 million revenue increase with new rates expected for March 2014. Additionally, Columbia Gas of Maryland filed a rate case requesting a $5 million revenue increase in February. A decision is expected on August 26.

ANALYST(S) CERTIFICATION(S)

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 29-Apr-2013, USD 31.15), Overweight/Positive, C/D/J/K/L/M/O

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In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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North America Utilities

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American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
National Grid Plc (NGG)	NiSource, Inc. (NI)	Northeast Utilities (NU)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
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IMPORTANT DISCLOSURES CONTINUED

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A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

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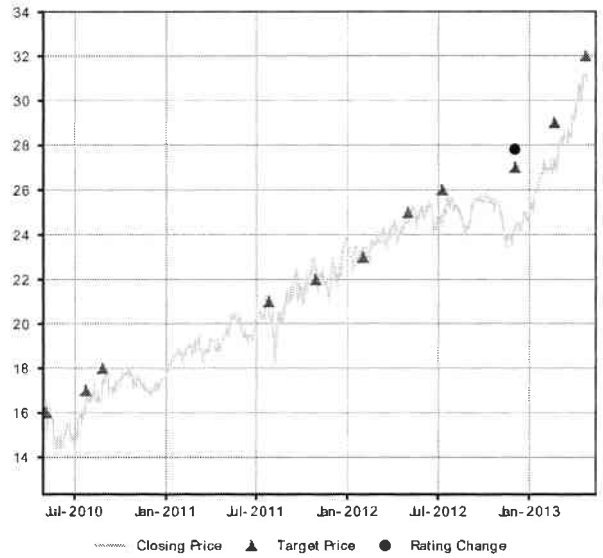
IMPORTANT DISCLOSURES CONTINUED

NiSource, Inc. (NI)

USD 31.15 (29-Apr-2013)

Stock Rating	Industry View
OVERWEIGHT	**POSITIVE**

Rating and Price Target Chart - USD (as of 29-Apr-2013) — **Currency=USD**



Date	Closing Price	Rating	Price Target
24-Apr-2013	31.14		32.00
20-Feb-2013	27.04		29.00
03-Dec-2012	24.34	Overweight	27.00
09-Jul-2012	24.41		26.00
01-May-2012	25.33		25.00
01-Feb-2012	23.45		23.00
28-Oct-2011	22.52		22.00
26-Jul-2011	20.85		21.00
25-Aug-2010	16.90		18.00
23-Jul-2010	16.49		17.00
04-May-2010	16.60		16.00

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Valuation Methodology: Our PT is based on a sum-of the-parts valuation, assigning a 15.3x regulated utility group '15 P/E multiple for NIPSCO Electric and Gas Distribution, and a 9.5x '15 EV/EBITDA multiple for Gas Transmission & Storage. In addition we assign a $1.50/share value to NI's western Utica acreage.

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BMO Capital Markets

NiSource

(NI-NYSE)

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

May 1, 2013

North American Pipelines

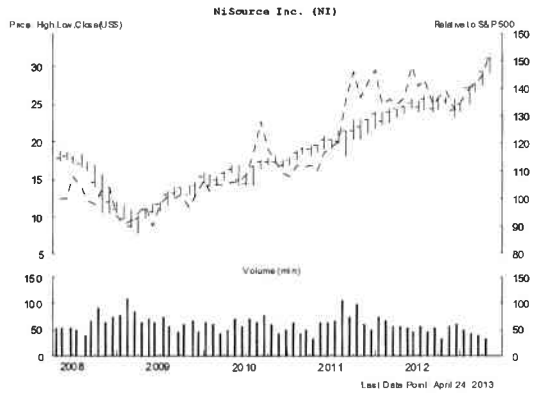
Carl Kirst, CFA
BMO Capital Markets Corp.
713-546-9756
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com / leah.jordan@bmo.com

Securities Info

Price (30-Apr)	**$30.73**	**Target Price**	**$31**
52-Wk High/Low	$31/$23	Dividend	$0.96
Mkt Cap (mm)	$9,563	Yield	3.1%
Shs O/S (mm, BASIC)	311.2	Float O/S (mm)	308.4
Options O/S (mm)	na	ADVol (30-day, 000s)	2,022

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS Pro Forma	$1.31	$1.44	$1.56	$1.65
P/E			19.7x	18.6x
First Call Cons.			*$1.56*	*$1.67*
EPS GAAP	$0.52	$1.39	$1.71	$1.65
FCF	$4.10	$4.31	$4.20↑	$4.01↑
P/FCF			7.3x	7.7x
EBITDA ($mm)	$1,382	$1,615	$1,785	$1,905
EV/EBITDA			9.1x	8.6x
Rev. ($mm)	$6,019	$5,091	$5,475	$5,634
EV/Rev			3.0x	2.9x

Quarterly EPS	**1Q**	**2Q**	**3Q**	**4Q**
2012A	$0.73	$0.23	$0.05	$0.44
2013E	$0.69A	$0.19↓	$0.19↑	$0.50↑

Balance Sheet Data (31-Dec)			
Net Debt ($mm)	$6,740	TotalDebt/EBITDA	3.9x
Total Debt ($mm)	$6,988	EBITDA/IntExp	4.3x
Net Debt/Cap.	49.5%	Price/Book	1.7x

Notes: All values in US$.

Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

1Q13 In Line as Longer Tem Growth Starts Firming

Event

NI reported 1Q13 adjusted EPS of $0.69, slightly below our $0.70 estimate and consensus of $0.71. Misses in pipes and LDC were mostly offset by beats in electric, corp/other and interest, but for the most part, quarterly numbers on the whole delivered in line. Other takeaways: 1) confidence in long-term sustainable growth is improving with the Indiana Legislature recently passing a tracking mechanism associated with future electric T&D modernization (e.g., transformers, poles, lines). While largely expected, the Governor's signature (expected shortly) should ultimately allow NI to spend $3-$4B of incremental long-term investment—beginning around 2018—which should in turn continue to support utility growth into the following decade; 2) two new rate base cases were recently filed in order to recapture the infrastructure modernization spending to which we are already giving credit. First, Columbia Gas of Massachusetts is requesting a $30mm annual revenue increase; a decision is expected by March 2014. Next, Columbia Gas of Maryland is requesting a $5mm annual revenue increase; a decision is expected by August 2013; and 3) NI newly announced it is going forward with a $40mm project (Giles County Expansion), which will expand Colombia Gas Transmission ($25mm) and Columbia Gas of Virginia ($15mm) to support the conversion of a large end user's coal boilers to natural gas; the project should add ~$0.01 to annual EPS once in service (expected 4Q14).

Impact

Neutral.

Forecasts

Our 2013 and 2014 estimates remain unchanged at $1.56 and $1.65, respectively, while 2015 is increasing by a penny to $1.76 owing to the Giles County Expansion.

Valuation

We reiterate our $31 sum-of-the-parts price target based on 2015 metrics.

Recommendation

We maintain our **MARKET PERFORM** rating on NI stock.

Changes	Annual FCF	Quarterly EPS	
	2013E $4.03 to $4.20	Q2/13E $0.21 to $0.19	Q4/13E $0.48 to $0.50
	2014E $3.96 to $4.01	Q3/13E $0.17 to $0.19	

Please refer to pages 6 to 9 for Important Disclosures, including the Analyst's Certification.

1Q13 at a Glance

NI reported 1Q13 adjusted EPS of $0.69, slightly below our $0.70 estimate and consensus of $0.71. Primary deltas to our estimate along with business segment summaries are detailed below:

-$0.05 Pipes. Adjusted EBIT of $233mm was lower than our $256mm estimate primarily due to higher operating expenses, including increased employee, administration, and outside service costs in addition to the timing impact of tracker spending. A 9% lower effective tariff of $0.39/Dth was offset by 6% higher total throughput of 537 MMDth.

NI newly announced it is going forward with a $40mm project (Giles County Expansion), which will expand Colombia Gas Transmission ($25mm) and Columbia Gas of Virginia ($15mm) to support the conversion of a large end user's coal boilers to natural gas, which is located in Giles County, VA. Included in our model, we estimate the Giles County Expansion should add less than a penny to annual EPS once in service (expected 4Q14). NI also announced another new project (Line 1570), which remains under evaluation, but aims to increase Marcellus takeaway capacity by 100 mmcf/d. Although it is not included in our model, we estimate Line 1570, budgeted at $20mm, would add less than half of a penny to annual EPS once in service (expected 4Q14).

-$0.02 LDC. Adjusted EBIT of $133mm was lower than our $146mm estimate primarily due to a 9% lower effective tariff of $3.16/Dth, partially offset by 6% higher total throughput of 363 MMDth, while operating expenses were on point.

Two new rate base cases were recently filed to recapture the infrastructure modernization spending to which we are already giving credit. First, Columbia Gas of Massachusetts is requesting a $30mm annual revenue increase; a decision is expected by March 2014. Next, Columbia Gas of Maryland is requesting a $5mm annual revenue increase; a decision is expected by August 2013. Additionally, we reiterate NI filed a unanimous settlement for its 2012 rate base case at Columbia Gas of Pennsylvania, which should increase annual revenues by $55mm beginning July 2013, although we are still waiting for regulatory approval.

+$0.02 Electric. Adjusted EBIT of $65mm was higher than our $57mm estimate primarily due to lower operating expenses, specifically decreased Midwest Independent Transmission Operator (MISO) fees and lower electric generation costs, including planned and unplanned maintenance (timing related). The top line was relatively on point as a 3% higher tariff of $90/MWh was offset by 1% lower volumes of 4,199 GWh.

Both, the Indiana House and Senate, recently passed the bill for a tracking mechanism associated with electric T&D modernization (e.g., transformers, poles, lines). Now, we are waiting for the Governor's signature (expected shortly) for final approval. This legislation should enable NI to spend $3-4B of long-term investment, which we estimate could add about $1/sh of NAV (assuming $3.5B invested ratably over ten years at NIPSCO's current ROE and capital structure, starting in 2018, and discounted at an 8% cost of equity to present).

+$0.03 Corp/Other. Adjusted EBIT of -$4mm was higher than our -$19mm estimate primarily due to lower operating expenses.

+$0.01 Interest. Interest expense of $99mm was lower than our $104mm estimate.

Exhibit 1: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Operating Revenues:											
Gas Distribution	$3,303	$3,096	$2,918	$1,960	$892	$532	$377	$913	$2,714	$3,057	$3,134
Pipelines & Storage	1,241	1,261	1,355	1,462	469	246	270	316	1,299	1,173	1,232
Electric	1,213	1,375	1,428	1,508	377	361	394	354	1,486	1,516	1,561
Other	542	603	319	161	56	(24)	(25)	(32)	(24)	(112)	(115)
Revenues	6,299	6,335	6,019	5,091	1,794	1,114	1,015	1,551	5,475	5,634	5,813
Operating Expenses:											
Cost of Sales	2,978	2,898	2,556	1,549	688	281	165	511	1,645	1,642	1,640
Operation & Maintenance	1,650	1,654	1,723	1,674	455	423	432	462	1,773	1,814	1,855
DD&A	589	596	538	564	144	149	154	155	602	639	673
Loss (gain) on asset sales	16	1	17	(4)	(0)	0	0	0	(0)	0	0
Taxes and Other	283	287	295	289	87	70	69	84	310	324	332
Total Operating Expenses	5,516	5,436	5,129	4,072	1,373	923	821	1,212	4,329	4,418	4,500
Operating Income	783	899	890	1,020	421	191	195	339	1,146	1,215	1,313
Other:											
Equity in Earnings	16	15	15	32	7	7	7	12	33	51	67
Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Other	(6)	4	(61)	(1)	4	0	0	0	4	0	0
Total Other Income	10	19	(47)	31	11	7	7	12	37	51	67
Reported EBIT	**$793**	**$918**	**$844**	**$1,051**	**$432**	**$198**	**$202**	**$351**	**$1,183**	**$1,266**	**$1,380**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$1,615**	**$576**	**$347**	**$356**	**$506**	**$1,785**	**$1,905**	**$2,053**
EBIT Composition											
Gas Distribution	328	324	394	409	234	62	30	159	486	519	558
Pipelines & Storage	389	377	360	398	133	72	90	139	435	465	514
Electric	117	234	210	252	65	69	87	55	276	300	327
Corporate & Other	(40)	(17)	(120)	(8)	(0)	(5)	(5)	(2)	(13)	(18)	(18)
Total EBIT	**$793**	**$918**	**$844**	**$1,051**	**$432**	**$198**	**$202**	**$351**	**$1,183**	**$1,266**	**$1,380**
Interest Expense	399	392	377	416	99	105	112	110	426	458	486
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	416	99	105	112	110	426	458	486
Income Before Taxes	394	526	467	635	334	93	90	241	757	808	894
Income Taxes											
Current	(214)	118	(15)	(86)	2	8	8	21	39	141	156
Deferred	378	55	178	305	117	24	24	63	228	141	156
Total Income Taxes	165	173	163	219	118	32	32	84	266	283	313
Effective Inc. Tax Rate (%)	42%	33%	35%	34%	35%	35%	35%	35%	35%	35%	35%
Net Income From Continuing Operations	229	353	304	416	215	60	59	156	491	525	581
Discontinued Operations, net	(12)	(0)	(5)	0	9	0	0	0	9	0	0
Change in Accounting	(0)	(58)	0	0	36	0	0	0	36	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$416**	**$261**	**$60**	**$59**	**$156**	**$536**	**$525**	**$581**
Adjustments to Core											
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(17)	0	0	0	0	0	0	0
Total Adjustments	(49)	11	(74)	(17)	0	0	0	0	0	0	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$433**	**$215**	**$60**	**$59**	**$156**	**$491**	**$525**	**$581**
Shares Outstanding (mm)											
Avg. Diluted Shares Out	276	280	289	300	312	313	314	315	314	319	331
Avg. Basic Shares Out	275	278	280	292	311	312	313	314	313	318	330
Period-end basic Shares Out	276	279	282	311	312	313	314	315	315	320	335
Earnings Per Share (Diluted)											
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$1.39**	**$0.83**	**$0.19**	**$0.19**	**$0.50**	**$1.71**	**$1.65**	**$1.76**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$1.44**	**$0.69**	**$0.19**	**$0.19**	**$0.50**	**$1.56**	**$1.65**	**$1.76**
EPS Growth (core)	-19.4%	21.0%	7.4%	10.0%	-5.7%	-14.7%	254.4%	13.6%	8.5%	5.3%	6.7%
Dividends											
Cash per share	$0.92	$0.92	$0.92	$0.95	$0.24	$0.25	$0.25	$0.25	$0.99	$1.03	$1.07
Div Growth	0.0%	0.0%	0.0%	3.3%	4.3%	4.2%	4.2%	4.2%	4.2%	4.0%	3.9%
Payout Ratio (%)	116.6%	87.5%	88.7%	68.6%					58.0%	62.6%	60.9%

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Operating Activities											
GAAP Net Income from Cont. Ops	218	292	299	416	261	60	59	156	536	525	581
DD&A	589	596	538	562	144	149	154	155	602	639	673
Deferred income tax benefit	378	200	178	305	117	24	24	63	228	141	156
Deferred Revenues	4	(20)	3	(8)	(0)	0	0	0	(0)	0	0
Amortization of premium on debt	13	10	9	10	2	0	0	0	2	0	0
Less Gain or Loss on assets	(4)	(0)	0	(4)	(0)	0	0	0	(0)	0	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	4	(0)	(4)	(4)	(5)	(13)	(25)	(34)
Other non-cash income items	36	112	139	11	(37)	0	0	0	(37)	0	0
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$1,295**	**$485**	**$230**	**$233**	**$370**	**$1,318**	**$1,280**	**$1,377**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$4.31**	**$1.56**	**$0.73**	**$0.74**	**$1.17**	**$4.20**	**$4.01**	**$4.17**
Working Capital:											
Accounts and notes receivable	259	(244)	318	(181)	(111)				(111)	0	0
Inventory	129	103	(142)	62	255				255	0	0
Less Change of Price Risk Management Activities	0	0	0	0	0				0	0	0
Accounts payable	(192)	38	(155)	57	25				25	0	0
Customer deposit, net	25	(25)	(5)	(44)	(102)				(102)	0	0
Other assets	83	(206)	(201)	144	(90)				(90)	0	0
Other Liabilities	382	(86)	(78)	(68)	(26)				(26)	0	0
Changes in Working Capital	686	(420)	(262)	(30)	(48)	0	0	0	(48)	0	0
Discontinued Operations	(255)	(57)	(50)	11	12	0	0	0	12	0	0
Cash Flow From Operations	1,651	720	870	1,276	449	230	233	370	1,282	1,280	1,377
Investing Activities											
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(1,499)	(369)	(454)	(454)	(454)	(1,731)	(1,805)	(1,670)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	26	1	0	0	0	1	0	0
Other	109	(140)	(34)	51	1	0	0	0	1	0	0
Cash Used in Investing	(662)	(944)	(1,149)	(1,422)	(368)	(454)	(454)	(454)	(1,729)	(1,805)	(1,670)
Discontinued Operations	8	0	0	(3)	122	0	0	0	122	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(1,425)	(246)	(454)	(454)	(454)	(1,607)	(1,805)	(1,670)
Financing Activities											
Sale of Common Stock	26	14	24	384	17	12	12	12	53	48	348
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	988	0	500	500	0	1,000	1,000	500
Redemption of Common Stock	(3)	(2)	(3)	(10)	(8)	0	0	0	(8)	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(332)	(427)	0	0	0	(427)	(500)	(230)
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(582)	354	0	0	(200)	154	200	0
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Dividends	(253)	(256)	(258)	(273)	(75)	(78)	(78)	(79)	(310)	(307)	(333)
Other	0	0	(62)	0	0	0	0	0	0	0	0
Cash From (For) Financing	(1,000)	216	281	175	(138)	434	434	(267)	463	441	285
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	175	(138)	434	434	(267)	463	441	285
Change in Cash	($4)	($7)	$2	$25	$65	$210	$213	($351)	$137	($85)	($8)
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$36	$102	$312	$525	$37	$174	$89
Cash & Temp. Inv. End of Yr.	$16	$9	$12	$37	$102	$312	$525	$174	$174	$89	$82

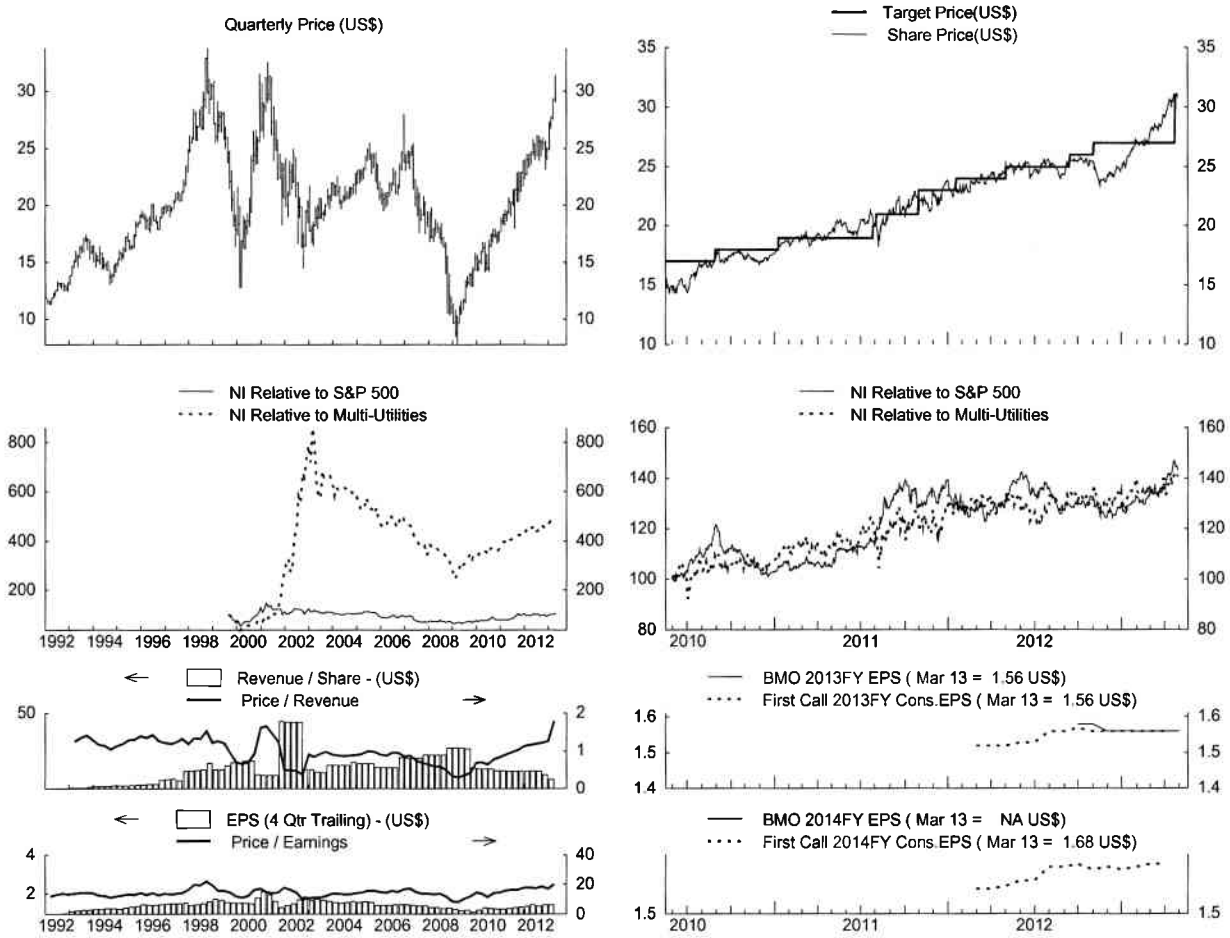
Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Assets:											
Cash & Equivalent	16	9	12	36	101	312	525	174	174	89	82
Restricted Cash	175	203	161	47	23	23	23	23	23	23	23
Receivables	848	1,121	951	1,114	1,254	1,254	1,254	1,254	1,254	1,254	1,254
Allowance for Uncollectable Acts.	(40)	(41)	(31)	(24)	(32)	(32)	(32)	(32)	(32)	(32)	(32)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	40	136	21	45	17	17	17	17	17	17	17
Inventories	385	428	566	496	241	241	241	241	241	241	241
ST Assets Price Risk Management	173	160	137	92	58	58	58	58	58	58	58
Regulatory Assets	238	152	170	163	142	142	142	142	142	142	142
Other Current Assets	387	283	262	384	228	228	228	228	228	228	228
Total Current Assets	2,224	2,449	2,248	2,352	2,032	2,242	2,455	2,104	2,104	2,020	2,012
Plant & Equipment (Gross)	19,038	19,590	20,470	21,902	22,194	22,648	23,102	23,556	23,556	25,361	27,031
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,986)	(9,075)	(9,225)	(9,379)	(9,534)	(9,534)	(10,173)	(10,846)
Plant & Equipment, Net	10,684	11,097	11,800	12,916	13,119	13,423	13,723	14,022	14,022	15,188	16,185
Investments	295	349	356	438	451	451	451	451	451	451	451
LT Assets Price Risk Management	238	240	189	56	36	36	36	36	36	36	36
Regulatory Assets	1,644	1,650	1,978	2,024	1,954	1,954	1,954	1,954	1,954	1,954	1,954
Goodwill	3,677	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Intangible Assets	320	309	298	287	284	284	284	284	284	284	284
Other Long Term Assets (& flywheel)	53	168	162	94	94	97	101	106	106	132	165
Total Assets	19,134	19,939	20,708	21,845	21,636	22,155	22,671	22,624	22,624	23,731	24,753
Liabilities & Equity:											
Short Term Debt	800	1,417	1,687	1,284	1,221	1,221	1,221	1,021	1,021	1,221	1,221
Accounts Payables	502	582	435	539	527	527	527	527	527	527	527
ST Liabilities Price Risk Management	190	174	168	95	53	53	53	53	53	53	53
Regulatory Liabilities	44	93	112	172	107	107	107	107	107	107	107
Other	1,575	1,384	1,245	1,212	1,067	1,067	1,067	1,067	1,067	1,067	1,067
Total Current Liab	3,111	3,649	3,646	3,302	2,974	2,974	2,974	2,774	2,774	2,974	2,974
Long Term Debt	5,988	5,936	6,267	6,819	6,804	7,304	7,804	7,804	7,804	8,304	8,574
LT Liabilities Price Risk Management	170	182	139	20	7	7	7	7	7	7	7
Accumlated Deferred Taxes	2,018	2,243	2,571	2,953	2,980	3,004	3,028	3,091	3,091	3,233	3,389
Regulatory Liabilities	1,559	1,596	1,664	1,593	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Other Liabilities	1,572	1,409	1,424	1,603	1,569	1,569	1,569	1,569	1,569	1,569	1,569
Total Liabilities	14,418	15,016	15,711	16,290	15,946	16,470	16,994	16,857	16,857	17,698	18,125
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,554	5,691	5,685	5,677	5,767	5,767	6,033	6,629
Other	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	21,845	21,636	22,155	22,671	22,624	22,624	23,731	24,753

Source: BMO Capital Markets estimates, company data.

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
2009	1.06	14.9	7.3	0.92	11.8	5.8	87	17.6	0.9	0.4	6
2010	1.22	14.7	11.6	0.92	6.5	5.1	75	17.7	1.0	0.8	7
2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.7	1.4	0.9	8
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	17.5	1.5	1.2	8
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.45	20.2		0.96	3.3		66	17.9	1.6		8
Growth(%):											
5 Year:	2.1			0.9				-0.7			
10 Year:	-1.4			-1.9				-1.1			
20 Year:	1.4			1.9				4.2			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q4/2012.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (April 26, 2013): $30.82
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Our Price Target/Valuation

Methodology: Our target price for NI is based on a sum-of-the parts valuation. We individually value each one of NI's business segments using a target EV/EBITDA multiple approach. Our target multiple for each segment is derived from analyzing historical multiple trading ranges, peer multiples, and adjusting for any expectation of future changes in investor sentiment, which would lead to multiple expansion/contraction. We next add together the segment valuations to reach an operating enterprise value, which is then adjusted for net debt, off-balance sheet items, operating leases, pension costs, and any other non-operating obligations. After adjustments, we then have our net equity value, which is divided by fully diluted shares outstanding to arrive at our target price.
Risks: Risks to our 12-month price target for NI include: 1) Conservation - conservation and bad debt expense from high commodity prices could impact earnings more than the base level we have accounted for; 2) Weather; 3) Interest rates; 4) Regulatory risk - rulings counter to assumptions and guidance could negatively impact our valuations going forward.

Distribution of Ratings (March 31, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

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CREDIT SUISSE

01 May 2013
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**NEUTRAL***
Price (30 Apr 13, US$)	30.73
Target price (US$)	(from 29.00) 31.00†
52-week price range	31.17 - 23.40
Market cap. (US$ m)	9,581.46
Enterprise value (US$ m)	18,142.99

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
†Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Scott Fogleman
713 890 1596
scott.fogleman@credit-suisse.com

Brett Reilly, CFA
212 538 3749
brett.reilly@credit-suisse.com

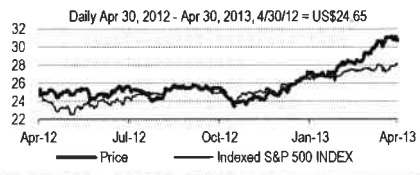
Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

INCREASE TARGET PRICE

Holding 2013 EPS Outlook; Staying Neutral, but Valuation at 10-year High

- **Keeping at Neutral, but Valuation Risks Growing:** Our TP increases by $2, to $31, based on a projected price to earnings multiple of ~17x-19x 2015E EPS. Together with NTM dividend of $0.98 translates to total return of (0%)-10% for a mid-point of 5%, which is ~ 500 bp below our median total return expectations for mid-stream MLPs. The offset is that while we have a a relatively negative bias, we acknowledge continuing very strong demand for low risk, yield oriented investments such as that offered by NI and which has a broader investor base than MLPs.
- **Holding Estimates for 2013 and Beyond:** While 1Q:13 results were $0.05/share below our estimate, we are holding our numbers for 2013-2015 to reflect NI's re-affirmed guidance for 5-7% EPS growth and comments that 2013 is on track to reach its $1.50-$1.60/share guidance.
- **Risks:** NI's low risk business model of regulated assets operating in a relatively benign regulatory environment, highly visible investment opportunities in each of NI's segments together with a 3.5% dividend has appeal to defensive, yield-oriented investors. However, we would expect that flare-ups in the macro political, economic, or financial environment could result in a pull-back in the valuation of the shares given that NI is trading at over 5 turns above its forward P/E average and its peers are trading at approximately 6 turns above the forward P/E average.

Share price performance



On 04/30/13 the S&P 500 INDEX closed at 1597.57

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.73	0.23	-0.10	0.44
2013E	0.69	0.22	0.18	0.46
2014E	0.72	0.24	0.20	0.48

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US$)	1.43	1.55	1.65	1.75
Prev. EPS (US$)	—	—	1.64	—
P/E (x)	21.6	19.8	18.6	17.6
P/E rel. (%)	142.8	140.7	147.6	153.6
Revenue (US$ m)	5,070.0	5,414.1	5,883.4	6,264.3
EBITDA (US$ m)	1,633.3	1,744.5	1,900.7	2,061.7
OCFPS (US$)	4.26	4.33	4.45	4.72
P/OCF (x)	5.8	7.1	6.9	6.5
EV/EBITDA (current)	10.7	10.0	9.2	8.5
Net debt (US$ m)	8,067	8,562	9,206	9,470
ROIC (%)	5.13	5.23	5.38	5.50
Number of shares (m)	311.79	IC (current, US$ m)		13,621.20
BV/share (Next Qtr., US$)	18.6	EV/IC (x)		1.3
Net debt (Next Qtr., US$ m)	8,116.6	Dividend (current, US$)		0.98
Net debt/tot cap (Next Qtr., %)	142.3	Dividend yield (%)		0.78

Source: Company data, Credit Suisse estimates.

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rghuler@nisource.com Randy Huler 05/01/13 10:52:14 AM Nisource Corporate Services Co (Inv. Relations)

CREDIT SUISSE

Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 639 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 458,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI holds substantial acreage.

NI also has an inventory of project opportunities of ~$10B in its regulated Gas Distribution segment, $6-$8 billion in its regulated electric segment and $8-$10B in its Gas Transmission and Storage Segment. Importantly, we believe NI has the liquidity ($1B), balance sheet, and opportunity set in place to maintain an annual cap ex program of approximately $1.5 billion-$1.8B.

Outlook: Holding Our Forecast

- **Q1 was light to our numbers, but we are holding our forecast**: NI missed our 1Q numbers, but we attribute this more to missed on timing on earnings growth to the gas transmission and distribution segments than anything fundamental as management stated that its results were in line with its expectations. Consequently, we are shifting the $0.05 differential mostly to the back half. We are also trimming our 2QE EPS by $0.03/share while raising 3QE by $0.04/share and raising 4QE EPS by $0.04/share. Overall, this keeps our 2013E EPS at $1.55/share. We are maintaining our 5-7% EPS growth outlook through 2016.
- **Modeling 4% Dividend Growth**: Our forecasted 4% growth rate is consistent with management growth guidance of 3-5% dividend/share and 60-70% payout.
- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit of ~$0.9B at the end of 1Q13.
- **Cap Ex Forecast of $25-$30b over the long term**: NI has a total inventory of 25-$30b (equivalent to $1.5-$1.8B/year) in infrastructure focused investment opportunities over the next 15-20 years.
- **MLP Option Not Discussed:** We believe management still views an MLP as a viable option to help finance growth of its midstream business but we now do not expect NI to pursue this strategy for at least the next few years. Once again, the issue was not raised on the conference call. With valuations rising at NI, we view the MLP option as lower likelihood as NI has a wider investor universe than MLPs and with valuations rich, we see less potential valuation uplift should NI decide to put its Columbia operations into an MLP structure.

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Exhibit 1: Holding 2013E EPS Overall – Cutting 2QE, Raising 3QE, Raising 4QE, Raising 2014E EPS by $0.01, to $1.65/share, Holding 2015E EPS at $1.75/share

Earnings Variance	Old estimates							New estimates										
	1Q13E	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	1Q13A	2Q13E	3Q13E	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Segment EBITDA																		
Gas Distribution	310	118	77	195	700	761	824	282	103	77	190	652	296	111	89	206	703	760
NIPSCO Electric	118	130	151	122	521	554	586	128	119	152	127	526	123	127	161	135	545	578
Gas Transmission & Storage	174	129	117	163	583	647	715	159	128	121	169	576	203	146	137	184	671	742
Other	6	4	(10)	(6)	(6)	(6)	(6)	3	4	(10)	(6)	(9)	(6)	4	(10)	(6)	(18)	(18)
Total EBITDA (recurring)	608	381	335	474	1,798	1,956	2,119	571	354	340	480	1,745	616	388	377	519	1,901	2,062
Segment EBIT																		
Gas Distribution	259	67	24	141	490	532	577	233	53	26	138	451	243	57	34	150	483	522
NIPSCO Electric	54	65	86	55	260	281	303	65	55	87	61	268	56	60	93	67	276	297
Gas Transmission & Storage	139	91	78	124	432	477	524	133	101	92	139	466	173	114	104	149	540	592
Other	4	1	(12)	(9)	(16)	(17)	(18)	(4)	1	(12)	(9)	(24)	(9)	1	(13)	(9)	(29)	(30)
Total EBIT (recurring)	455	225	176	311	1,167	1,274	1,386	428	210	193	330	1,161	463	232	218	357	1,270	1,380
Interest Expense	103	103	108	112	426	476	524	99	102	105	109	415	112	114	118	122	467	518
Other Expenses	0	0	0	0	0	0	0	(4)	0	0	0	(4)	0	0	0	0	0	0
Taxes	123	43	24	70	259	283	310	118	38	31	78	266	125	42	35	83	285	311
Recurring Net Income	229	79	44	130	482	515	552	215	70	57	142	485	227	76	64	151	518	552
Diluted Wtd Avg shares outstanding	310	311	311	312	311	313	315	311	312	312	313	312	313	314	314	315	314	316
Recurring EPS - Diluted	$0.74	$0.25	$0.14	$0.42	$1.55	$1.64	$1.75	$0.69	$0.22	$0.18	$0.46	$1.55	$0.72	$0.24	$0.20	$0.48	$1.65	$1.75
Dividend per share	$0.24	$0.24	$0.25	$0.25	$0.98	$1.02	$1.06	$0.24	$0.24	$0.25	$0.25	$0.98	$0.25	$0.25	$0.26	$0.26	$1.02	$1.06
Financing & Credit Metrics																		
Total Debt / Total Cap	58.5%	59.5%	60.5%	60.6%	60.6%	61.2%	59.6%	58.5%	59.0%	60.0%	60.0%	60.0%	59.9%	60.7%	61.5%	60.7%	60.7%	59.2%
Net Debt / Total Cap	58.4%	59.4%	60.4%	60.5%	60.5%	61.1%	59.5%	58.2%	58.7%	59.7%	59.7%	59.7%	59.7%	60.4%	61.3%	60.4%	60.4%	58.9%
Net Debt / Equity	140.5%	146.4%	152.7%	153.0%	153.0%	156.9%	147.1%	139.2%	142.3%	148.4%	148.1%	148.1%	147.9%	152.8%	158.2%	152.7%	152.7%	143.6%
Book Value Per Share	$18.43	$18.46	$18.36	$18.54	$18.58	$19.25	$20.93	$18.29	$18.30	$18.26	$18.50	$18.54	$18.98	$18.98	$18.94	$19.17	$19.21	$20.89
Net Debt / TTM EBITDA	5.0x	5.1x	4.9x	4.9x	4.9x	4.8x	4.6x	5.0x	5.1x	4.9x	4.9x	4.9x	4.9x	5.0x	5.1x	4.8x	4.8x	4.6x

Source: Company data, Credit Suisse estimates

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Exhibit 2: 1Q:13 Results Below Our Estimates Mostly on Timing Issues

Quarterly Variance

Earnings Variance

	1Q13 Actual	1Q13 CS Estimate	Diff.	Diff. (%)	1Q12 Actual	Comments
Segment EBITDA						
Gas Distribution	282	310	(28)	-9%	52	margin < forecast, O&M > forecast
NIPSCO Electric	128	118	10	9%	96	lower electric generation costs
Gas Transmission & Storage	159	174	(15)	-9%	121	Rates below assumptions
Other	3	6	(4)	-60%	(14)	
Total EBITDA (recurring)	**571**	**608**	**(37)**	**-6%**	**255**	
Segment EBIT						
Gas Distribution	233	259	(26)	-10%	141	
NIPSCO Electric	65	54	11	21%	43	
Gas Transmission & Storage	133	139	(5)	-4%	89	
Other	(4)	4	(7)	-197%	(20)	
Total EBIT (recurring)	**428**	**455**	**(27)**	**-6%**	**253**	
Interest Expense	99	103	(5)	-5%	97	
Other Expenses	(4)	0	(4)	NM	13	
Taxes	118	123	(5)	-4%	52	
Recurring Net Income	215	229	**(14)**	**-6%**	**91**	
Diluted Wtd Avg shares outstanding	310	310	(0)	0%	291	
Recurring EPS - Diluted	**$0.69**	**$0.74**	**$0.00**	**0%**	**$0.31**	
Dividend per share	**$0.24**	**$0.24**	**$0.00**	**0%**	**$0.23**	
Financing & Credit Metrics						
Total Debt / Total Cap	58.8%	58.5%	0.3%	0.4%	60.7%	
Net Debt / Total Cap	58.7%	58.4%	0.3%	0.4%	60.6%	
Net Debt / Equity	142.0%	140.5%	1.5%	1.1%	153.7%	
Book Value Per Share	$18.35	$18.43	($0.09)	($0.00)	$17.33	
Net Debt / TTM EBITDA	5.1x	5.0x	0.2x	0.0x	5.1x	

Source: Company data, Credit Suisse estimates

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Valuation

- We are raising our valuation range by $2, to $30-$33 and a $31 TP, based on a projected price to earnings multiple of ~17-19x 2015E EPS. The stock trades at price to earnings multiples of ~19.4x NTM and ~17.6x 2015E, respectively.
- Applying "normal" valuation multiples to NI's three segments results in a valuation of $28 – below where NI currently trades and a 17.6x NI's 2015E EPS of $1.75/share.

Exhibit 3: Sum of the Parts Valuation

NTM - Next Twelve Months Valuation

	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple Low	Base	High	Enterprise Value / Equity Value Low	Base	High
Electric Services	259.8	260.6	173.5	P/E	16.0x	18.0x	20.0x	2,776.6	3,123.6	3,470.7
Natural Gas Utilities	467.3	205.8	673.1	EV/EBITDA	9.0x	10.0x	11.0x	6,057.9	6,731.0	7,404.1
Transmission and Storage	505.5	115.3	620.8	EV/EBITDA	10.0x	11.0x	12.0x	6,207.6	6,828.4	7,449.1
Total Enterprise / Equity Value								**15,042.1**	**16,683.0**	**18,324.0**
Cash & Equivalents								83.1	83.1	83.1
Short-term Debt								1,284.1	1,284.1	1,284.1
Long-term Debt								6,819.1	6,819.1	6,819.1
Less Net Debt								8,020.1	8,020.1	8,020.1
Total Equity Value								**7,022.0**	**8,662.9**	**10,303.9**
Shares Outstanding								310	310	310
Per Share								**$22.63**	**$27.92**	**$33.21**
Current Share Price (Feb 19, 2013)								$30.73	$30.73	$30.73
Return								(23%)	(6%)	11%
Dividend per share (Est.)								$0.98	$0.98	$0.98
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*(20%)*	*(3%)*	*14%*
2015E EPS								$1.75	$1.75	$1.75
Implied P/E								**12.9x**	**16.0x**	**19.0x**
									$28.00	
									$28.00	
							Implied P/E		16.0x	

Source: Company data, Credit Suisse estimates

- In a scenario where an MLP is created, we forecast an estimated NTM valuation of $34/share i.e. ~19.5x 2015E EPS, but we caution that we are applying stretched valuation metrics to get there.

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Exhibit 4: Forecasted Valuation Assuming Creation of MLP

NTM - MLP Valuation Multiple for Transmission and Storage

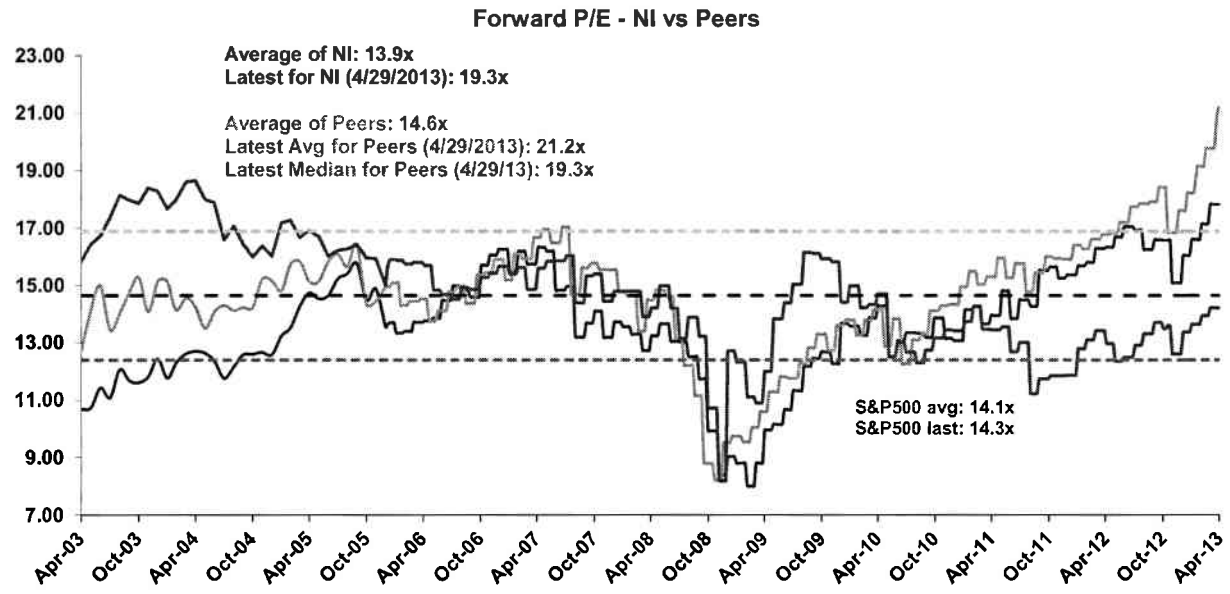
	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple Low	Base	High	Enterprise Value / Equity Value Low	Base	High
Electric Services	259.8	260.6	179.1	P/E	16.0x	18.0x	20.0x	2,866.2	3,224.4	3,582.7
Natural Gas Utilities	467.3	205.8	673.1	EV/EBITDA	9.0x	10.0x	11.0x	6,057.9	6,731.0	7,404.1
Transmission and Storage	505.5	115.3	620.8	EV/EBITDA	12.5x	13.5x	15.5x	7,759.5	8,380.3	9,621.8
Total Enterprise / Equity Value								**16,683.6**	**18,335.7**	**20,608.6**
Cash & Equivalents								83.1	83.1	83.1
Short-term Debt								1,284.1	1,284.1	1,284.1
Long-term Debt								6,819.1	6,819.1	6,819.1
Less Net Debt								8,020.1	8,020.1	8,020.1
Total Equity Value								**8,663.5**	**10,315.6**	**12,588.5**
Shares Outstanding								310	310	310
Per Share								**$27.97**	**$33.54**	**$40.57**
Current Share Price (Feb 19, 2012)								$30.73	$30.73	$30.73
Return								(6%)	12%	35%
Dividend per share (Est.)								$0.98	$0.98	$0.98
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*(3%)*	*16%*	*38%*
2015E EPS								$1.75	$1.75	$1.75
Implied P/E								**16.0x**	**19.2x**	**23.2x**
									$34.00	
									$34.00	
							Implied P/E		19.5x	

Source: Company data, Credit Suisse estimates

- Exhibits 3 and 4 show how by forming an MLP and enjoying a higher EV/EBITDA multiple for NI's Transmission and Storage assets may already be priced into the shares (or at least a portion of the potential). We wrote just 2 months ago that we believed NI shares had limited further upside at least from a multiple expansion standpoint. We have been proven wrong as NI shares have rallied by 13% since reporting 4Q12 results. Still some investors may find the 3% yield and 3-5% dividend growth or 7% total return opportunity, assuming that NI's continue to trade at today's lofty levels appealing. Compared to MLPs which comprise the bulk of our coverage, we believe that there are better opportunities there. Offsetting the downside:
    - the execution of numerous infrastructure replacement programs in each of its gas distribution utilities,
    - execution of environmental cost recovery mechanisms for its environmental enhancements to its electric utility generation fleet along with a distribution modernizations program that it is working to establish from a recovery standpoint via legislation SB560,
    - a 5-year settlement agreement with the FERC to begin a systematic $300mm/year infrastructure replacement program on its Columbia Gas Transmission system,
    - execution and development of NI's assets which are proximate to shale plays that offer some of the strongest returns to producers in the US.

rghuler@nisource.com Randy Huler 05/01/13 10:52:14 AM Nisource Corporate Services Co (Inv. Relations)

Exhibit 5: Valuations are Extended on a forward P/E basis: NI Trading Over 2 Standard Deviations Above Its Average Multiple and Its Peers Are Trading Over 3 Standard Deviations Above their Average P/E Multiple



Source: Factset, Credit Suisse estimates. Peers: CNP, D, PCG, OKE, SRE, STR, WMB

Both NI and its peers are trading at the high end of the forward P/E ranges for the last 10 years. NI has averaged 13.9x forward P/E and its peers have averaged 14.6x forward P/E. As of Apr 30, NI trades at 19.6x forward EPS while peers trade at 21.4x or 92% of the peer group and a 1,8x discount to peers. NI trades on average at 99% of the S&P 500 and currently at 135% of the S&P 500 while its peers trade at 149% of the S&P 500. The premium for NI and peers to the broader market is on account of the stability of the cash flows relative to the broader market, particularly in light of supportive Federal Reserve policy that is expected to continue until at least 2015. Consequently, we are seeing investors looking past the NTM to 2015 expected earnings for names such as NI.

rghuler@nisource.com Randy Huler 05/01/13 10:52:14 AM Nisource Corporate Services Co (Inv. Relations)

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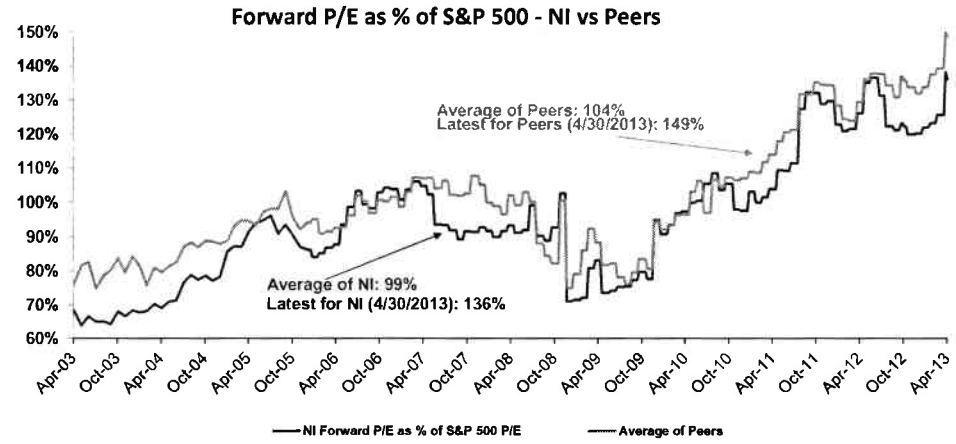
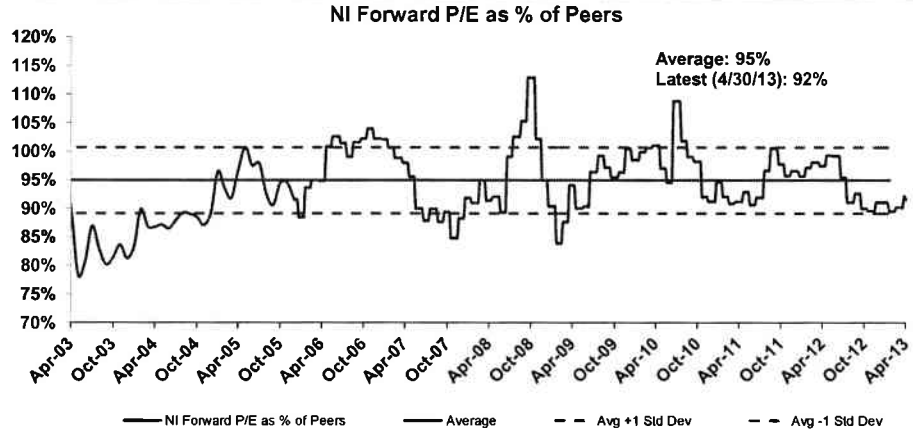
Exhibit 6: NI P/E as Pct of S&P 500 Are 3 Std Deviations Above Average and Peer Group P/E as Pct of S&P 500 Over 2 Std Dev Above Average



Source: FactSet, Credit Suisse estimates

Exhibit 7: NI trades at an average of 95% Forward P/E relative to peers, 92% currently



Source: FactSet, Credit Suisse estimates

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Risks

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of having enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and $1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Of the $1.8B in cap ex for 2013, $490mm is for age and condition and the remaining portion is for growth and tracker investments which effectively have support from NI's from the state regulatory authorities in which it operates.

Commodity price risk is very low and under the current regulatory regime is recovered in utility rates.

The main risk in our view is valuation – as explained above NI and for that matter its peers have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. Consequently NI's shares are up 27% YTD with no meaningful change in earnings outlook. The shares yield 3% and the company is guiding to 3-5% dividend growth giving 7% annual return potential all else being equal. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

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Companies Mentioned *(Price as of 30-Apr-2013)*

NiSource Inc. (NI.N, $30.73, NEUTRAL, TP $31.0)

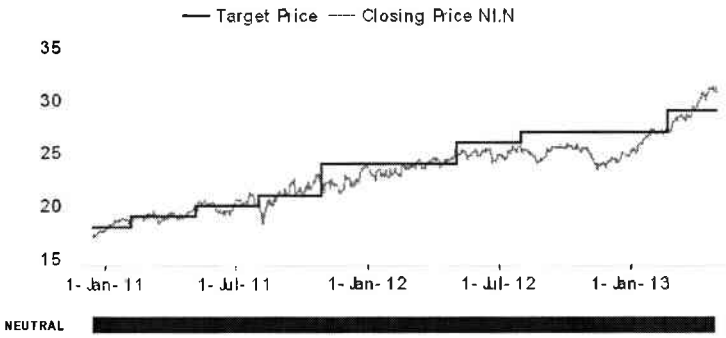
Disclosure Appendix

Important Global Disclosures

John Edwards, CFA, Scott Fogleman, Brett Reilly, CFA and Bhavesh Lodaya each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
15-Dec-10	17.09	18.00	N *
06-Feb-11	18.40	19.00	
06-May-11	19.44	20.00	
16-Jun-11	19.30		*
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	



** Asterisk signifies initiation or assumption of coverage.*

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

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Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(53% banking clients)
Neutral/Hold*	39%	(47% banking clients)
Underperform/Sell*	15%	(39% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: We derive our 12-month price target of $31 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 17-19x 2015E EPS estimate of $1.75, which is at the upper end of NI's historic trading range but below its historic average relative to peers.

Risk: Main risks to our 12-month price target of $31 for NiSource would be mean reversion on multiples. Both NI and peers are trading well above historical multiples both compared to themselves and the S&P 500. Consequently, should issues surface on the macro political, financial, economic, or other fronts, there is risk of pull back from current multiples. valuation.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (NI.N) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (NI.N) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (NI.N) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (NI.N) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (NI.N) within the next 3 months.

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rghuler@nisource.com Randy Huler 05/01/13 10:52:14 AM NiSource Corporate Services Co (Inv. Relations)

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rghuler@nisource.com Randy Huler 05/01/13 10:52:14 AM Nisource Corporate Services Co (Inv. Relations)

HILLIARD LYONS

Electric Utilities
David Burks
J.J.B. Hilliard, W.L. Lyons, LLC
502.588.8648 / DBurks@hilliard.com
April 30, 2013

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports lower first quarter earnings, but reaffirms 2013 earnings guidance

Key Metrics

NI - NYSE (Price as of 4/29/13)		$31.15
Price Target		NA
52-Week Range		$31.39 - $23.14
Shares Outstanding (mm)		311.1
Market Cap. ($mm)		$9,690
3-Mo. Average Daily Volume		1,994,000
Institutional Ownership		82.0%
Debt/Total Capital (3/31)		58.5%
ROE (ttm)		7.7%
Book Value/Share		$17.82
Price/Book Value		1.75x
Indicated Dividend / Yield	$0.96	3.1%
Dividend Cycle	Feb., May, Aug., Nov.	

EPS FY 12/31

	2012	Prior 2013E	2013E	Prior 2014E	Curr. 2014E
1Q		--		-	-
2Q		--		-	-
3Q		--		-	-
4Q		--		-	-
Year	$1.46		$1.55		$1.67
P/E	21.3x		20.1x		18.7x
Payout	66%		62%		57%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2012	Prior 2013E	2013E	Prior 2014E	Curr. 2014E
1Q		--		-	-
2Q		--		-	-
3Q		--		-	-
4Q		--		-	-
Year	$5,070		$5,300	-	$5,750

Company Description: *Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.*

Investment Highlights

- **NiSource reported first quarter net operating earnings of $0.69 per share versus $0.76 per share earned in the first quarter of 2012 and slightly below expectations.** While net income rose, earnings declined due largely to a 24 million share $340 million equity issuance done last September. The company's Columbia pipeline group operations and natural gas distribution businesses saw their earnings contributions decline modestly in the first quarter. By contrast, NI's electric utility operation posted a gain in the period. In sum, it was another solid quarter for NI in our view.
- **Management reaffirmed 2013 earnings guidance of $1.50 to $1.60 per share.** The outlook is expected to be driven by execution of its infrastructure-investment programs and a modest and gradual economic recovery. We are maintaining our 2013 EPS estimate of $1.55. In addition, we are initiating a 2014 EPS estimate of $1.67 per share.
- **The company plans to invest $1.8 billion in capital expenditures this year and expects to continue to keep making significant investments in future years as well.** Most of these investments are expected to be in the natural gas distribution and transmission and storage and gas infrastructure areas. NI expects these investments to drive future operating growth of 5% to 7% annually for the next several years. NI's growth plans should also provide earnings visibility as well.
- **Our rating on NiSource remains Neutral as we believe the stock is fairly valued.** However, we believe NI has a positive fundamental outlook and expect the company to generate ongoing earnings and dividend growth. We expect another dividend hike in May. We would maintain positions in NI and regard it as a well positioned core holding.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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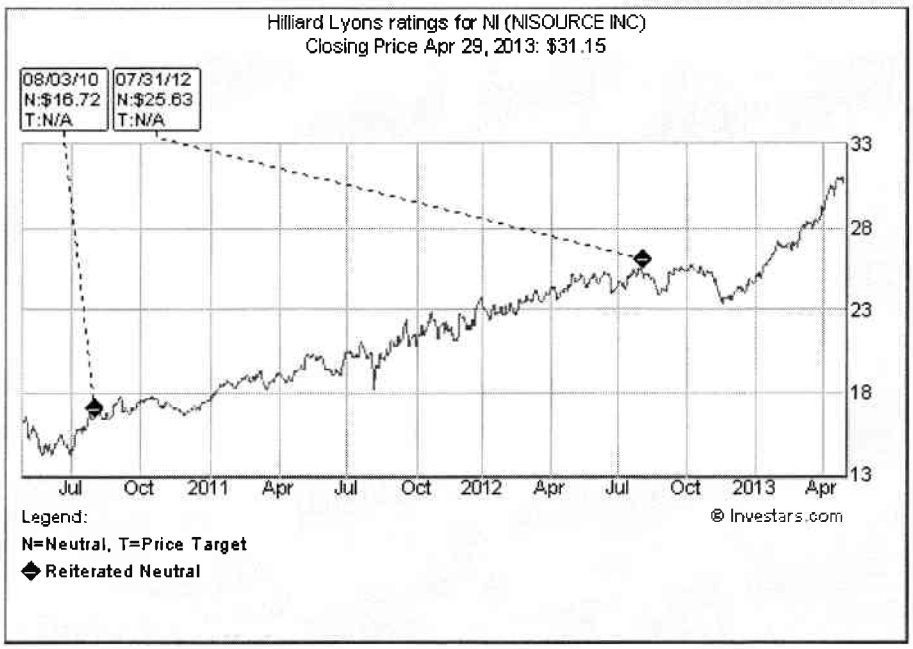
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	56	40%	13%	88%
Hold/Neutral	79	57%	13%	87%
Sell	4	3%	0%	100%

As of 10 April 2013

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NiSource, Inc. (BUY)

NI – Quick Alert: 1Q13 Results Essentially in Line

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com

KEY INVESTMENT POINTS

April 29, 2013 Close: $31.15
1Q13 KBCM EPS Estimate: $0.70 (Consensus: $0.71)
2013 KBCM EPS Estimate: $1.55 (Consensus: $1.55)

1Q13 Actual Results (vs. 1Q12):

- Ongoing EPS $0.69 vs. $0.72; GAAP EPS $0.69 vs. $0.75.
- Results were essentially in line with our $0.70 estimate and slightly below the $0.71 consensus view

Guidance: Maintained 2013 ongoing weather adjusted guidance of $1.50- $1.60 per share.

1Q Highlights:

- Columbia Pipeline Group (formerly Gas Transmission and Storage) results declined (operating earnings of $133.3 million vs. $138.6 million) on $3.0 million lower revenues due to the modernization settlement and higher expenses of $1.7 million stemming from higher outside services and administrative costs.
- Gas Distribution operating earnings were $233.3 million vs. 244.8 million. Revenues rose $5.0 million on regulatory and service programs partly offset by lower commercial and industrial volumes. Expenses were up $16.5 million on employee and administrative costs, outside service costs and higher depreciation. Uncollectibles were lower, partly offsetting these higher costs.
- Electric operations earnings were up (operating earnings of $64.9 million vs. $48.5 million) on higher environmental and transmission cost recovery of $7.6 million. Expenses fell $8.8 million on maintenance timing and lower MISO fees.
- Corporate and Other operating earnings fell $5.5 million to a loss of $3.6 million due to the roll- off of gains on corporate owned life insurance (COLI). Interest costs fell $4.7 million on a maturity in late 2012. The effective tax rate was 35.4% vs. 35.6%. The quarter was impacted by the September 2012 equity issuance under NI's forward sale, with the share count rising by 19 million shares vs. the prior year quarter. Weather for the quarter was very close to normal vs. a very mild 1Q12.
- NI announced a new pipeline extension project to support a coal to gas electric plant conversion. Capital cost for the project is $40 million. The project is expected to be in service in 4Q14.

Initial Take: We expect an essentially neutral response to the earnings release as results were largely in line with views.

9:00 AM ET Conference Call #: (866) 700- 57706067 ID#: 9584932
We will be focused on:

- Incremental infrastructure investment opportunities
- Pipeline modernization project updates
- Any color on how management views MLP's

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 2 - 3 OF THIS NOTE.

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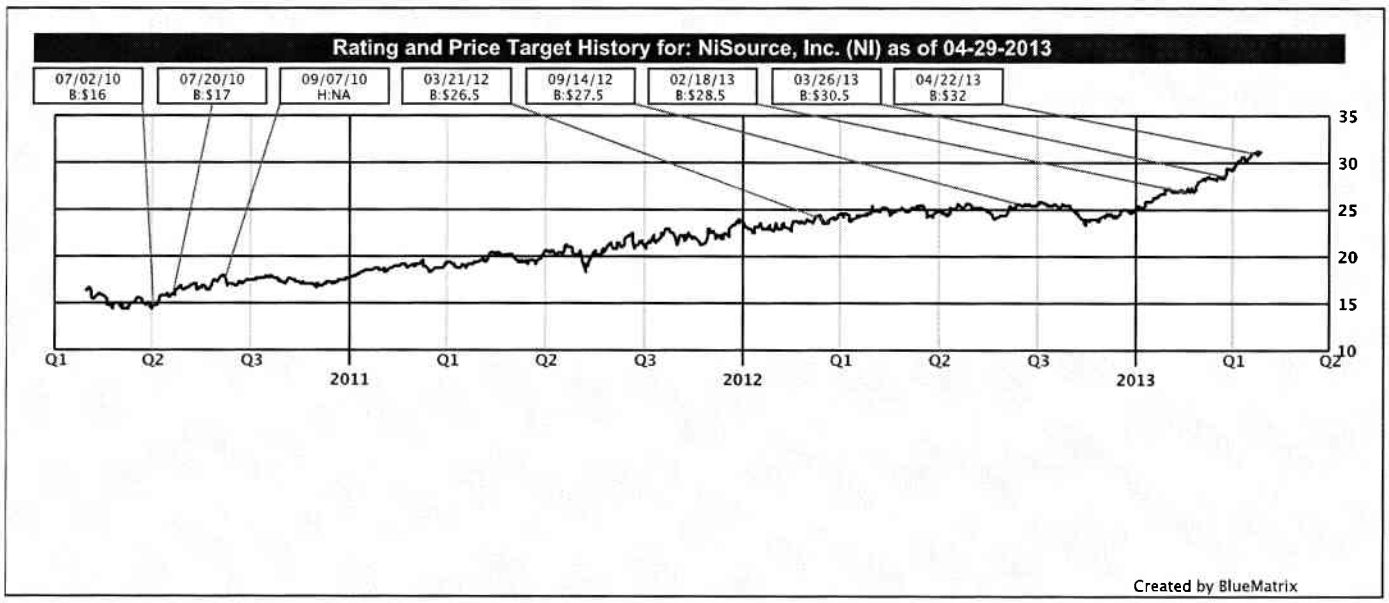

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Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	221	44.11	48	21.72	BUY [BUY]	29	43.28	18	62.07
HOLD [HOLD]	269	53.69	64	23.79	HOLD [HOLD]	38	56.72	18	47.37
SELL [UND]	11	2.20	1	9.09	SELL [UND]	0	0.00	0	0.00

Rating System

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HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

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Morgan Stanley

MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Stephen J. Maresca, CFA
Stephen.Maresca@morganstanley.com
+1 212 761 8343

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6385

Shaan Sheikh, CFA
Shaan.Sheikh@morganstanley.com
+1 212 761 4573

Brian Lasky
Brian.Lasky@morganstanley.com
+1 212 761 7249

April 30, 2013

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Strong Execution Priced More into Stock

NI reported 1Q13 results that were fairly in line with MS and consensus ($0.01/$0.03 below on EPS).

1Q13 results: NI reported operating earnings of $0.69 vs. MS / Consensus estimates of $0.70/$0.72. After solid share performance in 2012 (+31%) and 2013 YTD (+25%), we believe NI is largely discounting a solid outlook underpinned by reaffirmed 5 – 7% EPS growth and 3 – 5% dividend growth. Notably, NI continues to capitalize on its well-positioned midstream asset base and much improved utility profile. However, we see less ways NI can surprise to the upside and valuation remains full (MSe sum of the parts value is $29.39, see p. 8). While NI could continue to see a bid given its low-risk attributes within a universe that has seen strong performance in 1Q, we would look for a better entry point. NI maintained 2013 EPS guidance of $1.50 – 1.60 (MSe at $1.54) and a capital budget of $1.8b. Upcoming drivers for the stock will be execution of midstream and infrastructure opportunities along with its upstream Utica JV initiatives. With NI trading at 10.2x 2013 EV/EBITDA and 20.3x P/E, we remain Equal-weight rated with a $30 price target.

Somewhat mixed segment results. *Electric Operations EBIT* increased to $65m vs. $49m y/y due to increased revenues and lower costs. *Gas Distribution Operations EBIT* decreased to $233m from $245m in 2012 due to higher costs. *Columbia Pipeline Group EBIT* decreased to $133m from $139m y/y due to lower revenues and higher costs. Equity earnings decreased $0.6m from Millennium Pipeline.

Still positively levered to the northeast build out; no material change to project backlog. Pipeline modernization ($300m / year), Marcellus/Utica infrastructure ($1 – 2b currently), and a self funded Utica minerals arrangement are just some examples of the fuel that should support a multi-year 5 – 7% earnings growth rate (MSe at ~7% CAGR through 2015). We look for further project identification and more Utica drilling results before revisiting our risk-reward.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	**$30.00**
Shr price, close (Apr 29, 2013)	$31.15
Mkt cap, curr (mm)	$9,753
52-Week Range	$31.38-23.15

Fiscal Year ending	**12/12**	**12/13e**	**12/14e**	**12/15e**
ModelWare EPS ($)	**1.44**	**1.54**	**1.65**	**1.77**
Prior ModelWare EPS ($)	**-**	**1.54**	**1.64**	**1.74**
P/E	**17.3**	**20.3**	**18.8**	**17.6**
Consensus EPS ($)§	**1.45**	**1.56**	**1.67**	**1.78**
Div yld (%)	3.8	3.2	3.3	3.5
Div per shr ($)	0.95	0.99	1.03	1.08
EBITDA ($mm)	1,645	1,682	1,830	1,940
EV/EBITDA	10.3	11.6	11.2	10.9
Shrs out, diluted, avg (mm)	300	312	312	312

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

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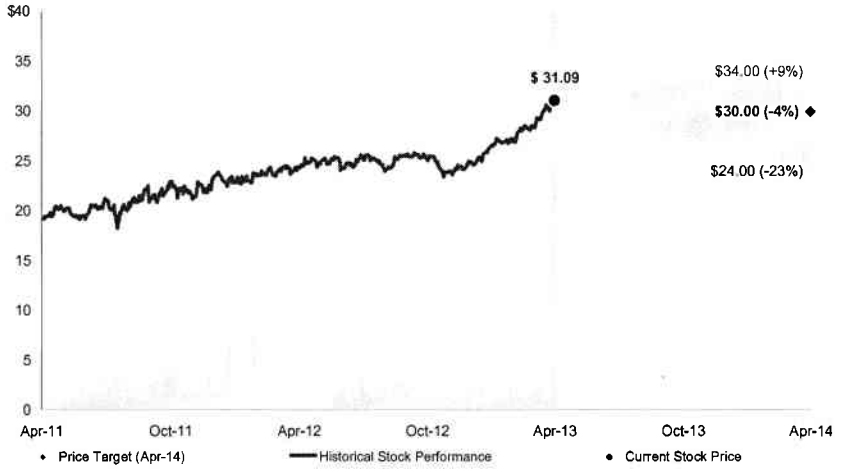
April 30, 2013
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target $30		Derived from base case average of four valuation methodologies
Bull Case $34	11x GT&S '13e EBITDA, 9.0x Electric EBITDA	**Increasing Marcellus/Utica market share and utilities outperform.** NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case $30	10.0x GT&S '13e EBITDA, 9.0x Electric EBITDA	**Executing on Marcellus opportunities with a modest recovery in utility segments.** NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover.
Bear Case $24	9x GT&S '13e EBITDA, 8x Electric EBITDA	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value ($ m)	$/Share
Gas Distribution	$ 5,996	$ 19.21
Gas Transmission & Storage	5,901	18.91
Electric Utility	4,417	14.15
Utica	938	3.00
Value per Share	**$ 17,251**	**$ 55.27**
Net Debt	(7,995)	(25.62)
Net Equity Value	**$ 9,256**	**$ 29.66**
Shares Outstanding (in mm)		312.1

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments.
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples and a sum of the parts (SOTP) basis.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 3 – 5% annual growth.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Risks to Our Price Target

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Unfavorable outcomes in the northeast due to legislation, slower drilling, more competition.

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April 30, 2013
NiSource, Inc.

Exhibit 1

NI: Earnings Results and Preview

(amounts in 000s, except per unit)

	Actual 1Q12	Actual 1Q13	A / A % chg	MS 1Q13E	A / E % chg	MS 2Q13E
Operating Revenues						
Gas Distribution	908,200	891,500	-1.8%	1,015,203	-12.2%	486,063
Gas Transportation and Storage	409,200	468,500	14.5%	302,318	55.0%	274,484
Electric	358,000	377,100	5.3%	400,118	-5.8%	411,826
Other	24,800	44,200		-		-
Total operating revenues	**1,700,200**	**1,781,300**	4.8%	**1,717,639**	3.7%	**1,172,373**
Operating Expenses						
Cost of Sales	633,000	675,900	6.8%	457,778	47.6%	303,281
Operation and maintenance	406,700	454,400	11.7%	582,419	-22.0%	435,117
Depreciation and amortization	146,100	143,500	-1.8%	140,621	2.0%	138,087
Other taxes	86,600	86,700	0.1%	104,139	-16.7%	70,232
Total operating expenses	**1,272,400**	**1,360,500**	6.9%	**1,284,958**	5.9%	**946,716**
Equity Earnings (Loss) in Uncon. Affiliates	**7,700**	**7,100**	-7.8%	**8,000**	-11.3%	**8,000**
EBIT	**435,500**	**427,900**	-1.7%	**440,681**	-2.9%	**233,657**
EBITDA	**581,600**	**571,400**	-1.8%	**581,302**	-1.7%	**371,744**
Interest expense, net	(103,300)	(98,600)	-4.5%	(104,456)	-5.6%	(98,600)
Other income	1,000	4,100		-		4,100
Total other income and expenses	**(102,300)**	**(94,500)**	-7.6%	**(104,456)**	-9.5%	**(94,500)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**333,200**	**333,400**	0.1%	**336,224**	-0.8%	**139,157**
Income tax (provision)	118,700	118,100	-0.5%	117,725	0.3%	47,207
Net Income (Operating)	**214,500**	**215,300**	0.4%	**218,499**	-1.5%	**91,950**
Average # of Shares Outstanding	293,100	312,100	6.5%	311,300	0.3%	312,100
Net Income per Share (Operating)	**$ 0.73**	**$ 0.69**		**$ 0.70**		**$ 0.29**
Net Income per Share (GAAP)	**$ 0.66**	**$ 0.69**		**$ 0.70**		**$ 0.29**
Segment Data						
Gas Distribution (MMDth)						
Residential	102.9	132.0	28.3%	102.9	28.3%	32.5
Commercial	61.2	75.3	23.0%	61.2	23.0%	27.7
Industrial	131.3	133.3	1.5%	131.3	1.5%	117.5
Off System	13.5	21.7	60.7%	13.5	60.7%	20.6
Other	0.1	0.2	na	0.1	na	0.2
Gas Transmission & Storage (MMDth)						
Columbia Transmission	379.4	435.8	14.9%	439.4	-0.8%	231.4
Columbia Gulf	227.5	190.2	-16.4%	219.6	-13.4%	248.2
Crossroads Gas Pipeline	4.3	5.0	16.3%	4.8	3.2%	4.1
Intrasegment eliminations	(105.7)	(93.9)	-11.2%	(139.6)	-32.8%	(155.7)
Electric Operations (Gigawatt Hours)						
Residential	781.2	864.1	10.6%	881.5	-2.0%	887.0
Commercial	907.8	921.2	1.5%	943.4	-2.4%	991.0
Industrial	2,385.0	2,319.6	-2.7%	2,515.7	-7.8%	2,402.0
Wholesale	19.0	61.3	222.6%	68.4	-10.4%	57.1
Other	32.5	33.2	2.2%	44.5	-25.4%	26.4

NI confirmed 2013 EPS guidance of $1.50-$1.60

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April 30, 2013
NiSource, Inc.

Exhibit 2

NI Income Statement

Income Statement

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
Net Revenues					
Gas Distribution	2,006,400	2,576,655	2,999,938	3,180,706	3,372,378
Gas Transportation and Storage	1,462,400	1,258,254	1,204,013	1,316,956	1,410,471
Electric	1,497,500	1,631,887	1,722,263	1,789,883	1,860,165
Other	133,600	44,200	-	-	-
Total Net Revenues	**5,099,900**	**5,510,997**	**5,926,214**	**6,287,544**	**6,643,014**
Operating Costs					
Cost of Sales	1,525,200	1,763,786	1,838,465	1,961,316	2,054,690
Operation and maintenance	1,674,600	1,805,791	1,976,205	2,088,427	2,220,506
Depreciation and amortization	563,900	559,836	601,096	614,473	629,469
Other taxes	287,800	290,734	314,198	331,189	351,975
Total Operating Costs	**4,051,500**	**4,420,147**	**4,729,964**	**4,995,406**	**5,256,640**
Equity Earnings (Loss) in Uncon. Affiliates	**32,200**	**31,100**	**32,241**	**33,054**	**33,888**
EBIT	**1,080,600**	**1,121,950**	**1,228,490**	**1,325,193**	**1,420,261**
EBITDA	**1,644,500**	**1,681,786**	**1,829,586**	**1,939,666**	**2,049,730**
Other income					
Interest expense, net	(418,300)	(402,845)	(451,990)	(494,117)	(535,492)
Other income	2,400	16,400	16,400	16,400	16,400
Inc. from continuing operations bef inc. taxes	**664,700**	**735,504**	**792,900**	**847,476**	**901,169**
Income tax (provision)	231,800	256,405	276,773	295,804	314,516
Operating Net income (Loss)	**432,900**	**479,100**	**516,126**	**551,672**	**586,653**
Net Income per Share (Operating)	**$1.44**	**$1.54**	**$1.65**	**$1.77**	**$1.88**
Net Income per Share (GAAP)	**$1.38**	**$1.54**	**$1.65**	**$1.77**	**$1.88**
Weighted Avg Diluted Units Outstanding	300,400	312,100	312,100	312,100	312,100
Dividends per share	0.95	0.99	1.03	1.08	1.13

Source: Company data, Morgan Stanley Research

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April 30, 2013
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Exhibit 3

NI Operating Data

Operating Data

	2012	2013E	2014E	2015E	2016E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	226.5	259.8	267.6	275.7	283.9
Commercial	156.2	172.8	178.0	183.3	188.8
Industrial	478.2	488.3	502.9	518.0	533.6
Off System	61.5	73.9	75.4	76.9	78.5
Other	0.3	0.8	0.8	0.8	0.8
Total Sales and Transports	**922.7**	**995.7**	**1,024.8**	**1,054.8**	**1,085.6**
Weather Adjustment	58.8	(4.0)	(4.0)	(4.0)	(4.0)
Sales and Transport Vols — Excluding Weather	**981.5**	**991.7**	**1,020.8**	**1,050.8**	**1,081.6**
y/y change	*7.6%*	*1.0%*	*2.9%*	*2.9%*	*2.9%*
Sales Price ($ / Dth)	$2.79	$2.85	$2.94	$3.03	$3.12
y/y change	*-27.5%*	*2.4%*	*3.0%*	*3.0%*	*3.0%*
COGS Price ($ / Dth)	$1.19	$1.24	$1.20	$1.27	$1.29
y/y change	*-43.2%*	*3.7%*	*-3.1%*	*6.3%*	*1.4%*
Gross Margin ($ / Dth)	$1.59	$1.62	$1.74	$1.75	$1.83
y/y change	*-8.6%*	*1.4%*	*7.7%*	*0.8%*	*4.1%*
COLUMBIA PIPELINE GROUP					
Throughput (MMDth):					
Columbia Transmission	1,107.7	1,211.0	1,283.7	1,347.9	1,388.3
Columbia Gulf	883.0	878.5	931.2	973.1	1,002.3
Crossroads Gas Pipeline	15.8	16.5	17.0	17.5	18.0
Total throughput	**2,006.5**	**2,106.0**	**2,231.9**	**2,338.5**	**2,408.6**
Intrasegment eliminations	(422.6)	(499.6)	(529.1)	(534.2)	(564.2)
Total third-party throughput	**1,583.9**	**1,606.4**	**1,702.7**	**1,804.2**	**1,844.4**
y/y change	*-3.2%*	*1.4%*	*6.0%*	*6.0%*	*2.2%*
Tariff ($ / Dth)	$0.46	$0.45	$0.46	$0.48	$0.49
y/y change	*-4.0%*	*-2.1%*	*4.2%*	*3.0%*	*3.0%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,524.3	3,689.5	3,763.3	3,838.5	3,915.3
Commercial	3,863.1	3,920.8	3,979.6	4,039.3	4,099.9
Industrial	9,251.0	9,391.6	9,673.3	9,866.8	10,064.1
Wholesale	250.7	297.6	303.6	309.7	315.9
Other	119.1	121.5	124.0	126.4	129.0
Total sales	**17,008.2**	**17,421.1**	**17,843.8**	**18,180.8**	**18,524.2**
Weather Adjustment	(146.0)	(3.4)	-	-	-
Total sales volumes — Adj. for weather impacts	**16,862.2**	**17,417.7**	**17,843.8**	**18,180.8**	**18,524.2**
y/y change	*-3.0%*	*3.3%*	*2.4%*	*1.9%*	*1.9%*
Revenue ($ / Gigawatt hour)	$89.18	$93.71	$96.52	$98.45	$100.42
y/y change	*8.5%*	*5.1%*	*3.0%*	*2.0%*	*2.0%*
COGS ($ / Gigawatt hour)	$29.58	$33.28	$34.46	$34.26	$35.49
y/y change	*-6.3%*	*12.5%*	*3.5%*	*-0.6%*	*3.6%*
Gross Margin ($ / Gigawatt hour)	$59.60	$60.43	$62.06	$64.19	$64.93
y/y change	*17.7%*	*1.4%*	*2.7%*	*3.4%*	*1.2%*

Source: Company data, Morgan Stanley Research

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April 30, 2013
NiSource, Inc.

Exhibit 4

NI Balance Sheet

Balance Sheet

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
ASSETS					
Cash and cash equivalents	36,300	20,000	20,000	20,000	20,000
Restricted cash	46,800	23,100	23,100	23,100	23,100
Accounts receivable	907,300	866,606	908,583	891,001	1,000,396
Income tax receivable	130,900	80,500	80,500	80,500	80,500
Gas inventory	326,600	378,491	399,711	418,745	444,111
Regulatory assets	162,800	141,700	141,700	141,700	141,700
Other	383,900	228,100	228,100	228,100	228,100
Total Current Assets	**2,352,400**	**2,054,897**	**2,118,094**	**2,119,545**	**2,254,307**
Net Property, Plant and Equipment	**12,915,900**	**14,133,264**	**15,232,168**	**16,217,695**	**17,188,226**
Unconsolidated affiliates	243,300	260,800	260,800	260,800	260,800
Other investments	194,400	190,400	190,400	190,400	190,400
Price risk management assets	56,000	36,100	36,100	36,100	36,100
Regulatory assets	2,024,400	1,954,200	1,954,200	1,954,200	1,954,200
Goodwill	3,677,300	3,666,200	3,666,200	3,666,200	3,666,200
Intangible assets	286,600	283,900	283,900	283,900	283,900
Deferred charges, Postretiremen, other	94,400	94,100	94,100	94,100	94,100
TOTAL ASSETS	**21,844,700**	**22,673,861**	**23,835,962**	**24,822,941**	**25,928,234**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	507,200	89,300	89,300	89,300	89,300
Short-term borrowings	776,900	2,042,221	2,976,021	3,716,795	4,545,100
Accounts payable	538,900	624,522	659,535	690,942	732,797
Dividends payable	-	74,800	74,800	74,800	74,800
Customer deposits and credits	269,600	167,600	167,600	167,600	167,600
Taxes accrued	235,500	258,200	258,200	258,200	258,200
Interest accrued	133,700	68,200	68,200	68,200	68,200
Price risk management liabilities	95,200	52,700	52,700	52,700	52,700
Exchange gas payable	146,200	76,000	76,000	76,000	76,000
Deferred revenue	42,800	42,400	42,400	42,400	42,400
Regulatory liabilities	171,600	106,500	106,500	106,500	106,500
Acc liab for post-retirement / -employment benefits	6,100	6,100	6,100	6,100	6,100
Other accruals	309,700	269,700	269,700	269,700	269,700
Total Current Liabilities	**3,301,600**	**3,982,543**	**4,951,356**	**5,723,537**	**6,593,697**
Long-term debt, excl amounts due within one year	6,819,100	6,803,900	6,803,900	6,803,900	6,803,900
Price risk management liabilities	20,300	6,900	6,900	6,900	6,900
Deferred income taxes	2,953,300	2,980,100	2,980,100	2,980,100	2,980,100
Deferred inc. taxes, credits, other	108,900	112,100	112,100	112,100	112,100
Acc liability for post-retirement/-employment benefits	1,107,300	1,066,600	1,066,600	1,066,600	1,066,600
Regulatory liabilities and other removal costs	1,593,300	1,611,400	1,611,400	1,611,400	1,611,400
Asset retirement obligations	160,400	165,300	165,300	165,300	165,300
Other noncurrent liabilities	226,200	225,000	225,000	225,000	225,000
Total Other Liabilities and Deferred Credits	**12,988,800**	**12,971,300**	**12,971,300**	**12,971,300**	**12,971,300**
Common stock	3,100	3,100	3,100	3,100	3,100
Additional paid-in capital	4,597,600	4,627,500	4,627,500	4,627,500	4,627,500
Retained earnings	1,059,600	1,199,818	1,393,106	1,607,904	1,843,037
Treasury stock	(65,500)	(62,300)	(62,300)	(62,300)	(62,300)
Accumulated other comprehensive loss	(40,500)	(48,100)	(48,100)	(48,100)	(48,100)
Total Common Stockholders' Equity	**5,554,300**	**5,720,018**	**5,913,306**	**6,128,104**	**6,363,237**
TOTAL CAPITALIZATION & LIABILITIES	**21,844,700**	**22,673,861**	**23,835,962**	**24,822,941**	**25,928,234**

Source: Company data, Morgan Stanley Research

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Exhibit 5

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
Cash from Operating Activities					
Net Income	416,100	524,300	516,126	551,672	586,653
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,700	-	-	-	-
Depreciation and Amortization	561,900	559,936	601,096	614,473	629,469
Net Changes in Price Risk Mgmt A / L	(18,500)	1,400	-	-	-
Deferred: Inc. Tax/Credits; Revenues	301,200	116,100	-	-	-
Stock Compensation Expense	45,000	10,600	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(3,800)	(200)	-	-	-
Income from Unconsolidated Affiliates	(30,900)	(7,300)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	5,700	(33,300)	-	-	-
AFUDC Equity	(10,600)	(3,500)	-	-	-
Dist. of Earnings Received from Equity Investee	34,900	7,000	-	-	-
Other	-	2,300	-	-	-
Changes in Assets and Liabilities:	**(35,200)**	**(55,475)**	**(28,184)**	**29,955**	**(92,907)**
Net cash from operating activities	**1,275,500**	**1,121,861**	**1,089,038**	**1,196,100**	**1,123,215**
Cash from Investing Activities					
Capital Expenditures	(1,498,800)	(1,800,000)	(1,700,000)	(1,600,000)	(1,600,000)
Insurance Recoveries	6,500	-	-	-	-
Proceeds from Disposition of Assets	25,600	500	-	-	-
Restricted Cash Deposits (Borrowings)	114,200	23,600	-	-	-
Contributions to Equity Investments	(20,400)	(17,100)	-	-	-
Other Investing Activities	(52,300)	116,200	-	-	-
Net cash from investing activities	**(1,425,200)**	**(1,676,800)**	**(1,700,000)**	**(1,600,000)**	**(1,600,000)**
Cash from Financing Activities					
Issuance of Long-Term Debt	991,400	(427,100)	-	-	-
Retirement/Repurchase of Long-Term Debt	(331,600)	-	-	-	-
Change in Short-Term Borrowings, Net	(582,200)	1,265,321	933,799	740,774	828,305
Issuance of Common Stock	383,500	17,200	-	-	-
Acquisition of Treasury Stock	(10,000)	(7,600)	-	-	-
Dividends Paid - Common Stock	(273,200)	(309,182)	(322,838)	(336,874)	(351,521)
Other	(3,400)	-	-	-	-
Net cash from financing activities	**174,500**	**538,639**	**610,962**	**403,900**	**476,785**
Net change in cash	**24,800**	**(16,300)**	**-**	**-**	**-**
Cash at beginning of period	**11,500**	**36,300**	**20,000**	**20,000**	**20,000**
Cash at end of period	**36,300**	**20,000**	**20,000**	**20,000**	**20,000**

Source: Company data, Morgan Stanley Research

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Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 5,996	$ 19.21
Gas Transmission & Storage	5,901	18.91
Electric Utility	4,417	14.15
Utica	938	3.00
Value	$ 17,251	$ 55.27
Net Debt	(7,995)	(25.62)
Net Equity Value	$ 9,256	$ 29.66
Shares Outstanding (in m)		312.1

GAS DISTRIBUTION		
Forward EBITDA (2014E)	$	705
Forward multiple		8.5x
Enterprise value	$	5,996
GAS TRANSMISSION & STORAGE		
Forward EBITDA (2014E)	$	590
Forward multiple		10.0x
Enterprise value	$	5,901
ELECTRIC UTILITY		
Forward EBITDA (2014E)	$	520
Forward multiple		8.5x
Enterprise value	$	4,417
Estimated Utica 'Value' Credit		
Acres		125,000
$/acre	$	7,500
Enterprise value	$	938

Source: Company data, Morgan Stanley Research.

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MORGAN STANLEY ModelWare

Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

Disclosure Section

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(as of March 31, 2013)

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rghuler@nisource.com Randy Huler 04/30/13 05:08:57 PM NiSource Corporate Services Co (Inv Relations)

Morgan Stanley

MORGAN STANLEY RESEARCH

April 30, 2013
NiSource, Inc.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1031**	**36%**	**402**	**39%**	**39%**
Equal-weight/Hold	**1250**	**44%**	**480**	**47%**	**38%**
Not-Rated/Hold	**105**	**4%**	**27**	**3%**	**26%**
Underweight/Sell	**467**	**16%**	**113**	**11%**	**24%**
Total	**2,853**		**1022**		

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Analyst Industry Views

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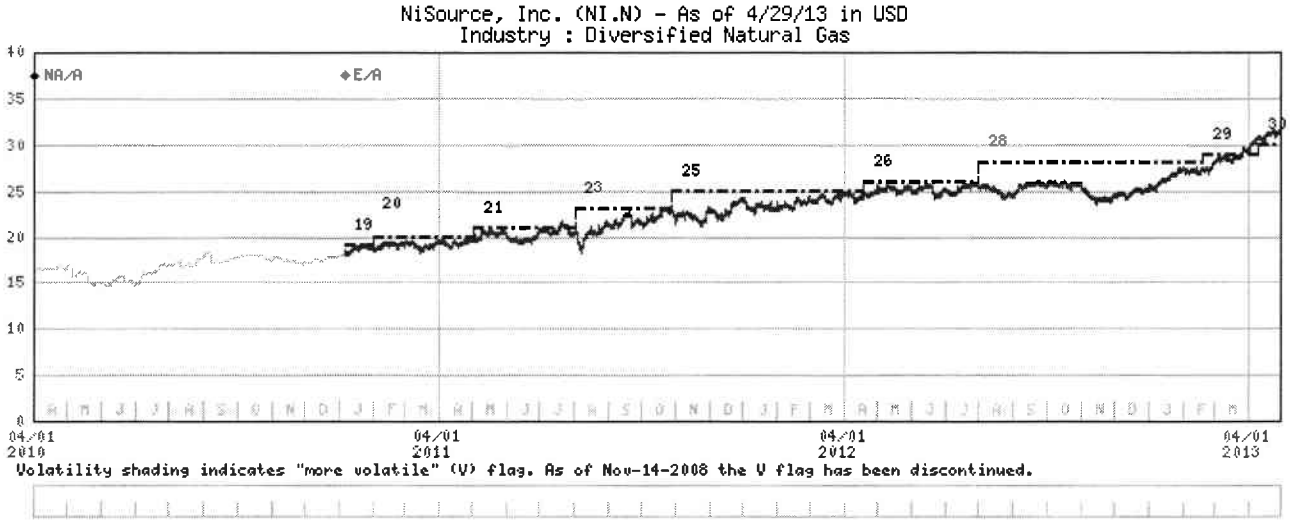
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 4/1/10 : NA/A; 1/6/11 : E/A
Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -·- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ··· Stock Price (Covered by Current Analyst) ■
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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MORGAN STANLEY RESEARCH

April 30, 2013
NiSource, Inc.

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Morgan Stanley

MORGAN STANLEY RESEARCH

The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (04/29/2013)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	$24.52
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$24.4
National Fuel Gas Co (NFG.N)	E (01/10/2012)	$62.56
NiSource, Inc. (NI.N)	E (01/06/2011)	$31.15
Oneok Inc. (OKE.N)	O (11/15/2011)	$51.19
Questar Corp. (STR.N)	E (02/11/2013)	$25.25
SemGroup Corp (SEMG.N)	O (04/10/2013)	$51.91
Spectra Energy Corp. (SE.N)	E (11/10/2009)	$31.36
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$38.22

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* Historical prices are not split adjusted.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Reaffirms Full-Year Guidance After Weak First-Quarter Results

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 30 Apr 2013
Estimates as of 15 Jan 2013
Pricing data through 29 Apr 2013
Rating updated as of 29 Apr 2013

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 30 Apr 2013

NiSource NI reported 2013 first-quarter operating earnings per share of $0.69 versus $0.76 in the same period last year. The weak results for the recently ended quarter reflect approximately $0.07 per share earnings dilution from the September 2012 completion of the forward equity issuance, which added 24 million new shares. Management acknowledged the soft first quarter but expressed confidence that they were on track to achieve net operating earnings in line with their previous EPS guidance of $1.50 to $1.60. We are reaffirming our 2013 EPS estimate of $1.56. We are also reaffirming our narrow moat and stable moat trend ratings and our fair value estimate of $25 per share.

One recent positive for NiSource's electric and natural gas distribution operations in Indiana was the passage of legislation that allows for a rate tracker for infrastructure investments for distribution and storage facilities. Although this does not benefit NiSource's ongoing environmental capital expenditures for coal-fired plants, which already have a rate tracker, or its planned Federal Energy Regulatory Commission jurisdictional transmission investments, we believe this legislation is a material long-term positive for NiSource's distribution operations in Indiana.

Vital Statistics

Market Cap (USD Mil)	9,694
52-Week High (USD)	31.39
52-Week Low (USD)	23.14
52-Week Total Return %	31.1
YTD Total Return %	27.1
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.1
5-Yr Forward EPS CAGR %	9.3
Price/Fair Value	1.25

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	14.4	17.6	—	20.0
EV/EBITDA	9.7	10.9	—	10.2
EV/EBIT	16.1	17.4	—	15.4
Free Cash Flow Yield %	-0.3	-2.7	—	-1.4
Dividend Yield %	3.8	3.3	—	3.2

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	6,422	6,019	5,526	6,096
Revenue YoY %	-3.4	-6.3	-8.2	10.3
EBIT	908	907	1,031	1,150
EBIT YoY %	12.8	-0.1	13.6	11.6
Net Income, Adjusted	341	389	426	496
Net Income YoY %	15.6	14.1	9.6	16.4
Diluted EPS	1.22	1.35	1.45	1.56
Diluted EPS YoY %	13.8	10.8	7.5	7.5
Free Cash Flow	135	7	384	161
Free Cash Flow YoY %	-90.9	-95.1	NM	-58.2

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is an energy holding company whose subsidiaries distribute natural gas and electricity to more than 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. The company owns and operates 15,000 miles of natural gas transmission pipeline and one of the nation's largest underground natural gas storage systems. Northern Indiana Public Service Company, or NIPSCO, NiSource's wholly owned electric and gas utility, owns coal, natural gas, and hydroelectric power plants.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2009	2010	2011	Forecast 2012	Forecast 2013	5-Year Proj. CAGR
Revenue	—	—	-3.4	-6.3	*-8.2*	*10.3*	*5.1*
EBIT	—	—	12.8	-0.1	*13.6*	*11.6*	*9.6*
EBITDA	—	—	7.9	-4.0	*9.4*	*10.0*	*7.6*
Net Income	—	—	15.6	14.1	*9.6*	*16.4*	*12.1*
Diluted EPS	—	—	13.8	10.8	*7.5*	*7.5*	*9.3*
Earnings Before Interest, after Tax	—	—	3.7	-0.1	*5.5*	*2.1*	*6.1*
Free Cash Flow	—	—	-90.9	-95.1	*NM*	*-58.2*	*151.4*

Profitability	3-Year Hist. Avg	2009	2010	2011	2012	2013	5-Year Proj. Avg
Operating Margin %	*13.8*	12.1	14.1	15.1	*18.7*	*18.9*	*18.7*
EBITDA Margin %	*22.8*	21.0	23.4	24.0	*28.6*	*28.5*	*27.9*
Net Margin %	*5.4*	4.4	5.3	6.5	*7.7*	*8.1*	*8.4*
Free Cash Flow Margin %	*8.2*	22.2	2.1	0.1	*7.0*	*2.6*	*5.6*
ROIC %	*6.5*	6.6	6.6	6.3	*6.5*	*6.4*	*6.8*
Adjusted ROIC %	*9.0*	9.3	9.1	8.6	*8.7*	*8.5*	*9.0*
Return on Assets %	*1.8*	2.3	1.5	1.5	*2.0*	*2.3*	*2.4*
Return on Equity %	*7.0*	9.1	6.0	6.0	*8.1*	*8.8*	*9.3*

Leverage	3-Year Hist. Avg	2009	2010	2011	2012	2013	5-Year Proj. Avg
Debt/Capital	*0.60*	0.58	0.60	0.61	*0.59*	*0.59*	*0.57*
Total Debt/EBITDA	*5.08*	4.87	4.88	5.50	*4.98*	*4.71*	*4.50*
EBITDA/Interest Expense	*3.72*	3.50	3.84	3.84	*4.05*	*4.28*	*4.50*

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	—	*20.0*
EV/EBITDA	9.7	10.9	—	*10.2*
EV/EBIT	16.1	17.4	—	*15.4*
Free Cash Flow Yield %	-0.3	-2.7	—	*-1.4*
Dividend Yield %	3.8	3.3	—	*3.2*

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	66.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,494	10.0	4.71
Present Value Stage II	2,616	17.4	8.24
Present Value Stage III	10,909	72.6	34.36
Total Firm Value	**15,019**	**100.0**	**47.30**
Cash and Equivalents	172	—	0.54
Debt	-7,954	—	-25.05
Preferred Stock	—	—	—
Other Adjustments	380	—	1.20
Equity Value	**7,618**	**—**	**23.99**
Projected Diluted Shares	318		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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MORNINGSTAR®

NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December	2009	2010	2011	*Forecast* 2012	*Forecast* 2013
Revenue	**6,649**	**6,422**	**6,019**	***5,526***	***6,096***
Cost of Goods Sold	3,318	2,974	2,556	*1,897*	*2,248*
Gross Profit	**3,331**	**3,448**	**3,463**	***3,629***	***3,849***
Selling, General & Administrative Expenses	1,653	1,656	1,723	*1,760*	*1,814*
Other Operating Expense (Income)	284	287	295	*287*	*295*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	589	596	538	*551*	*589*
Operating Income (ex charges)	**805**	**908**	**907**	***1,031***	***1,150***
Restructuring & Other Cash Charges	19	2	17	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**786**	**906**	**891**	***1,031***	***1,150***
Interest Expense	399	392	377	*390*	*407*
Interest Income	10	-78	-47	*15*	*19*
Pre-Tax Income	**397**	**436**	**467**	***655***	***763***
Income Tax Expense	166	142	163	*229*	*267*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	-11	-3	-5	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**221**	**292**	**299**	***426***	***496***
Weighted Average Diluted Shares Outstanding	276	280	289	*294*	*318*
Diluted Earnings Per Share	**0.80**	**1.04**	**1.03**	***1.45***	***1.56***
Adjusted Net Income	295	341	389	*426*	*496*
Diluted Earnings Per Share (Adjusted)	**1.07**	**1.22**	**1.35**	***1.45***	***1.56***
Dividends Per Common Share	0.92	0.92	0.92	*0.94*	*0.98*
EBITDA	**1,376**	**1,503**	**1,429**	***1,581***	***1,739***
Adjusted EBITDA	**1,395**	**1,505**	**1,446**	***1,581***	***1,739***

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31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2009	2010	2011	Forecast 2012	Forecast 2013
Cash and Equivalents	191	212	172	*332*	*309*
Investments	—	—	—	—	—
Accounts Receivable	809	1,079	855	*833*	*919*
Inventory	547	428	566	*421*	*499*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	677	730	655	*553*	*610*
Current Assets	**2,224**	**2,449**	**2,248**	***2,138***	***2,336***
Net Property Plant, and Equipment	10,684	11,097	11,800	*12,650*	*13,441*
Goodwill	3,677	3,677	3,677	*3,677*	*3,677*
Other Intangibles	320	309	298	*298*	*298*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,810	1,851	2,183	*2,200*	*2,310*
Long-Term Non-Operating Assets	557	556	502	*502*	*502*
Total Assets	**19,272**	**19,939**	**20,708**	***21,465***	***22,564***
Accounts Payable	502	582	435	*323*	*382*
Short-Term Debt	822	1,417	1,687	*1,050*	*1,500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,826	1,651	1,525	*1,500*	*1,575*
Current Liabilities	**3,158**	**3,649**	**3,646**	***2,873***	***3,457***
Long-Term Debt	5,965	5,936	6,267	*6,820*	*6,700*
Deferred Tax Liabilities (Long-Term)	2,018	2,210	2,542	*2,800*	*3,000*
Other Long-Term Operating Liabilities	1,559	1,596	1,810	*2,000*	*2,200*
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	*1,445*	*1,445*
Total Liabilities	**14,418**	**15,016**	**15,711**	***15,938***	***16,803***
Preferred Stock	—	—	—	—	—
Common Stock	4,854	4,923	4,997	*4,997*	*4,997*
Additional Paid-in Capital	—	—	—	*380*	*430*
Retained Earnings (Deficit)	—	—	—	*150*	*334*
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Shareholder's Equity	**4,854**	**4,923**	**4,997**	***5,527***	***5,761***
Minority Interest	—	—	—	—	—
Total Equity	**4,854**	**4,923**	**4,997**	***5,527***	***5,761***

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2009	2010	2011	Forecast 2012	Forecast 2013
Net Income	217	283	299	*426*	*496*
Depreciation	590	597	538	*551*	*589*
Amortization	—	—	—	—	—
Stock-Based Compensation	10	31	39	*40*	*41*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	378	194	178	*258*	*200*
Other Non-Cash Adjustments	25	78	128	—	—
(Increase) Decrease in Accounts Receivable	259	-244	220	*22*	*-86*
(Increase) Decrease in Inventory	129	103	-142	*145*	*-78*
Change in Other Short-Term Assets	2	23	90	*103*	*-57*
Increase (Decrease) in Accounts Payable	-191	38	-155	*-112*	*60*
Change in Other Short-Term Liabilities	503	-320	-276	*-25*	*75*
Cash From Operations	**1,921**	**783**	**920**	***1,408***	***1,241***
(Capital Expenditures)	-777	-804	-1,125	*-1,400*	*-1,380*
Net (Acquisitions), Asset Sales, and Disposals	6	1	9	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	109	-140	-34	*173*	*90*
Cash From Investing	**-662**	**-944**	**-1,149**	***-1,228***	***-1,290***
Common Stock Issuance (or Repurchase)	8	13	21	*380*	*50*
Common Stock (Dividends)	-253	-256	-258	*-276*	*-312*
Short-Term Debt Issuance (or Retirement)	-1,061	1,280	-23	*-637*	*450*
Long-Term Debt Issuance (or Retirement)	290	-826	541	*553*	*-120*
Other Financing Cash Flows	—	—	—	*-40*	*-41*
Cash From Financing	**-1,016**	**211**	**281**	***-20***	***27***
Exchange Rates, Discontinued Ops, etc. (net)	-247	-57	-50	—	—
Net Change in Cash	**-4**	**-8**	**2**	***160***	***-23***

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WUNDERLICH SECURITIES

Energy: Utilities/Power

NISOURCE INC. (NI: $30.73)

May 1, 2013

Raising Price Target
Rating: Hold
Price Target: Old - $26.00; New - $30.00

Market Data	
12-18 Month Price Target	$30.00
52-Week Range	$31.39 - $23.14
ADTV - 90Day (000s)	2,004.3
Market Cap ($MM)	$9,562.8
Shares Out (MM)	310.3
Public Market Float (MM)	308.4
Dividend	$0.96
Dividend/Yield	3.12%

EPS ($)

FY DEC	2012	2013		2014	
	Actual	Previous	Current	Previous	Current
Q1	$0.76A	$0.70	$0.69A	–	–
Q2	$0.23A	–	$0.26E	–	–
Q3	$0.05A	–	$0.15E	–	–
Q4	$0.44A	–	$0.47E	–	–
YEAR	$1.46A	–	$1.56E	–	$1.67E

Valuation Ratio

	FY12	FY13	FY14
P/E	21.0x	19.7x	18.4x
PEG	5.3x	4.9x	4.6x
EV/EBITDA	10.7x	10.5x	10.0x
Leverage Ratio	5.0x	4.9x	4.9x
EV/FCF	NM	NM	NM
FCF Yield	NM	NM	NM
P/FCF	NM	NM	NM
EV/S	3.4x	2.6x	2.5x

Financial Data

	FY12	FY13	FY14
Revenue	$5,070.0A	$6,757.0E	$6,892.8E
EBIT	$1,071.4A	$1,093.1E	$1,160.3E
EBITDA	$1,633.3A	$1,671.6E	$1,753.2E
FCF(Mil)	$(234.5)A	$(159.7)E	$(100.1)E
Debt/Capital	59.3%A	56.9%E	56.1%E
BV/Share	$18.48A	$19.16E	$19.87E
CapEx	$1,498.8A	$1,400.0E	$1,400.0E

Balance Sheet

	FY12	FY13	FY14
PPE	$12,915.9A	$13,301.6E	$14,108.7E
Total Assets	$21,844.7A	$22,424.5E	$23,392.5E
Total Debt	$8,103.2A	$8,152.8E	$8,602.8E
Long Term Debt	$6,819.1A	$6,736.1E	$7,186.1E
Total SOE and Liab.	$21,844.7A	$22,424.5E	$23,392.5E

Company Description

NiSource is a large regulated electric and gas utility, with most of its earnings derived from the gas distribution, transmission, and storage businesses. The company owns the Columbia gas system, serving gas in Ohio, Pennsylvania, Massachusetts, Virginia, Maryland, and Kentucky. The company has electric utility operations in northern Indiana.

In Line 1Q Results; Maintain Estimates, But Increase Target Price

Summary

NiSource (NI) reported 1Q EPS of $0.69 versus $0.76 a year ago (our/consensus was $0.70/$0.71). As expected, the results were impacted by the 24 million share equity issuance, which NI completed in September 2012 (closing the forward sale). NI continues to benefit from constructive regulation and the opportunity to invest capital in infrastructure in its midstream and downstream (distribution) businesses. NI is on track to invest $1.8B of capital in its business in 2013. NI maintained 2013 EPS guidance of $1.50-$1.60. We are maintaining our 2013/2014 EPS estimates of $1.56/$1.67. We are also maintaining our Hold rating on NI, but increasing our target price to $30 from $26 previously, to reflect peer company appreciation since March 1. Long-term, NI continues to have attractive prospects.

Key Points

- **NGT&S has ample investment opportunities.** FERC approved the gas pipeline modernization settlement in January, paving the way for $1.5B of investment over the next 5 years as part of the first phase in a program that could total $4B in capital spending at NGT&S. Further, Columbia and Columbia Gulf will be moving forward with both the West Side Expansion and East Side Expansion. NGT&S' long-term investment plans remain robust, and benefit from the increasing need for energy infrastructure in the Midwest.
- **Hilcorp JV opportunities progressing on plan.** Phase 1 ($150mm NI investment) of the Pennant Midstream JV is expected to be in service by the end of 2013. Expansion beyond Phase 1 will be based on the pace of drilling activity. In addition, the Utica/Point Pleasant upstream JV continues to progress as planned. Following test well drilling, the acreage shows similar mineral make-up to surrounding land. This will drive drilling activity throughout 2013. The JV remains part of the growth driver for NGT&S.
- **NIPSCO environmental investments on track; transmission upside.** Scrubber installation remains on track at Schahfer. At Michigan City, construction work has begun. In addition to this combined $750mm in spending, management identified $500mm-$1B in transmission investment opportunities, including 2 projects with projected in-service dates in the latter part of the decade, totaling $400-$500mm (NIPSCO portion) in MISO. We expect updates on such incremental investments at NIPSCO throughout 2013.
- **Maintaining 2013/2014 estimates...** We are maintaining our 2013/2014 EPS estimates of $1.56/$1.67. We believe management has identified a strong investment pipeline through which to deliver its long-term EPS growth of 5-7% with accompanying dividend growth of 3-5%. Upside to our estimates could come from a variety of projects now in early stages, such as the Cameron Access Project, which further supports our current EPS estimates. Further, reducing equity needs could also drive additional EPS growth.
- **...and Hold rating, but raising target to $30.** NI currently trades at 18.4x our 2014E EPS. This compares with 16.8x for comparable electric peers, but 18.5x for gas peers. Our sum-of-the-parts (SOTP) value suggests $29-$31 excluding MLPs and $31-$34 including MLPs. Given NI's gas business, we expect the stock will trade at a premium to its electric peers, but may not fully reflect the MLP SOTP valuation. Coupled with our DCF this supports our target price of $30.

James L. Dobson, CFA • 212.402.2059 • jdobson@wundernet.com

Wunderlich Securities, Inc.
One World Financial Center
200 Liberty Street, Suite 2200
New York, NY 10281

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Disclosures:

Analyst Certification

I James L. Dobson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their underlying securities. I further certify that I have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

Valuation/Risks

- NI faces regulatory risk, operational risks in its gas and electric business, adequate access to capital markets, and financial risk as a result of its leverage.
- We value utilities based on a comparable company analysis, a sum-of-the-parts (SOTP) analysis and a discounted cash flow (DCF) analysis.

General disclosures:

Prices are as of the close of 04/30/13.

Ratings Distribution (in Percentages) & Investment Banking Disclosure Chart Information

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	135	60.81	35	25.93
Hold -rated	86	38.74	10	11.63
Sell -rated	1	0.45	1	100.00

** Percentage of all Wunderlich-covered stocks assigned an equivalent Buy, Hold, or Sell rating.*

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Buy – a security which at the time the rating is instituted or reiterated indicates an expectation of a total return of greater than 20% over the next 12-18 months.

Hold - a security which at the time the rating is instituted or reiterated indicates an expectation of a total return of plus or minus 5% over the next 12-18 months.

Sell – a security which at the time the rating is instituted or reiterated indicates an expectation of a negative total return of greater than 10% over the next 12-18 months.

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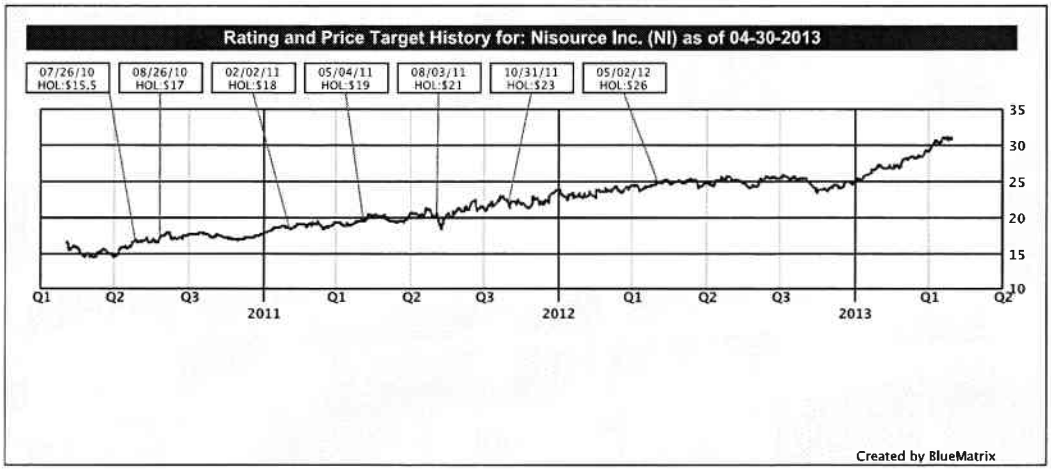

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WUNDERLICH SECURITIES

Baltimore
400 E. Pratt Street
Suite 720
Baltimore, MD 21202
866.297.8259

Boston
260 Franklin Street
Suite 510
Boston, MA 02109
617.892.7151

Denver
1099 18th Street
Suite 2850
Denver, CO 80202
866.493.6588

Houston
4400 Post Oak Pkwy
Suite 1400
Houston, TX 77027
888.385.6928

Memphis
6000 Poplar Avenue
Suite 150
Memphis, TN 38119
800.726.0557

New York
One World Financial Center
200 Liberty Street
Suite 2200
New York, NY 10281
212.430.3500

San Francisco
275 Battery Street
Suite 480
San Francisco, CA 94111
415.489.6800

St. Louis
7711 Bonhomme St.
Suite 600
St. Louis, MO 63105
888.432.5671

Equity Research

Director of Research		
James L. Dobson	212.402.2059	jdobson@wundernet.com
Accounting and Tax Policy		
Forensic Accounting		
Mike Gyure, CPA	440.364.7473	mgyure@wundernet.com
Diversified Industrials		
Energy Waste		
Michael E. Hoffman	410.369.2620	mehoffman@wundernet.com
Environmental Services		
Michael E. Hoffman	410.369.2620	mehoffman@wundernet.com
Brian J. Butler, CFA	410.369.2614	bbutler@wundernet.com
Industrial Distribution		
Brent D. Rakers, CFA	901.251.2236	brakers@wundernet.com
Anjali R. Voria, CFA	901.251.2238	avoria@wundernet.com
Minerals & Mining		
Michael E. Hoffman	410.369.2620	mehoffman@wundernet.com
Brian J. Butler, CFA	410.369.2614	bbutler@wundernet.com
Transportation		
Brian J. Butler, CFA	410.369.2614	bbutler@wundernet.com
Chaz Jones	901.251.2231	cgjones@wundernet.com
Nicholas Bender, CFA	901.251.2230	nbender@wundernet.com
Energy		
Exploration & Production		
Irene O. Haas	713.403.3980	ihaas@wundernet.com
Mostafa Dahhane, CFA	713.403.3986	mdahhane@wundernet.com
Oilfield Services/Exploration & Production		
Jason Wangler	713.403.3985	jwangler@wundernet.com
Master Limited Partnerships		
John R. Cusick, CFA	212.402.2057	jcusick@wundernet.com
Utilities/Power		
James L. Dobson	212.402.2059	jdobson@wundernet.com
Financial Services		
BDCs		
Merrill Ross	703.307.9409	mross@wundernet.com
Real Estate		
Merrill Ross	703.307.9409	mross@wundernet.com
Regional Banks		
Kevin Reynolds, CFA	901.251.2229	kreynolds@wundernet.com
Healthcare		
Medical Devices		
Gregory J. Simpson, CFA	314.719.3467	gsimpson@wundernet.com
Technology, Media & Telecommunications (TMT)		
Cable/Satellite Entertainment		
Matthew Harrigan	303.965.7966	mharrigan@wundernet.com
Communications & Networking Equipment		
Matthew S. Robison	415.572.0936	mrobison@wundernet.com
Internet & Social Media		
Blake T. Harper, CFA	410.369.2624	bharper@wundernet.com
Software-as-a-Service		
Richard K. Baldry, CFA	410.369.2633	rbaldry@wundernet.com
Institutional Equity Sales		
Manager of Institutional Equity Sales		
Brooke E. Hrimnak	410.369.2609	bhrimnak@wundernet.com
Beth Adams	972.772.5066	badams@wundernet.com
Clifford Athey	410.369.2627	cathey@wundernet.com
Greg Brown	303.260.7902	gbrown@wundernet.com
Sally Chandler	901.259.9437	schandler@wundernet.com
Brett Chiles	901.259.9436	bchiles@wundernet.com
James Donovan	617.892.7222	jdonovan@wundernet.com
Paul Gillespie	901.259.9407	pgillespie@wundernet.com
Thomas Hadley	303.260.7905	thadley@wundernet.com
Haywood Henderson	901.259.9438	hhenderson@wundernet.com
John Hohweiler	410.369.2610	jhohweiler@wundernet.com
Blake Kukar	901.259.9411	bkukar@wundernet.com
Ethel McGlynn	303.260.7904	ethel@wundernet.com
Kyle Norton	212.402.2060	knorton@wundernet.com
Kristi Papanikolaw	212.402.2058	kpapanikolaw@wundernet.com
Christina Rosso	212.402.2055	crosso@wundernet.com
Thomas S. Stephens	410.369.2602	tstephens@wundernet.com
Claudette Teti	617.892.7224	cteti@wundernet.com
Institutional Equity Trading		
Director of Institutional Equity Trading		
Stephen C. Iskalis	303.260.7901	siskalis@wundernet.com
John Belgrade	888.257.4152	jbelgrade@wundernet.com
Chuck Berry	303.965.7961	cberry@wundernet.com
Erik Briggs	410.369.2611	ebriggs@wundernet.com
Trip Carey	617.892.7220	tcarey@wundernet.com
William R. Kitchens	901.259.9439	wkitchens@wundernet.com
Jonathan Vonder Linden	212.402.2062	jvonderlinden@wundernet.com
Daniel Muhly	410.369.2606	dmuhly@wundernet.com

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Equity Research
Power & Utilities | North America Utilities
15 July 2013

NiSource, Inc.
Plenty of Value Left

A high-quality utility: NI is one of our favorite utility stocks with a deep capital spending program underpinned by solid regulation. We believe NI is one of the highest quality names in our coverage with: 1) long-term capex visibility supporting ~10% rate base growth in the regulated businesses over at least the next 5 years; 2) supportive regulation across its geographic footprint; and 3) an attractive valuation that we believe provides optionality and upside to expansion of its capex program above $1.8 billion per year and possible dividend growth acceleration.

Levered to the right themes: NI benefits from the build out of natural gas infrastructure in the Marcellus and Utica shale plays. We see several opportunities for NI to grow its midstream footprint, including an extension of the Pennant JV to Phase II, pipeline expansions if additional LNG export terminals in Louisiana and Maryland are built, and the potential to monetize its acreage in the Utica. On the Electric side, NI also has two MISO transmission projects in Indiana currently in the planning stages, which combined with a 7-year T&D modernization tracker plan to be filed in Q3 should lead to sustained growth over the next several years behind the current environmental backlog.

NI has transitioned from being a catalyst-driven story to an execution story: With improvements in the regulatory environment over the last two years and a $1.5-1.8 billion per year capex program in place over at least the next several years, we believe the lack of catalysts in the near term has become less relevant given the low-risk nature of the projects and regulatory quality. Our Overweight call is not predicated on a potential MLP as a near-term catalyst.

Valuation remains attractive: We see a 9.6% return potential for shares based on our sum of the parts. We apply a 16.2x 2015 P/E multiple, which is a 10% high-quality premium to regulated utility group to the Electric and Gas Distribution segments, a 9.5x EV/EBITDA multiple for the Pipeline Group, and $1.50/share for NI's Utica acreage.

NI: Quarterly and Annual EPS (USD)

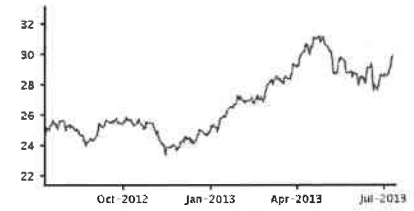
	2012	2013			2014			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.76A	0.69A	0.69A	0.69A	N/A	N/A	0.76E	-9%	N/A
Q2	0.23A	N/A	N/A	0.25E	N/A	N/A	0.27E	N/A	N/A
Q3	0.05A	N/A	N/A	0.15E	N/A	N/A	0.15E	N/A	N/A
Q4	0.44A	N/A	N/A	0.48E	N/A	N/A	0.47E	N/A	N/A
Year	1.46A	1.56E	1.56E	1.55E	1.68E	1.68E	1.67E	7%	8%
P/E	20.6		19.3			17.9			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 32.00 Unchanged
Price (11-Jul-2013)	USD 30.14
Potential Upside/Downside	+6%
Tickers	NI
Market Cap (USD mn)	9405
Shares Outstanding (mn)	312.04
Free Float (%)	99.20
52 Wk Avg Daily Volume (mn)	2.2
Dividend Yield (%)	3.2
Return on Equity TTM (%)	8.03
Current BVPS (USD)	18.25

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 31.39-23.14



Link to Barclays Live for interactive charting

North America Utilities
Daniel Ford, CFA
1.212.526.0836
daniel.x.ford@barclays.com
BCI, New York

William Zhang
1.212.526.6203
william.zhang@barclays.com
BCI, New York

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 9.

North America Utilities — Industry View: POSITIVE

NiSource, Inc (NI)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,633	1,765	1,898	2,037	7.6%
EBIT (adj)	1,071	1,170	1,266	1,373	8.6%
Pre-tax income (adj)	656	705	766	838	8.5%
Net income (adj)	N/A	N/A	N/A	N/A	N/A
EPS (adj) ($)	1.46	1.56	1.68	1.77	6.7%
Diluted shares (mn)	291.9	293.8	295.5	307.6	1.8%
DPS ($)	0.96	1.00	1.08	1.12	5.3%

Margin and return data					Average
EBITDA (adj) margin (%)	32.2	32.1	33.4	34.7	33.1
EBIT (adj) margin (%)	21.1	21.3	22.3	23.4	22.0
Pre-tax (adj) margin (%)	12.9	12.8	13.5	14.3	13.4
Net (adj) margin (%)	8.4	8.3	8.8	9.3	8.7
ROIC (%)	8.3	8.5	8.6	8.6	8.5
ROA (%)	2.0	2.0	2.1	2.1	2.0
ROE (%)	7.7	7.9	8.3	8.3	8.1

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	12,916	14,107	15,225	16,312	8.1%
Total net assets	21,845	23,131	24,261	25,534	5.3%
Capital employed	12,881	13,809	14,788	16,061	7.6%
Shareholders' equity	5,554	5,774	6,003	6,553	5.7%
Net debt/(funds)	7,243	7,934	8,705	9,273	8.6%
Cash flow from operations	1,276	1,259	1,248	1,176	-2.7%
Capital expenditure	-1,499	-1,787	-1,750	-1,750	N/A
Free cash flow	-359	-719	-646	-571	N/A
Pre-dividend FCF	-86	-425	-327	-226	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	20.6	19.3	17.9	17.0	18.7
EV/EBITDA (adj) (x)	9.8	9.5	9.2	8.9	9.3
EV/EBIT (adj) (x)	15.0	14.3	13.8	13.2	14.1
P/BV (x)	1.6	1.5	1.5	1.4	1.5
Dividend yield (%)	3.2	3.3	3.6	3.7	3.5
Total debt/capital (%)	56.9	58.2	59.4	59.2	58.4
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics				
Payout ratio (%)	65.8	64.1	64.1	63.2
Interest cover (x)	2.6	2.5	2.5	2.6
Regulated (%)	N/A	N/A	N/A	N/A

Source: Company data, Barclays Research
Note: FY End Dec

Price (11-Jul-2013)	USD 30.14
Price Target	USD 32.00

Why Overweight? We rate NI as an Overweight because of the attractive risk/reward profile from NI's well-defined rate base growth strategy which we see as relatively low-risk. Moreover, we believe additional value can be captured in NI's shale acreage, to which we assign a value of $1.50/share.

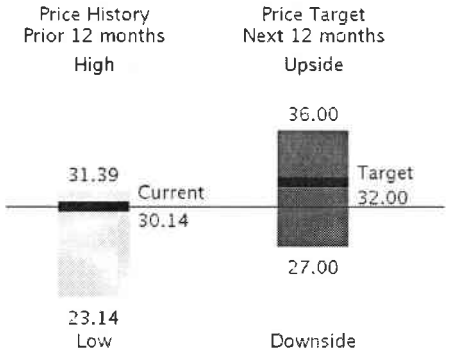
Upside case — **USD 36.00**

Our upside case assigns a 11x 2015 EV/EBITDA multiple to the Columbia Pipeline Group under an MLP scenario.

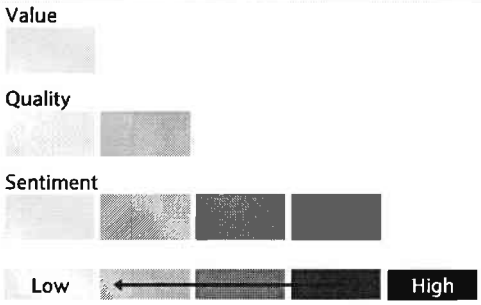
Downside case — **USD 27.00**

Our downside case assumes NI trades in-line with the regulated group's multiple on 2015 EPS.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

A High Quality Utility Levered to Midstream Buildout

Investment Thesis

The extended period of strong regulated utility group performance in 2011-1H13 saw a convergence in valuations across the group, despite differences in regulatory quality, earnings and dividend growth visibility, or business risk. With the recent rise in interest rates following signals from the Federal Reserve indicating coming changes in monetary policy, we believe valuations within the group will again begin to diverge. In this environment we prefer utilities with regulatory certainty and clarity with regards to earnings and dividend growth prospects. Since over the next two years, we expect rate base growth across the regulated utility space to moderate from a ~6% annual rate to a more normal ~3% growth rate after 2015 as compliance-driven environmental spending tapers, we also favor utilities levered to transmission growth and midstream gas infrastructure build out. We believe those companies offer the potential to sustain further rate base growth beyond the current environmental-driven capex cycle.

In our view, NiSource is a high-quality core utility holding with a significant capital spending backlog driving rate base growth with constructive regulation across its footprint. The company differentiates itself from the rest of the space with the high level of visibility regarding its spending program beyond the 2015 timeframe. The capital spending in its electric utility, gas utility, and interstate gas pipeline operations largely earn rates under expedited/tracker recovery. We reiterate our Overweight rating on shares as it remains one of our favorite names among regulated utilities.

The Valuation is Still Attractive

We believe it is appropriate to assign a 10% premium to the regulated group multiple for the utility operation earnings given the quality of regulation and the high rate base growth visibility. Assigning a 9.5x EBITDA multiple to the Columbia Pipeline Group and $1.50 per share for NI's Utica acreage, which we believe is still conservative, gives us a $32 price target. This implies a 9.6% total return to shares without assuming any valuation uplift from an MLP.

Some Thoughts on MLP Opportunities

There has been considerable interest and speculation on whether NiSource will form an MLP from its Columbia Pipeline Group assets, especially given the recent activity within the MLP space, including the announcements from OGE Energy (OGE) and CenterPoint Energy (CNP). We believe the potential formation of an MLP remains on the periphery for upside longer-term but is not a core part of the story today, and NI shares remain attractive even without an MLP as a catalyst near-term.

We believe that an MLP remains on the table longer term but is not a near-term (next 12-18 months) prospect for 2 main reasons: 1) from a credit perspective forming an MLP could jeopardize NI's investment grade rating; and 2) the legacy Columbia assets are fully depreciated, which could lead to significant tax leakage under an MLP structure. Of these two, we believe the credit consideration is the gating factor, as, in our view, it could make sense for NI to pursue a drop-down growth strategy with a smaller initial asset dropdown as the company grows its midstream footprint.

Management indicated during meetings that capex could be north of the $1.5-1.8 billion target range over the next several years. If this is the case, and with the instatement of dividend growth of 3-5% per year, we believe achieving an MLP transaction is not immediately on the horizon. That said, we highlight our view that the NI story is not

predicated on an MLP, but rather on execution of its growth strategy focused on visibility of returns.

So where is the upside, if not in an MLP?

We believe the upside for NI will be execution driven, with our thesis to play out over time as one of the best quality names in our space. Based on the company's current opportunity set and management comments, the company can likely achieve the higher end of $1.5-1.8 billion capex program, which we believe will push earnings growth towards the higher end of its guided 5-7% earnings growth range. We also see the possibility of accelerating dividend growth to a 5-7% rate from 3-5% currently to match earnings growth.

A number of incremental investment opportunities would allow NiSource to achieve the higher end of its growth targets:

Indiana T&D Modernization Plan Filing

Under SB 560 enacted in Indiana in May, NIPSCO is expected to file a 7-year plan for capital spending to modernize and expand its electric distribution system in order to benefit from tracker recovery under the legislation. The company expects to file the plan some time in Q3. We believe the filing would give investors additional clarity on the capex run rate post-2015. Our current expectation is capex continuing at a run rate of $400-450 million per year, which is the current level of spend.

Pennant Midstream JV "Phase II"

In July 2012, NiSource and Hilcorp Energy, a private oil exploration and production company, announced a joint venture investing in constructing midstream infrastructure in eastern Ohio and western Pennsylvania. "Phase I" of the JV consists of building 50 miles of gathering pipeline in eastern Ohio and western Pennsylvania, as well as a NGL processing plant with initial capacity of 200Mmcf per day, which is a total investment of $300 million ($150 million NI share). The company has indicated the possibility of expanding the Pennant Midstream JV with Hilcorp Energy to a "Phase II" by building pipeline and processing capacity, which would add an incremental $300 million ($150 million NI share) in capex.

LNG Exports

NI also has opportunities to identify and pursue additional pipeline projects transporting natural gas from the Marcellus to export terminals if additional LNG export terminals are approved. There could be up to $1 billion in incremental natural gas midstream projects depending on additional LNG export terminal approvals.

We believe NI can deploy incremental capital in the Marcellus and Utica shale plays given the strategic location of its assets.

Monetization of Utica Lease Holdings

We estimate NiSource has roughly 163K acres of lease holdings in the Utica, much of it located in Ashland and Hocking counties in Ohio. A portion of the acreage, principally in Columbiana and Trumbull counties, is dedicated to the Pennant JV. We believe management is waiting for the rest of the play to develop and may be able to monetize the remaining acreage holdings, particularly in the western portion of the play through a similar arrangement with producers.

NiSource at a Glance

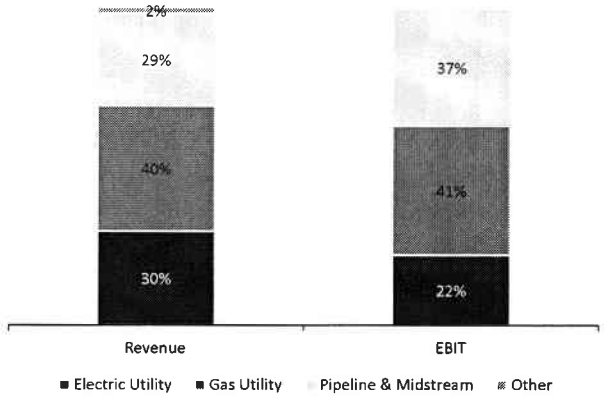
NiSource operates in three business segments, with most of its operations earning regulated rates of return and with a tilt towards natural gas transportation and distribution.

The company's electric utility business is NIPSCO Electric, which owns and operates electric generation, distribution, and transmission assets serving 455,000 customers in Northern Indiana. Rate base for NIPSCO Electric is around $2.8 billion, and the utility has an authorized 10.20% ROE.

NiSource Gas Distribution is the company's largest segment by revenues and operating income. The segment consists of gas utilities in 7 states: Indiana, Ohio, Kentucky, Virginia, Pennsylvania, Maryland, and Massachusetts, which all operate under the Columbia Gas brand outside of Indiana. The service areas are geographically located around the Marcellus and Utica shale regions, which allow the utilities to be serviced by NI's Columbia pipeline system. Collectively, the gas utilities have a rate base of around $3.7 billion with an average allowed ROE of 10%.

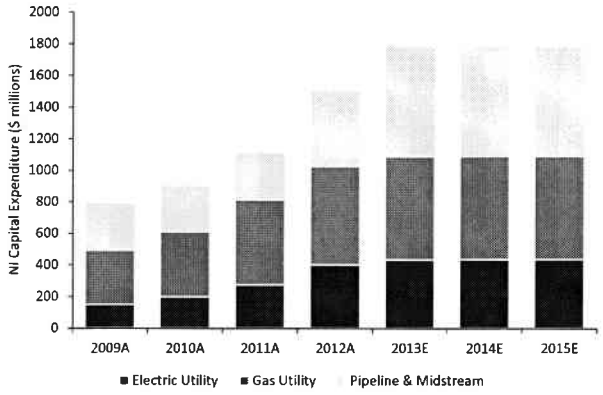
The Columbia Pipeline Group (formerly NiSource Gas Transmission & Storage) houses the company's interstate gas pipeline, storage, and midstream operations. CPG's assets and operations are principally located in the U.S. Northeast and Midwest around the Marcellus and Utica shale regions, which provide a range of pipeline expansion and midstream opportunities.

FIGURE 1
NI 2012 Revenue and Operating Income by Segment



Source: Company filings

FIGURE 2
NI Capital Expenditure Forecasts

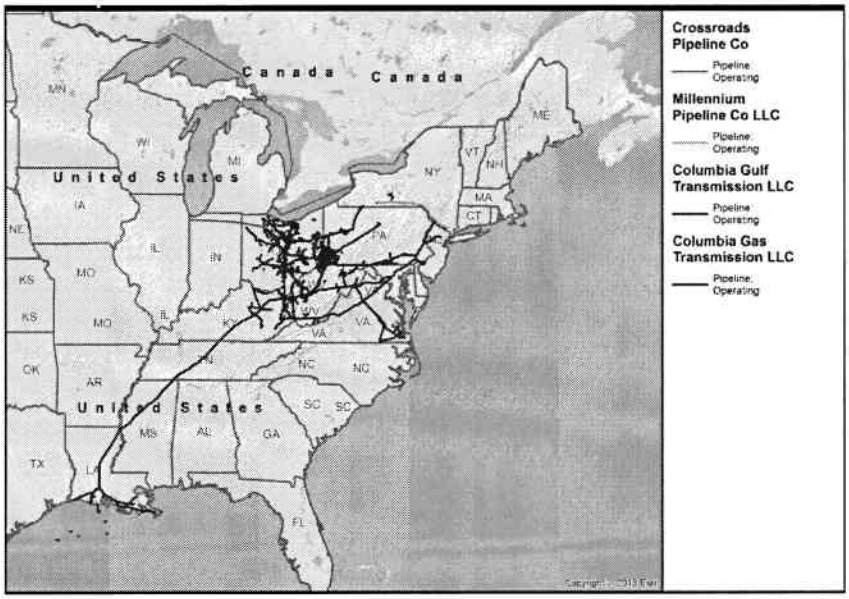


Source: Company filings, Barclays Research

Columbia Pipeline Group

The Columbia Pipeline Group (formerly NiSource Gas Transmission & Storage) operates a total of 15,000 miles of interstate natural gas pipelines and 37 storage fields across its footprint. The Columbia Gas Transmission system overlies the Marcellus and Utica shale regions, and the Columbia Gulf Transmission pipeline runs from the Marcellus to the Gulf Coast.

FIGURE 1
CPG Pipeline Locations



Source: SNL Financial, Barclays Research

Columbia Pipeline Modernization Program

The company obtained a settlement with customers allowing a $1.5 billion project to modernize and replace over 1,000 miles of aging pipeline in the Columbia Gas Transmission network. The project calls for $300 million of growth capex and $100 million of maintenance capex per year over an initial period of 5 years, with potential to extend the project to what can potentially be a $4-5 billion opportunity over an extended 10-15 year period. We believe the program is a key driver of capex for the segment. Rates are determined by FERC formula rates and are recovered via tracker.

Pennant Midstream Joint Venture

In July 2012, NiSource and Hilcorp Energy, a private oil exploration and production company, announced a joint venture investing in constructing midstream infrastructure in eastern Ohio and western Pennsylvania. "Phase I" of the JV consists of building 50 miles of gathering pipeline in eastern Ohio and western Pennsylvania, as well as a NGL processing plant with initial capacity of 200Mmcf per day, which is a total investment of $300 million ($150 million NI share). The project, which is expected to be in service in 3Q13, is anchored with a long-term gathering and processing agreement and additional capacity can be sold to other producers in the region. There is the possibility of expanding the JV to a "Phase II" based on well results, which would be an additional $300 million.

Big Pine Gathering System

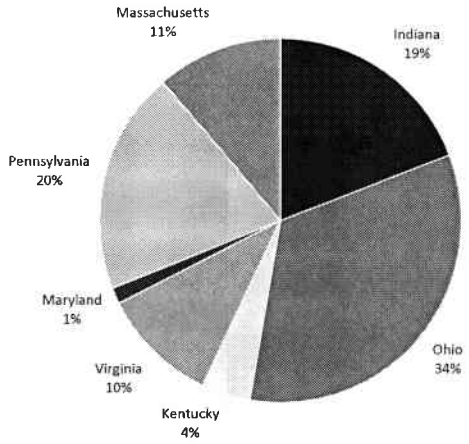
In June, NiSource completed a $160 million 57-mile gathering system in the Marcellus play in Pennsylvania backed by a long-term gathering agreement with XTO Energy and another agreement with PennEnergy. We believe NI is in a position to execute additional projects in

the Marcellus and Utica of comparable size given the strategic location of its assets and management's track record.

NiSource Gas Distribution

NiSource Gas Distribution is the company's largest segment by revenues and operating income. The segment consists of gas utilities in 7 states: Indiana, Ohio, Kentucky, Virginia, Pennsylvania, Maryland, and Massachusetts, which all operate under the Columbia Gas brand outside of Indiana. The service areas are geographically located around the Marcellus and Utica shale regions, which allow the utilities to be serviced by NI's Columbia pipeline system. Collectively, the gas utilities have a rate base of around $3.7 billion with an average allowed ROE of 10%.

FIGURE 2
Gas Distribution Rate Base by State



Source: Company filings, Barclays Research

Rate base growth at NiSource Gas Distribution is primarily driven by the Infrastructure Replacement Program, a multi-year program leading to annual capital spending of around $600-650 million, which should lead to 7-9% annual operating earnings growth over the next several years. The spending program, which is in place for all the states except Indiana, is backed by forward test years or annual tracker filings in their respective jurisdictions. With the passage of SB 560 in Indiana in May, the company is evaluating opportunities to modernize and expand the system in the state, backed by the recently enacted tracker legislation.

NIPSCO Electric

NIPSCO Electric serves around 455,000 customers in Northern Indiana. As of year-end 2012, rate base for NIPSCO Electric was around $2.8 billion, and earns an authorized 10.20% ROE. The segment is expected to invest $400-450 million of annual capex leading to operating earnings growth of 7-9% over the next several years. This assumes flat to modest customer growth, which we believe is reasonable.

The main projects currently underway at NIPSCO Electric are environmental upgrades for the coal fleet. Flue Gas Desulfurization (FGD) facilities are being constructed for NIPSCO's Shahfer and Michigan City Generating Stations. The FGD units are expected to be in service before year-end 2015, and cost a total of $740 million. NOx and MATS compliance upgrades comprise the balance of the capital program through 2015. Currently, these projects are all covered under Indiana's Environmental Cost Recovery Mechanism for tracker recovery.

In May, the Indiana General Assembly passed Senate Bill 560 allowing electric and gas utilities to recover costs for transmission, distribution, and storage improvements via a tracker, based on a commission approved 7- year plan for the projects.

ANALYST(S) CERTIFICATION(S)

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 11-Jul-2013, USD 30.14), Overweight/Positive, A/C/D/J/K/L/M/O

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Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
National Grid Plc (NGG)	NiSource, Inc. (NI)	Northeast Utilities (NU)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	SCANA Corp. (SCG)	Sempra Energy (SRE)
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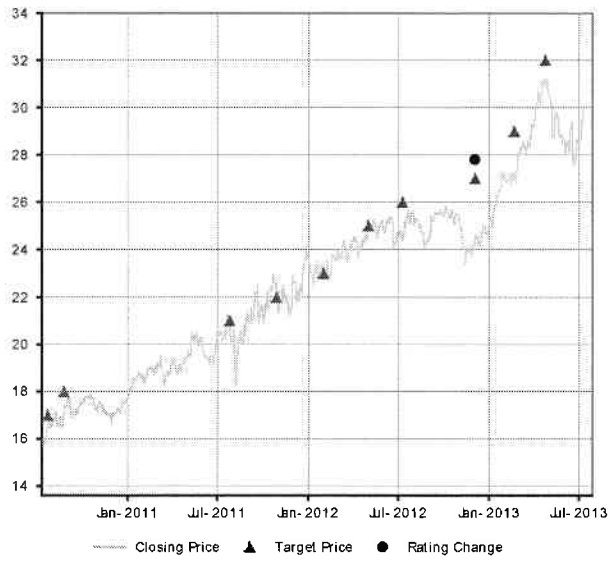
NiSource, Inc. (NI)

USD 30.14 (11-Jul-2013)

Stock Rating **OVERWEIGHT**

Industry View **POSITIVE**

Rating and Price Target Chart - USD (as of 11-Jul-2013) — Currency=USD



Date	Closing Price	Rating	Price Target
24-Apr-2013	31.14		32.00
20-Feb-2013	27.04		29.00
03-Dec-2012	24.34	Overweight	27.00
09-Jul-2012	24.41		26.00
01-May-2012	25.33		25.00
01-Feb-2012	23.45		23.00
28-Oct-2011	22.52		22.00
26-Jul-2011	20.85		21.00
25-Aug-2010	16.90		18.00
23-Jul-2010	16.49		17.00

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Valuation Methodology: Our PT is based on a sum-of the-parts valuation, assigning a 15.3x regulated utility group '15 P/E multiple for NIPSCO Electric and Gas Distribution, and a 9.5x '15 EV/EBITDA multiple for Gas Transmission & Storage. In addition we assign a $1.50/share value to NI's western Utica acreage.

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Equity Research | Instant Insights

31 July 2013

Daniel Ford, CFA	+1 212 526 0836	daniel.x.ford@barclays.com	BCI, New York
William Zhang	+1 212 526 6203	william.zhang@barclays.com	BCI, New York

NiSource, Inc.: 2Q In-Line, Growth on Track

Stock Rating/Industry View: Overweight / Positive
Price Target: $32
Price (30-Jul-2013): $30.85
Potential Upside/Downside: +4%
Ticker: NI

A Solid Quarter

NI reported $0.23 in adjusted EPS for the quarter, in-line with our and consensus estimates, and reaffirmed full-year EPS guidance of $1.50-1.60. Key drivers vs. 2Q12 EPS of $0.22 include dilution from an equity forward issuance in September 2012, offset by environmental capex trackers and new gas rates. For FY2013, we expect earnings growth to be weighted towards the latter half of the year as new gas rates in Pennsylvania and Ohio, higher electric rates from an environmental tracker, and earnings from the Pennant JV and the Big Pine gathering system began to take full effect around mid-year.

2013 capex forecast raised to $2.0 billion from $1.8 billion. Around $111 million of the increase was attributable to Gas Distribution and $62 million to the Columbia Pipeline Group. Part of the increased capex is due to gas utility customer growth in the service territories, although another factor was a pull-forward of tracker/modernization spending already in the backlog. Roughly 75% of capex is tied to growth projects or trackers, and 26% is maintenance capital.

NI remains on track for 5-7% earnings growth. We continue to expect NI to achieve capex towards the higher end of the $1.5-1.8 billion range per year over the next several years as the company executes on its extensive project backlog. In NIPSCO Electric, the 7-year modernization plan filed earlier this month is expected to be approved by the IURC sometime over the next year with work to begin in 2014 alongside ongoing fleet environmental upgrades. In Gas Distribution, the company is currently involved with rate proceedings in Massachusetts, Kentucky, and Maryland, and filed a settlement extension in Indiana. We expect the outcomes to be broadly constructive, and note that the new rates are supported by tracker mechanisms in each of the states. In the Pipeline Group, the $1.5 billion, 5-year Columbia Gas Modernization program remains on track, as are the company's previously announced midstream projects.

Reiterating Overweight rating. NI remains one of the highest quality regulated names in our coverage with multi-year visibility towards 5-7% earnings growth. NI's 2Q13 results were solid, and we believe the story will continue to be focused on execution going forward as the thesis plays out over time.

BMO Capital Markets

NiSource

(NI-NYSE)

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

August 1, 2013

North American Pipelines

Carl Kirst, CFA
BMO Capital Markets Corp.
713-546-9756
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com / leah.jordan@bmo.com

2Q13 in Line; Growth on Track

Event

NI reported 2Q13 EPS of $0.23, in line with consensus and a penny above our $0.22. Misses in LDC (-$0.01) and electric utility (-$0.03) were offset by beats in corp/other (+$0.03), interest (+$0.01), and taxes (+$0.01); pipes were in line. Key takeaways: 1) 2013 capex is increasing by ~$200mm to ~$2B mainly due to greater tracker spending, which is incremental to both our earnings outlook and valuation; 2) earlier this month, NIPSCO Electric filed its initial seven-year modernization spending plan for ~$1B beginning in 2014 under the recently approved SB 560 in Indiana; the filing indicates a spend (and return) earlier than we previously modeled, leading to a slight NPV gain. Over the life of this initiative, investment spending could total $3-$4B; 3) the gathering system for phase I of the Pennant Midstream JV recently began initial service for Hilcorp's early Utica shale production while the majority of the project (gathering and processing facilities) remains on schedule to be operational by year-end. Drilling results are in line with expectations and consistent with other area producers, suggesting support for future Pennant JV phases, although an announcement is not likely until mid-2014 given the pace of development; and 4) NI reaffirmed an equity need of $300-$350mm in 2015 as it plans to tap the debt capital markets in the interim.

Impact

Neutral (2Q results) to positive (higher tracker investment).

Forecasts

Owing to the 2Q beat, we are increasing our 2013 EPS estimate by a penny to $1.57, now at the mid to high end of NI's reaffirmed guidance of $1.50-$1.60. Our 2014 and 2015 estimates are also increasing by a penny to $1.66, and $1.77, respectively, as a result of the incremental tracker spending.

Valuation

We are raising our price target by $1 to $32 due to the incremental tracker spending and a greater NPV contribution (i.e. timing benefit) from NIPSCO's new electric modernization program.

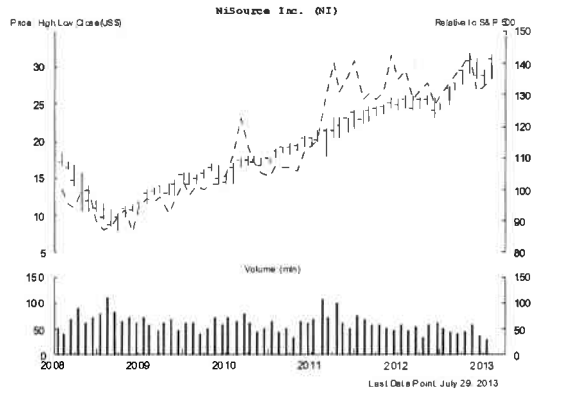
Recommendation

We maintain our Market Perform rating on NI stock.

Securities Info

Price (31-Jul)	**$30.72**	**Target Price**	**$32 ↑**
52-Wk High/Low	$31/$23	Dividend	$1.00
Mkt Cap (mm)	$9,586	Yield	3.3%
Shs O/S (mm, BASIC)	312.0	Float O/S (mm)	309.2
Options O/S (mm)	na	ADVol (30-day, 000s)	1,662

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS Pro Forma	$1.31	$1.44	$1.57↑	$1.66↑
P/E			19.6x	18.5x
First Call Cons.			*$1.55*	*$1.67*
EPS GAAP	$0.52	$1.39	$1.71	$1.66
FCF	$4.10	$4.31	$4.28↑	$4.00↓
P/FCF			7.2x	7.7x
EBITDA ($mm)	$1,382	$1,615	$1,760	$1,892
EV/EBITDA			9.3x	8.6x
Rev. ($mm)	$6,019	$5,091	$5,419	$5,613
EV/Rev			3.0x	2.9x

Quarterly EPS	**1Q**	**2Q**	**3Q**	**4Q**
2012A	$0.73	$0.23	$0.05	$0.44
2013E	$0.69A	$0.23A	$0.18	$0.47

Balance Sheet Data (31-Mar)			
Net Debt ($mm)	$6,740	TotalDebt/EBITDA	4.0x
Total Debt ($mm)	$6,988	EBITDA/IntExp	4.3x
Net Debt/Cap.	49.1%	Price/Book	1.7x

Notes: All values in US$.
Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

Changes	Annual EPS	Annual FCF	Target
	2013E $1.56 to $1.57	2013E $4.19 to $4.28	$31.00 to $32.00
	2014E $1.65 to $1.66	2014E $4.02 to $4.00	

2Q13 at a Glance

NI reported 2Q13 EPS of $0.23, in line with consensus and a penny above our $0.22 estimate. Primary deltas to our estimate along with business segment summaries are detailed below:

Pipes on target. EBIT of $89mm was in line with our estimate. Of note, total throughput of 288 MMDth declined ~12% y/y, primarily due to narrower basis differentials between the Gulf Coast and southeastern US markets.

NI also announced it is going forward with two growth projects—Line 1570 and Virginia LNG Facility—which were previously under evaluation. For ~$20mm, Line 1570 aims to increase Marcellus takeaway capacity by ~200 mmcf/d; in service is slated for 4Q14. For ~$30mm, the Virginia LNG Facility is a three-phased project that will upgrade and maintain service to existing customers, supported by new long-term agreements with higher rates. Specifically, the three phases are expected to be in service in 4Q13, 2014, and 2015, respectively. Together, Line 1570 and Virginia LNG Facility should provide about $0.02 to annual EPS.

-$0.01 LDC. Adjusted EBIT of $52mm (net of weather and asset sale gain) was lower than our $57mm estimate primarily due to higher operating expenses, namely administrative costs (labor, IT) and other outside service costs. Positively, total volumes of 194 MMDth increased ~5% y/y, mainly due to colder weather.

Of note, four regulatory requests remain outstanding that primarily aim to recapture the infrastructure modernization spending to which we already give credit. First, Columbia Gas of Maryland is requesting a $5mm annual revenue increase; a decision is expected by September 2013. Next, Columbia Gas of Kentucky is requesting a $16.6mm annual revenue increase; a decision is expected by January 2014. Additionally, Columbia Gas of Massachusetts is requesting a $30mm annual revenue increase; a decision is expected by March 2014. Finally, NIPSCO Gas is awaiting a decision (expected by year-end 2013) on its unanimous agreement with customers to extend 2010 rates through 2020. We also note that NIPSCO Gas plans to file its seven-year infrastructure plan by year-end 2013 in order to take effect in 2014; this filing should outline targeted spending on aging infrastructure and system integrity as well as contain plans to expand natural gas service into rural areas of Indiana.

-$0.03 Electric. Adjusted EBIT of $59mm (net of weather) was lower than our $74mm estimate primarily due to a lower effective tariff, partially offset by higher volumes. Specifically, total volumes of 4,490 GW hours increased by ~6% y/y, mainly due to an increase in wholesale usage.

Earlier this month, NIPSCO Electric filed its initial seven-year modernization spending plan for ~$1B beginning in 2014 (earlier than previously modeled) in order to replace aging infrastructure and improve system integrity as outlined under the recently approved SB 560 in Indiana. The Indiana Utility Regulatory Commission (IURC) is expected to approve the seven-year plan by early 2014 with initiation of the investment soon thereafter. Over the life of this initiative, investment spending could total $3-4B, which we estimate adds about $2/sh of NAV.

+$0.03 Corp/Other. EBIT of $8mm was higher than our -$5mm estimate.

+$0.01 Interest. Interest expense of $102mm was lower than our $108mm estimate.

+$0.01 Taxes. The effective tax rate of 31% was lower than our 35% estimate primarily due to a one-time deferred tax benefit taken. Going forward, the tax rate should remain in the mid-30% range.

Exhibit 1: NiSource Valuation

NiSource Inc.

Sum-of-the-Parts Valuation Analysis

			2015E	Valuation Multiple		Notes:
EBITDA by Segment						
Gas Distribution			$765	9.0x	$6,883	
Gas Pipelines			$693	11.0x	$7,623	- 1x turn higher given $4B 10-yr pipe modernization prgm (see tab)
Electric			$586	9.0x	$5,273	- 1x turn higher given $3-4B L-T t&d modernization prgm (see tab)
Other			$65	5.0x	$325	
Value of Operations			$2,109	9.5x	$20,105	
Net Debt (YE 2014)					($9,591)	
Preferred & Minority Interests					---	
Pension/OPEB Underfunded Obligation			($1,088)	25%	($272)	- est underfunded at YE12; risk adjusted at 25% (rest assumes recovery in rates)
	Gross	Risked	Net	Value		
Utica Acreage - Central/West	175,000	0%	0	$5,000	---	- Management indicates 150-200k potentially prospective with geotechnical variability on size of oil window (full acreage position is 300k)
Net Equity Value					$10,242	
Diluted Shares Outstanding					317	
$/sh					**$32.27**	
Average Target Price (rounded):					**$32.00**	
Valuation Summary:						
Current Price					$30.72	
Current Dividend					$1.00	
Appreciation Potential					4.2%	
Current Yield					3.3%	
Total Return Potential					7.4%	

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Operating Revenues:											
Gas Distribution	$3,303	$3,096	$2,918	$1,960	$892	$393	$372	$762	$2,420	$2,958	$3,038
Pipelines & Storage	1,241	1,261	1,355	1,462	469	367	270	316	1,420	1,205	1,269
Electric	1,213	1,375	1,428	1,508	377	385	394	355	1,511	1,558	1,603
Other	542	603	319	161	56	68	(25)	(32)	68	(107)	(110)
Revenues	6,299	6,335	6,019	5,091	1,794	1,212	1,011	1,401	5,419	5,613	5,800
Operating Expenses:											
Cost of Sales	2,978	2,898	2,556	1,549	688	360	169	372	1,588	1,606	1,603
Operation & Maintenance	1,650	1,654	1,723	1,674	455	453	438	472	1,818	1,849	1,891
DD&A	589	596	538	564	144	143	151	152	591	625	661
Loss (gain) on asset sales	16	1	17	(4)	(0)	(0)	0	0	(0)	0	0
Taxes and Other	283	287	295	289	87	71	67	82	307	321	329
Total Operating Expenses	5,516	5,436	5,129	4,072	1,373	1,027	825	1,078	4,303	4,401	4,484
Operating Income	783	899	890	1,020	421	186	186	323	1,116	1,212	1,316
Other:											
Equity in Earnings	16	15	15	32	7	8	8	13	36	54	71
Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Other	(6)	4	(61)	(1)	4	13	0	0	17	0	0
Total Other Income	10	19	(47)	31	11	21	8	13	53	54	71
Reported EBIT	**$793**	**$918**	**$844**	**$1,051**	**$432**	**$207**	**$194**	**$336**	**$1,169**	**$1,267**	**$1,386**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$1,615**	**$576**	**$350**	**$346**	**$488**	**$1,760**	**$1,892**	**$2,048**
EBIT Composition											
Gas Distribution	328	324	394	409	234	50	17	142	443	497	538
Pipelines & Storage	389	377	360	398	133	89	95	144	462	500	553
Electric	117	234	210	252	65	60	87	55	267	290	316
Corporate & Other	(40)	(17)	(120)	(8)	(0)	9	(5)	(5)	(2)	(21)	(21)
Total EBIT	**$793**	**$918**	**$844**	**$1,051**	**$432**	**$207**	**$194**	**$336**	**$1,169**	**$1,267**	**$1,386**
Interest Expense	399	392	377	416	99	102	107	109	417	455	493
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	416	99	102	107	109	417	455	493
Income Before Taxes	394	526	467	635	334	105	87	227	752	812	893
Income Taxes											
Current	(214)	118	(15)	(86)	2	(18)	8	20	11	142	156
Deferred	378	55	178	305	117	51	23	59	250	142	156
Total Income Taxes	165	173	163	219	118	33	31	79	261	284	313
Effective Inc. Tax Rate (%)	42%	33%	35%	34%	35%	31%	35%	35%	35%	35%	35%
Net Income From Continuing Operations	229	353	304	416	215	72	57	147	492	528	581
Discontinued Operations, net	(12)	(0)	(5)	0	9	(0)	0	0	8	0	0
Change in Accounting	(0)	(58)	0	0	36	0	0	0	36	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$416**	**$261**	**$72**	**$57**	**$147**	**$536**	**$528**	**$581**
Adjustments to Core											
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(17)	0	0	0	0	0	0	0
Total Adjustments	(49)	11	(74)	(17)	0	0	0	0	0	0	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$433**	**$215**	**$72**	**$57**	**$147**	**$492**	**$528**	**$581**
Shares Outstanding (mm)											
Avg. Diluted Shares Out	276	280	289	300	312	313	314	315	314	317	328
Avg. Basic Shares Out	275	278	280	292	311	312	313	314	313	316	327
Period-end basic Shares Out	276	279	282	311	312	313	313	314	314	318	332
Earnings Per Share (Diluted)											
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$1.39**	**$0.83**	**$0.23**	**$0.18**	**$0.47**	**$1.71**	**$1.66**	**$1.77**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$1.44**	**$0.69**	**$0.23**	**$0.18**	**$0.47**	**$1.57**	**$1.66**	**$1.77**
EPS Growth (core)	-19.4%	21.0%	7.4%	10.0%	-5.7%	2.2%	243.8%	7.1%	8.8%	6.1%	6.6%
Dividends											
Cash per share	$0.92	$0.92	$0.92	$0.95	$0.24	$0.25	$0.25	$0.25	$0.99	$1.03	$1.07
Div Growth	0.0%	0.0%	0.0%	3.3%	4.3%	4.2%	4.2%	4.2%	4.2%	4.0%	3.9%
Payout Ratio (%)	116.6%	87.5%	88.7%	68.6%					57.9%	61.9%	60.4%

Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Operating Activities											
GAAP Net Income from Cont. Ops	218	292	299	416	261	72	57	147	536	528	581
DD&A	589	596	538	562	144	143	151	152	591	625	661
Deferred income tax benefit	378	200	178	305	117	51	23	59	250	142	156
Deferred Revenues	4	(20)	3	(8)	(0)	0	0	0	(0)	0	0
Amortization of premium on debt	13	10	9	10	2	2	0	0	5	0	0
Less Gain or Loss on assets	(4)	(0)	0	(4)	(0)	(0)	0	0	(0)	0	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	4	(0)	(3)	(4)	(6)	(13)	(27)	(35)
Other non-cash income items	36	112	139	11	(37)	11	0	0	(26)	0	0
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$1,295**	**$485**	**$276**	**$227**	**$353**	**$1,342**	**$1,268**	**$1,363**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$4.31**	**$1.56**	**$0.88**	**$0.72**	**$1.12**	**$4.28**	**$4.00**	**$4.16**
Working Capital:											
Accounts and notes receivable	259	(244)	318	(181)	(111)	430			319	0	0
Inventory	129	103	(142)	62	255	(182)			73	0	0
Less Change of Price Risk Management Activities	0	0	0	0	0	0			0	0	0
Accounts payable	(192)	38	(155)	57	25	(145)			(119)	0	0
Customer deposit, net	25	(25)	(5)	(44)	(102)	(3)			(105)	0	0
Other assets	83	(206)	(201)	144	(90)	226			136	0	0
Other Liabilities	382	(86)	(78)	(68)	(26)	(157)			(183)	0	0
Changes in Working Capital	686	(420)	(262)	(30)	(48)	170	0	0	122	0	0
Discontinued Operations	(255)	(57)	(50)	11	12	(1)	0	0	11	0	0
Cash Flow From Operations	1,651	720	870	1,276	449	445	227	353	1,475	1,268	1,363
Investing Activities											
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(1,499)	(369)	(432)	(599)	(599)	(2,000)	(1,830)	(1,695)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	26	1	0	0	0	1	0	0
Other	109	(140)	(34)	51	1	(40)	0	0	(39)	0	0
Cash Used in Investing	(662)	(944)	(1,149)	(1,422)	(368)	(472)	(599)	(599)	(2,038)	(1,830)	(1,695)
Discontinued Operations	8	0	0	(3)	122	0	0	0	122	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(1,425)	(246)	(472)	(599)	(599)	(1,916)	(1,830)	(1,695)
Financing Activities											
Sale of Common Stock	26	14	24	384	17	7	12	12	48	48	348
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	988	0	815	400	0	1,215	1,000	500
Redemption of Common Stock	(3)	(2)	(3)	(10)	(8)	(0)	0	0	(8)	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(332)	(427)	(24)	0	0	(451)	(500)	(230)
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(582)	354	(754)	0	350	(49)	350	0
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Dividends	(253)	(256)	(258)	(273)	(75)	(75)	(78)	(78)	(306)	(306)	(330)
Other	0	0	(62)	0	0	0	0	0	0	0	0
Cash From (For) Financing	(1,000)	216	281	175	(138)	(30)	334	284	449	592	288
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	175	(138)	(30)	334	284	449	592	288
Change in Cash	($4)	($7)	$2	$25	$65	($57)	($38)	$38	$8	$30	($43)
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$36	$102	$45	$6	$37	$44	$74
Cash & Temp. Inv. End of Yr.	$16	$9	$12	$37	$102	$45	$6	$44	$44	$74	$31

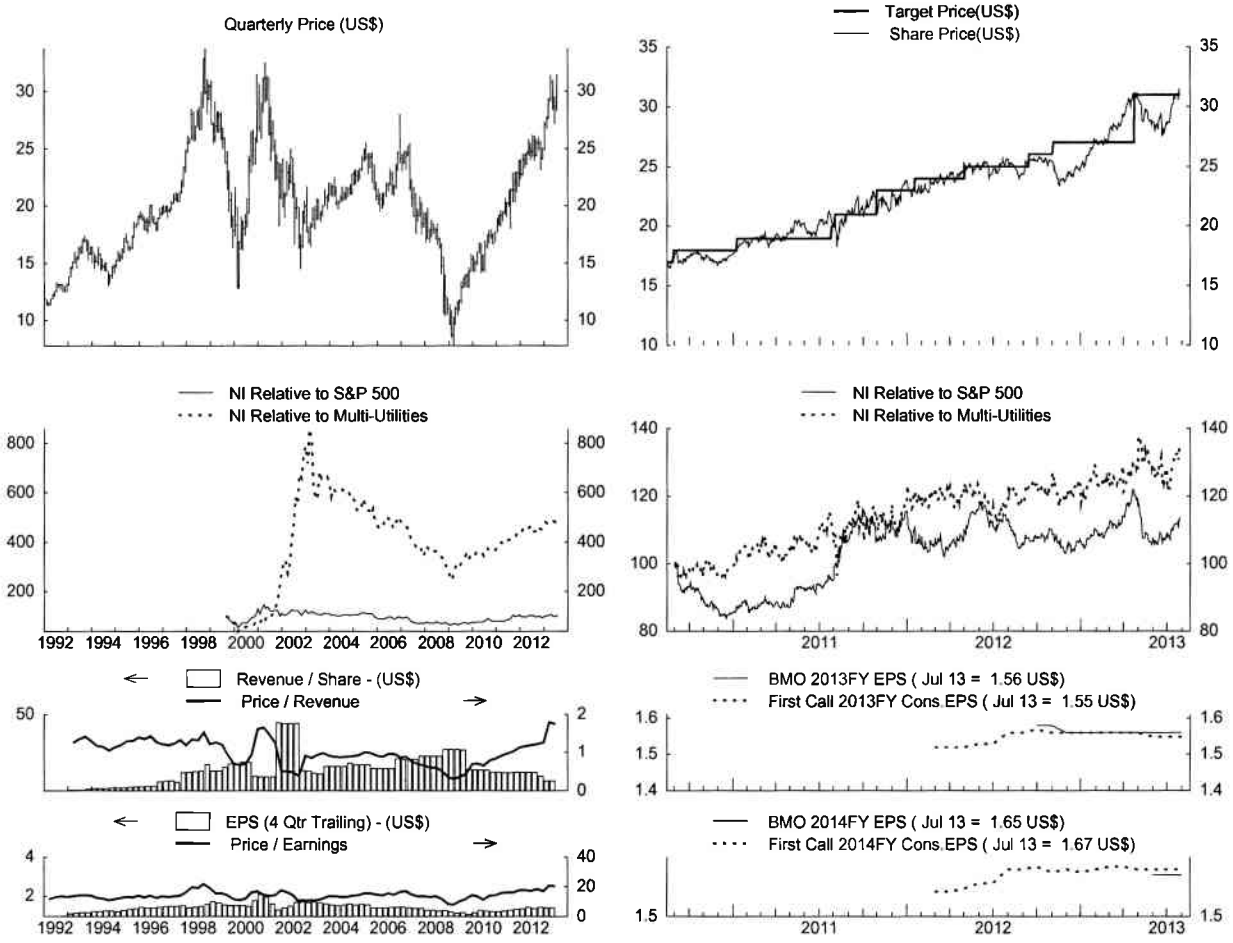
Source: BMO Capital Markets estimates, company data.

Exhibit 4: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Assets:											
Cash & Equivalent	16	9	12	36	101	45	6	44	44	74	31
Restricted Cash	175	203	161	47	23	29	29	29	29	29	29
Receivables	848	1,121	951	1,114	1,254	836	836	836	836	836	836
Allowance for Uncollectable Acts.	(40)	(41)	(31)	(24)	(32)	(32)	(32)	(32)	(32)	(32)	(32)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	40	136	21	45	17	1	1	1	1	1	1
Inventories	385	428	566	496	241	420	420	420	420	420	420
ST Assets Price Risk Management	173	160	137	92	58	40	40	40	40	40	40
Regulatory Assets	238	152	170	163	142	146	146	146	146	146	146
Other Current Assets	387	283	262	384	228	224	224	224	224	224	224
Total Current Assets	2,224	2,449	2,248	2,352	2,032	1,708	1,669	1,707	1,707	1,737	1,694
Plant & Equipment (Gross)	19,038	19,590	20,470	21,902	22,194	22,644	23,243	23,842	23,842	25,672	27,367
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,986)	(9,075)	(9,170)	(9,321)	(9,473)	(9,473)	(10,099)	(10,760)
Plant & Equipment, Net	10,684	11,097	11,800	12,916	13,119	13,474	13,922	14,369	14,369	15,573	16,607
Investments	295	349	356	438	451	469	469	469	469	469	469
LT Assets Price Risk Management	238	240	189	56	36	34	34	34	34	34	34
Regulatory Assets	1,644	1,650	1,978	2,024	1,954	1,902	1,902	1,902	1,902	1,902	1,902
Goodwill	3,677	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Intangible Assets	320	309	298	287	284	281	281	281	281	281	281
Other Long Term Assets (& flywheel)	53	168	162	94	94	88	92	98	98	125	160
Total Assets	19,134	19,939	20,708	21,845	21,636	21,622	22,035	22,525	22,525	23,787	24,813
Liabilities & Equity:											
Short Term Debt	800	1,417	1,687	1,284	1,221	448	448	798	798	1,148	1,148
Accounts Payables	502	582	435	539	527	471	471	471	471	471	471
ST Liabilities Price Risk Management	190	174	168	95	53	48	48	48	48	48	48
Regulatory Liabilities	44	93	112	172	107	80	80	80	80	80	80
Other	1,575	1,384	1,245	1,212	1,067	1,021	1,021	1,021	1,021	1,021	1,021
Total Current Liab	3,111	3,649	3,646	3,302	2,974	2,068	2,068	2,418	2,418	2,768	2,768
Long Term Debt	5,988	5,936	6,267	6,819	6,804	7,617	8,017	8,017	8,017	8,517	8,787
LT Liabilities Price Risk Management	170	182	139	20	7	5	5	5	5	5	5
Accumulated Deferred Taxes	2,018	2,243	2,571	2,953	2,980	3,063	3,086	3,145	3,145	3,287	3,444
Regulatory Liabilities	1,559	1,596	1,664	1,593	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Other Liabilities	1,572	1,409	1,424	1,603	1,569	1,556	1,556	1,556	1,556	1,556	1,556
Total Liabilities	14,418	15,016	15,711	16,290	15,946	15,919	16,342	16,751	16,751	17,743	18,170
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,554	5,691	5,703	5,693	5,774	5,774	6,044	6,643
Other	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	21,845	21,636	21,622	22,035	22,525	22,525	23,787	24,813

Source: BMO Capital Markets estimates, company data.

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
2009	1.06	14.9	7.3	0.92	11.8	5.8	87	17.6	0.9	0.4	6
2010	1.22	14.7	11.6	0.92	6.5	5.1	75	17.7	1.0	0.8	7
2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.7	1.4	0.9	8
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	17.9	1.5	1.2	8
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.41	20.3		1.00	3.5		71	18.3	1.6		8
Growth(%):											
5 Year:	1.8			1.7				-0.3			
10 Year:	-2.0			-1.5				-1.0			
20 Year:	1.2			2.1				4.3			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q1/2013.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (July 26, 2013): $31.43
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Important Disclosures

Analyst's Certification

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Disclosure 6: This issuer is a client (or was a client) of BMO Nesbitt Burns Inc., BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Non-Securities Related Services.

Methodology and Risks to Our Price Target/Valuation

Methodology: Our target price for NI is based on a sum-of-the parts valuation. We individually value each one of NI's business segments using a target EV/EBITDA multiple approach. Our target multiple for each segment is derived from analyzing historical multiple trading ranges, peer multiples, and adjusting for any expectation of future changes in investor sentiment, which would lead to multiple expansion/contraction. We next add together the segment valuations to reach an operating enterprise value, which is then adjusted for net debt, off-balance sheet items, operating leases, pension costs, and any other non-operating obligations. After adjustments, we then have our net equity value, which is divided by fully diluted shares outstanding to arrive at our target price.
Risks: Risks to our 12-month price target for NI include: 1) Conservation - conservation and bad debt expense from high commodity prices could impact earnings more than the base level we have accounted for; 2) Weather; 3) Interest rates; 4) Regulatory risk - rulings counter to assumptions and guidance could negatively impact our valuations going forward.

Distribution of Ratings (June 30, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.9%	17.6%	52.7%	39.6%	51.0%	53.2%
Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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Rating and Sector Key (as of April 5, 2013)

We use the following ratings system definitions:
OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis;
Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
NR = No rating at this time; and
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http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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Attachment B

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Citi Research

Equities

22 July 2013 | 8 pages

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

NiSource Inc (NI)

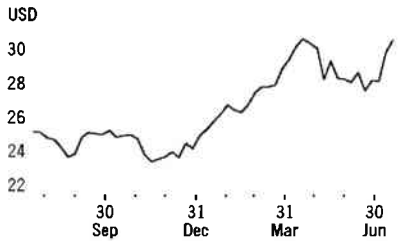
Model Upload

- **EPS Change** — We are adjusting our 2Q'13 estimate on NI to take into account updated interest costs and cost tracking mechanism. Our 2013, 2014 and 2015 estimates change slightly as a result of our updated interest cost assumption and actual 1Q'13 balance sheet data.
- **Recommendation** — We maintain our Neutral rating and target price.

■ **Estimate Change**

Neutral	**2**
Price (22 Jul 13)	US$31.08
Target price	US$30.00
Expected share price return	-3.5%
Expected dividend yield	3.1%
Expected total return	**-0.4%**
Market Cap	US$9,698M

Price Performance
(RIC: NI.N, BB: NI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.66A	0.24A	0.06A	0.44A	1.39A	1.42A
2013E	0.69A	0.24E	0.16E	0.44E	1.54E	1.55E
Previous	0.71E	0.28E	0.13E	0.42E	1.54E	na
2014E	0.82E	0.34E	0.16E	0.42E	1.73E	1.67E
Previous	0.79E	0.33E	0.14E	0.41E	1.66E	na
2015E	0.82E	0.37E	0.20E	0.46E	1.83E	1.79E
Previous	0.80E	0.36E	0.19E	0.45E	1.79E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Faisel Khan, CFA
+1-212-816-2825
faisel.khan@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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NI.N: Fiscal year end 31-Dec — Price: US$31.08; TP: US$30.00; Market Cap: US$9,698m; Recomm: Neutral

Profit & Loss (US$m)	2011	2012	2013E	2014E	2015E
Sales revenue	5,967	5,223	5,789	6,227	6,604
Cost of sales	-3,045	-2,226	-2,589	-2,683	-2,915
Gross profit	2,922	2,997	3,200	3,544	3,689
Gross Margin (%)	49.0	57.4	55.3	56.9	55.9
EBITDA (Adj)	**1,486**	**1,585**	**1,774**	**2,012**	**2,164**
EBITDA Margin (Adj) (%)	24.9	30.4	30.7	32.3	32.8
Depreciation	-485	-508	-596	-673	-711
Amortisation	-54	-54	-54	-54	-54
EBIT (Adj)	**948**	**1,024**	**1,124**	**1,285**	**1,399**
EBIT Margin (Adj) (%)	15.9	19.6	19.4	20.6	21.2
Net interest	-377	-418	-401	-403	-403
Associates	15	32	22	16	17
Non-op/Except	-7	2	2	-30	-59
Pre-tax profit	**578**	**639**	**748**	**868**	**954**
Tax	-207	-222	-267	-317	-348
Extraord./Min.Int./Pref.div.	-2	59	0	0	0
Reported net profit	**370**	**477**	**480**	**551**	**606**
Net Margin (%)	6.2	9.1	8.3	8.8	9.2
Core NPAT	371	418	480	551	606

Per share data	2011	2012	2013E	2014E	2015E
Reported EPS ($)	1.28	1.59	1.54	1.73	1.83
Core EPS ($)	1.29	1.39	1.54	1.73	1.83
DPS ($)	0.92	0.95	0.98	1.02	1.05
CFPS ($)	3.44	4.42	2.94	3.86	4.08
FCFPS ($)	-0.47	-0.58	-2.44	-1.71	-1.24
BVPS ($)	17.32	18.51	18.27	17.96	17.23
Wtd avg ord shares (m)	286	298	312	318	330
Wtd avg diluted shares (m)	288	300	312	318	330

Growth rates	2011	2012	2013E	2014E	2015E
Sales revenue (%)	2.6	-12.5	10.8	7.6	6.1
EBIT (Adj) (%)	5.9	8.0	9.9	14.3	8.9
Core NPAT (%)	11.3	12.4	15.1	14.7	10.0
Core EPS (%)	8.1	8.1	10.7	12.5	5.8

Balance Sheet (US$m)	2011	2012	2013E	2014E	2015E
Cash & cash equiv.	172	83	125	87	23
Accounts receivables	856	907	1,151	630	639
Inventory	566	496	241	461	591
Net fixed & other tangibles	14,129	15,091	15,203	15,462	15,718
Goodwill & intangibles	3,975	3,964	3,950	3,950	3,950
Financial & other assets	1,010	1,304	967	1,029	1,010
Total assets	**20,708**	**21,845**	**21,636**	**21,620**	**21,930**
Accounts payable	434	539	527	398	367
Short-term debt	1,687	1,284	1,221	1,221	1,221
Long-term debt	6,267	6,819	6,804	6,804	7,164
Provisions & other liab	7,323	7,648	7,394	7,493	7,489
Total liabilities	**15,711**	**16,290**	**15,946**	**15,916**	**16,240**
Shareholders' equity	4,997	5,554	5,691	5,704	5,691
Minority interests	0	0	0	0	0
Total equity	**4,997**	**5,554**	**5,691**	**5,704**	**5,691**
Net debt	**7,782**	**8,020**	**7,900**	**7,937**	**8,361**
Net debt to equity (%)	155.7	144.4	138.8	139.2	146.9

Valuation ratios	2011	2012	2013E	2014E	2015E
PE (x)	24.1	22.3	20.2	17.9	16.9
PB (x)	1.8	1.7	1.7	1.7	1.8
EV/EBITDA (x)	13.2	12.6	11.3	9.9	9.4
FCF yield (%)	-1.5	-1.9	-7.8	-5.5	-4.0
Dividend yield (%)	3.0	3.1	3.2	3.3	3.4
Payout ratio (%)	71	68	64	59	57
ROE (%)	7.5	9.0	8.5	9.7	10.6

Cashflow (US$m)	2011	2012	2013E	2014E	2015E
EBITDA	1,486	1,585	1,774	2,012	2,164
Working capital	-264	-30	-297	-53	-25
Other	-231	-230	-563	-734	-793
Operating cashflow	**991**	**1,325**	**915**	**1,225**	**1,346**
Capex	-1,125	-1,499	-1,675	-1,769	-1,754
Net acq/disposals	0	2	1	0	0
Other	-24	75	123	0	0
Investing cashflow	**-1,149**	**-1,422**	**-1,552**	**-1,769**	**-1,754**
Dividends paid	-258	-277	-305	-323	-347
Financing cashflow	**281**	**175**	**-329**	**3**	**-128**
Net change in cash	**73**	**89**	**-954**	**-540**	**-536**
Free cashflow to s/holders	**-134**	**-174**	**-760**	**-544**	**-408**

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For definitions of the items in this table, please click here.

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nghuler@nisource.com Randy Huler 07/22/13 06:20:39 PM Nisource Corporate Services Co (Inv. Relations)

NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana.

The company operates four business units, including Gas Distribution, which delivers natural gas in several states; Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCo); and Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of $1.60+ per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include i) substantial industrial load growth at the utility or ii) the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale, and iii) better than expected production results across NI's mineral right holdings. Monetization of Utica mineral rights remains unclear, so we rate the shares Neutral, but initial data is constructive.

Valuation

We average multiple valuation methodologies to derive our $30 target. Our NAV yields a value of $27. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $29. Our P/E and EV/EBITDA multiples (2014 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. Our P/E and EV/EBITDA analyses yield values of $29 and $33.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

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Appendix A-1

Analyst Certification

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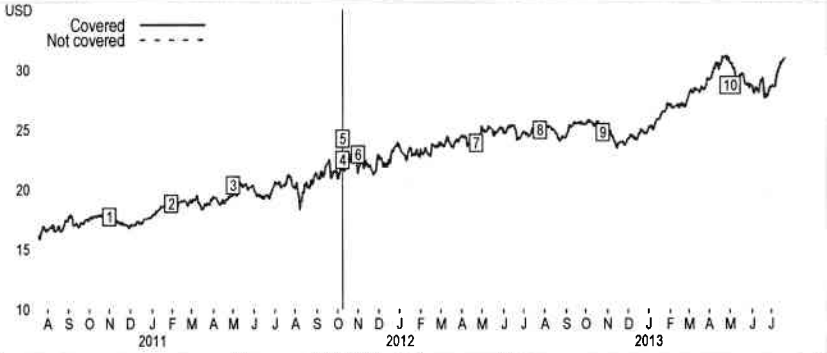
IMPORTANT DISCLOSURES

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	1-Nov-10	2M	*18.00	17.17
2	31-Jan-11	2M	*20.00	18.62
3	2-May-11	2M	*21.00	19.52
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	21.00	21.55
6	1-Nov-11	2	*22.00	21.32
7	23-Apr-12	2	*24.00	24.30
8	25-Jul-12	2	*26.00	25.12
9	25-Oct-12	2	*27.00	25.54
10	1-May-13	2	*30.00	30.61

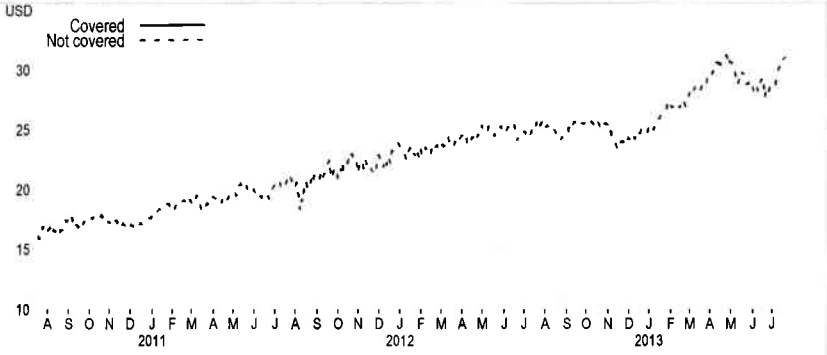
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



* Indicates change

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Citi Research Equity Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 30 Jun 2013	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	48%	40%	12%	6%	88%	6%
% of companies in each rating category that are investment banking clients	53%	50%	45%	58%	51%	49%

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Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**NEUTRAL***
Price (31 Jul 13, US$)	30.72
Target price (US$)	(from 31.00) 32.00[1]
52-week price range	31.44 - 23.40
Market cap. (US$ m)	9,585.78
Enterprise value (US$ m)	18,114.40

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

Paul Jacobs
713 890 1596
paul.jacob@credit-suisse.com

INCREASE TARGET PRICE

Holding Outlook, also Holding Neutral Rating with Valuation at 10-Yr High

- **Keeping Rating at Neutral, Valuation Remains Lofty:** Our TP increases by $1, to $32, based on a projected price to earnings multiple of ~17x-19x 2015E EPS. Together with NTM dividend of $1.01, this translates to a total return of approximately (0%)-10% with a mid-point of 5%, which is ~ 600bp below our median total return expectations for mid-stream MLPs. While we have a slightly negative bias, we acknowledge continuing robust demand for low risk, yield-oriented investments such as that offered by NI which has a broader investor base than MLPs.
- **Holding 2013 Estimate (at Guidance Midpoint) and 2014/15 Forecasts:** 2Q:13 results were a penny above our estimate, and we are holding our 2013 estimate at $1.55 which is the midpoint of NI's reiterated guidance of $1.50-$1.60/share. We are also holding our 2014/15 estimates at $1.65/1.75.
- **Risks:** NI's low risk business model of regulated assets operating in a relatively benign regulatory environment, highly visible investment opportunities in each of NI's segments together with a 3.2% dividend has appeal to defensive, yield-oriented investors. However, we would expect that flare-ups in the macro political, economic, or financial environment could result in a pull-back in the valuation of the shares given that NI is trading at over 5 turns above its forward P/E average and its peers are trading at approximately 6.5 turns above the forward P/E average.

Share price performance

On 07/31/13 the S&P 500 INDEX closed at 1685.73

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.73	0.23	-0.10	0.44
2013E	0.69	0.23	0.15	0.48
2014E	0.72	0.26	0.19	0.48

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US$)	1.43	1.55	1.65	1.75
Prev. EPS (US$)	—	—	—	—
P/E (x)	21.5	19.9	18.6	17.6
P/E rel. (%)	132.2	129.9	134.7	140.8
Revenue (US$ m)	5,070.0	5,616.5	5,858.3	6,240.4
EBITDA (US$ m)	1,633.3	1,717.9	1,911.4	2,069.5
OCFPS (US$)	4.26	5.16	4.44	4.71
P/OCF (x)	5.8	5.9	6.9	6.5
EV/EBITDA (current)	10.8	10.2	9.2	8.5
Net debt (US$ m)	8,067	8,529	9,171	9,434
ROIC (%)	5.13	5.18	5.43	5.54

Number of shares (m)	312.04	IC (current, US$ m)	13,621.20
BV/share (Next Qtr., US$)	18.5	EV/IC (x)	1.3
Net debt (Next Qtr., US$ m)	8,321.0	Dividend (current, US$)	0.99
Net debt/tot cap (Next Qtr., %)	146.6	Dividend yield (%)	0.81

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 639 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 458,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI holds substantial acreage.

NI also has an inventory of project opportunities of ~$10 billion in its regulated Gas Distribution segment, $6-$8 billion in its regulated electric segment and $8-$10B in its Gas Transmission and Storage Segment. Importantly, we believe NI has the liquidity ($1.4B), balance sheet, and opportunity set in place to maintain an annual cap ex program of $1.5-1.8B (closer to ~$2B this year).

Outlook: Holding Our Forecast

- **Q2 was modestly ahead of our number and we are holding our forecasts for 2013-15**: NI slightly beat our 2Q numbers but this was helped by a gain from insurance proceeds and AFUDS earnings, as core earnings came in slightly below primarily owing to higher costs in the gas transmission and storage segment. To factor in these higher costs, we are trimming our 3QE EPS by $0.03/share although we are raising our 4QE by $0.02/share helped by some items that are 2H tailwinds (Columbia Gas of PA rate case effective July 1, IRP filing in Ohio in May, etc.). Overall, this keeps our 2013E EPS at $1.55/share. We are maintaining our 5-7% EPS growth outlook through 2016.
- **Modeling 4% Dividend Growth**: Our forecasted 4% growth rate is consistent with management growth guidance of 3-5% dividend/share and 60-70% payout.
- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit of ~$1.4B at the end of 2Q13.
- **Cap Ex Forecast of $25-$30b over the long term**: NI has a total inventory of 25-$30b (equivalent to $1.5-$1.8B/year) in .infrastructure focused investment opportunities over the next 15-20 years. With the earnings report, NI raised their 2013 capex forecast to $2B, with a significant driver being increased investment in tracked infrastructure replacement and modernization programs.
- **MLP Option Not Discussed:** We believe management still views an MLP as a viable option to help finance growth of its midstream business but we now do not expect NI to pursue this strategy for at least the next few years. Once again, the issue was not raised on the conference call. With valuations rising at NI, we view the MLP option as lower likelihood as NI has a wider investor universe than MLPs and with valuations rich, we see less potential valuation uplift should NI decide to put its Columbia operations into an MLP structure.

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Exhibit 1: Holding 2013E EPS Overall – Cutting 3QE, Raising 4QE, Holding 2014E EPS at $1.65/share, Holding 2015E EPS at $1.75/share

Earnings Variance	Old estimates						New estimates									
	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	2Q13A	3Q13E	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Segment EBITDA																
Gas Distribution	103	77	190	652	703	760	102	71	187	642	292	110	83	203	688	745
NIPSCO Electric	119	152	127	526	545	578	119	147	127	521	123	121	155	135	535	567
Gas Transmission & Storage	128	121	169	576	671	742	115	107	175	556	204	163	137	184	687	757
Other	4	(10)	(6)	(9)	(18)	(18)	2	(5)	(1)	(1)	(1)	8	(5)	(1)	1	1
Total EBITDA (recurring)	**354**	**340**	**480**	**1,745**	**1,901**	**2,062**	**338**	**320**	**488**	**1,718**	**618**	**401**	**371**	**522**	**1,911**	**2,070**
Segment EBIT																
Gas Distribution	53	26	138	451	483	522	52	20	135	440	238	55	27	146	466	504
NIPSCO Electric	55	87	61	268	276	297	59	82	61	263	57	54	88	67	265	286
Gas Transmission & Storage	101	92	139	466	540	592	89	78	145	445	172	131	104	149	556	606
Other	1	(12)	(9)	(24)	(29)	(30)	(4)	(7)	(4)	(15)	(4)	5	(8)	(4)	(11)	(12)
Total EBIT (recurring)	**210**	**193**	**330**	**1,161**	**1,270**	**1,380**	**195**	**173**	**338**	**1,133**	**464**	**244**	**211**	**358**	**1,277**	**1,384**
Interest Expense	102	105	109	415	467	518	102	103	107	410	110	117	119	121	468	518
Other Expenses	0	0	0	(4)	0	0	(13)	0	0	(17)	0	0	0	0	0	0
Taxes	38	31	78	266	285	311	33	25	81	257	125	45	32	84	287	312
Recurring Net Income	**70**	**57**	**142**	**485**	**518**	**552**	**73**	**46**	**150**	**484**	**228**	**82**	**59**	**153**	**522**	**555**
Diluted Wtd Avg shares outstanding	312	312	313	312	314	316	313	314	314	313	315	315	316	316	315	317
Recurring EPS - Diluted	**$0.22**	**$0.18**	**$0.46**	**$1.55**	**$1.65**	**$1.75**	**$0.23**	**$0.15**	**$0.48**	**$1.55**	**$0.72**	**$0.26**	**$0.19**	**$0.48**	**$1.65**	**$1.75**
Dividend per share	**$0.24**	**$0.25**	**$0.25**	**$0.98**	**$1.02**	**$1.06**	**$0.25**	**$0.25**	**$0.25**	**$0.99**	**$0.25**	**$0.26**	**$0.26**	**$0.26**	**$1.03**	**$1.07**
Financing & Credit Metrics																
Total Debt / Total Cap	59.0%	60.0%	60.0%	60.0%	60.7%	59.2%	58.6%	59.6%	59.8%	59.8%	60.6%	60.9%	61.4%	60.6%	60.6%	59.1%
Net Debt / Total Cap	58.7%	59.7%	59.7%	59.7%	60.4%	58.9%	58.4%	59.4%	59.7%	59.7%	60.4%	60.8%	61.3%	60.4%	60.4%	58.9%
Net Debt / Equity	142.3%	148.4%	148.1%	148.1%	152.7%	143.6%	140.6%	146.6%	148.2%	148.2%	152.8%	155.2%	158.2%	152.8%	152.8%	143.6%
Book Value Per Share	$18.30	$18.26	$18.50	$18.54	$19.21	$20.89	$18.21	$18.10	$18.32	$18.39	$18.81	$18.82	$18.76	$18.99	$19.04	$20.70
Net Debt / TTM EBITDA	5.1x	4.9x	4.9x	4.9x	4.8x	4.6x	5.1x	4.9x	5.0x	5.0x	5.1x	5.0x	5.0x	4.8x	4.8x	4.6x

Source: Company data, Credit Suisse estimates

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Exhibit 2: 2Q:13 Results Slight Ahead of Our Estimates Helped by Gain from Insurance Proceeds, AFUDC Earnings

Earnings Variance	2Q13 Actual	2Q13 CS Estimate	Diff.	Diff. (%)	2Q12 Actual	Comments
Segment EBITDA						
Gas Distribution	102	103	(1)	-1%	103	
NIPSCO Electric	119	119	(0)	0%	121	
Gas Transmission & Storage	115	128	(13)	-10%	125	Higher O&M costs
Other	2	4	(2)	-50%	1	
Total EBITDA (recurring)	**338**	**354**	**(16)**	**-4%**	**350**	
Segment EBIT						
Gas Distribution	52	53	(1)	-3%	55	
NIPSCO Electric	59	55	3	6%	60	
Gas Transmission & Storage	89	101	(12)	-12%	92	
Other	(4)	1	(6)	-498%	(4)	
Total EBIT (recurring)	**195**	**210**	**(16)**	**-7%**	**202**	
Interest Expense	102	102	(0)	0%	103	
Other Expenses	(13)	0	(13)	NM	(3)	Gain from Insurance Proceeds, AFUDC
Taxes	33	38	(5)	-13%	35	
Recurring Net Income	**73**	70	**3**	**4%**	**67**	
Diluted Wtd Avg shares outstanding	313	312	2	1%	296	
Recurring EPS - Diluted	**$0.23**	**$0.22**	**$0.00**	**0%**	**$0.23**	
Dividend per share	**$0.25**	**$0.24**	**$0.01**	**4%**	**$0.24**	
Financing & Credit Metrics						
Total Debt / Total Cap	58.6%	59.0%	-0.5%	-0.8%	60.7%	
Net Debt / Total Cap	58.4%	58.7%	-0.3%	-0.5%	60.6%	
Net Debt / Equity	140.6%	142.3%	-1.7%	-1.2%	153.7%	
Book Value Per Share	$18.21	$18.30	($0.10)	($0.01)	$17.26	
Net Debt / TTM EBITDA	5.1x	5.1x	0.0x	0.0x	5.0x	

Source: Company data, Credit Suisse estimates

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Valuation

- We are raising our target price by $1, to $32, based on a valuation range of $30-$33 tied to a projected price to earnings multiple of ~17-19x 2015E EPS. The stock trades at price to earnings multiples of ~19x NTM and ~17.6x 2015E, respectively.
- Applying "normal" valuation multiples to NI's three segments results in a valuation of $28 – below where NI currently trades and a 16x multiple on NI's 2015E EPS of $1.75/share.

Exhibit 3: Sum of the Parts Valuation

NTM - Next Twelve Months Valuation

	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple Low	Multiple Base	Multiple High	Enterprise Value / Equity Value Low	Enterprise Value / Equity Value Base	Enterprise Value / Equity Value High
Electric Services	254.1	263.5	169.7	P/E	16.0x	18.0x	20.0x	2,715.8	3,055.2	3,394.7
Natural Gas Utilities	447.7	212.4	660.2	EV/EBITDA	9.0x	10.0x	11.0x	5,941.4	6,601.5	7,261.7
Transmission and Storage	526.8	121.6	648.4	EV/EBITDA	10.0x	11.0x	12.0x	6,483.6	7,131.9	7,780.3
Total Enterprise / Equity Value								**15,140.7**	**16,788.7**	**18,436.7**
Cash & Equivalents								73.8	73.8	73.8
Short-term Debt								448.4	448.4	448.4
Long-term Debt								7,616.7	7,616.7	7,616.7
Less Net Debt								7,991.3	7,991.3	7,991.3
Total Equity Value								**7,149.4**	**8,797.4**	**10,445.4**
Shares Outstanding								313	313	313
Per Share								**$22.83**	**$28.09**	**$33.35**
Current Share Price (Feb 19, 2013)								$30.72	$30.72	$30.72
Return								(22%)	(5%)	12%
Dividend per share (Est.)								$0.99	$0.99	$0.99
Dividend Yield								3%	3%	3%
Total Return								*(19%)*	*(2%)*	*15%*
2015E EPS								$1.75	$1.75	$1.75
Implied P/E								**13.1x**	**16.1x**	**19.1x**
									$28.00	
									$28.00	
							Implied P/E		16.0x	

Source: Company data, Credit Suisse estimates

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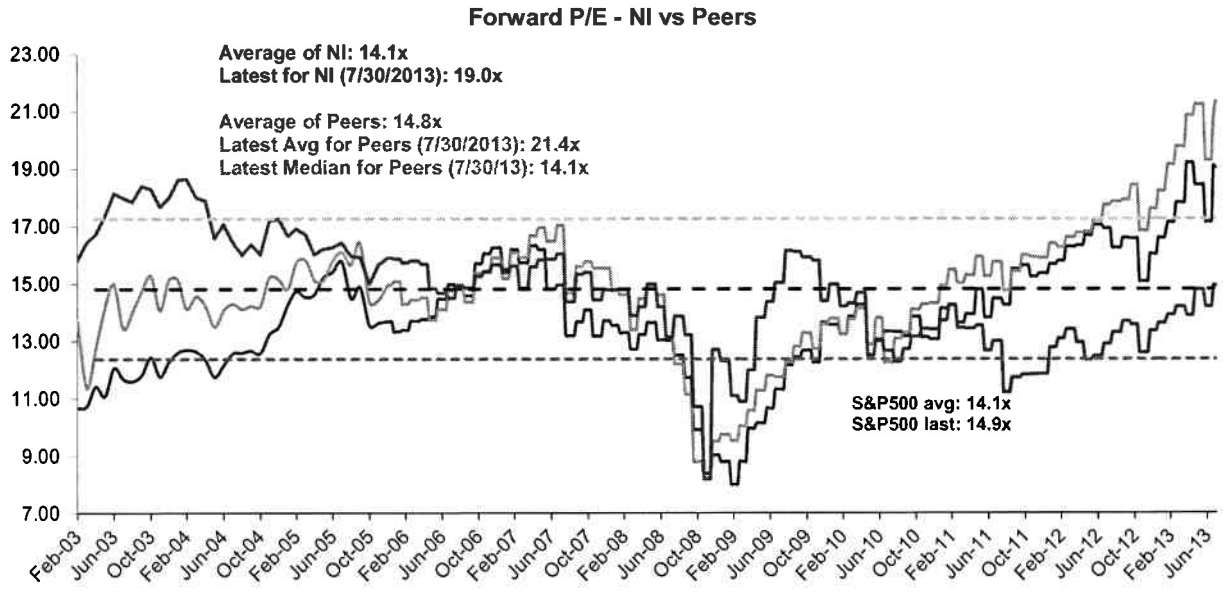
Exhibit 4: Valuations Are Extended on a Forward P/E Basis: NI Trading Over 2 Standard Deviations Above Its Average Multiple and Its Peers Are Trading Over 3 Standard Deviations Above their Average P/E Multiple



Source: Factset, Credit Suisse estimates. Peers: CNP, D, PCG, OKE, SRE, STR, WMB

Both NI and its peers are trading at the high end of the forward P/E ranges for the last 10 years. NI has averaged 14.1x forward P/E and its peers have averaged 14.8x forward P/E. As of July 30, NI trades at 19x forward EPS or 89% of the peer group and a 1.4x discount to the peer group at 21.4x. NI trades on average at 100% of (at parity with) the S&P 500 and currently at 127% of the S&P 500 while its peers trade on average at 106% of the S&P 500 and are currently at 143%. The premium for NI and peers to the broader market is on account of the stability of the cash flows relative to the broader market, particularly in light of supportive Federal Reserve policy that is expected to continue until at least 2015. Consequently, we are seeing investors looking past the NTM to 2015 expected earnings for names such as NI.

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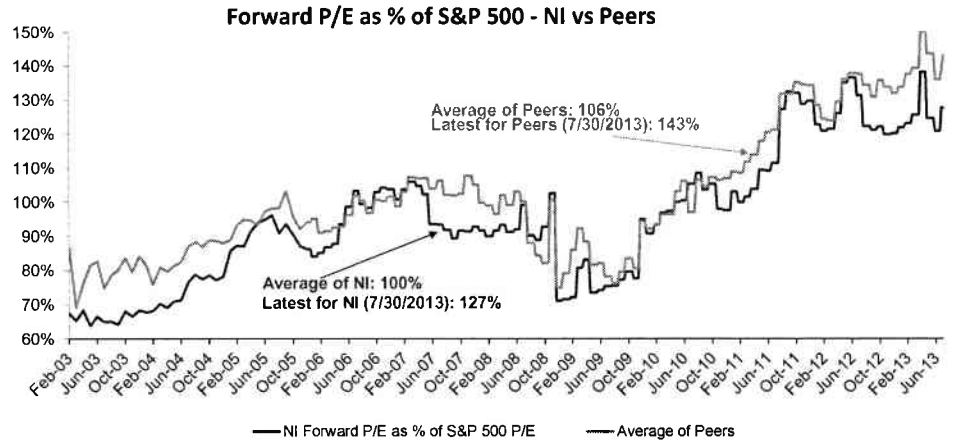
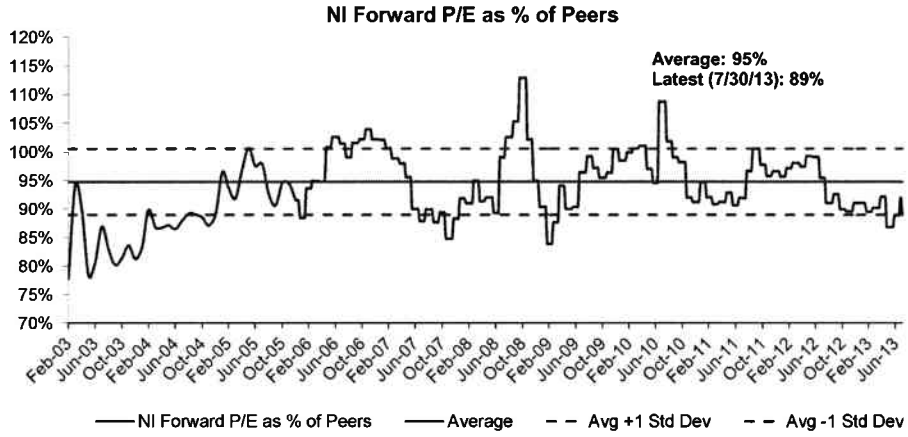
Exhibit 5: NI P/E as Percent of S&P 500



Source: FactSet, Credit Suisse estimates

Exhibit 6: NI trades at an average of 95% Forward P/E relative to peers, 106% currently



Source: FactSet, Credit Suisse estimates

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Risks

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of having enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and $1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Of the ~$2B in cap ex for 2013, $520mm is for age and condition and the remaining portion is for growth and tracker investments which effectively have support from NI's from the state regulatory authorities in which it operates.

Commodity price risk is very low and under the current regulatory regime is recovered in utility rates.

The main risk in our view is valuation – as explained above NI and for that matter its peers have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. Consequently NI's shares are up ~27% YTD with no meaningful change in earnings outlook. The shares yield 3.2% and the company is guiding to 3-5% dividend growth giving 7% annual return potential all else being equal. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

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Companies Mentioned *(Price as of 31-Jul-2013)*

CenterPoint Energy Inc (CNP.N, $24.82)
Dominion Resources (D.N, $59.31)
NiSource Inc. (NI.N, $30.72, NEUTRAL, TP $32.0)
ONEOK (OKE.N, $52.95)
PG&E Corporation (PCG.N, $45.89)
Questar (STR.N, $23.86)
Sempra Ener (SRE.N, $87.63)
Williams Companies, Inc (WMB.N, $34.17)

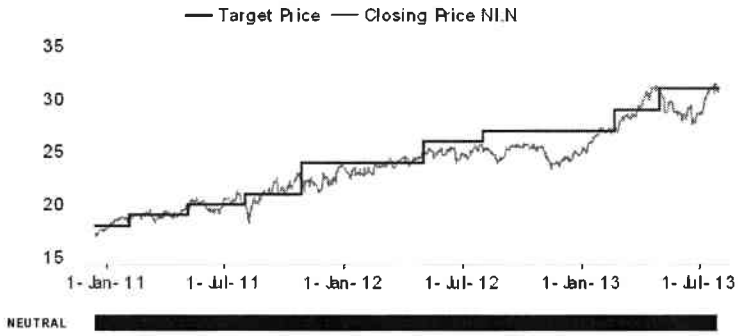
Disclosure Appendix

Important Global Disclosures

John Edwards, CFA, Scott Fogleman, Brett Reilly and Bhavesh Lodaya each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
15-Dec-10	17.09	18.00	N *
06-Feb-11	18.40	19.00	
06-May-11	19.44	20.00	
16-Jun-11	19.30		*
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	



** Asterisk signifies initiation or assumption of coverage.*

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

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Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

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Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

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Global Ratings Distribution

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Neutral/Hold*	40%	(50% banking clients)
Underperform/Sell*	15%	(38% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: We derive our 12-month price target of $32 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 17-19x 2015E EPS estimate of $1.75, which is at the upper end of NI's historic trading range but below its historic average relative to peers.

Risk: Main risks to our 12-month price target of $32 for NiSource would be mean reversion on multiples. Both NI and peers are trading well above historical multiples both compared to themselves and the S&P 500. Consequently, should issues surface on the macro political, financial, economic, or other fronts, there is risk of pull back from current multiples. valuation.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (NI.N) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (NI.N) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (NI.N) within the past 12 months.

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Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (NI.N) within the next 3 months.

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The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (NI.N) within the past 12 months

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NiSource Inc. (NI)
rghuler@nisource.com Randy Huler 08/01/13 01:29:47 PM Nisource Corporate Services Co (Inv. Relations)

HILLIARD LYONS

Electric Utilities
David Burks
J.J.B. Hilliard, W.L. Lyons, LLC
502.588.8648 / DBurks@hilliard.com
July 31, 2013

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports solid second quarter earnings and reaffirms 2013 earnings guidance

Key Metrics

NI - NYSE (Price as of 7/30/13)	$30.85
Price Target	NA
52-Week Range	$31.48 - $23.14
Shares Outstanding (mm)	312.2
Market Cap. ($mm)	$9,631
3-Mo. Average Daily Volume	2,008,000
Institutional Ownership	81.0%
Debt/Total Capital (6/30)	58.6%
ROE (ttm)	7.7%
Book Value/Share	$17.82
Price/Book Value	1.73x
Indicated Dividend / Yield	$1.00 3.2%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2012	Prior 2013E	2013E	Prior 2014E	Curr. 2014E
1Q		--		-	-
2Q		--		-	-
3Q		--		-	-
4Q		--		-	-
Year	$1.46		$1.55		$1.67
P/E	21.1x		19.9x		18.5x
Payout	66%		65%		60%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2012	Prior 2013E	2013E	Prior 2014E	Curr. 2014E
1Q		--		-	-
2Q		--		-	-
3Q		--		-	-
4Q		--		-	-
Year	$5,070		$5,300	-	$5,750

Company Description: *Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.*

Investment Highlights

- **NiSource reported second quarter net operating earnings of $0.23 per share versus $0.22 per share earned in the second quarter of 2012 and in line with expectations.** These results include the impact of a 24 million share $340 million equity issuance done last September. The company's Columbia pipeline group operations and electric operations segments saw their earnings contributions decline slightly in the second quarter. NI's gas distribution operations division posted a modest gain in the period. In sum, it was yet another solid quarter for NI, in our view.
- **Management reaffirmed 2013 earnings guidance of $1.50 to $1.60 per share.** The outlook is expected to be driven by the ongoing execution of its infrastructure-investment programs and a modest and gradual economic recovery. We are maintaining our 2013 EPS estimate of $1.55. In addition, we are maintaining our 2014 EPS estimate of $1.67 per share.
- **The company raised its planned 2013 capital expenditures to $2.0 billion, up from $1.8 billion previously.** Virtually all of these additional capital investments are allocated to track infrastructure replacement and modernization programs. This is part of the company's large ongoing capital investment program and we note approximately 75% of these investments remain focused in accretive growth. Also, the company recently filed a seven year electric plan for its electric operations in Indiana.
- **We believe NiSource is fairly valued.** However, we think NI has a positive fundamental outlook. Management is continuing to target annual earnings growth of 5% to 7% and growing the dividend by 3% to 5% annually. We would maintain positions in NI and regard it as a well positioned core holding.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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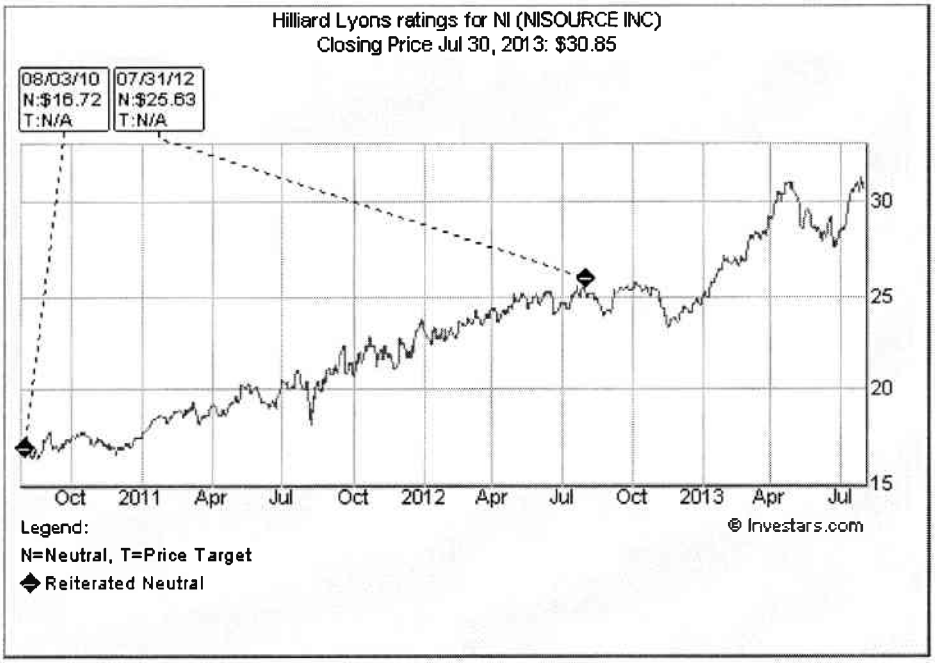
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	50	36%	14%	86%
Hold/Neutral	82	59%	16%	84%
Sell	7	5%	0%	100%

As of 9 July 2013

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NiSource, Inc. (BUY)

NI - Quick Alert: 2Q13; Results in Line, Projects on Track

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com

KEY INVESTMENT POINTS

July 30, 2013 Close: $30.85
2Q13 KBCM EPS Estimate: $0.24 (Consensus: $0.23)
2013 KBCM EPS Estimate: $1.55 (Consensus: $1.55)
2014 KBCM EPS Estimate: $1.65 (Consensus: $1.67)

2Q13 Actual Results (vs. 2Q12):

- Ongoing EPS were $0.23 vs. $0.22; GAAP EPS were $0.23 vs. $0.23.
- Results were slightly below our estimate of $0.24 and consistent with consensus of $0.23.
- Relative to our estimate, the electric segment results were slightly lower.
- Growth projects remain on track in all segments. The 2013 capex budget was increased by $200 million to $2 billion, with most of the incremental spend directed at projects with trackers.
- The earnings release has few incremental details on growth projects, which we expect will be fully discussed at the September 12 investor day.

Guidance: Maintained 2013 ongoing weather- adjusted guidance of $1.50- $1.60 per share.

2Q Highlights:

- Gas Distribution operating earnings were $0.7 million higher on new rates in Ohio and higher usage, which drove a $21 million revenue increase. The higher top- line was partly offset by employee costs, property taxes depreciation related to new investment and environmental costs.
- Columbia Pipeline Group reported lower results (operating earnings of $88.8 million vs. $91.3 million) on lower revenues ($7.7 million) resulting from the customer settlement enabling the first phase of the $4 billion- $5 billion modernization project. These lower revenues were partly offset by lower depreciation. Employee costs rose over the prior- year quarter.
- Electric operations earnings were $58.6 million vs. $59.7 million due to higher revenues being more than offset by employee costs, depreciation and storm costs. We did not foresee storm costs in our estimate. Cooling degree days were 9% above normal and 34% below 2Q12.

Initial Take: We expect a neutral response to in line results. The announced increase in 2013 capex is likely to be viewed positively.

9:00 AM ET Conference Call #: (866) 515- 2907; ID#: 79955813
We will be focused on:

- Detail on 2013 earnings distribution given year- to- date results are slightly down
- Color on pace of development activity in the Utica/Marcellus
- Drilling updates on adjacent acreage

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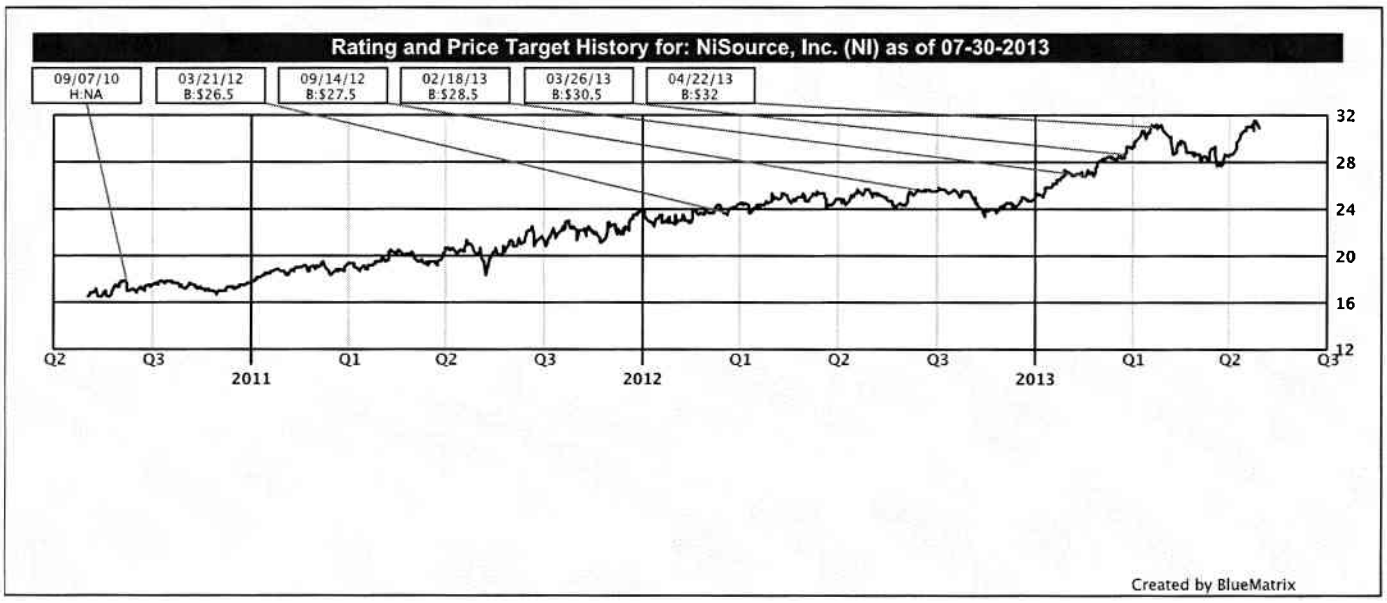

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Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	227	44.34	50	22.03	BUY [BUY]	30	44.78	19	63.33
HOLD [HOLD]	275	53.71	62	22.55	HOLD [HOLD]	37	55.22	15	40.54
SELL [UND]	10	1.95	4	40.00	SELL [UND]	0	0.00	0	0.00

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MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Stephen J. Maresca, CFA
Stephen.Maresca@morganstanley.com
+1 212 761 8343

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6385

Shaan Sheikh, CFA
Shaan.Sheikh@morganstanley.com
+1 212 761 4573

Brian Lasky
Brian.Lasky@morganstanley.com
+1 212 761 7249

July 31, 2013

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Right Down the Fairway

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	**$30.00**
Shr price, close (Jul 30, 2013)	$30.85
Mkt cap, curr (mm)	$9,669
52-Week Range	$31.48-23.15

Fiscal Year ending	**12/12**	**12/13e**	**12/14e**	**12/15e**
ModelWare EPS ($)	**1.44**	**1.54**	**1.66**	**1.75**
Prior ModelWare EPS ($)	**-**	**1.54**	**1.66**	**1.76**
P/E	**17.3**	**20.1**	**18.6**	**17.6**
Consensus EPS ($)§	**1.45**	**1.55**	**1.67**	**1.79**
Div yld (%)	3.8	3.2	3.3	3.5
Div per shr ($)	0.95	0.99	1.03	1.07
EBITDA ($mm)	1,645	1,659	1,796	1,895
EV/EBITDA	10.3	11.8	11.4	11.2
Shrs out, diluted, avg (mm)	300	313	313	313

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

NI reported 2Q13 results right in-line with our estimates. We maintain our Equal-weight rating ($30 price target; $36 Bull case).

2Q13 results: NI reported operating earnings of $0.23 in-line with MS / Consensus estimates of $0.23/$0.23. While NI continues to capitalize on its well-positioned midstream asset base and much improved utility profile, we believe NI is largely discounting a solid growth outlook (MSe 7.9% EPS growth in 2014e and 5.6% in 2015e; with 4.2% dividend growth each year). NI shares are +24% ytd and trade right on top of our current sum of the parts value of $30.19 (which includes $2 – 3/sh of new Utica project pot'l). While NI shares could continue to see support given its low-risk profile and attractive risk-adjusted utility and midstream growth attributes, we remain Equal-weight rated. We would look to get more aggressive on any price pull back or new information on northeast build out. NI maintained 2013 EPS guidance of $1.50 – 1.60 (MSe at $1.54), but increased its capital budget to $2.0b (MSe ~$2.0b). Upcoming drivers for the stock will be execution of midstream and infrastructure opportunities along with its upstream Utica JV initiatives. NI trades at ~11.4x 2014 EV/EBITDA and 18.6x P/E.

Segment results. *Electric Operations EBIT* decreased to $58.6m vs. $59.7m y/y with higher costs offsetting higher revenues. *Gas Distribution Operations EBIT* increased to $51.8m from $51.1m in 2012 due to higher revenues from increases in regulatory and service programs. *Columbia Pipeline Group EBIT* decreased to $88.8m from $91.6m y/y due to lower revenues associated with the 2012 customer settlement on Columbia Transmission.

No material change to project backlog. Pipeline modernization ($300m / year), Marcellus/Utica infrastructure ($1 – 2b currently), and a self-funded Utica minerals arrangement are just some examples of the fuel that should support a multi-year 5 – 7% earnings growth rate. We look for further project identification and more Utica results before revisiting our risk-reward.

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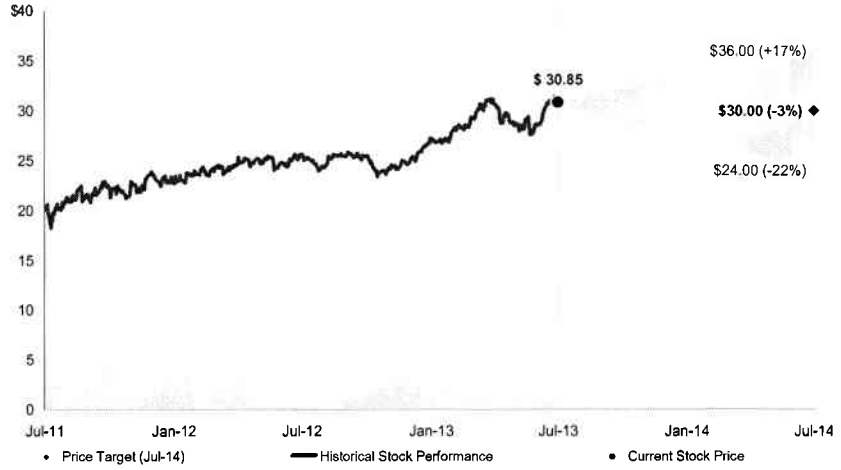
Morgan Stanley

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target $30		Derived from base case average of four valuation methodologies
Bull Case $36	11x GT&S '13e EBITDA, 9.0x Electric EBITDA	**Increasing Marcellus/Utica market share and utilities outperform; more projects, potential MLP creation.** NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case $30	10.0x GT&S '13e EBITDA, 9.0x Electric EBITDA	**Executing on Marcellus opportunities with a modest recovery in utility segments.** NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover.
Bear Case $24	9x GT&S '13e EBITDA, 8x Electric EBITDA	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value ($ m)	$/Share
Gas Distribution	$ 6,374	$ 20.35
Gas Transmission & Storage	5,836	18.63
Electric Utility	4,280	13.66
Utica	938	2.99
Value per Share	**$ 17,426**	**$ 55.64**
Net Debt	(7,972)	(25.45)
Net Equity Value	**$ 9,455**	**$ 30.19**
Shares Outstanding (in mm)		313.2

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments.
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples and a sum of the parts (SOTP) basis.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 4 – 5% annual growth.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Unfavorable outcomes in the northeast due to legislation, slower drilling, more competition.

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2013
NiSource, Inc.

Exhibit 1

NI: Earnings Results and Preview

(amounts in 000s, except per unit)

	Actual 2Q12	Actual 2Q13	A / A % chg	MS 2Q13E	A / E % chg	MS 3Q13E
Operating Revenues						
Gas Distribution	290,200	395,000	36.1%	471,906	-16.3%	442,843
Gas Transportation and Storage	356,300	366,500	2.9%	274,484	33.5%	207,994
Electric	366,400	383,500	4.7%	411,826	-6.9%	423,792
Other	25,200	57,400		-		-
Total operating revenues	**1,038,100**	**1,202,400**	15.8%	**1,158,216**	3.8%	**1,074,629**
Operating Expenses						
Cost of Sales	236,400	349,300	47.8%	389,261	-10.3%	303,322
Operation and maintenance	393,500	452,300	14.9%	378,309	19.6%	432,014
Depreciation and amortization	148,000	143,400	-3.1%	138,087	3.8%	137,685
Other taxes	66,600	70,700	6.2%	59,210	19.4%	61,447
Total operating expenses	**844,500**	**1,015,700**	20.3%	**964,868**	5.3%	**934,468**
Equity Earnings (Loss) in Uncon. Affiliates	**8,500**	**8,000**	-5.9%	**8,000**	0.0%	**10,000**
EBIT	**202,100**	**194,700**	-3.7%	**201,349**	-3.3%	**150,161**
EBITDA	**350,100**	**338,100**	-3.4%	**339,436**	-0.4%	**287,846**
Interest expense, net	(103,200)	(102,000)	-1.2%	(98,600)	3.4%	(100,559)
Other income	2,800	13,300		4,100		13,300
Total other income and expenses	**(100,400)**	**(88,700)**	-11.7%	**(94,500)**	-6.1%	**(87,259)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**101,700**	**106,000**	4.2%	**106,849**	-0.8%	**62,901**
Income tax (provision)	35,100	33,200	-5.4%	36,247	-8.4%	20,803
Net Income (Operating)	**66,600**	**72,800**	9.3%	**70,602**	3.1%	**42,099**
Average # of Shares Outstanding	295,800	313,200	5.9%	312,100	0.4%	313,200
Net Income per Share (Operating)	**$ 0.23**	**$ 0.23**		**$ 0.23**		**$ 0.13**
Net Income per Share (GAAP)	**$ 0.23**	**$ 0.23**		**$ 0.23**		**$ 0.13**
Segment Data						
Gas Distribution (MMDth)						
Residential	28.3	34.8	23.0%	32.5	6.9%	15.4
Commercial	25.2	27.0	7.1%	27.7	-2.6%	19.7
Industrial	114.1	113.4	-0.6%	117.5	-3.5%	121.6
Off System	17.2	18.4	7.0%	20.6	-10.9%	16.8
Other	0.1	0.2	na	0.2	na	0.2
Gas Transmission & Storage (MMDth)						
Columbia Transmission	210.4	196.6	-6.6%	231.4	-15.1%	198.6
Columbia Gulf	236.4	169.8	-28.2%	248.2	-31.6%	154.4
Crossroads Gas Pipeline	4.1	3.3	-19.5%	4.1	-19.5%	2.7
Intrasegment eliminations	(122.8)	(81.4)	-33.7%	(155.7)	-47.7%	(97.4)
Electric Operations (Gigawatt Hours)						
Residential	861.2	769.1	-10.7%	887.0	-13.3%	1,118.7
Commercial	976.4	942.6	-3.5%	991.0	-4.9%	1,087.2
Industrial	2,332.0	2,256.3	-3.2%	2,402.0	-6.1%	2,247.9
Wholesale	56.0	494.7	783.4%	57.1	766.1%	161.1
Other	25.9	27.0	4.2%	26.4	2.2%	27.2

NI confirmed 2013 EPS guidance of $1.50-$1.60

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2013
NiSource, Inc.

Exhibit 2

NI Income Statement

Income Statement

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
Net Revenues					
Gas Distribution	2,006,400	2,582,100	3,158,776	3,310,052	3,502,657
Gas Transportation and Storage	1,462,400	1,367,796	1,211,237	1,332,525	1,438,501
Electric	1,497,500	1,545,979	1,615,918	1,679,349	1,745,276
Other	133,600	101,600	-	-	-
Total Net Revenues	**5,099,900**	**5,597,474**	**5,985,931**	**6,321,926**	**6,686,434**
Operating Costs					
Cost of Sales	1,525,200	1,843,160	1,956,535	2,060,464	2,160,823
Operation and maintenance	1,674,600	1,836,421	1,956,112	2,073,831	2,209,833
Depreciation and amortization	563,900	562,958	596,957	610,230	625,119
Other taxes	287,800	293,744	309,477	325,369	345,652
Total Operating Costs	**4,051,500**	**4,536,284**	**4,819,080**	**5,069,894**	**5,341,426**
Equity Earnings (Loss) in Uncon. Affiliates	**32,200**	**35,100**	**32,241**	**33,054**	**33,888**
EBIT	**1,080,600**	**1,096,290**	**1,199,092**	**1,285,086**	**1,378,896**
EBITDA	**1,644,500**	**1,659,249**	**1,796,049**	**1,895,316**	**2,004,015**
Other income					
Interest expense, net	(418,300)	(404,559)	(456,140)	(498,995)	(539,941)
Other income	2,400	44,000	53,200	53,200	53,200
Inc. from continuing operations bef inc. taxes	**664,700**	**735,731**	**796,151**	**839,291**	**892,155**
Income tax (provision)	231,800	253,921	276,374	290,617	309,301
Operating Net income (Loss)	**432,900**	**481,811**	**519,778**	**548,674**	**582,854**
Net Income per Share (Operating)	**$1.44**	**$1.54**	**$1.66**	**$1.75**	**$1.86**
Net Income per Share (GAAP)	**$1.38**	**$1.54**	**$1.66**	**$1.75**	**$1.86**
Weighted Avg Diluted Units Outstanding	300,400	313,200	313,200	313,200	313,200
Dividends per share	0.95	0.99	1.03	1.07	1.12

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2013
NiSource, Inc.

Exhibit 3

NI Operating Data

Operating Data

	2012	2013E	2014E	2015E	2016E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	226.5	262.1	267.3	275.4	283.6
Commercial	156.2	172.1	175.5	179.1	182.6
Industrial	478.2	484.2	498.7	513.6	529.1
Off System	61.5	71.7	73.1	74.6	76.1
Other	0.3	0.8	0.8	0.8	0.8
Total Sales and Transports	**922.7**	**990.9**	**1,015.5**	**1,043.5**	**1,072.2**
Weather Adjustment	58.8	3.8	6.4	6.4	6.4
Sales and Transport Vols — Excluding Weather	**981.5**	**994.7**	**1,021.9**	**1,049.9**	**1,078.6**
y/y change	*7.6%*	*1.3%*	*2.7%*	*2.7%*	*2.7%*
Sales Price ($ / Dth)	$2.79	$3.03	$3.09	$3.15	$3.25
y/y change	*-27.5%*	*8.7%*	*2.0%*	*2.0%*	*3.0%*
COGS Price ($ / Dth)	$1.19	$1.38	$1.35	$1.41	$1.44
y/y change	*-43.2%*	*15.9%*	*-2.2%*	*4.2%*	*1.9%*
Gross Margin ($ / Dth)	$1.59	$1.65	$1.74	$1.74	$1.81
y/y change	*-8.6%*	*3.3%*	*5.5%*	*0.3%*	*3.9%*
COLUMBIA PIPELINE GROUP					
Throughput (MMDth):					
Columbia Transmission	1,107.7	1,176.2	1,246.8	1,309.1	1,348.4
Columbia Gulf	883.0	674.3	714.8	746.9	769.4
Crossroads Gas Pipeline	15.8	14.3	14.7	15.1	15.6
Total throughput	**2,006.5**	**1,864.8**	**1,976.2**	**2,071.2**	**2,133.3**
Intrasegment eliminations	(422.6)	(393.0)	(446.8)	(444.9)	(463.4)
Total third-party throughput	**1,583.9**	**1,471.8**	**1,529.4**	**1,626.3**	**1,670.0**
y/y change	*-3.2%*	*-7.1%*	*3.9%*	*6.3%*	*2.7%*
Tariff ($ / Dth)	$0.46	$0.48	$0.49	$0.51	$0.52
y/y change	*-4.0%*	*5.2%*	*2.9%*	*3.0%*	*3.0%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,524.3	3,515.1	3,585.4	3,657.1	3,730.3
Commercial	3,863.1	3,872.4	3,930.5	3,989.4	4,049.3
Industrial	9,251.0	9,109.9	9,109.9	9,292.1	9,477.9
Wholesale	250.7	735.2	749.9	764.9	780.2
Other	119.1	122.1	124.6	127.0	129.6
Total sales	**17,008.2**	**17,354.7**	**17,500.2**	**17,830.6**	**18,167.3**
Weather Adjustment	(146.0)	(17.5)	-	-	-
Total sales volumes — Adj. for weather impacts	**16,862.2**	**17,337.2**	**17,500.2**	**17,830.6**	**18,167.3**
y/y change	*-3.0%*	*2.8%*	*0.9%*	*1.9%*	*1.9%*
Revenue ($ / Gigawatt hour)	$89.18	$89.22	$92.34	$94.18	$96.07
y/y change	*8.5%*	*0.0%*	*3.5%*	*2.0%*	*2.0%*
COGS ($ / Gigawatt hour)	$29.58	$31.21	$32.80	$32.55	$33.65
y/y change	*-6.3%*	*5.5%*	*5.1%*	*-0.8%*	*3.4%*
Gross Margin ($ / Gigawatt hour)	$59.60	$58.01	$59.54	$61.63	$62.42
y/y change	*17.7%*	*-2.7%*	*2.6%*	*3.5%*	*1.3%*

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2013
NiSource, Inc.

Exhibit 4

NI Balance Sheet

Balance Sheet

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
ASSETS					
Cash and cash equivalents	36,300	20,000	20,000	20,000	20,000
Restricted cash	46,800	29,300	29,300	29,300	29,300
Accounts receivable	907,300	917,164	926,385	903,749	1,024,094
Income tax receivable	130,900	6,400	6,400	6,400	6,400
Gas inventory	326,600	391,908	407,527	423,710	448,801
Regulatory assets	162,800	145,500	145,500	145,500	145,500
Other	383,900	224,400	224,400	224,400	224,400
Total Current Assets	**2,352,400**	**2,009,672**	**2,034,512**	**2,028,058**	**2,173,495**
Net Property, Plant and Equipment	**12,915,900**	**14,396,142**	**15,499,184**	**16,488,954**	**17,463,835**
Unconsolidated affiliates	243,300	279,400	279,400	279,400	279,400
Other investments	194,400	189,100	189,100	189,100	189,100
Price risk management assets	56,000	33,900	33,900	33,900	33,900
Regulatory assets	2,024,400	1,902,200	1,902,200	1,902,200	1,902,200
Goodwill	3,677,300	3,666,200	3,666,200	3,666,200	3,666,200
Intangible assets	286,600	281,200	281,200	281,200	281,200
Deferred charges, Postretiremen, other	94,400	88,100	88,100	88,100	88,100
TOTAL ASSETS	**21,844,700**	**22,845,914**	**23,973,796**	**24,957,112**	**26,077,430**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	507,200	70,700	70,700	70,700	70,700
Short-term borrowings	776,900	1,378,880	2,286,897	3,034,076	3,884,932
Accounts payable	538,900	579,023	602,098	626,007	663,079
Dividends payable	-	78,100	78,100	78,100	78,100
Customer deposits and credits	269,600	164,700	164,700	164,700	164,700
Taxes accrued	235,500	202,100	202,100	202,100	202,100
Interest accrued	133,700	125,200	125,200	125,200	125,200
Price risk management liabilities	95,200	47,500	47,500	47,500	47,500
Exchange gas payable	146,200	126,300	126,300	126,300	126,300
Deferred revenue	42,800	5,100	5,100	5,100	5,100
Regulatory liabilities	171,600	80,000	80,000	80,000	80,000
Acc liab for post-retirement / -employment benefits	6,100	6,100	6,100	6,100	6,100
Other accruals	309,700	283,800	283,800	283,800	283,800
Total Current Liabilities	**3,301,600**	**3,255,203**	**4,186,295**	**4,957,383**	**5,845,311**
Long-term debt, excl amounts due within one year	6,819,100	7,616,700	7,616,700	7,616,700	7,616,700
Price risk management liabilities	20,300	5,000	5,000	5,000	5,000
Deferred income taxes	2,953,300	3,062,700	3,062,700	3,062,700	3,062,700
Deferred inc. taxes, credits, other	108,900	152,200	152,200	152,200	152,200
Acc liability for post-retirement/-employment benefits	1,107,300	1,020,300	1,020,300	1,020,300	1,020,300
Regulatory liabilities and other removal costs	1,593,300	1,610,500	1,610,500	1,610,500	1,610,500
Asset retirement obligations	160,400	167,100	167,100	167,100	167,100
Other noncurrent liabilities	226,200	216,400	216,400	216,400	216,400
Total Other Liabilities and Deferred Credits	**12,988,800**	**13,850,900**	**13,850,900**	**13,850,900**	**13,850,900**
Common stock	3,100	3,100	3,100	3,100	3,100
Additional paid-in capital	4,597,600	4,646,000	4,646,000	4,646,000	4,646,000
Retained earnings	1,059,600	1,201,211	1,398,001	1,610,229	1,842,620
Treasury stock	(65,500)	(48,500)	(48,500)	(48,500)	(48,500)
Accumulated other comprehensive loss	(40,500)	(62,000)	(62,000)	(62,000)	(62,000)
Total Common Stockholders' Equity	**5,554,300**	**5,739,811**	**5,936,601**	**6,148,829**	**6,381,220**
TOTAL CAPITALIZATION & LIABILITIES	**21,844,700**	**22,845,914**	**23,973,796**	**24,957,112**	**26,077,430**

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2013
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
Cash from Operating Activities					
Net Income	416,100	525,911	519,778	548,674	582,854
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,700	-	-	-	-
Depreciation and Amortization	561,900	562,958	596,957	610,230	625,119
Net Changes in Price Risk Mgmt A / L	(18,500)	4,100	-	-	-
Deferred: Inc. Tax/Credits; Revenues	301,200	167,000	-	-	-
Stock Compensation Expense	45,000	23,000	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(3,800)	(400)	-	-	-
Income from Unconsolidated Affiliates	(30,900)	(15,200)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	5,700	(44,700)	-	-	-
AFUDC Equity	(10,600)	(8,000)	-	-	-
Dist. of Earnings Received from Equity Investee	34,900	12,300	-	-	-
Other	-	15,800	-	-	-
Changes in Assets and Liabilities:	**(35,200)**	**(19,049)**	**(1,764)**	**30,362**	**(108,365)**
Net cash from operating activities	**1,275,500**	**1,223,720**	**1,114,971**	**1,189,266**	**1,099,608**
Cash from Investing Activities					
Capital Expenditures	(1,498,800)	(2,000,000)	(1,700,000)	(1,600,000)	(1,600,000)
Insurance Recoveries	6,500	-	-	-	-
Proceeds from Disposition of Assets	25,600	700	-	-	-
Restricted Cash Deposits (Borrowings)	114,200	17,400	-	-	-
Contributions to Equity Investments	(20,400)	(32,700)	-	-	-
Other Investing Activities	(52,300)	98,200	-	-	-
Net cash from investing activities	**(1,425,200)**	**(1,916,400)**	**(1,700,000)**	**(1,600,000)**	**(1,600,000)**
Cash from Financing Activities					
Issuance of Long-Term Debt	991,400	815,300	-	-	-
Retirement/Repurchase of Long-Term Debt	(331,600)	(451,000)	-	-	-
Change in Short-Term Borrowings, Net	(582,200)	601,980	908,017	747,179	850,856
Issuance of Common Stock	383,500	24,100	-	-	-
Acquisition of Treasury Stock	(10,000)	(7,900)	-	-	-
Dividends Paid - Common Stock	(273,200)	(306,100)	(322,988)	(336,445)	(350,464)
Other	(3,400)	-	-	-	-
Net cash from financing activities	**174,500**	**676,380**	**585,029**	**410,734**	**500,392**
Net change in cash	**24,800**	**(16,300)**	**-**	**-**	**-**
Cash at beginning of period	**11,500**	**36,300**	**20,000**	**20,000**	**20,000**
Cash at end of period	**36,300**	**20,000**	**20,000**	**20,000**	**20,000**

Source: Company data, Morgan Stanley Research

Morgan Stanley

Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 6,374	$ 20.35
Gas Transmission & Storage	5,836	18.63
Electric Utility	4,280	13.66
Utica	938	2.99
Value	$ 17,426	$ 55.64
Net Debt	(7,972)	(25.45)
Net Equity Value	$ 9,455	$ 30.19
Shares Outstanding (in m)		313.2

GAS DISTRIBUTION		
Forward EBITDA (2014E)	$	708
Forward multiple		9.0x
Enterprise value	$	6,374
GAS TRANSMISSION & STORAGE		
Forward EBITDA (2014E)	$	584
Forward multiple		10.0x
Enterprise value	$	5,836
ELECTRIC UTILITY		
Forward EBITDA (2014E)	$	503
Forward multiple		8.5x
Enterprise value	$	4,280
Estimated Utica 'Value' Credit		
Acres		125,000
$/acre	$	7,500
Enterprise value	$	938

Source: Company data, Morgan Stanley Research.

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2013
NiSource, Inc.

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Stephen Maresca.
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(as of June 30, 2013)

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Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2013
NiSource, Inc.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1020**	**36%**	**410**	**39%**	**40%**
Equal-weight/Hold	**1263**	**44%**	**485**	**47%**	**38%**
Not-Rated/Hold	**109**	**4%**	**24**	**2%**	**22%**
Underweight/Sell	**469**	**16%**	**123**	**12%**	**26%**
Total	**2,861**		**1042**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
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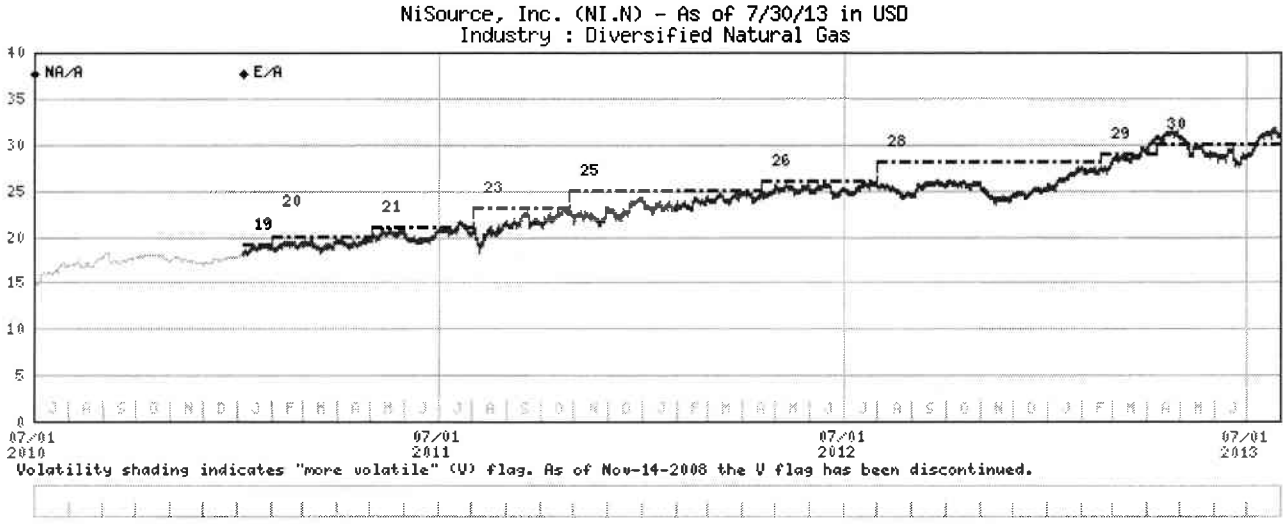
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 7/1/10 : NA/A; 1/6/11 : E/A

Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ··· Stock Price (Covered by Current Analyst) ■
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2013
NiSource, Inc.

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MORGAN STANLEY RESEARCH

The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (07/30/2013)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	$24.83
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$28.08
National Fuel Gas Co (NFG.N)	E (01/10/2012)	$64.32
NiSource, Inc. (NI.N)	E (01/06/2011)	$30.85
Oneok Inc. (OKE.N)	O (07/25/2013)	$51.82
Questar Corp. (STR.N)	E (02/11/2013)	$23.63
SemGroup Corp (SEMG.N)	O (04/10/2013)	$56.59
Spectra Energy Corp. (SE.N)	O (06/12/2013)	$36.05
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$33.81

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* Historical prices are not split adjusted.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.85 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Reports Solid 2Q and Steps Up Capital Expenditures

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 31 Jul 2013
Estimates as of 15 Jan 2013
Pricing data through 30 Jul 2013
Rating updated as of 30 Jul 2013

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 31 Jul 2013

NiSource NI reported 2013 second-quarter operating earnings per share of $0.23 versus $0.22 in the same period last year. The results for the recently ended quarter were pretty much in line with last year, excepting a lower effective tax rate on operating earnings of 31.3% versus 34.4% last year due to one-time credits. Management expects the tax rate to return to the mid-30% range for the remainder of the year. The lower effective tax rate was partially offset by earnings dilution from the September 2012 completion of the forward equity issuance, which added 24 million new shares.

Although operating EPS for the first six months of 2013 were about $0.06 less than last year, NiSource reiterated its 2013 operating earnings guidance of $1.50-$1.60 per share. Management indicated that the Columbia Gas Pipeline rate case will benefit earnings in July and trackers in Ohio and Indiana will also benefit earnings in the second-half of the year. Based on the mid-year increases in rates and year-to-date performance we are reaffirming our 2013 EPS estimate of $1.56. We are also reaffirming our narrow moat and stable moat trend ratings and our fair value estimate of $25 per share.

NiSource stepped up its guidance for 2013 capital expenditures to $2 billion from $1.8 billion. The increase is primarily acceleration of projects that are infrastructure replacement or modernization with rate tracker mechanisms. Thus, these investments have a high level of certainty of recovery in rates at pre-approved returns. We will be increasing our capital expenditure forecast, which will likely result in our operating EPS estimates increasing for 2014 to 2017.

Vital Statistics

Market Cap (USD Mil)	9,626
52-Week High (USD)	31.48
52-Week Low (USD)	23.14
52-Week Total Return %	24.2
YTD Total Return %	26.9
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.1
5-Yr Forward EPS CAGR %	9.3
Price/Fair Value	1.23

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	14.4	17.6	—	*19.8*
EV/EBITDA	9.7	10.9	—	*10.1*
EV/EBIT	16.1	17.4	—	*15.3*
Free Cash Flow Yield %	-0.3	-2.7	—	*-1.5*
Dividend Yield %	3.8	3.3	—	*3.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	6,422	6,019	*5,526*	*6,096*
Revenue YoY %	-3.4	-6.3	*-8.2*	*10.3*
EBIT	908	907	*1,031*	*1,150*
EBIT YoY %	12.8	-0.1	*13.6*	*11.6*
Net Income, Adjusted	341	389	*426*	*496*
Net Income YoY %	15.6	14.1	*9.6*	*16.4*
Diluted EPS	1.22	1.35	*1.45*	*1.56*
Diluted EPS YoY %	13.8	10.8	*7.5*	*7.5*
Free Cash Flow	135	7	*384*	*161*
Free Cash Flow YoY %	-90.9	-95.1	*NM*	*-58.2*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is an energy holding company whose subsidiaries distribute natural gas and electricity to more than 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. The company owns and operates 15,000 miles of natural gas transmission pipeline and one of the nation's largest underground natural gas storage systems. Northern Indiana Public Service Company, or NIPSCO, NiSource's wholly owned electric and gas utility, owns coal, natural gas, and hydroelectric power plants.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.85 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2009	2010	2011	Forecast 2012	Forecast 2013	5-Year Proj. CAGR
Revenue	—	—	-3.4	-6.3	*-8.2*	*10.3*	*5.1*
EBIT	—	—	12.8	-0.1	*13.6*	*11.6*	*9.6*
EBITDA	—	—	7.9	-4.0	*9.4*	*10.0*	*7.6*
Net Income	—	—	15.6	14.1	*9.6*	*16.4*	*12.1*
Diluted EPS	—	—	13.8	10.8	*7.5*	*7.5*	*9.3*
Earnings Before Interest, after Tax	—	—	3.7	-0.1	*5.5*	*2.1*	*6.1*
Free Cash Flow	—	—	-90.9	-95.1	*NM*	*-58.2*	*151.4*

Profitability	3-Year Hist. Avg	2009	2010	2011	2012	2013	5-Year Proj. Avg
Operating Margin %	*13.8*	12.1	14.1	15.1	*18.7*	*18.9*	*18.7*
EBITDA Margin %	*22.8*	21.0	23.4	24.0	*28.6*	*28.5*	*27.9*
Net Margin %	*5.4*	4.4	5.3	6.5	*7.7*	*8.1*	*8.4*
Free Cash Flow Margin %	*8.2*	22.2	2.1	0.1	*7.0*	*2.6*	*5.6*
ROIC %	*6.5*	6.6	6.6	6.3	*6.5*	*6.4*	*6.8*
Adjusted ROIC %	*9.0*	9.3	9.1	8.6	*8.7*	*8.5*	*9.0*
Return on Assets %	*1.8*	2.3	1.5	1.5	*2.0*	*2.3*	*2.4*
Return on Equity %	*7.0*	9.1	6.0	6.0	*8.1*	*8.8*	*9.3*

Leverage	3-Year Hist. Avg	2009	2010	2011	2012	2013	5-Year Proj. Avg
Debt/Capital	*0.60*	0.58	0.60	0.61	*0.59*	*0.59*	*0.57*
Total Debt/EBITDA	*5.08*	4.87	4.88	5.50	*4.98*	*4.71*	*4.50*
EBITDA/Interest Expense	*3.72*	3.50	3.84	3.84	*4.05*	*4.28*	*4.50*

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	—	*19.8*
EV/EBITDA	9.7	10.9	—	*10.1*
EV/EBIT	16.1	17.4	—	*15.3*
Free Cash Flow Yield %	-0.3	-2.7	—	*-1.5*
Dividend Yield %	3.8	3.3	—	*3.2*

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	66.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,494	10.0	4.71
Present Value Stage II	2,616	17.4	8.24
Present Value Stage III	10,909	72.6	34.36
Total Firm Value	**15,019**	**100.0**	**47.30**
Cash and Equivalents	172	—	0.54
Debt	-7,954	—	-25.05
Preferred Stock	—	—	—
Other Adjustments	380	—	1.20
Equity Value	**7,618**	**—**	**23.99**
Projected Diluted Shares	318		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.85 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	*Forecast* 2012	*Forecast* 2013
Revenue	**6,649**	**6,422**	**6,019**	***5,526***	***6,096***
Cost of Goods Sold	3,318	2,974	2,556	*1,897*	*2,248*
Gross Profit	**3,331**	**3,448**	**3,463**	***3,629***	***3,849***
Selling, General & Administrative Expenses	1,653	1,656	1,723	*1,760*	*1,814*
Other Operating Expense (Income)	284	287	295	*287*	*295*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	589	596	538	*551*	*589*
Operating Income (ex charges)	**805**	**908**	**907**	***1,031***	***1,150***
Restructuring & Other Cash Charges	19	2	17	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**786**	**906**	**891**	***1,031***	***1,150***
Interest Expense	399	392	377	*390*	*407*
Interest Income	10	-78	-47	*15*	*19*
Pre-Tax Income	**397**	**436**	**467**	***655***	***763***
Income Tax Expense	166	142	163	*229*	*267*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	-11	-3	-5	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**221**	**292**	**299**	***426***	***496***
Weighted Average Diluted Shares Outstanding	276	280	289	*294*	*318*
Diluted Earnings Per Share	**0.80**	**1.04**	**1.03**	***1.45***	***1.56***
Adjusted Net Income	295	341	389	*426*	*496*
Diluted Earnings Per Share (Adjusted)	**1.07**	**1.22**	**1.35**	***1.45***	***1.56***
Dividends Per Common Share	0.92	0.92	0.92	*0.94*	*0.98*
EBITDA	**1,376**	**1,503**	**1,429**	***1,581***	***1,739***
Adjusted EBITDA	**1,395**	**1,505**	**1,446**	***1,581***	***1,739***

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30.85 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2009	2010	2011	Forecast 2012	Forecast 2013
Cash and Equivalents	191	212	172	*332*	*309*
Investments	—	—	—	—	—
Accounts Receivable	809	1,079	855	*833*	*919*
Inventory	547	428	566	*421*	*499*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	677	730	655	*553*	*610*
Current Assets	**2,224**	**2,449**	**2,248**	***2,138***	***2,336***
Net Property Plant, and Equipment	10,684	11,097	11,800	*12,650*	*13,441*
Goodwill	3,677	3,677	3,677	*3,677*	*3,677*
Other Intangibles	320	309	298	*298*	*298*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,810	1,851	2,183	*2,200*	*2,310*
Long-Term Non-Operating Assets	557	556	502	*502*	*502*
Total Assets	**19,272**	**19,939**	**20,708**	***21,465***	***22,564***
Accounts Payable	502	582	435	*323*	*382*
Short-Term Debt	822	1,417	1,687	*1,050*	*1,500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,826	1,651	1,525	*1,500*	*1,575*
Current Liabilities	**3,150**	**3,649**	**3,646**	***2,873***	***3,457***
Long-Term Debt	5,965	5,936	6,267	*6,820*	*6,700*
Deferred Tax Liabilities (Long-Term)	2,018	2,210	2,542	*2,800*	*3,000*
Other Long-Term Operating Liabilities	1,559	1,596	1,810	*2,000*	*2,200*
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	*1,445*	*1,445*
Total Liabilities	**14,418**	**15,016**	**15,711**	***15,938***	***16,803***
Preferred Stock	—	—	—	—	—
Common Stock	4,854	4,923	4,997	*4,997*	*4,997*
Additional Paid-in Capital	—	—	—	*380*	*430*
Retained Earnings (Deficit)	—	—	—	*150*	*334*
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Shareholder's Equity	**4,854**	**4,923**	**4,997**	***5,527***	***5,761***
Minority Interest	—	—	—	—	—
Total Equity	**4,854**	**4,923**	**4,997**	***5,527***	***5,761***

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.85 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2009	2010	2011	Forecast 2012	Forecast 2013
Net Income	217	283	299	*426*	*496*
Depreciation	590	597	538	*551*	*589*
Amortization	—	—	—	—	—
Stock-Based Compensation	10	31	39	*40*	*41*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	378	194	178	*258*	*200*
Other Non-Cash Adjustments	25	78	128	—	—
(Increase) Decrease in Accounts Receivable	259	-244	220	*22*	*-86*
(Increase) Decrease in Inventory	129	103	-142	*145*	*-78*
Change in Other Short-Term Assets	2	23	90	*103*	*-57*
Increase (Decrease) in Accounts Payable	-191	38	-155	*-112*	*60*
Change in Other Short-Term Liabilities	503	-320	-276	*-25*	*75*
Cash From Operations	**1,921**	**783**	**920**	***1,408***	***1,241***
(Capital Expenditures)	-777	-804	-1,125	*-1,400*	*-1,380*
Net (Acquisitions), Asset Sales, and Disposals	6	1	9	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	109	-140	-34	*173*	*90*
Cash From Investing	**-662**	**-944**	**-1,149**	***-1,228***	***-1,290***
Common Stock Issuance (or Repurchase)	8	13	21	*380*	*50*
Common Stock (Dividends)	-253	-256	-258	*-276*	*-312*
Short-Term Debt Issuance (or Retirement)	-1,061	1,280	-23	*-637*	*450*
Long-Term Debt Issuance (or Retirement)	290	-826	541	*553*	*-120*
Other Financing Cash Flows	—	—	—	*-40*	*-41*
Cash From Financing	**-1,016**	**211**	**281**	***-20***	***27***
Exchange Rates, Discontinued Ops, etc. (net)	-247	-57	-50	—	—
Net Change in Cash	**-4**	**-8**	**2**	***160***	***-23***

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WUNDERLICH SECURITIES

Energy: Utilities/Power

NISOURCE INC. (NI: $30.72)

August 1, 2013

Raising Price Target
Rating: Hold
Price Target: Old - $30.00; New - $32.00

Market Data	
12-18 Month Price Target	$32.00
52-Week Range	$31.48 - $23.14
ADTV - 90Day (000s)	2,008.8
Market Cap ($MM)	$9,585.8
Shares Out (MM)	310.3
Public Market Float (MM)	309.2
Dividend	$1.00
Dividend/Yield	3.26%

EPS ($)					
FY DEC	2012	2013		2014	
	Actual	Previous	Current	Previous	Current
Q1	$0.76A	–	$0.69A	–	–
Q2	$0.23A	–	$0.23A	–	–
Q3	$0.05A	–	$0.16E	–	–
Q4	$0.44A	–	$0.48E	–	–
YEAR	$1.46A	–	$1.56E	–	$1.67E

Valuation Ratio			
	FY12	FY13	FY14
P/E	21.0x	19.7x	18.4x
PEG	5.3x	4.9x	4.6x
EV/S	3.5x	2.6x	2.6x
EV/EBITDA	10.8x	10.5x	10.0x
Leverage Ratio	5.0x	4.9x	4.9x
EV/FCF	NM	NM	NM
FCF Yield	NM	NM	NM
P/FCF	NM	NM	NM

Financial Data			
	FY12	FY13	FY14
Revenue	$5,070.0A	$6,757.0E	$6,892.8E
EBIT	$1,071.4A	$1,093.1E	$1,160.3E
EBITDA	$1,633.3A	$1,671.6E	$1,753.2E
FCF(Mil)	$(234.5)A	$(159.7)E	$(100.1)E
Debt/Capital	59.3%A	56.9%E	56.1%E
BV/Share	$18.48A	$19.16E	$19.87E
CapEx	$1,498.8A	$1,400.0E	$1,400.0E

Balance Sheet			
	FY12	FY13	FY14
PPE	$12,915.9A	$13,301.6E	$14,108.7E
Total Assets	$21,844.7A	$22,424.5E	$23,392.5E
Total Debt	$8,103.2A	$8,152.8E	$8,602.8E
Long Term Debt	$6,819.1A	$6,736.1E	$7,186.1E
Total SOE and Liab.	$21,844.7A	$22,424.5E	$23,392.5E

Company Description

NiSource is a large regulated electric and gas utility, with most of its earnings derived from the gas distribution, transmission, and storage businesses. The company owns the Columbia gas system, serving gas in Ohio, Pennsylvania, Massachusetts, Virginia, Maryland, and Kentucky. The company has electric utility operations in northern Indiana.

In-Line 2Q Results; Maintain Estimates and Hold Rating

Summary

NiSource (NI) reported 2Q operating EPS of $0.23 versus $0.23 a year ago (our/consensus was $0.23/$0.23). As expected, a 13% increase in operating net income was offset by a 10% increase in shares outstanding (increased from sale of equity that was completed in 3Q12). The company increased its capital spending forecast for 2013 to $2.0B from $1.8B previously. The company remains focused on low-risk infrastructure investments that support NI's goal of 5-7% annual EPS growth. Based on the 2Q results and our expectation of more favorable 2H13 results, we are maintaining our EPS estimates of $1.56/$1.67 for 2013/2014 and our Hold rating on NI. However, we are increasing our price target to $32 to reflect comparable company valuation metrics.

Key Points

- **Focused and predictable execution remains the story.** Flat EPS for 2Q obscured NI's continued execution of its infrastructure investment program. The combination of opportunities to invest in its gas distribution business (customer growth and infrastructure replacement), electricity transmission and environmental upgrades, and the gas transmission and storage business continues to drive net income and cash flow growth. NI maintained 2013 EPS guidance and its 5-year EPS growth goal of 5-7% annually.
- **Hilcorp JV opportunities progressing on plan.** Phase 1 ($150mm NI investment) of the Pennant Midstream JV (called Hickory Bend) is expected to be in service by the end of 2013. Expansion beyond Phase 1 will be based on the pace of drilling activity. In addition, the Utica/Point Pleasant upstream JV continues to progress as planned. Five of six wells drilled are producing and the acreage shows similar mineral make-up to surrounding land. This will drive drilling activity throughout 2013. The JV remains part of the growth driver for NGT&S.
- **NIPSCO environmental investments on track; transmission upside.** Scrubber installation remains on track at Schahfer. At Michigan City, construction work has begun. In addition to this combined $750mm in spending, management identified $500mm-$1B in transmission investment opportunities, including 2 projects with projected in-service dates in the latter part of the decade, totaling $400-$500mm (NIPSCO portion) in MISO. We expect updates on such incremental investments at NIPSCO throughout 2013.
- **Maintaining 2013/2014 estimates.** We are maintaining our 2013/2014 EPS estimates of $1.56/$1.67. We believe management has identified a strong investment pipeline through which to deliver its long-term EPS growth of 5-7% with accompanying dividend growth of 3-5%. Upside to our estimates could come from a variety of projects now in early stages, which further supports our current EPS estimates. Further, reducing 2015 equity needs could also drive additional EPS growth, which we believe is likely.
- **Maintain Hold rating, but raising target to $32.** NI currently trades at 18.5x our 2014E EPS. This compares with 16.3x for comparable electric peers, but 18.9x for gas peers. Our sum-of-the-parts (SOTP) value suggests $31-$33 excluding MLPs and $33-$36 including MLPs. Given NI's gas business, we expect the stock will trade at a premium to its electric peers, but may not fully reflect the MLP SOTP valuation. Coupled with our DCF this supports our target price of $32.

James L. Dobson, CFA • 212.402.2059 • jdobson@wundernet.com

Wunderlich Securities, Inc.
One World Financial Center
200 Liberty Street, Suite 2200
New York, NY 10281

For Required Disclosures and Reg AC, please see page 2 of report

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Disclosures:

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I James L. Dobson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their underlying securities. I further certify that I have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

Valuation/Risks

- NI faces regulatory risk, operational risks in its gas and electric business, adequate access to capital markets, and financial risk as a result of its leverage.
- We value utilities based on a comparable company analysis, a sum-of-the-parts (SOTP) analysis and a discounted cash flow (DCF) analysis.

General disclosures:

Prices are as of the close of 07/31/13.

Ratings Distribution (in Percentages) & Investment Banking Disclosure Chart Information

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	**135**	**57.69**	**36**	**26.67**
Hold -rated	**97**	**41.45**	**14**	**14.43**
Sell -rated	**2**	**0.85**	**1**	**50.00**

** Percentage of all Wunderlich-covered stocks assigned an equivalent Buy, Hold, or Sell rating.*

*** Percentage of companies within Wunderlich-rated Buy, Hold, and Sell categories for which Wunderlich or an associated firm provided investment banking services within the past 12 months.*

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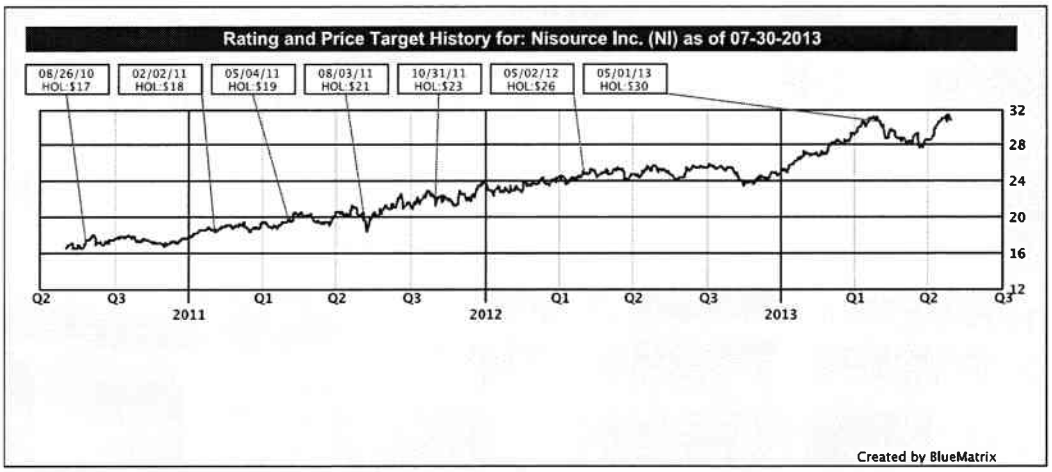

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WUNDERLICH SECURITIES

Baltimore
400 E. Pratt Street
Suite 720
Baltimore, MD 21202
866.297.8259

Boston
260 Franklin Street
Suite 510
Boston, MA 02109
617.892.7151

Denver
1099 18th Street
Suite 2850
Denver, CO 80202
866.493.6588

Houston
4400 Post Oak Pkwy
Suite 1400
Houston, TX 77027
888.385.6928

Leesburg
608 South King St.
Suite 1701
Leesburg, VA 20175
571.403.5612

Memphis
6000 Poplar Avenue
Suite 150
Memphis, TN 38119
800.726.0557

Nashville
3000 Meridian Blvd.
Suite 180
Franklin, TN 37067
866.490.7949

New York
One World Financial Center
200 Liberty Street
Suite 2200
New York, NY 10281
212.430.3500

San Francisco
275 Battery Street
Suite 480
San Francisco, CA 94111
415.489.6800

St. Louis
7711 Bonhomme St.
Suite 600
St. Louis, MO 63105
888.432.5671

Equity Research

Director of Research		
James L. Dobson	212.402.2059	jdobson@wundernet.com
Consumer		
Restaurants		
Robert Derrington	615.567.2087	bderrington@wundernet.com
Diversified Industrials		
Environmental Services/Energy Waste		
Michael E. Hoffman	410.369.2620	mehoffman@wundernet.com
Brian J. Butler, CFA	410.369.2614	bbutler@wundernet.com
Industrial Distribution		
Brent D. Rakers, CFA	901.251.2236	brakers@wundernet.com
Anjali R. Voria, CFA	901.251.2238	avoria@wundernet.com
Minerals & Mining		
Michael E. Hoffman	410.369.2620	mehoffman@wundernet.com
Brian J. Butler, CFA	410.369.2614	bbutler@wundernet.com
Transportation		
Chaz Jones	901.251.2231	cgjones@wundernet.com
Nicholas Bender, CFA	901.251.2230	nbender@wundernet.com
Energy		
Exploration & Production		
Irene O. Haas	713.403.3980	ihaas@wundernet.com
Mostafa Dahhane, CFA	713.403.3986	mdahhane@wundernet.com
Exploration & Production /Oilfield Services		
Jason Wangler	713.403.3985	jwangler@wundernet.com
Oilfield Services		
Todd P. Scholl, CFA	713.403.3984	tscholl@wundernet.com
Utilities/Power		
James L. Dobson	212.402.2059	jdobson@wundernet.com
Financial Services		
BDCs		
Merrill Ross	703.669.9255	mross@wundernet.com
Carmen Bellacasa	540.277.3371	cbellacasa@wundernet.com
Real Estate		
Merrill Ross	703.669.9255	mross@wundernet.com
Carmen Bellacasa	540.277.3371	cbellacasa@wundernet.com
Regional Banks		
Kevin Reynolds, CFA	901.251.2229	kreynolds@wundernet.com
Healthcare		
Medical Devices		
Gregory J. Simpson, CFA	314.719.3467	gsimpson@wundernet.com
Healthcare		
James Terwilliger	901.251.1353	jterwilliger@wundernet.com
Technology, Media & Telecommunications (TMT)		
Cable/Satellite Entertainment		
Matthew Harrigan	303.965.7966	mharrigan@wundernet.com
Communications & Networking Equipment		
Matthew S. Robison	415.572.0936	mrobison@wundernet.com
Internet & Social Media		
Blake T. Harper, CFA	410.369.2624	bharper@wundernet.com
Software-as-a-Service		
Richard K. Baldry, CFA	410.369.2633	rbaldry@wundernet.com
Institutional Equity Sales		
Manager of Institutional Equity Sales		
Brooke E. Hrimnak	410.369.2609	bhrimnak@wundernet.com
Beth Adams	972.772.5066	badams@wundernet.com
Clifford Athey	410.369.2627	cathey@wundernet.com
Greg Brown	303.260.7902	gbrown@wundernet.com
Sally Chandler	901.259.9437	schandler@wundernet.com
Brett Chiles	901.259.9436	bchiles@wundernet.com
James Donovan	617.892.7222	jdonovan@wundernet.com
Paul Gillespie	901.259.9407	pgillespie@wundernet.com
Thomas Hadley	303.260.7905	thadley@wundernet.com
Haywood Henderson	901.259.9438	hhenderson@wundernet.com
John Hohweiler	410.369.2610	jhohweiler@wundernet.com
Blake Kukar	901.259.9411	bkukar@wundernet.com
Ethel McGlynn	303.260.7904	ethel@wundernet.com
Kyle Norton	212.402.2060	knorton@wundernet.com
Kristi Papanikolaw	212.402.2058	kpapanikolaw@wundernet.com
Christina Rosso	212.402.2055	crosso@wundernet.com
Thomas S. Stephens	410.369.2602	tstephens@wundernet.com
Claudette Teti	617.892.7224	cteti@wundernet.com
Institutional Equity Trading		
Director of Institutional Equity Trading		
Stephen C. Iskalis	303.260.7901	siskalis@wundernet.com
John Belgrade	888.257.4152	jbelgrade@wundernet.com
Chuck Berry	303.965.7961	cberry@wundernet.com
Erik Briggs	410.369.2611	ebriggs@wundernet.com
Trip Carey	617.892.7220	tcarey@wundernet.com
William R. Kitchens	901.259.9439	wkitchens@wundernet.com
Jonathan Vonder Linden	212.402.2062	jvonderlinden@wundernet.com
Daniel Muhly	410.369.2606	dmuhly@wundernet.com

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Equity Research
Power & Utilities | North America Utilities
31 October 2013

NiSource, Inc.
Good Q3 Results; MLP Still an Option

Remaining Overweight, raising price target to $33: We remain Overweight on shares as we remain comfortable that NI can reach at least $1.8 billion in annual capex, which is the high end of guidance, in each of the next several years with solid execution and visibility for earnings growth. We reiterate our EPS estimates of $1.56/$1.68/$1.77 for 2013/2014/2015 respectively and raise our price target from $32 to $33 to account for multiple expansion in the regulated group.

Q3 beat: For the quarter NI reported adjusted EPS of $0.18, ahead of our and consensus estimates of $0.17 and last year's Q3 EPS of $0.05. The y/y improvement was mainly driven by rate base earnings and a $50 million charge recorded in 3Q12. Management reiterated FY 2013 guidance of $1.50-1.60, 3-year operating EPS growth guidance of 5-7%, and dividend growth guidance of 3-5%.

Continuing to execute: During the quarter, the company continued to make progress on its construction programs and on the regulatory front. The company expects to make a tracker filing to recover the ~$300 million in 2013 capex from the Columbia Gas Transmission pipeline modernization later this year. In the past 3 months NI also made filings with the IURC for NIPSCO's 7-year gas infrastructure program, which is around $700 million of total investments, and its 7-year electric program, which is around $1 billion of total investments. Both are currently under review with the IURC, but we note the general attitude of the IURC and other parties regarding the SB 560 tracker legislation has been constructive. Initial investments in both are expected to begin by early-mid 2014.

MLP is still on the table: During the call, management reiterated the need to preserve NI's investment-grade credit rating and tax leakage considerations when considering a possible MLP. Management pointed towards an anticipated $400-500 million equity funding need in 2H15 and suggested that an MLP could be done as an alternative funding mechanism.

NI: Quarterly and Annual EPS (USD)

	2012	2013			2014			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.76A	0.69A	0.69A	0.69A	N/A	N/A	0.79E	-9%	N/A
Q2	0.23A	0.23E	0.23A	0.23A	N/A	N/A	0.25E	0%	N/A
Q3	0.05A	N/A	0.18A	0.16E	N/A	N/A	0.15E	260%	N/A
Q4	0.44A	N/A	N/A	0.47E	N/A	N/A	0.47E	N/A	N/A
Year	1.46A	1.56E	1.56E	1.55E	1.68E	1.68E	1.67E	7%	8%
P/E	21.7		20.3			18.8			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

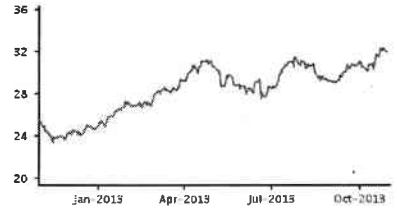
Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 33.00 raised 3% from USD 32.00

Price (30-Oct-2013)	USD 31.70
Potential Upside/Downside	+4%
Tickers	NI

Market Cap (USD mn)	9909
Shares Outstanding (mn)	312.58
Free Float (%)	99.21
52 Wk Avg Daily Volume (mn)	2.1
Dividend Yield (%)	3.1
Return on Equity TTM (%)	8.03
Current BVPS (USD)	18.25

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 32.52-23.14



Link to Barclays Live for interactive charting

North America Utilities
Daniel Ford, CFA
1.212.526.0836
daniel.x.ford@barclays.com
BCI, New York

William Zhang
1.212.526.6203
william.zhang@barclays.com
BCI, New York

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

North America Utilities — Industry View: NEUTRAL

NiSource, Inc (NI)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,633	1,817	1,951	2,086	8.5%
EBIT (adj)	1,071	1,214	1,313	1,417	9.8%
Pre-tax income (adj)	656	749	813	882	10.4%
Net income (adj)	427	487	528	573	10.3%
EPS (adj) ($)	1.46	1.56	1.68	1.77	6.5%
Diluted shares (mn)	300.4	312.2	313.8	324.7	2.6%
DPS ($)	0.96	1.00	1.08	1.12	5.3%

Margin and return data					Average
EBITDA (adj) margin (%)	32.2	32.7	34.0	35.3	33.5
EBIT (adj) margin (%)	21.1	21.8	22.9	24.0	22.4
Pre-tax (adj) margin (%)	12.9	13.5	14.2	14.9	13.9
Net (adj) margin (%)	8.1	8.8	9.2	9.7	8.9
ROIC (%)	8.3	8.8	8.9	8.8	8.7
ROA (%)	1.9	2.1	2.2	2.2	2.1
ROE (%)	7.4	8.4	8.8	8.7	8.3

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	12,916	14,152	15,264	16,345	8.2%
Total net assets	21,845	23,137	24,277	25,560	5.4%
Capital employed	12,881	13,815	14,805	16,087	7.7%
Shareholders' equity	5,554	5,780	6,020	6,579	5.8%
Net debt/(funds)	7,243	7,984	8,737	9,291	8.7%
Cash flow from operations	1,276	1,285	1,285	1,211	-1.7%
Capital expenditure	-1,499	-1,960	-1,750	-1,750	N/A
Free cash flow	-359	-885	-629	-555	N/A
Pre-dividend FCF	-86	-573	-290	-192	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	21.7	20.3	18.8	18.0	19.7
EV/EBITDA (adj) (x)	10.5	9.9	9.6	9.2	9.8
EV/EBIT (adj) (x)	16.0	14.8	14.2	13.6	14.7
P/BV (x)	1.7	1.7	1.7	1.6	1.7
Dividend yield (%)	3.0	3.2	3.4	3.5	3.3
Total debt/capital (%)	56.9	58.2	59.3	59.1	58.4
Net debt/EBITDA (adj) (x)	4.4	4.4	4.5	4.5	4.4

Selected operating metrics					Average
Payout ratio (%)	65.8	64.1	64.1	63.4	64.4
Interest cover (x)	2.6	2.6	2.6	2.6	2.6
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Source: Company data, Barclays Research
Note: FY End Dec

Price (30-Oct-2013)	**USD 31.70**
Price Target	**USD 33.00**

Why Overweight? We rate NI as an Overweight because of the attractive risk/reward profile from NI's well-defined rate base growth strategy which we see as relatively low-risk. Moreover, we believe additional value can be captured in NI's shale acreage, to which we assign a value of $1.50/share.

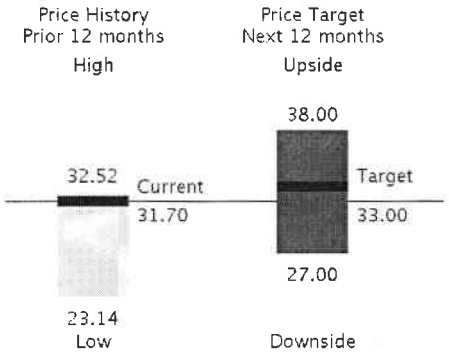
Upside case — **USD 38.00**

Our upside case assigns a 12x 2015 EV/EBITDA multiple to the Columbia Pipeline Group under an MLP scenario.

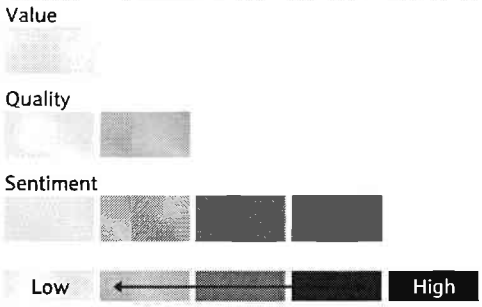
Downside case — **USD 27.00**

Our downside case assumes NI trades in-line with the regulated group's multiple on 2015 EPS.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Valuation

Our new PT of $33 is based on a 16.9x 2015 EPS multiple for the regulated business, which is a 10% quality premium to the regulated utility group, a 9.5x 2015 EBITDA multiple for the CPG segment, and $1.50 for NI's Utica lease holdings. Our previous $32 PT was based on a 15.2x 2015 EPS multiple for the regulated segments, 9.5x 2015 EBITDA for CPG, and $1.50 for the Utica lease holdings.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 30-Oct-2013, USD 31.70), Overweight/Neutral, A/C/D/J/K/L/M/O

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National Grid Plc (NGG)	NiSource, Inc. (NI)	Northeast Utilities (NU)
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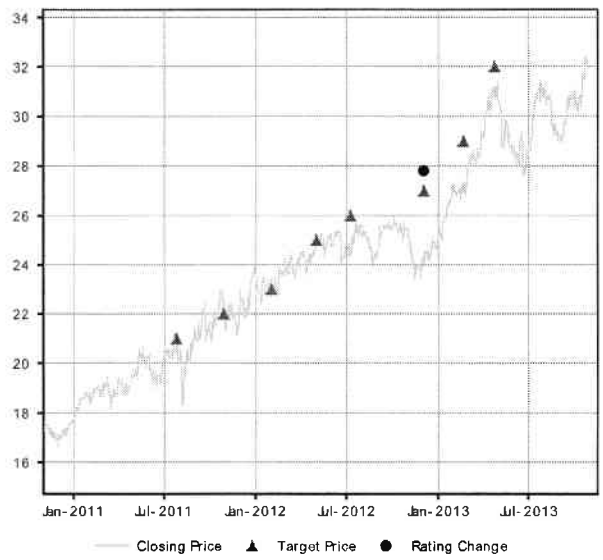
NiSource, Inc. (NI)

USD 31.70 (30-Oct-2013)

Stock Rating	Industry View
OVERWEIGHT	**NEUTRAL**

Rating and Price Target Chart - USD (as of 30-Oct-2013) — Currency=USD



Date	Closing Price	Rating	Price Target
24-Apr-2013	31.14		32.00
20-Feb-2013	27.04		29.00
03-Dec-2012	24.34	Overweight	27.00
09-Jul-2012	24.41		26.00
01-May-2012	25.33		25.00
01-Feb-2012	23.45		23.00
28-Oct-2011	22.52		22.00
26-Jul-2011	20.85		21.00

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Valuation Methodology: Our PT is based on a sum-of the-parts valuation, assigning a 16.9x '15 P/E multiple for NIPSCO Electric and Gas Distribution, which is a 10% quality premium to the regulated group, and a 9.5x '15 EV/EBITDA multiple for Gas Transmission & Storage. In addition we assign a $1.50/share value to NI's western Utica acreage.

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NiSource

(NI-NYSE)

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

November 1, 2013

Carl Kirst, CFA **713-546-9756**
BMO Capital Markets Corp
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan, CFA
BMO Capital Markets Corp
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com / leah.jordan@bmo.com

3Q on Target; Reaffirmed 2013 Guidance

Event

NI reported 3Q13 core EPS of $0.18 in line with our estimate and consensus of $0.17. Primary deltas to our estimate include a $0.04 miss at the LDC (on higher operating expenses) offset by penny beats across each of Pipes, Electric, interest, and taxes. Key takeaways: 1) 2013 guidance of $1.50-1.60 was reaffirmed (at $1.57 we're just over the midpoint given strong YTD performance); 2) two gas utility rate cases remain outstanding, specifically revenue increases of $16.6mm and $30mm in Kentucky and Massachusetts, respectively, which aim to recapture infrastructure modernization spend to which we already give credit. Positively, both are on track for resolution by 1Q14; 3) NIPSCO has now filed for ~$1.7B in collective electric and gas modernization investment over seven years. We expect both cases to be litigated with resolution in February and May 2014, respectively, with the shape of the spend to ramp just as the current environmental spend subsides—in effect, extending the utility's growth profile; 4) NI continues to evaluate the possibility of an MLP (in context of impact on credit rating and tax leakage), which we think could be used to avoid ~$400mm in common equity need in 2H15 (to be clear, we see any MLP focused on newer midstream investment rather than on the legacy pipelines), setting up a potential S-1 filing by YE2014; and 5) management reiterated its long-term CAGR expectation of 5%-7% for EPS and 3%-5% for the dividend.

Impact & Analysis

Neutral (EPS results) to positive (more clarity on NIPSCO's modernization program). Our 2013-2015 estimates remain unchanged.

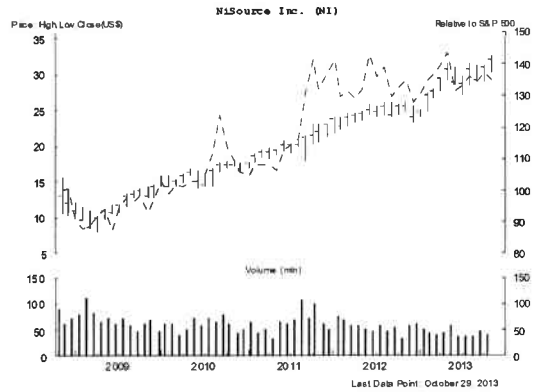
Valuation & Recommendation

Maintain Market Perform, although we're raising our valuation $1 to $33 with a 1-turn EBITDA multiple premium for the LDC business reflecting its higher sustainable growth rate via the recently filed modernization program. NI now trades at 17.8x 2015 P/E—a deserved premium to the 16.0x gas and 14.5x electric utility averages, but still trading in a fair valuation range.

Securities Info

Price (31-Oct)	**$31.52**	**Target Price**	**$33.00 ↑**
52-Wk High/Low	$33/$23	Dividend	$1.00
Mkt Cap (mm)	$9,853	Yield	3.2%
Shs O/S (mm, BASIC)	312.6	Float O/S (mm)	310.1
Options O/S (mm)	na	ADVol (30-day, 000s)	2,009

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS Pro Forma	$1.31	$1.44	$1.57	$1.66
P/E			20.1x	19.0x
First Call Cons.			*$1.55*	*$1.67*
EPS GAAP	$0.52	$1.39	$1.69	$1.66
FCF	$4.10	$4.31	$4.28	$3.93↓
P/FCF			7.4x	8.0x
EBITDA ($mm)	$1,382	$1,615	$1,741	$1,875
EV/EBITDA			9.5x	8.8x
Rev. ($mm)	$6,019	$5,091	$5,481	$5,624
EV/Rev			3.0x	3.0x

Quarterly EPS	1Q	2Q	3Q	4Q
2012A	$0.73	$0.23	$0.05	$0.44
2013E	$0.69A	$0.23A	$0.18A	$0.47

Balance Sheet Data (30-Jun)			
Net Debt ($mm)	$6,740	Total Debt/EBITDA	4.0x
Total Debt ($mm)	$6,988	EBITDA/IntExp	4.2x
Net Debt/Cap.	49.0%	Price/Book	1.7x

Notes: All values in US$.
Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

Changes	Annual FCF	Target
	2014E $4.00 to $3.93	$32.00 to $33.00

3Q13 at a Glance

NI reported 3Q13 adjusted EPS of $0.18 in line with our estimate and a penny above consensus. Primary deltas to our estimate along with business segment summaries are detailed below:

+$0.01 Pipes. EBIT of $99mm was higher than our $95mm estimate primarily owing to higher equity earnings tied to Millennium Pipeline. Of note, total throughput of 260 MMDth decreased 17% y/y, mainly due to narrower basis differentials between the Gulf Coast and southeastern US markets.

In addition to the base $320mm ($160mm net to NI) Pennant JV gathering and processing project, which remains on schedule, in September, the JV announced an additional $60mm ($30mm net to NI) 38-mile NGL Pipeline that will initially transport 90k bpd once operational (expected 3Q14). Additional phases of the Pennant JV could be known as early as mid-2014. NI also identified a new potential project—Washington County Gathering, a greenfield gathering system in Washington County, Pennsylvania, to gather wellhead production, which could be $100-$150mm of investment and provide about $0.02 of annual EPS upside. In the longer term, LNG exports continue to present opportunities, noting the most advanced potential is the Cameron Access Project, which would provide a new lateral pipe to the Cameron LNG facility with in service in 2017 at the earliest. NI held a non-binding open season for this project earlier this year. We estimate the total investment to be $200-300mm, which in turn could generate upside of ~$0.50 per share.

-$0.04 LDC. Adjusted EBIT of -$1mm (net of settlement agreement and asset sale loss) was lower than our $17mm estimate primarily due to higher operating expenses, including higher environmental costs, increased outside services, and increased employee and administrative costs. Of note, total volumes of 168 MMDth decreased 2% y/y, mainly due to warmer weather.

In August, NIPSCO Gas received regulatory approval to extend its 2010 customer rate settlement through 2020. In September, Columbia Gas of Maryland received regulatory approval for a revenue normalization adjustment mechanism for residential customers in addition to an annual revenue increase of $3.6mm; rates went into effect that same month. Of note, two rate cases remain outstanding that primarily aim to recapture the infrastructure modernization spending to which we already give credit. First, Columbia Gas of Kentucky is requesting a $16.6mm annual revenue increase; a decision is expected with rates in effect by January 2014. Additionally, Columbia Gas of Massachusetts is requesting a $30mm annual revenue increase; a decision is expected with rates in effect by March 2014. Finally, regulatory approval and implementation of the ~$700mm seven-year modernization program at NIPSCO Gas (filed in October) is still expected by mid-2014.

+$0.01 Electric. Adjusted EBIT of $91mm (net of weather) was higher than our $87mm estimate primarily due to a higher tariff. Of note, total volumes of 4,544 GW hours decreased by 2% y/y, mainly due to colder weather impacting residential usage.

In October, NI received regulatory approval for its investment plan totaling ~$60mm over the next three years in order to comply with the EPA's MATS rule. Regulatory approval and

implementation of the ~$1B 7-year modernization program at NISPCO Electric (filed in July) is still expected by mid-2014.

Corp/Other on target. Adjusted EBIT of -$5mm (net of asset sale gain) was in line with our estimate.

+$0.01 Interest. Interest expense of $104mm was lower than our $107mm estimate.

+$0.01 Taxes. The effective tax rate of 36% was higher than our 35% estimate.

Exhibit 1: NiSource Valuation

NiSource Inc.

Sum-of-the-Parts Valuation Analysis

	2015E	Valuation Multiple		Notes:
EBITDA by Segment				
Gas Distribution	$735	9.5x	$6,981	- 1x turn higher given $700mm 7-yr pipe modernization prgm
Gas Pipelines	$698	11.0x	$7,680	- 1x turn higher given $4B 10-yr pipe modernization prgm (see tab)
Electric	$590	9.0x	$5,310	- 1x turn higher given $3-4B L-T t&d modernization prgm (see tab)
Other	$65	5.0x	$325	
Value of Operations	$2,088	9.7x	$20,296	
Net Debt (YE 2014)			($9,638)	
Preferred & Minority Interests			---	
Pension/OPEB Underfunded Obligation	($1,088)	25%	($272)	- est underfunded at YE12; risk adjusted at 25% (rest assumes recovery in rates)

	Gross	Risked	Net	Value		
Utica Acreage - Central/West	175,000	0%	0	$5,000	—	- Management indicates 150-200k potentially prospective with geotechnical variability on size of oil window (full acreage position is 300k)

Net Equity Value	$10,386
Diluted Shares Outstanding	317
$/sh	**$32.74**
Average Target Price (rounded):	**$33.00**

Valuation Summary:	
Current Price	$31.52
Current Dividend	$1.00
Appreciation Potential	4.7%
Current Yield	3.2%
Total Return Potential	**7.9%**

Source: BMO Capital Markets estimates, company data.

Exhibit 1: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Operating Revenues:											
Gas Distribution	$3,303	$3,096	$2,918	$1,960	$892	$393	$255	$762	$2,303	$2,977	$3,056
Pipelines & Storage	1,241	1,261	1,355	1,462	469	367	347	315	1,497	1,213	1,309
Electric	1,213	1,375	1,428	1,508	377	385	413	352	1,527	1,545	1,591
Other	542	603	319	161	56	68	61	(32)	154	(112)	(114)
Revenues	6,299	6,335	6,019	5,091	1,794	1,212	1,077	1,397	5,481	5,624	5,842
Operating Expenses:											
Cost of Sales	2,978	2,898	2,556	1,549	688	360	243	372	1,662	1,644	1,641
Operation & Maintenance	1,650	1,654	1,723	1,674	455	453	469	471	1,849	1,869	1,943
DD&A	589	596	538	564	144	143	145	150	582	611	647
Loss (gain) on asset sales	16	1	17	(4)	(0)	(0)	(10)	0	(10)	0	0
Taxes and Other	283	287	295	289	87	71	64	78	300	300	307
Total Operating Expenses	5,516	5,436	5,129	4,072	1,373	1,027	911	1,071	4,382	4,423	4,537
Operating Income	783	899	890	1,020	421	186	166	326	1,098	1,201	1,305
Other:											
Equity in Earnings	16	15	15	32	7	8	11	13	39	63	76
Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Other	(6)	4	(61)	(1)	4	13	5	0	22	0	0
Total Other Income	10	19	(47)	31	11	21	15	13	61	63	76
Reported EBIT	**$793**	**$918**	**$844**	**$1,051**	**$432**	**$207**	**$181**	**$339**	**$1,159**	**$1,264**	**$1,380**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$1,615**	**$576**	**$350**	**$326**	**$489**	**$1,741**	**$1,875**	**$2,027**
EBIT Composition											
Gas Distribution	328	324	394	409	234	50	(4)	139	419	475	507
Pipelines & Storage	389	377	360	398	133	89	88	143	453	506	568
Electric	117	234	210	252	65	60	88	62	274	303	325
Corporate & Other	(40)	(17)	(120)	(8)	(0)	9	10	(5)	13	(20)	(20)
Total EBIT	**$793**	**$918**	**$844**	**$1,051**	**$432**	**$207**	**$181**	**$339**	**$1,159**	**$1,264**	**$1,380**
Interest Expense	399	392	377	416	99	102	104	110	414	455	496
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	416	99	102	104	110	414	455	496
Income Before Taxes	394	526	467	635	334	105	77	229	745	809	885
Income Taxes											
Current	(214)	118	(15)	(86)	2	(18)	(4)	20	(0)	142	155
Deferred	378	55	178	305	117	51	32	60	259	142	155
Total Income Taxes	165	173	163	219	118	33	28	80	259	283	310
Effective Inc. Tax Rate (%)	42%	33%	35%	34%	35%	31%	36%	35%	35%	35%	35%
Net Income From Continuing Operations	229	353	304	416	215	72	50	149	486	526	575
Discontinued Operations, net	(12)	(0)	(5)	0	9	(0)	(1)	0	7	0	0
Change in Accounting	(0)	(58)	0	0	36	0	0	0	36	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$416**	**$261**	**$72**	**$48**	**$149**	**$529**	**$526**	**$575**
Adjustments to Core											
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(17)	0	0	(8)	0	(8)	0	0
Total Adjustments	(49)	11	(74)	(17)	0	0	(8)	0	(8)	0	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$433**	**$215**	**$72**	**$57**	**$149**	**$493**	**$526**	**$575**
Shares Outstanding (mm)											
Avg. Diluted Shares Out	276	280	289	300	312	313	314	315	313	317	324
Avg. Basic Shares Out	275	278	280	292	311	312	313	314	312	316	323
Period-end basic Shares Out	276	279	282	311	312	313	313	314	314	318	332
Earnings Per Share (Diluted)											
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$1.39**	**$0.83**	**$0.23**	**$0.16**	**$0.47**	**$1.69**	**$1.66**	**$1.77**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$1.44**	**$0.69**	**$0.23**	**$0.18**	**$0.47**	**$1.57**	**$1.66**	**$1.77**
EPS Growth (core)	-19.4%	21.0%	7.4%	10.0%	-5.7%	2.2%	245.5%	8.3%	9.2%	5.4%	6.9%
Dividends											
Cash per share	$0.92	$0.92	$0.92	$0.95	$0.24	$0.25	$0.25	$0.25	$0.99	$1.03	$1.07
Div Growth	0.0%	0.0%	0.0%	3.3%	4.3%	4.2%	4.2%	4.2%	4.2%	4.0%	3.9%
Payout Ratio (%)	116.6%	87.5%	88.7%	68.6%					58.6%	62.1%	60.4%

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Operating Activities											
GAAP Net Income from Cont. Ops	218	292	299	416	261	72	48	149	529	526	575
DD&A	589	596	538	562	144	143	145	150	582	611	647
Deferred income tax benefit	378	200	178	305	117	51	32	60	259	142	155
Deferred Revenues	4	(20)	3	(8)	(0)	0	2	0	2	0	0
Amortization of premium on debt	13	10	9	10	2	2	2	0	7	0	0
Less Gain or Loss on assets	(4)	(0)	0	(4)	(0)	(0)	(10)	0	(10)	0	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	4	(0)	(3)	(4)	(6)	(12)	(32)	(38)
Other non-cash income items	36	112	139	11	(37)	11	12	0	(14)	0	0
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$1,295**	**$485**	**$276**	**$227**	**$354**	**$1,343**	**$1,246**	**$1,338**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$4.31**	**$1.56**	**$0.88**	**$0.72**	**$1.12**	**$4.28**	**$3.93**	**$4.13**
Working Capital:											
Accounts and notes receivable	259	(244)	318	(181)	(111)	430	124		443	0	0
Inventory	129	103	(142)	62	255	(182)	(177)		(104)	0	0
Less Change of Price Risk Management Activities	0	0	0	0	0	0	0		0	0	0
Accounts payable	(192)	38	(155)	57	25	(145)	(59)		(178)	0	0
Customer deposit, net	25	(25)	(5)	(44)	(102)	(3)	85		(20)	0	0
Other assets	83	(206)	(201)	144	(90)	226	(188)		(52)	0	0
Other Liabilities	382	(86)	(78)	(68)	(26)	(157)	172		(11)	0	0
Changes in Working Capital	686	(420)	(262)	(30)	(48)	170	(43)	0	79	0	0
Discontinued Operations	(255)	(57)	(50)	11	12	(1)	(0)	0	11	0	0
Cash Flow From Operations	1,651	720	870	1,276	449	445	184	354	1,432	1,246	1,338
Investing Activities											
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(1,499)	(369)	(432)	(496)	(703)	(2,000)	(1,775)	(1,675)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	26	1	0	17	0	18	0	0
Other	109	(140)	(34)	51	1	(40)	(52)	0	(91)	0	0
Cash Used in Investing	(662)	(944)	(1,149)	(1,422)	(368)	(472)	(530)	(703)	(2,073)	(1,775)	(1,675)
Discontinued Operations	8	0	0	(3)	122	0	(3)	0	119	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(1,425)	(246)	(472)	(533)	(703)	(1,954)	(1,775)	(1,675)
Financing Activities											
Sale of Common Stock	26	14	24	384	17	7	12	12	48	48	398
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	988	0	815	0	500	1,315	800	500
Redemption of Common Stock	(3)	(2)	(3)	(10)	(8)	(0)	(0)	0	(8)	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(332)	(427)	(24)	(54)	0	(505)	(500)	(230)
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(582)	354	(754)	443	0	44	400	0
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Dividends	(253)	(256)	(258)	(273)	(75)	(75)	(78)	(78)	(306)	(305)	(326)
Other	0	0	(62)	0	0	0	(3)	0	(3)	0	0
Cash From (For) Financing	(1,000)	216	281	175	(138)	(30)	320	434	585	443	342
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	175	(138)	(30)	320	434	585	443	342
Change in Cash	($4)	($7)	$2	$25	$65	($57)	($30)	$84	$63	($86)	$5
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$36	$102	$45	$15	$37	$100	$13
Cash & Temp. Inv. End of Yr.	$16	$9	$12	$37	$102	$45	$15	$100	$100	$13	$19

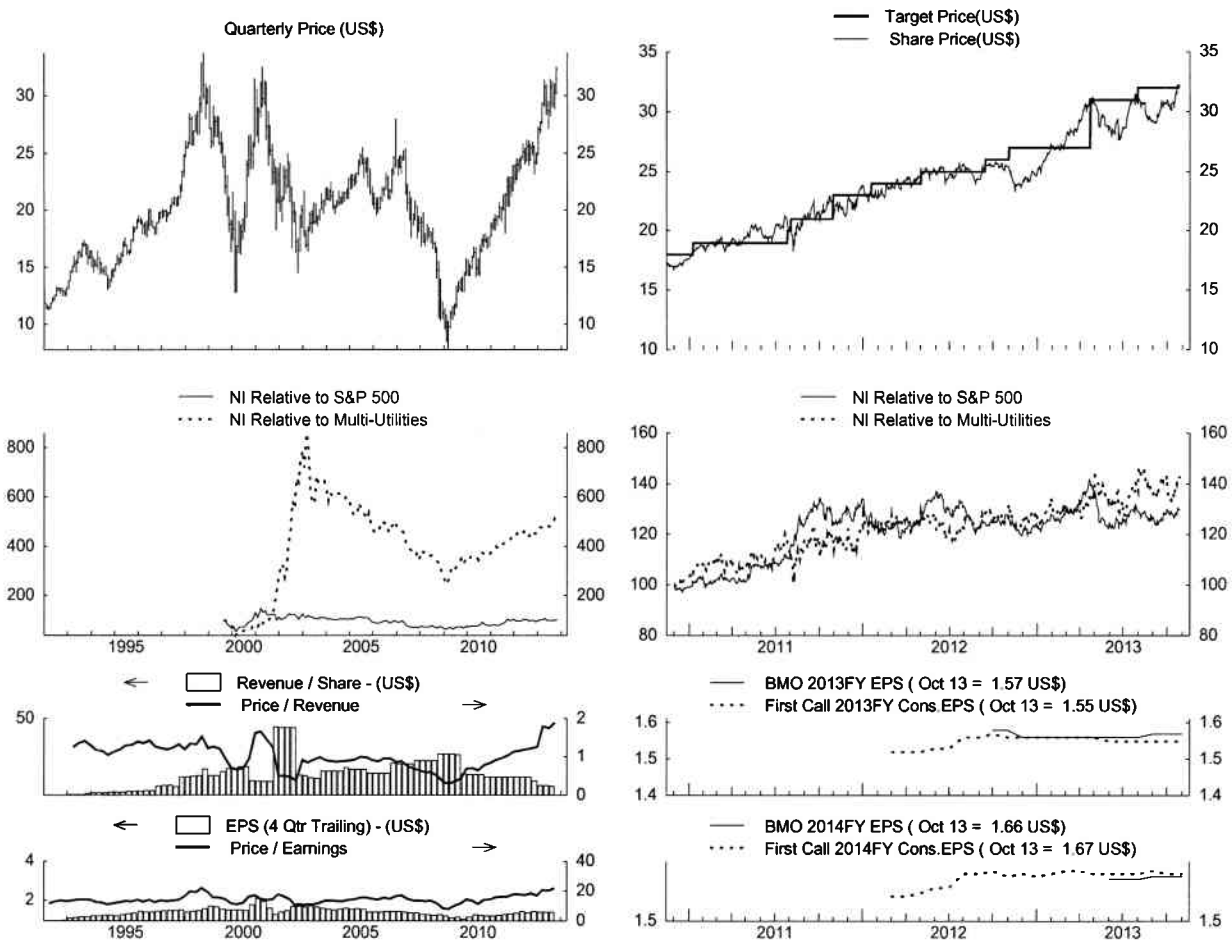
Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	2014E	2015E
Assets:											
Cash & Equivalent	16	9	12	36	101	45	15	100	100	13	19
Restricted Cash	175	203	161	47	23	29	18	18	18	18	18
Receivables	848	1,121	951	1,114	1,254	836	702	702	702	702	702
Allowance for Uncollectable Acts.	(40)	(41)	(31)	(24)	(32)	(32)	(20)	(20)	(20)	(20)	(20)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	40	136	21	45	17	1	16	16	16	16	16
Inventories	385	428	566	496	241	420	595	595	595	595	595
ST Assets Price Risk Management	173	160	137	92	58	40	21	21	21	21	21
Regulatory Assets	238	152	170	163	142	146	153	153	153	153	153
Other Current Assets	387	283	262	384	228	224	246	246	246	246	246
Total Current Assets	2,224	2,449	2,248	2,352	2,032	1,708	1,746	1,830	1,830	1,744	1,749
Plant & Equipment (Gross)	19,038	19,590	20,470	21,902	22,194	22,644	23,171	23,874	23,874	25,649	27,324
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,986)	(9,075)	(9,170)	(9,259)	(9,409)	(9,409)	(10,020)	(10,666)
Plant & Equipment, Net	10,684	11,097	11,800	12,916	13,119	13,474	13,912	14,465	14,465	15,629	16,657
Investments	295	349	356	438	451	469	529	529	529	529	529
LT Assets Price Risk Management	238	240	189	56	36	34	0	0	0	0	0
Regulatory Assets	1,644	1,650	1,978	2,024	1,954	1,902	1,863	1,863	1,863	1,863	1,863
Goodwill	3,677	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Intangible Assets	320	309	298	287	284	281	278	278	278	278	278
Other Long Term Assets (& flywheel)	53	168	162	94	94	88	89	95	95	126	164
Total Assets	19,134	19,939	20,708	21,845	21,636	21,622	22,084	22,727	22,727	23,836	24,908
Liabilities & Equity:											
Short Term Debt	800	1,417	1,687	1,284	1,221	448	1,362	1,362	1,362	1,762	1,762
Accounts Payables	502	582	435	539	527	471	448	448	448	448	448
ST Liabilities Price Risk Management	190	174	168	95	53	48	9	9	9	9	9
Regulatory Liabilities	44	93	112	172	107	80	76	76	76	76	76
Other	1,575	1,384	1,245	1,212	1,067	1,021	1,111	1,111	1,111	1,111	1,111
Total Current Liab	3,111	3,649	3,646	3,302	2,974	2,068	3,006	3,006	3,006	3,406	3,406
Long Term Debt	5,988	5,936	6,267	6,819	6,804	7,617	7,089	7,589	7,589	7,889	8,159
LT Liabilities Price Risk Management	170	182	139	20	7	5	2	2	2	2	2
Accumulated Deferred Taxes	2,018	2,243	2,571	2,953	2,980	3,063	3,134	3,194	3,194	3,335	3,490
Regulatory Liabilities	1,559	1,596	1,664	1,593	1,611	1,611	1,616	1,616	1,616	1,616	1,616
Other Liabilities	1,572	1,409	1,424	1,603	1,569	1,556	1,538	1,538	1,538	1,538	1,538
Total Liabilities	14,418	15,016	15,711	16,290	15,946	15,919	16,383	16,943	16,943	17,785	18,210
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,554	5,691	5,703	5,701	5,783	5,783	6,052	6,698
Other	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	21,845	21,636	21,622	22,084	22,727	22,727	23,836	24,908

Source: BMO Capital Markets estimates, company data.

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
2009	1.06	14.9	7.3	0.92	11.8	5.8	87	17.6	0.9	0.4	6
2010	1.22	14.7	11.6	0.92	6.5	5.1	75	17.7	1.0	0.8	7
2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.7	1.4	0.9	8
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	17.9	1.5	1.2	8
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.41	21.9		1.00	3.2		71	18.3	1.7		8
Growth(%):											
5 Year:	2.6			1.7				-0.3			
10 Year:	-1.6			0.8				-1.0			
20 Year:	0.9			2.1				4.3			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q2/2013.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (October 25, 2013): $32.32
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Our Price Target/Valuation

Methodology: Our target price for NI is based on a sum-of-the parts valuation. We individually value each one of NI's business segments using a target EV/EBITDA multiple approach. Our target multiple for each segment is derived from analyzing historical multiple trading ranges, peer multiples, and adjusting for any expectation of future changes in investor sentiment, which would lead to multiple expansion/contraction. We next add together the segment valuations to reach an operating enterprise value, which is then adjusted for net debt, off-balance sheet items, operating leases, pension costs, and any other non-operating obligations. After adjustments, we then have our net equity value, which is divided by fully diluted shares outstanding to arrive at our target price.
Risks: Risks to our 12-month price target for NI include: 1) Conservation - conservation and bad debt expense from high commodity prices could impact earnings more than the base level we have accounted for; 2) Weather; 3) Interest rates; 4) Regulatory risk - rulings counter to assumptions and guidance could negatively impact our valuations going forward.

Distribution of Ratings (September 30, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	20.3%	47.8%	36.7%	48.3%	52.6%
Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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Attachment C
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31 October 2013 | 8 pages

Pipelines & Gas Utilities
North America | United States

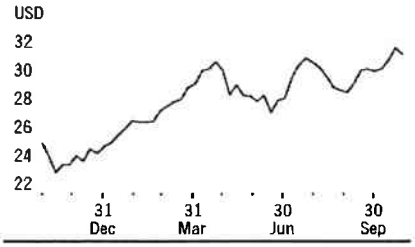
NiSource Inc (NI)

Results: 3Q Slight Beat; Operationally Strong Q; Maintain Outlook

- **Citi's Take** — NI reported 3Q EPS of $0.18, better than our $0.17 estimate and ahead of the Street's $0.16. Higher electric profits more than offset lower than expected results from the gas pipelines and gas utilities. The company discussed the merits of an MLP on the call.
- **Guidance** — NI reaffirmed non-GAAP FY13 EPS guidance of $1.50 - $1.60. We continue to estimate ~$1.54p/s.
- **Transmission and Storage** — T&S EBIT was $99mn, lower than our forecast of $111mn on higher O&M. NI indicated that its capex program has put upward pressure on O&M spending. At year-end, NI will make a tracker filing with FERC for $300mm in investments, which could add about $0.05 per share to 2014 EPS.
- **Electric Operations** — Electric EBIT was $90.5mn vs our estimate of $81.8mn. An increase in environmental cost recovery and industrial/commercial margins combined with lower storm damage and power generation costs drove the beat.
- **MLP** — Management said launching an MLP was a "viable option" and "worthy of consideration" but a decision does not appear to be imminent. They want to weigh "credit considerations" and tax leakage before moving forward. They do not see either obstacle as a deal-breaker, however. While we believe putting NI's midstream projects and certain of its pipelines into an MLP would work, dropping the large Columbia Gas Transmission asset into an MLP might create some complications given most of the customers on this pipeline are affiliated gas utilities of NI.
- **Shelf Filing** — NI filed an automatic registration statement (or "shelf") yesterday. It enables the company to sell securities in the future, including common and preferred stock, debt securities, etc. Management reaffirmed its target for the next equity issuance in 2H15 and indicated it would be on the order of $400mn.
- **Implications** — We maintain our $35p/s target price and Neutral rating.

Neutral	**2**
Price (31 Oct 13)	US$31.52
Target price	US$35.00
Expected share price return	11.0%
Expected dividend yield	3.2%
Expected total return	**14.2%**
Market Cap	US$9,853M

Price Performance
(RIC: NI.N, BB: NI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.66A	0.24A	0.06A	0.44A	1.39A	1.42A
2013E	**0.69A**	**0.23A**	**0.17E**	**0.45E**	**1.54E**	**1.55E**
Previous	0.69A	0.23A	0.17E	0.45E	1.54E	na
2014E	**0.82E**	**0.38E**	**0.16E**	**0.42E**	**1.78E**	**1.67E**
Previous	0.82E	0.38E	0.16E	0.42E	1.78E	na
2015E	**0.82E**	**0.40E**	**0.20E**	**0.46E**	**1.88E**	**1.80E**
Previous	0.82E	0.40E	0.20E	0.46E	1.88E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Faisel Khan, CFA
+1-212-816-2825
faisel.khan@citi.com

Blake Clayton
blake.clayton@citi.com

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Figure 1. NI's Quarterly Earnings Comparison

	Actual 3Q13	Citi Estimate 3Q13	Actual Delta (%)	Actual 2Q13	Actual Change Q-o-Q Unit	Actual Change Q-o-Q Delta (%)	Actual 3Q12	Actual Change Y-o-Y Unit	Actual Change Y-o-Y Delta (%)
Gas Distribution									
Sales Revenues	412.8	408.3	1%	572.4	(159.6)	-28%	389.9	22.9	6%
Cost of Gas Sold	131.8	167.8	-21%	239.1	(107.3)	-45%	117.7	14.1	12%
Net Revenues	281.0	240.5	17%	333.3	(52.3)	-16%	272.2	8.8	3%
EBIT	(0.5)	6.1	-108%	50.0	(50.5)	-101%	16.2	(16.7)	-103%
Sales and Transportation Volumes (MMDth)									
Residential	15.2	34.8	-56%	132.0	(116.8)	-88%	28.3	(13.1)	-46%
Commercial	16.2	27.0	-40%	75.3	(59.1)	-78%	25.2	(9.0)	-36%
Industrial	120.7	113.4	6%	133.3	(12.6)	-9%	114.1	6.6	6%
Off-System and Other	15.6	18.6	-16%	21.9	(6.3)	-29%	17.3	(1.7)	-10%
Total (Including Weather Adjust.)	167.7	193.8	-13%	362.5	(194.8)	-54%	184.9	(17.2)	-9%
% Warmer (Colder) than Normal	11.0			(0.1)			0.4		
Customers									
Residential	3022.3	3035.5	0%	3072.9	(50.6)	-2%	3018.1	4.2	0%
Commercial	276.2	278.2	-1%	281.9	(5.7)	-2%	276.8	(0.6)	0%
Industrial	7.5	7.5	0%	7.6	(0.1)	-1%	7.7	(0.2)	-3%
Other	0.0	0.0		0.0	0.0	857%	0.0	0.0	5%
Total Customers	3306.0	285.7	1057%	289.5	3016.5	1042%	284.5	3021.5	1062%
Gas Transmission and Storage									
Transportation Revenues	176.4	201.3	-12%	171.6	4.8	3%	109.3	67.1	61%
Net Revenues	282.6	264.2	7%	273.8	8.8	3%	188.1	94.5	50%
EBIT	98.7	110.8	-11%	88.9	9.8	11%	38.8	59.9	154%
Throughput (MMDth)									
Columbia Transmission	158.4			196.6	(38.2)	-19%	189.1	(30.7)	-16%
Columbia Gulf	1.3			169.8	(168.5)	-99%	205.9	(204.6)	-99%
Crossroads Pipeline	0.0			3.3	(3.3)	-99%	3.3	(3.3)	-99%
Intersegment Eliminations	(36.5)			(81.4)	44.9	-55%	(86.1)	49.6	-58%
Total Throughput	260.0			288.3	(28.3)	-10%	312.2	(52.2)	-17%
Electric Operations									
Sales Revenues	416.8	419.1	-1%	385.1	31.7	8%	419.9	(3.1)	-1%
Cost of Sales	142.2	143.5	-1%	141.3	0.9	1%	142.8	(0.6)	0%
Net Revenues	274.6	275.6	0%	243.8	30.8	13%	277.1	(2.5)	-1%
EBIT	90.5	81.8	11%	59.5	31.0	52%	83.6	6.9	8%
Sales (GWh)									
Residential	1000.5	1124.3	-11%	769.1	231.4	30%	1118.7	(118.2)	-11%
Commercial	1066.1	1076.5	-1%	942.6	123.5	13%	1071.1	(5.0)	0%
Industrial	2337.2	2259.1	3%	2256.3	80.9	4%	2247.9	89.3	4%
Wholesale	108.6	157.9	-31%	494.7	(386.1)	-78%	157.9	(49.3)	-31%
Other	31.3	26.7	17%	27.0	4.3	16%	26.7	4.6	17%
Total (Including Weather Adjustment)	4543.7	4644.5	-2%	4489.7	54.0	1%	4622.3	(78.6)	-2%
% Warmer (Colder) than Normal	(0.1)			0.1			0.2		
Customers									
Residential	401.2	402.2	0%	401.2	0.0	0%	400.2	1.0	0%
Commercial	54.3	54.2	0%	54.2	0.1	0%	53.9	0.4	1%
Industrial	2.4	2.5	-3%	2.4	(0.0)	0%	2.4	(0.1)	-3%
Wholesale	0.7	0.7	0%	0.7	0.0	0%	0.0	0.7	4182%
Other	0.0	0.7	-99%	0.0	0.0	0%	0.7	(0.7)	-99%
Total	458.5	459.5	0%	458.5	0.1	0%	457.2	1.3	0%
Corporate/Other									
EBIT	(5.0)	(7.8)	-35%	(4.5)	(0.5)	11%	(7.8)	2.8	-35%
Consolidated Financial Results									
Gross Revenues	1083.0	1091.6	-1%	1231.3	(148.3)	-12%	997.9	85.1	9%
Costs of Sales (ex D&A)	243.2	315.3	-23%	380.5	(137.3)	-36%	260.5	(17.3)	-7%
O&M	468.9	370.1	27%	455.9	13.0	3%	426.7	42.2	10%
D&A	144.5	164.0	-12%	141.5	3.0	2%	124.3	20.3	16%
Non-Income Taxes	64.3	61.8	4%	67.6	(3.3)	-5%	59.6	4.7	8%
Total Operating Expenses	666.6	595.8	12%	665.0	1.6	0%	610.6	56.1	9%
EBIT	183.7	184.8	-1%	193.8	(10.1)	-5%	134.9	48.9	36%
Income Taxes	27.6	29.9	-8%	32.7	(5.1)	-16%	11.5	16.1	140%
Net Income from Continuing Ops	**57.1**	**53.2**	7%	**72.4**	**(15.3)**	**-21%**	**17.7**	**39.5**	**224%**
EPS	**$0.18**	**$0.17**	6%	**$0.23**	**(0.05)**	-22%	**$0.06**	**0.12**	206%

Source: Citi Research, company filings

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NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $35 target. Our NAV yields a value of $40. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $40. Our P/E and EV/EBITDA multiples (2014 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields.Our P/E and EV/EBITDA analyses yield values of $30 and $33.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

Appendix A-1

Analyst Certification

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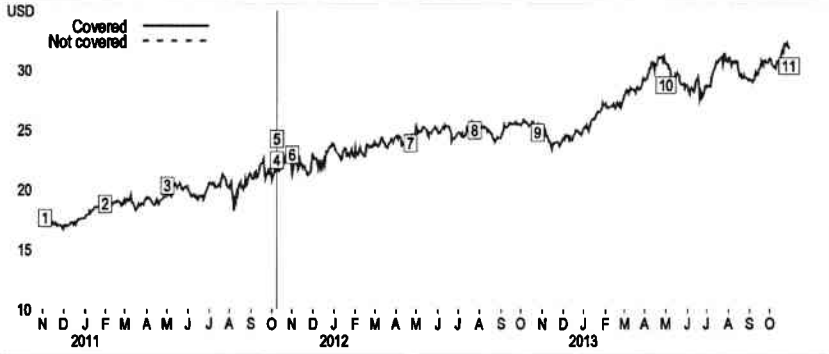
Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	1-Nov-10	2M	*18.00	17.17
2	31-Jan-11	2M	*20.00	18.62
3	2-May-11	2M	*21.00	19.52
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	21.00	21.55
6	1-Nov-11	2	*22.00	21.32
7	23-Apr-12	2	*24.00	24.30
8	25-Jul-12	2	*26.00	25.12
9	25-Oct-12	2	*27.00	25.54
10	1-May-13	2	*30.00	30.61
11	29-Oct-13	2	*35.00	31.95

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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NiSource Inc (NI)
Ratings and Target Price History
Best Ideas Research
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Analyst: Faisel Khan, CFA

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% of companies in each rating category that are investment banking clients	55%	50%	43%	64%	51%	48%

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Pipelines & Gas Utilities

Secular Growth; Interest Rate Headwind; Marcellus Analysis

- **Recommendations** — We downgrade MDU to Neutral largely on valuation. We continue to estimate significant upside for CNP and EGN.
- **Valuations** — We are lowering our target multiples for the gas utilities from 16.5x to 16.0x. This change is based our revised forecast of BBB U.S. corporate bond yields for 2014 (based on Citi 10-year UST forecasts), which determines the multiples we use to value these assets. However, given the significant investments taking place across the entire gas utility industry for pipeline replacement, rate base growth is actually resulting in slightly higher target prices for the gas utilities. Our relative valuation for pipeline assets continues to be a nearly 15% premium to gas utilities given the growth and cash flow profile for the pipelines.
- **Outlook** — We continue to believe the secular growth trends in North American hydrocarbon production bode well for the pipeline group resulting in a record amount of capital spending to build midstream infrastructure (~$45Bn in 2013). However, we believe higher interest rates will certainly act as a headwind on stock price performance.
- **Deep Dive: Marcellus and Utica Shale** — The outlook for natural gas production growth in the Marcellus, now the largest domestic shale gas play, and emerging Utica play remains robust despite a short-term plateau as infrastructure catches up. We estimate that Marcellus and Utica gas production could reach ~16 Bcf/day by 2017, driving a ~6 Bcf/day build-out of gas takeaway capacity. We also see NGL production rising to 500-900 mb/d by 2017, prompting an expansion of ~8.5 Bcf/day of processing capacity and ~700 mb/d of fractionation capacity by 2017 based on announced projects.

Faisel Khan, CFA
+1-212-816-2825
faisel.khan@citi.com

Blake Clayton
blake.clayton@citi.com

Sioban G Hickie
sioban.g.hickie@citi.com

Trieu Huynhtan
trieu.huynhtan@citi.com

Mohit Bhardwaj
mohit.bhardwaj@citi.com

		Rating		Target Price		Current Year Earnings Estimates	
Company	Ticker	Old	New	Old	New	Old	New
Atmos Energy	ATO	2	2	US$43.00	US$47.00	US$2.62	US$2.60
Brookfield Infr	BIP	2	2	US$39.00	US$39.00	US$0.61	US$0.61
CenterPnt Energy	CNP	1	1	US$27.00	US$29.00	US$1.21	US$1.23
Energen	EGN	1	1	US$61.00	US$99.00	US$3.58	US$3.87
Enbridge	ENB.TO	2	2	C$46.00	C$46.00	C$1.86	C$1.79
AGL Res	GAS	2	2	US$44.00	US$47.00	US$2.75	US$2.65
MDU Res Grp	MDU	1	2	US$29.00	US$30.00	US$1.27	US$1.38
Natl Fuel Gas Co	NFG	1	1	US$57.00	US$83.00	US$3.18	US$3.16
NiSource Inc	NI	2	2	US$30.00	US$35.00	US$1.54	US$1.54
Spectra Ener	SE	2	2	US$36.00	US$35.00	US$1.48	US$1.42
Sempra Energy	SRE	1	1	US$91.00	US$91.00	US$4.02	US$4.02
Questar Corp	STR	1	1	US$25.00	US$25.00	US$1.13	US$1.20
Southwest Gas	SWX	2	2	US$51.00	US$57.00	US$3.00	US$3.15
Integrys En	TEG	2	2	-	-	US$3.39	US$3.46
TransCanada	TRP.TO	2	2	C$51.00	C$51.00	C$2.26	C$2.31
UGI	UGI	2	2	US$40.00	US$42.00	US$2.50	US$2.44
Vectren	VVC	2	2	US$36.00	US$38.00	US$2.02	US$1.95

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Earnings Estimates & Conference Call Details

Below is a snapshot of our earnings estimates versus consensus as well as conference call details.

Figure 1. CQ 3'13, FY 2013 and FY 2014 Estimates vs. Consensus

Ticker	Company	3CQ'13 CR Est.	3CQ'13 Consensus	Delta	FY 2013 CR Est.	FY 2013 Consensus	Delta	FY 2014 CR Est.	FY 2014 Consensus	Delta
GAS	AGL Resources	$0.11	$0.15	($0.04)	$2.65	$2.69	($0.04)	$2.85	$2.87	($0.02)
ATO	Atmos Energy *	0.11	0.12	(0.01)	2.60	2.52	0.08	2.82	2.71	0.11
BIP	Brookfield I.P. **	1.12	1.23	(0.11)	4.46	4.76	(0.30)	4.72	5.28	(0.56)
CNP	Centerpoint Energy	0.34	0.35	(0.01)	1.23	1.21	0.02	1.34	1.30	0.05
EGN	Energen	0.68	0.61	0.07	3.87	3.38	0.50	4.14	4.25	(0.11)
ENB	Enbridge***	0.31	0.36	(0.05)	1.79	1.81	(0.02)	1.82	2.10	(0.28)
TEG	Integrys Energy	0.43	0.39	0.04	3.46	3.46	0.00	3.68	3.60	0.08
MDU	MDU Resources	0.46	0.46	0.00	1.38	1.39	(0.01)	1.59	1.53	0.06
NFG	National Fuel Gas*	0.61	0.59	0.02	3.16	3.10	0.06	3.24	3.21	0.03
NI	NiSource	0.17	0.17	0.00	1.54	1.56	(0.02)	1.78	1.67	0.11
STR	Questar	0.18	0.17	0.01	1.20	1.18	0.02	1.33	1.27	0.06
SRE	Sempra Energy	1.21	1.24	(0.03)	4.02	4.48	(0.46)	4.77	4.54	0.23
SWX	Southwest Gas	(0.05)	(0.09)	0.04	3.15	2.96	0.19	3.34	3.06	0.28
SE	Spectra Energy	0.27	0.34	(0.07)	1.42	1.53	(0.11)	1.45	1.68	(0.23)
TRP	TransCanada***	0.57	0.59	(0.02)	2.31	2.25	0.06	2.61	2.52	0.09
UGI	UGI Corp**	(0.06)	(0.04)	(0.02)	2.44	2.46	(0.02)	2.71	2.80	(0.09)
VVC	Vectren Corporation	0.46	0.49	(0.03)	1.95	2.03	(0.08)	2.10	2.18	(0.08)

Consensus – FirstCall * Sept yr end ** EBITDA per share *** Canadian dollar

Source: Citi Research, dataCentral

Figure 2. Valuation and Recommendation Summary

Ticker	Company	Rating	Current Price	Target Price	% to Target
EGN	Energen Corp	Buy	$84.00	$99	18%
CNP	CenterPoint Energy Inc	Buy	$24.84	$29	17%
NFG	National Fuel Gas Co	Buy	$71.99	$83	15%
NI	NiSource Inc	Neutral	$31.88	$35	10%
TRP	TransCanada Corp	Neutral	$46.91	$51	9%
VVC	Vectren Corp	Neutral	$35.01	$38	9%
STR	Questar Corp	Buy	$23.49	$25	6%
ATO	Atmos Energy Corp	Neutral	$44.62	$47	5%
SWX	Southwest Gas Corp	Neutral	$54.44	$57	5%
ENB	Enbridge Inc.	Neutral	$44.50	$46	3%
UGI	UGI Corp	Neutral	$42.09	$42	0%
MDU	MDU Resources Group Inc	Neutral	$30.17	$30	-1%
SRE	Sempra Energy	Buy	$91.56	$91	-1%
BIP	Brookfield I.P.	Neutral	$39.63	$39	-2%
GAS	AGL Resources Inc	Neutral	$47.99	$47	-2%
SE	Spectra Energy Corp	Neutral	$35.88	$35	-2%
TEG	Integrys Energy Group, Inc.	Neutral	$59.10	na	na

Source: Citi Research

Figure 3. Conference Call Summary

Ticker	Company	Conference Call Information			
		Date	Time	Access	ID
GAS	AGL Resources	10/30	9:00 AM	866-515-2909	37133506
ATO	Atmos Energy	11/7	10:00 AM	877-485-3107	
BIP	Brookfield I.P.	11/6	9:00 AM	800-319-4610	
CNP	Centerpoint Energy	11/6	11:30 AM	800-653-1761	71188474
ENB	Enbridge	11/6	9:00 AM	888-895-5271	35873822
EGN	Energen	10/30	10:30 AM	Webcast	
TEG	Integrys Energy	11/7	9:00 AM	888-788-9425	EARNINGS
MDU	MDU Resources	11/1	10:00 AM	800-603-1779	
NFG	National Fuel Gas	11/8	11:00 AM	866-700-6293	36603841
NI	NiSource	10/31	9:00 AM	Webcast	
STR	Questar	10/31	9:30 AM	800-309-9491	
SRE	Sempra Energy	11/5	1:00 PM	800-723-6575	2562661
SWX	Southwest Gas*	11/5	Unspecified		
SE	Spectra Energy	11/4	9:00 AM	888-252-3715	74541627
TRP	TransCanada	11/5	11:00 AM	866-226-1792	
UGI	UGI Corp*	11/13	Unspecified		
VVC	Vectren	11/8	2:00 PM	866-821-5457	

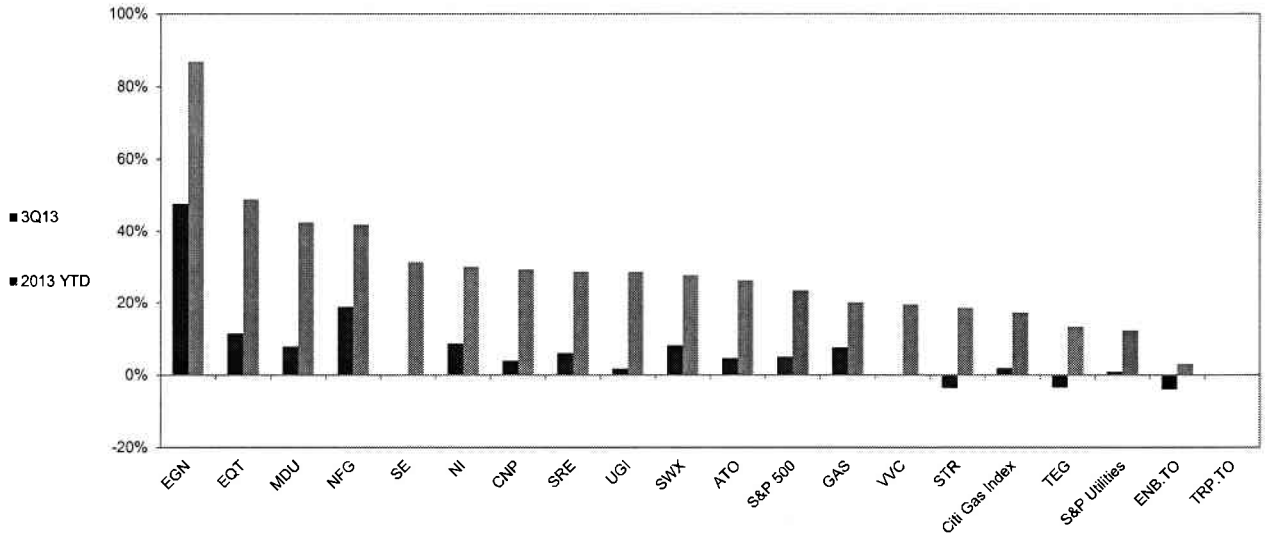
* Earnings release
Source: Citi Research, FactSet

Outlook for the Integrated Gas Utility and Pipeline Sector

The pipeline and gas utility sector continued its positive performance in 3Q. Our Citi Pipeline and Gas Utility Index (excluding companies with oil and gas production), comprised of equally weighted company stock prices that trade in the United States and Canada, moved up 1.8% in 3Q, capping a 17.2% gain YTD (see **Figure 4**). Overall the sector has underperformed the broader market with interest rates moving up.

There has been a wide divergence in performance across our entire coverage universe. Companies with upstream oil and gas production have outperformed the group as a result of positive well results in the Marcellus, Permian and Rockies. Following this group, companies involved in the build out of LNG export capacity and pipeline/midstream infrastructure continue to outperform the pure gas utilities. The Canadian pipeline companies have notably underperformed the group.

Figure 4. Natural Gas & Gas Utility Stock Price Performance Q3 and YTD



Source: Citi Research, FactSet

Going into the 3Q13 earnings announcements, we expect mixed year-over-year results. Companies with natural gas production are likely to post strong year-on-year results, with Henry Hub up 24% over year-ago levels. NGL prices are flat to down over last year with Mt. Belvieu prices unchanged relative to 3Q12 while prices at Conway have slid $0.13 per gallon.

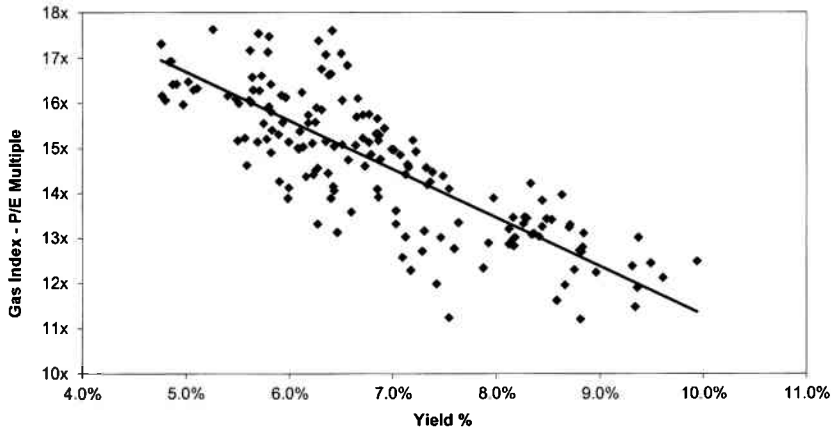
We remain constructive on companies that are well-positioned to tap into ongoing secular growth themes revolving around upstream reserve expansion, mid-stream infrastructure build-out, and downstream storage and export (LNG) opportunities.

Revising Relative Valuation Multiples Down

Utilities have underperformed the broader market year to date, failing to keep pace with the steep gains across equities. The S&P 500 has posted a 23.4% YTD, beating our Citi Pipeline and Gas Utility Index's 17.2% climb. The Citi index is comprised of equally weighted share prices for pipeline and gas utility companies that trade in the United States and Canada.

Our valuation for the pipeline and gas utility space is driven by the long-term negative correlation between BBB corporate bond yields and the industry's average P/E valuations. Historically, BBB corporate bond yields and forward P/E valuations in the gas utility sector have had a relatively stable inverse correlation, with an R-squared value of 0.69 since 2000 (see **Figure 5**). We find that BBB yields show a stronger relationship to industry valuations than other benchmark rates. Although this correlation has weakened briefly during periods of severe market stress, the pattern has proven relatively consistent historically.

Figure 5. Citi Pipeline and Gas Utility P/E Index Valuation vs. BBB Corporate Bond Yields (since 2000)



Source: Citi Research, FactSet

Figure 6 summarizes the sensitivity of the sector's P/E to a change in yields. Every 15 basis point increase in BBB corporate bond yields translates into a 0.20 contraction in forward P/E levels. A decline in yields has the opposite effect.

The jump in BBB corporate bond yields since the start of 2013 has corresponded to a weakening in implied gas utility valuations, as evidenced by our proprietary Citi Pipeline and Gas Utility P/E Index (see **Figure 7**). 10-year BBB yields, hovering around 5.8%, have risen roughly 90 basis points since January 1. The uptick is in line with broader U.S. rate deltas, with 10-year U.S. Treasury yields rising from historic lows last autumn (1.58%) to today's 2.69%.

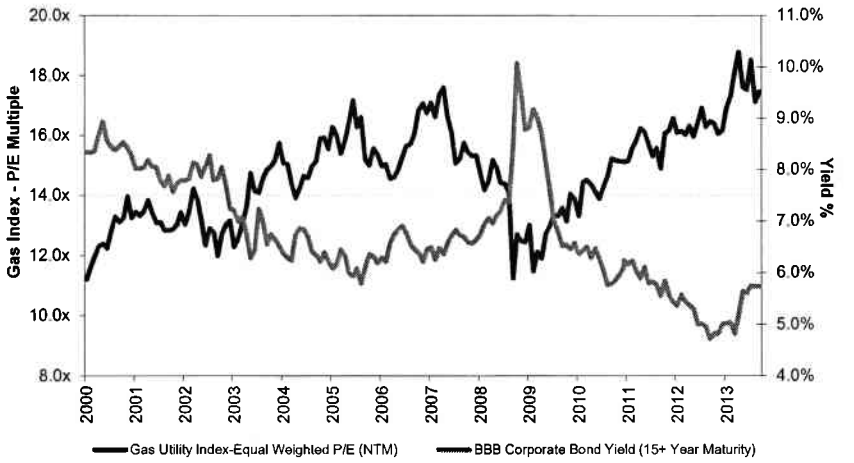
Our analysis suggests that the multiples at which North American gas utilities are currently trading appear stretched, given prevailing BBB yields. Today's yields imply that our Citi Pipeline and Gas Utility Index should trade at around 15.8x (see **Figure 6**). Instead, however, the index currently trades at 17.5x. **This disparity suggests that utility valuations have somewhat outrun the levels that BBB yields justify, given the historical correlation between the two. However, we also admit that rate base at many gas utilities are growing at levels greater than what we have seen in the past which could keep stock prices at current levels.**

Figure 6. Model-Based Valuation Assessment

BBB Yields		Implied Gas Utl P/E
6.90		14.6
6.75		14.8
6.60		14.9
6.45		15.1
6.30		15.3
6.15		15.5
6.00		15.7
5.85	Implied 2014	15.9
5.70	Multiple	16.0
5.55		16.2
5.40		16.4
5.25		16.6
5.10		16.8
4.95		17.0
4.80		17.2
4.65		17.3
4.50	Currently Trading	17.5
4.35		17.7
4.20		17.9

Source: Citi Research, FactSet

Figure 7. Citi Pipeline and Gas Utility P/E Index Valuation vs. BBB Corporate Bond Yields (2000 – present)



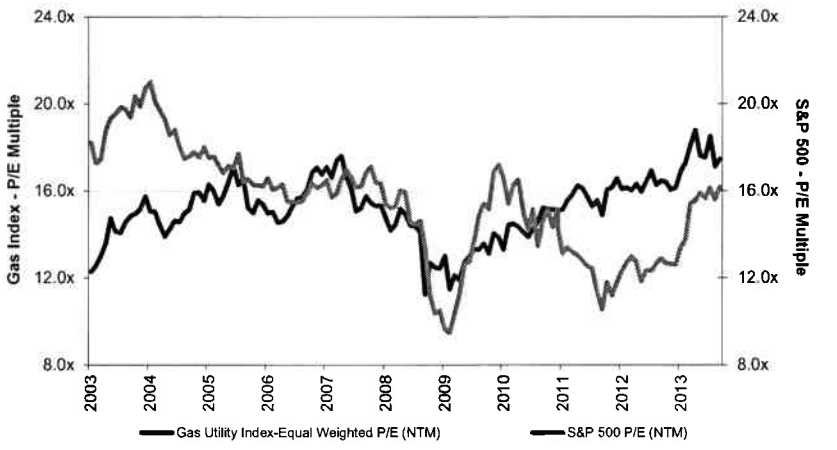
Source: Citi Research, FactSet

Although long-dated U.S. rates remain low by historical standards, Citi economists foresee benchmark yields continuing to rise into 2015. Citi forecasts US 10-year Treasuries moving from today's roughly 2.7% yield to breach 3.0% by the middle of next year, then continuing to rise to average 3.4% in 1Q15.

Based on this forecast, we assume a 5.84% BBB yield for 2014. We arrive at our forecast by summing Citi Economics' forecast of the 10-year BBB spread over 10-year Treasuries of 2.80% and Citi economists' official projection of 3.04% for the upcoming year.

Our forecast for 2014 BBB corporate yields points to a fair value of 16.0x P/E multiple on 2014 earnings for the sector.

Figure 8. Citi Pipeline and Gas Utility P/E Index Valuation vs. S&P 500 Valuations

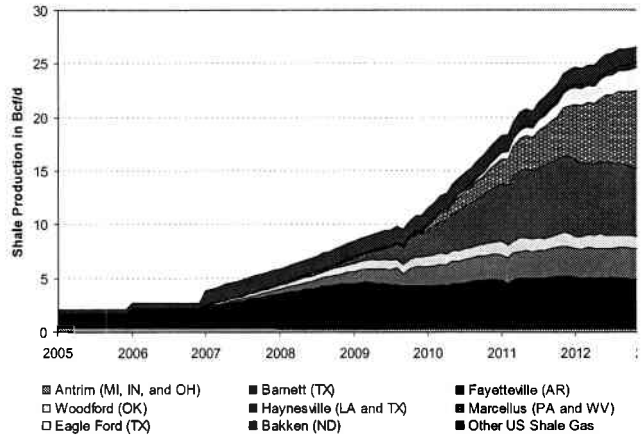


Source: Citi Research, FactSet

In Focus: Marcellus & Utica Shale Poised to Continue Transforming U.S. Gas Flows

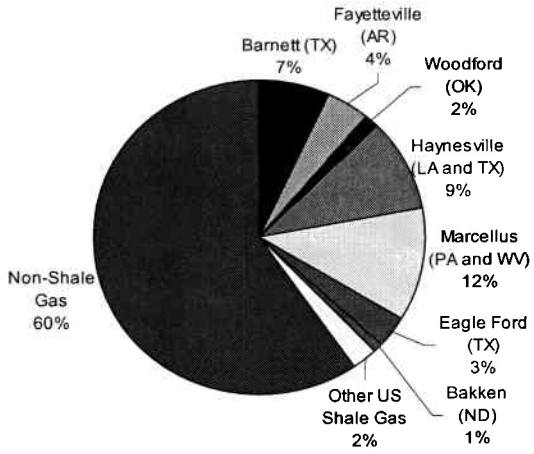
US natural gas production continues to grow backed largely by production growth in the Marcellus and the emerging Utica play. The Marcellus is now the largest shale play and is still growing. Roughly 12-15% of total US dry gas production comes from the Marcellus which has overtaken the Haynesville as the largest producing shale play.

Figure 9. US Shale Gas Production by Play



Source: Citi Research

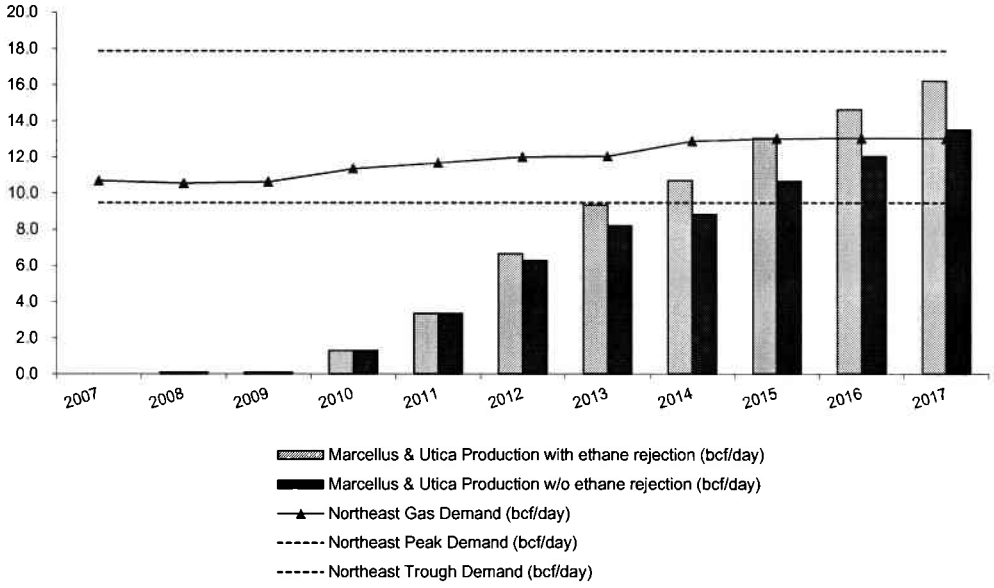
Figure 10. US Gas Production by Source



Source: Citi Research

While current production has reached a short-term plateau as it awaits infrastructure to catch-up, the outlook for growth remains robust. We estimate Marcellus and Utica gas production could reach ~16 Bcf/day by 2017. Natural gas demand in the Northeast and Mid-Atlantic will continue to increase at a modest rate as more coal power plants retire. **We estimate the production in the region will overtake trough demand in the region at some point in late 2014 or early 2015.**

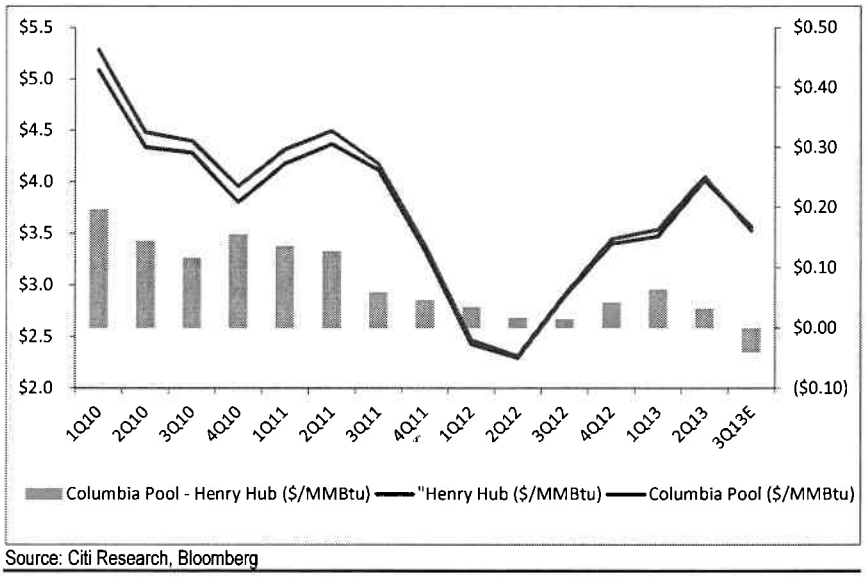
Figure 11. Marcellus and Utica Production and Northeast & Mid-Atlantic Natural Gas Demand



Source: Citi Research, EIA

Rising natural gas production has already brought down the positive basis differential between Henry Hub and the Columbia Pool. Columbia Pool prices have slipped below Henry Hub in 3Q'13. We believe there is a substantial risk prices at Columbia pool could continue to underperform Henry Hub. We believe the Columbia pool market represents the broader market price in the region given the supply, demand and pipeline takeaway capacity in the area.

Figure 12. Columbia Pool and Henry Hub Natural Gas Prices ($/MMBtu)



Source: Citi Research, Bloomberg

As more production comes online the need for processing and takeaway capacity is rising. We estimate the ~ 6 Bcf/day of natural gas takeaway capacity is expected to

come online by 2016.

Figure 13. Marcellus & Utica Natural Gas Takeaway Capacity

			End of Year Capacities/ volumes (Bcf/d)			
Pipeline Project	**Description**	**Owner(s)**	**2013**	**2014**	**2015**	**2016**
Lower East Side Expansion	Equitrans	EQT	0.50			
Marcellus Pooling Point	TGP	KMI	0.24			
Northeast Upgrade Project	TGP	KMI	0.63			
Rose Lake Project	TGP	KMI		0.23		
Uniondale	TGP	KMI		0.03		
CT Expansion	TGP	KMI				0.07
Utica Backhaul	TGP	KMI				0.35
Constitution Pipeline	New Pipeline	WMB			0.65	
NE Supply Link	Transco	WMB	0.25			
Leidy Southeast	Transco	WMB			0.47	
Rockaway Lateral	Transco	WMB		0.65		
TEAM (Texas Eastern)	TETCO	SE			0.60	
Tioga Area Expansion	Dominion Pipeline	Dominion		0.27		
West Side Expansion	CGT and CG	NiSource			0.44	
East Side Expansion	CGT and CG	NiSource				0.30
Total New Pipeline Capacity (Bcf/day)			1.62	1.18	2.16	0.72

Source: Citi Research

We estimate that along with 15-17 Bcf/Day of natural gas ~700 (~500 – 900) mbpd of NGLs could be produced by 2017.

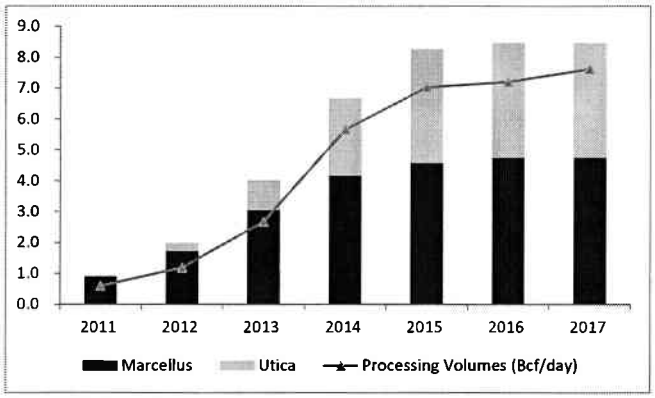
Figure 14. Expected Marcellus and Utica Natural Gas and Liquids Production

Year	Production (Bcfe/day)	Dry Gas Production (Bcf/day) (2.5 GPM)	Dry Gas Production (Bcf/day) (5 GPM)	Processing Capacity (Bcf/day)	Liquids Drilling	Gas Processed (Bcf/day)	Gpm (2.5 - 5) NGL (mbpd)		Fractionation Capacity (mbpd)	Takeaway Capacity (mbpd)
							2.5	*5*		
2009	0.3	0.0	0.0	0.0	0%	0.0	0.0	0.0	0.0	0.0
2010	1.3	0.0	0.0	0.0	0%	0.0	0.0	0.0	0.0	0.0
2011	3.6	3.3	3.1	0.9	17%	0.6	19.2	19.2	60.0	0.0
2012	7.0	6.6	6.3	2.0	15%	1.0	32.0	32.0	72.5	0.0
2013	10.5	9.3	8.2	4.0	31%	3.2	192.3	384.7	259.5	50.0
2014	12.6	10.7	8.8	6.7	42%	5.2	312.5	625.0	585.5	240.0
2015	15.4	13.0	10.7	8.3	43%	6.7	398.8	797.6	653.5	310.0
2016	17.2	14.6	12.0	8.5	42%	7.3	431.6	863.2	713.5	510.0

Source: Citi Research

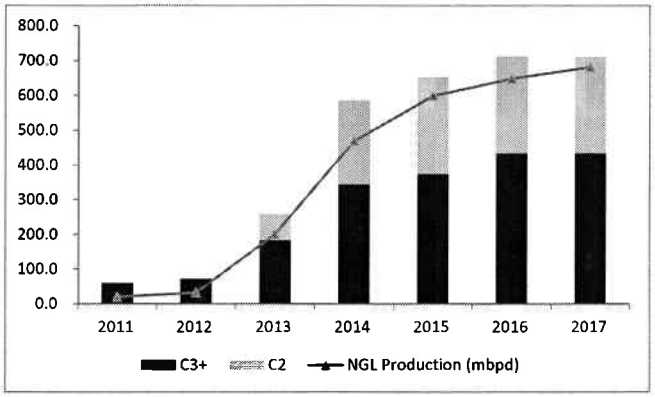
Processing and fractionation capacity has tried to keep pace with the upstream growth in the region. Several companies have announced new projects. We estimate by 2017 ~8.5 Bcf/day of announced processing capacity and ~700 mbpd of announced fractionation capacity will come online.

Figure 15. Marcellus & Utica Processing Capacity (Bcfe/Day)



Source: Citi Research

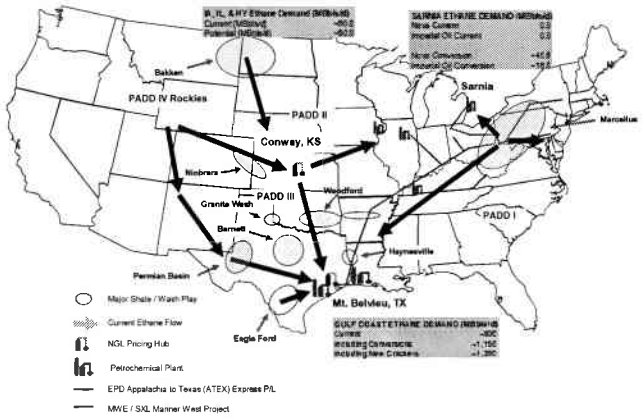
Figure 15. Marcellus & Fractionation Capacity (mbpd)



Source: Citi Research

Swelling ethane volumes are likely to continue pushing their way into the Gulf Coast petrochemical market.

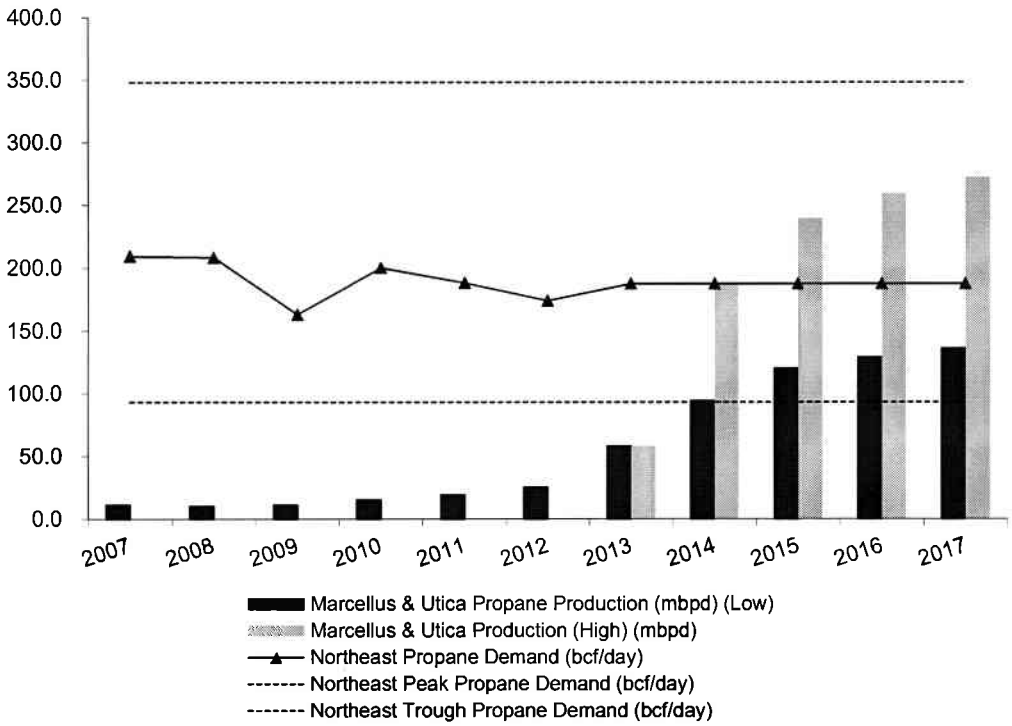
Figure 16. Ethane Flow



Source: Citi Research

Rising propane production will continue to back out regional imports with production exceeding trough seasonal demand. More NGL storage capacity is expected to come online to deal with rising production.

Figure 17. Propane Production & Demand



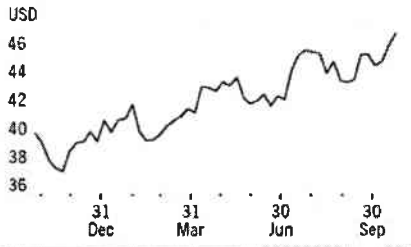
Source: Citi Research

Company Focus

- Estimate Change
- Target Price Change

Neutral	**2**
Price (25 Oct 13)	US$48.00
Target price	US$47.00
from US$44.00	
Expected share price return	-2.1%
Expected dividend yield	4.0%
Expected total return	**1.9%**
Market Cap	US$5,692M

Price Performance
(RIC: GAS.N, BB: GAS US)



AGL Resources Inc (GAS)

Maintain Neutral; Raise Target Price to $47

- **Earnings** — We expect AGL to report 3Q13 EPS of $0.11 per share (below consensus of $0.15). Our EPS estimate for FY13 is $2.65 (vs. $2.69 consensus and $2.50-2.70 guidance). We expect stronger performance from the distribution segment will offset weakness in retail and shipping. Our estimates exclude unrealized gains.

- **FY 2014** — Our estimate for FY14 earnings is $2.85 per share (below the consensus of $2.87). We expect utility earnings to grow as a result of continued investments in rate base. We expect distribution EBIT to grow from the estimated $574mn in FY13 to $592mn in FY14 (3% increase). We are cautious on retail and wholesale earnings.

- **Capital Spending** — In May 2013, AGL issued $500mn of 30-year senior note ($225mn was used to repay notes that matured in April 2013). AGL was approved for an infrastructure replacement project of $115mn (Elizabethtown Gas) and another project of $275mn (Atlanta Gas) in August 2013. The company expects additional surcharges for these investments will be applied in January 2015 and 2016.

- **Valuation** — We maintain our Neutral rating. We are raising our target price to $47, up from $44. Our estimates for growth in rate base more than offset our use of a slightly lower P/E multiple. GAS is targeting five-year earnings growth of 4-6%, and dividend growth of 2%. The payout ratio should stay at the same level (around 70%) but is expected to decline due to non-regulated earnings growth.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.10A	0.33A	0.20A	0.91A	2.40A	2.46A
2013E	**1.21A**	**0.38A**	**0.11E**	**0.94E**	2.65E	**2.69E**
Previous	1.26E	0.22E	0.23E	1.04E	2.75E	na
2014E	**1.48E**	**0.32E**	**0.10E**	**0.96E**	**2.85E**	**2.87E**
Previous	1.08E	0.38E	0.25E	1.08E	2.78E	na
2015E	**1.62E**	**0.27E**	**0.01E**	**0.99E**	**2.89E**	**3.00E**
Previous	1.12E	0.37E	0.24E	1.13E	2.87E	na

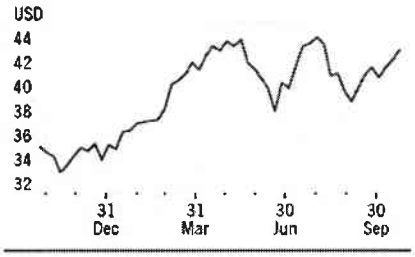
Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Estimate Change
- Target Price Change

Neutral	**2**
Price (25 Oct 13)	US$44.33
Target price	US$47.00
from US$43.00	
Expected share price return	6.0%
Expected dividend yield	3.2%
Expected total return	**9.3%**
Market Cap	US$4,018M

Price Performance
(RIC: ATO.N, BB: ATO US)



Atmos Energy Corp (ATO)

Expect EPS In Line; Raising Target Price to $47

- **Earnings** — We expect ATO to report a 3Q13 EPS of $0.11 per share, a penny below consensus. Constructive rate outcomes across ATO's jurisdictions, particularly at the Mid-Tex and West-Tex utilities, continue to drive earnings growth. We estimate ATO will hit the midpoint of their 2013 guidance of $2.45-2.55 per diluted share. We have adjusted our estimates to take into account the change in rate design in the Mid-Tex region (see discussion below).

- **Rate Cases** — In 3Q, ATO filed for rate increase at Mid-Tex requesting a net increase in annual operating income of $17.1mn, with new rates anticipated in fiscal 1Q14. Approved annual increases in operating income from rate activity for fiscal '13 YTD amount to roughly $98mn.

- **Rate Design Changes** — 4Q earnings should benefit from rate design changes primarily in the Mid-Tex operations that increased monthly base customer charges and lowered consumption charges as of Jan 1, 2013. The change shifts margins out of fiscal 1Q and 2Q into 2H year-over-year. Management expects margins to be offset by an additional $25-30mn during 4Q13.

- **Valuation** — We maintain our Neutral rating on ATO but raise our target price to $47 to take into account the growth in rate base. The stock has had a strong run YTD, up 17%, one of the top performers in our group. ATO is poised to increase its rate base at a CAGR of over 8% which should drive earnings growth to nearly 10% over the next few years.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.75A	1.38A	0.35A	-0.38A	2.09A	2.11A
2013E	**0.93A**	**1.20A**	**0.37A**	**0.11E**	**2.60E**	**2.52E**
Previous	0.90A	1.22E	0.33E	0.17E	2.62E	na
2014E	1.15E	1.20E	**0.31E**	**0.16E**	**2.82E**	**2.71E**
Previous	0.95E	1.32E	0.28E	0.10E	2.65E	na
2015E	**1.17E**	**1.36E**	**0.34E**	**0.20E**	**3.07E**	**2.86E**
Previous	0.95E	1.45E	0.28E	0.12E	2.79E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

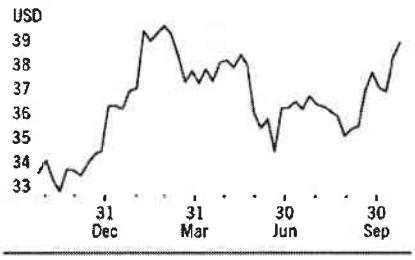
Brookfield Infrastructure Partners (BIP)

Maintain Neutral Rating

- **Earnings** — We estimate BIP will generate total FFO (funds from operations) of ~$168mn for the quarter, or $0.80 per unit. We expect a 3Q quarterly LP distribution of $0.43 per unit. We estimate BIP will grow distributions by 12% next year.
- **Valuation & Target Price** — We maintain our $39 target price and Neutral rating. BIP recently raised its growth rate for cash flows following a number of transactions by the company. Furthermore, BIP has excess liquidity (cash and balance sheet) which could be used to make another acquisition and boost near-term distributions for unit holders.
- **Transactions** — BIP has recently announced a number of transactions that reposition its portfolio on the edges. The exit from the Timber business with its last sale of $640mn, the sale of its distribution business in New Zealand for $410mn and the recent announcement that it will invest $490mn to increase its position in its Brazilian toll road joint venture slightly increases BIP's exposure to Latin America.

Neutral	**2**
Price (25 Oct 13)	US$39.43
Target price	US$39.00
Expected share price return	-1.1%
Expected dividend yield	4.4%
Expected total return	**3.3%**
Market Cap	US$8,278M

Price Performance
(RIC: BIP.N, BB: BIP US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.08A	-0.13A	0.34A	0.12A	0.40A	0.55A
2013E	**-0.13A**	**0.42A**	**0.14E**	**0.19E**	**0.61E**	**1.04E**
Previous	-0.13A	0.42A	0.14E	0.19E	0.61E	na
2014E	**na**	**na**	**na**	**na**	**0.66E**	**1.17E**
Previous	na	na	na	na	0.66E	na
2015E	**na**	**na**	**na**	**na**	**0.71E**	**1.25E**
Previous	na	na	na	na	0.71E	na

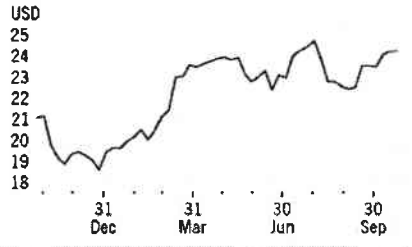
Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Estimate Change
- Target Price Change

Buy	1
Price (25 Oct 13)	US$24.87
Target price	US$29.00
from US$27.00	
Expected share price return	16.6%
Expected dividend yield	3.5%
Expected total return	**20.1%**
Market Cap	US$10,660M

Price Performance
(RIC: CNP.N, BB: CNP US)



CenterPoint Energy Inc (CNP)

Maintain Buy; Target Price Up to $29; Dividend Growth Expected

- **Earnings** — Our 3Q13 EPS estimate is $0.36 per share, a penny better than consensus. We estimate CNP will hit the upper end of its guidance for FY13 of $1.17-1.25 per diluted share. At this point, we estimate CNP could grow EPS 8% next year. However, our estimates could change pending additional information on the midstream/pipeline joint venture.
- **JV Update** — During 3Q'13, management reiterated its desire to file the S-1 for Enable Midstream Partners LP in 4Q'13 or Q1'14. We expect management to provide an update on the call with regards to the timing. By way of background, CNP and OGE Energy combined assets to create Enable in May of this year, with CNP holding a 58.3% limited partner interest, 40% interest in future incentive distribution rights, and 50% governance representation.
- **Capital Spending** — We expect a slowing pace of capital spending at the electric utility. 2013 capex for the electric utility is expected to be $720mn and decline to $557mn by 2015. When we take the new JV and lower capital spending at the electric utility in to account, we estimate CNP will be in a position to grow the dividend at higher pace than the past.
- **Valuation** — We believe the additional cash flow generated by the JV will support CNP's ability to grow their dividend as early as 1Q14 in line with management's public statements about a future recalibration.
- **Recommendation** — We maintain our Buy rating on CNP and are increasing our target price to $29 per share based on our revised estimate for rate base.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.33A	0.27A	0.03A	0.31A	0.94A	1.25A
2013E	**0.29A**	**0.29A**	**0.34E**	**0.31E**	**1.23E**	**1.21E**
Previous	0.36E	0.27E	0.31E	0.28E	1.21E	na
2014E	**0.37E**	**0.28E**	**0.36E**	**0.33E**	**1.34E**	**1.30E**
Previous	0.37E	0.28E	0.32E	0.30E	1.27E	na
2015E	**0.39E**	**0.29E**	**0.40E**	**0.31E**	**1.36E**	**1.38E**
Previous	0.40E	0.27E	0.34E	0.27E	1.29E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

Enbridge Inc. (ENB.TO)

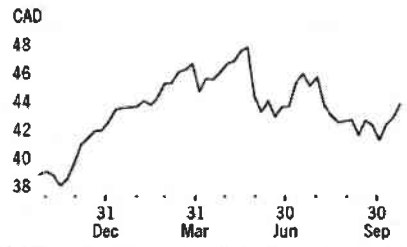
Maintain Neutral Rating and $46 Target Price

- **Earnings** — We estimate 3Q13 EPS of $0.36, in line with the Street.
- **Guidance** — In August ENB reiterated its 2013 guidance of $1.74-1.90 adjusted EPS. We forecast a result in the middle of that target at $1.82, a penny better than consensus. For 2014, we estimate EPS will grow 11% to $2.02 pending additional analysis on projects coming on line next year. Consensus is $2.10 a share.
- **Project Updates** — Construction began on the Minnesota segment of the Alberta Clipper Expansion in August, aimed at expanding capacity from the Hardisty-to-Superior line from 450 kbpd to 800 kbpd. The planned in-service date for Phase 1 (570 kbpd) for 3Q14 appears achievable. The re-reversal of Line 9A was completed in Aug 2013, with the Line 9B reversal and expansion to 300 kbpd likely by October, which will link Sarnia to Montreal as part of ENB's light oil market access strategy.
- **Capital Spending** — ENB's liquids pipelines business projects capital spending of $7.5bn a year through 2018. As far as near-term projects, management is likely to launch an open season on the Southern Lights Expansion before the end of 4Q to reach an estimated annual capacity of 275 kbpd at a price tag of $700mn. ENB appears on track to meet its target of a mid-2014 in service date for the $2.8bn Flanagan South project, with initial capacity of 585 kbpd, extending the Mainline from Chicago to Cushing. The pipe is part of ENB's broader $5.2bn effort to bring Alberta oil sands to the western U.S. Gulf Coast with the reversal underway of Seaway and its JV with Enterprise to add connectivity to Port Arthur. We project an additional 1.2 mbpd of Alberta regional takeaway pipe capacity coming online by end-2014.
- **Line 37** — We see no lasting harm to ENB from the Q2 fall-out over the Line 37 and Athabasca Pipeline (Line 19) shutdown for 19 days caused by a flood-induced spill on the right of way. The company was able to recover the majority of the light synthetic crude oil lost, an estimated 1,300 barrels. Although spill incidents do increase the risk of public opinion backlash and regulatory pushback—at a time when both already threaten capital projects in their industry niche—we feel this incident did not harm the company's positioning.
- **Recommendation** — We continue to rate ENB Neutral rating with a $46 target price.

■ Estimate Change

Neutral	**2**
Price (25 Oct 13)	C$44.33
Target price	C$46.00
Expected share price return	3.8%
Expected dividend yield	3.1%
Expected total return	6.9%
Market Cap	C$36,609M
	US$35,038M

Price Performance
(RIC: ENB.TO, BB: ENB CN)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.49A	0.35A	0.34A	0.42A	1.60A	1.59A
2013E	0.71A	0.22A	0.31E	0.56E	1.79E	1.81E
Previous	0.51E	0.40E	0.43E	0.52E	1.86E	na
2014E	0.48E	0.30E	0.44E	0.60E	1.82E	2.10E
Previous	0.60E	0.53E	0.60E	0.67E	2.40E	na
2015E	0.55E	0.35E	0.47E	0.65E	2.02E	2.46E
Previous	0.72E	0.64E	0.64E	0.74E	2.75E	na

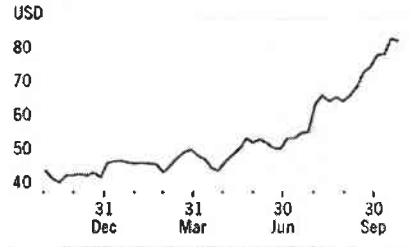
Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Estimate Change
- Target Price Change

Buy	1
Price (29 Oct 13)	US$84.00
Target price	US$99.00
from US$61.00	
Expected share price return	17.9%
Expected dividend yield	0.7%
Expected total return	**18.5%**
Market Cap	US$6,067M

Price Performance
(RIC: EGN.N, BB: EGN US)



Energen Corp (EGN)

Target to $99 on Expectations for Further Permian Growth

- **Target Price to $99** — We are increasing our price target to $99 a share. We have modeled the Wolfcamp, Wolfberry and Bone Springs in some detail and have endeavored to evaluate the long term potential of these stacked plays for EGN. Recent drilling results in the Midland have continued to be encouraging and we anticipate continued positive resource revisions in the Basin as the company continues to delineate its acreage. While the Delaware is more geologically complex and the learning curve remains comparatively steeper, we believe this region will yield material upside in the coming years. We believe the large areal extent of the resource base and liquids weighted nature of these stacked plays will provide medium to longer term growth for EGN. We maintain our Buy rating.

- **EPS** — Our EPS estimate for 3Q is $0.68 per share (Street $0.61). We have revised this and our forward EPS estimates to reflect positive changes made to our upstream production outlook for the Permian.

- **Upstream** — We estimate 3Q production of 6.53MMBoe, up ~1% sequentially. We estimate full year 2013 to be 6.47MMBoe. Based on our updated analysis of EGN acreage position in the Permian, we estimate the company could grow total oil and gas production from 67 mboed in 2013 to 155 mboed by the end of the decade. We estimate the company now has the inventory for a long runway of growth with one of the limiting factors being capital. We estimate capital spending could rise to $1.5 billion per annum to support our higher production estimates.

- **Distribution Segment** — We anticipate EGN's Board will make a decision whether to retain, spin or sell Alagasco by the end of 1Q'14. We believe the company is more likely to execute a sale versus a spin. In theory, the intangible drilling costs from EGN's drilling program could offset some of the tax leakage from an asset sale. Management recently stated that utility asset sales are going for higher prices than where the sub-industry is trading today. Furthermore, while the utility has historically helped to support the company's credit rating, it is less of a concern for pure play E&P investors.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.33A	0.73A	0.54A	0.70A	3.30A	3.18A
2013E	**1.02A**	**1.15A**	**0.68E**	**1.02E**	**3.87E**	**3.38E**
Previous	1.34E	0.71E	0.61E	0.92E	3.58E	na
2014E	**1.50E**	**0.85E**	**0.75E**	**1.05E**	**4.14E**	**4.25E**
Previous	1.45E	0.80E	0.66E	0.97E	3.88E	na
2015E	**na**	**na**	**na**	**na**	**3.93E**	**4.53E**
Previous	na	na	na	na	3.28E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

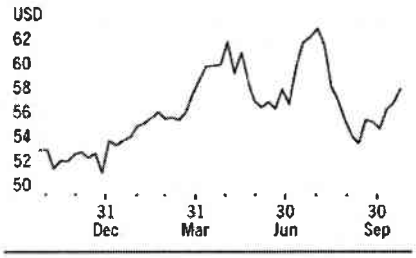
Integrys Energy Group, Inc. (TEG)
Maintain Neutral

- **Earnings** — We expect Integrys to report 3Q13 EPS of $0.43 (4 cents above the $0.39 consensus). We expect FY13 EPS of $3.46 per share (guidance $3.35-3.60).
- **FY 2014** — Integrys expects to grow its earnings by 4-6%, and increase rate base by 29% through 2015. Our projected earnings for FY14 is $3.68 (compared to $3.60 consensus). TEG's solar and CNG ventures are still in their early stages.
- **Regulated** —On Aug. 13, TEG issued $400mn of 6% junior subordinated notes, with proceeds intended to reduce $432mn of commercial paper. On Sept. 30, Minnesota Energy Resources, a subsidiary, filed a request for a 14.2mn (5.5%) base rate increase (pending approval for early 2014). TEG expects to spend ($2.5bn between 2013 and 2015).New investments in ATC ($4bn 10-year project, starting in 2012) and Fox Energy ($440mn acquisition in April 2013) are also drivers of earnings growth.
- **Non-Regulated** — Intergrys Energy Services continues to contribute to earnings and contuse to be a part of TEG's earnings growth plan. At this point, we remain skeptical on the growth within this segment as volume growth could be offset by lower per unit marketing margins.
- **Valuation** — We rate TEG Neutral.

■ Estimate Change

Neutral	**2**
Price (25 Oct 13)	US$59.13
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	-
Market Cap	US$4,706M

Price Performance
(RIC: TEG.N, BB: TEG US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.48A	0.64A	0.51A	0.62A	3.25A	3.26A
2013E	2.29A	-0.06A	0.43E	0.80E	3.46E	3.46E
Previous	1.68E	0.42E	0.21E	1.11E	3.39E	na
2014E	1.87E	0.46E	0.48E	0.87E	3.68E	3.60E
Previous	1.66E	0.42E	0.23E	1.14E	3.45E	na
2015E	1.94E	0.52E	0.48E	0.97E	3.91E	3.78E
Previous	1.65E	0.41E	0.19E	1.09E	3.34E	na

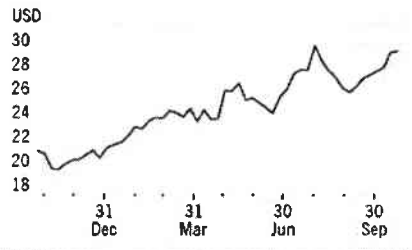
Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Estimate Change
- Target Price Change
- Rating Change

Neutral	**2**
from Buy	
Price (25 Oct 13)	US$30.26
Target price	US$30.00
from US$29.00	
Expected share price return	-0.9%
Expected dividend yield	2.3%
Expected total return	**1.4%**
Market Cap	US$5,714M

Price Performance
(RIC: MDU.N, BB: MDU US)



MDU Resources Group Inc (MDU)

Downgrade to Neutral on Valuation; Target Price to $30

- **Recommendation** — We downgrade MDU from Buy to Neutral on what we view to be limited upside to our valuation. We recognize the stock may continue to move higher on oil prices and drilling results in the Paradox. However we view the risk and reward of owning the stock at current levels to be balanced at this time. We revise our target price up to $30.

- **Earnings** — We estimate MDU EPS at $0.46 per share for 3Q13, in line with consensus. We see MDU's adjusted EPS for 2013 at $1.38 per share, at the upper end of guidance of $1.30 - $1.40. At the segment level, guidance is in the range of $1.6-$1.7bn (Citi $1.64bn) for construction materials and $1.0-1.1bn (Citi $1.1bn) for construction services. For 3Q13 earnings, we see the key drivers as revenue gains in construction services (+24.8% y-o-y) and E&P operating income rising to $33.2mn, with a y-o-y decline in gas output more than offset by 32% climb in liquids production along with improved price realizations.

- **Rate Cases** — On Oct. 9, the North Dakota PSC authorized MDU's Montana-Dakota Utilities a $4.5mn interim gas rate increase effective Nov. 17. MT-DA Utilities is also seeking to discontinue its weather normalization mechanism for residential customers in favor of a straight-fixed-variable rate design. A final PSC decision on MDU's rate case should come in April 2014.

- **E&P** — We estimate 3Q EBITDA of $78.8mn vs $64.1mn last year. For 2013, we see total production of 60.9 Bcfe, up 1% y-o-y. We project a 27% y-o-y increase in oil production in '13, in line with guidance of a 25-35% gain and flat to slight decrease in NGLs. $400mn planned capital spend for the segment this year, with half in the Bakken and $80mn in Paradox.

- **Pipeline and Services** — Construction meeting benchmarks on $300mn Dakota Prairie refinery, which will process 20 kbpd of Bakken crude in a 50-50 JV with Calumet. Project on target for projected in-service date of 4Q'14, with estimated total EBITDA of $70-90mn. Open season this year on proposed $650-700mn 400-mile Bakken gas pipeline with capacity of 400 Mmcf/day from the Williston Basin to end-users in eastern North Dakota and western Minnesota. If contract commitments in place in service date by late 2016.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.19A	0.18A	0.38A	0.40A	1.15A	1.15A
2013E	**0.30A**	**0.24A**	**0.46E**	**0.38E**	**1.38E**	**1.39E**
Previous	0.26E	0.20E	0.44E	0.36E	1.27E	na
2014E	**0.35E**	**0.29E**	**0.53E**	**0.42E**	**1.59E**	**1.53E**
Previous	0.30E	0.25E	0.46E	0.38E	1.39E	na
2015E	**0.37E**	**0.30E**	**0.58E**	**0.45E**	**1.69E**	**1.73E**
Previous	0.32E	0.27E	0.50E	0.42E	1.51E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

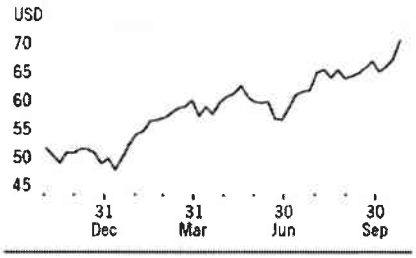
National Fuel Gas Co (NFG)

Target to $83; 2014 Production Guidance Higher; F&D Lower

- Estimate Change
- Target Price Change

Buy	1
Price (28 Oct 13)	US$71.78
Target price	US$83.00
from US$57.00	
Expected share price return	15.6%
Expected dividend yield	2.1%
Expected total return	17.7%
Market Cap	US$6,002M

Price Performance
(RIC: NFG.N, BB: NFG US)



- **Increasing Target to $83** — We are increasing our price target to $83/share. We estimate Seneca (a subsidiary of NFG) will continue to grow production through the balance of the decade supported by the development of the eastern Marcellus and the transition to full development activity in the Western Development Area (WDA) in the Marcellus. Furthermore our valuation does not ascribe any value to the Upper Devonian, Utica or Mississippi Lime. We maintain our Buy rating on NFG pending additional information at the company's analyst meeting on November 19th.

- **Production Guidance Higher** — Seneca reported 4Q production of 33.2Bcfe. In addition Seneca has increased its 2014 production guidance range ~11% to 145-165Bcf, in-line with our current estimate of 155Bcfe. Growth y-o-y is expected to be driven by recent increases to EURs and lower spud to spud days in the Eastern Development Area (EDA) of the Marcellus. We model a total of three development rigs drilling the Marcellus in 2014 and believe there may the potential for a fourth by fiscal year end.

- **Reserves Higher & F&D Lower** — Seneca replaced 351% of its production in 2013 with reserves of 1.549Tcfe (up from 1.246Tcfe in 2012). The increase was driven by growth in the Marcellus shale. The company expects its one year F&D to be ~$1.31/mcfe, a 26% decrease sequentially versus fiscal 2012. Seneca anticipates its three year avg F&D will be $1.67/mcfe, or 10% lower sequentially.

- **Earnings Estimates** — Our EPS estimate for the fiscal fourth quarter 2013 is $0.61 per share (Street $0.59). We have revised this and our forward EPS estimates to reflect positive changes made to our upstream production outlook.

- **Rate Cases** — Settlement discussions are ongoing between NFG and NY state commissioners following the Commission's March "show cause" order into alleged utility overearnings. NFG is currently establishing a refund provision in case a back payment is ordered. We believe the provision will be in the range of $5-8mn, and no more than the $10mn the recent court proceedings cited as an upper limit. While we do not believe the diverting of funds for this provision will affect 4Q earnings, we see it lowering 1Q and 2Q14 EBIT to $50.8mn and $72.1mn, respectively. NFG has partially built this provision into its 2014 EPS guidance of $3.05-3.30.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.73A	0.81A	0.52A	0.58A	2.63A	2.53A
2013E	**0.84A**	**1.02A**	**0.69A**	**0.61E**	3.16E	**3.10E**
Previous	0.84A	1.07E	0.60E	0.68E	3.18E	na
2014E	**0.78E**	**1.16E**	**0.72E**	**0.58E**	3.24E	**3.21E**
Previous	0.87E	1.05E	0.60E	0.63E	3.15E	na
2015E	**0.80E**	**na**	**na**	**na**	**3.87E**	**3.45E**
Previous	0.89E	na	na	na	3.53E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

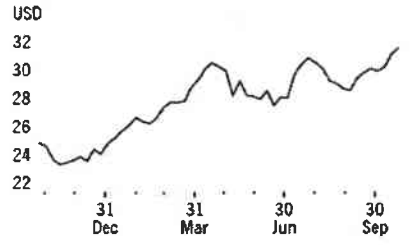
NiSource Inc (NI)

Raise Target Price to $35

- Estimate Change
- Target Price Change

Neutral	2
Price (25 Oct 13)	US$32.32
Target price	US$35.00
from US$30.00	
Expected share price return	8.3%
Expected dividend yield	3.1%
Expected total return	**11.4%**
Market Cap	US$10,103M

Price Performance
(RIC: NI.N, BB: NI US)



- **Earnings** — We estimate 3Q13 EPS of $0.17, $0.06 higher y-o-y. We project transmission and storage EBIT up from $38.8mn to $110.8mn vs. 3Q12, when the customer settlement at Columbia Transmission ate into net revenues for the quarter. We estimate FY13 earnings per share of $1.54, at the midpoint of the $1.50-1.60 per-share guidance that NI reiterated July 31.

- **FY 2014** — We forecast FY14 EPS of $1.79, ahead of $1.67 consensus. The 16% implied growth vs. year-ago recurring income is driven by EBIT up across the three key segments: distribution (FY13 $464.3mn vs. FY14 $541.7), transportation & storage ($513.6mn vs. $445.9mn), and electric ($320.2mn vs. $250.3mn). Our estimate could be aggressive.

- **Rate Cases** — On Sept. 23, the Maryland PSC authorized Columbia Gas of Maryland's $3.6mn rate increase. The increase constitutes a 9.6% return on equity and 7.53% return on rate base. The authorization does allow for a revenue normalization adjustment mechanism. That said, the authorized return is marginally below average nationwide utility decisions over the last 12 months. Meanwhile, in mid-Sept., the Kentucky Attorney General recommended authorization of Columbia Gas of Kentucky's (CGK) pending base rate proceeding, which would authorize CGK a $1.3mn rate increase, 8.5% ROE, and 7.15% return on a $201.2mn average base rate for a test period ending end-year 2014.However, the AG recommended rejecting a proposed revenue-normalization decoupling mechanism for residential customers. Elsewhere, on Aug. 19, the Massachusetts Dept. of Public Utilities put forward several adjustments to Bay State Gas Co.'s pending rate case. It recommended an 8.75 ROE (vs. BSG's proposed 11.45%) and a 7.29% overall return (vs. BSG's proposed 8.85%). We expect a decision in the instant case by end-Feb. 2014.

- **Pipeline JV** — Construction began in September on a $60mn, 38-mile NGL pipeline in the Utica Shale, a JV between Hilcorp Energy and NI's Columbia Pipeline Group (NiSource Midstream Services). The pipe will have initial capacity of roughly 90 kbpd and is due in service by July 2014. It will run from the Hickory Bend processing plant in New Middleton, OH, to the Utica East Ohio Midstream facility near Kensington, OH.

- **Recommendation** — We maintain our Neutral rating and raise our target price to $35 per share based updated rate base estimates.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.66A	0.24A	0.06A	0.44A	1.39A	1.42A
2013E	**0.69A**	**0.23A**	**0.17E**	**0.45E**	**1.54E**	**1.56E**
Previous	0.69A	0.24E	0.16E	0.44E	1.54E	na
2014E	**0.82E**	**0.38E**	**0.16E**	**0.42E**	**1.78E**	**1.67E**
Previous	0.82E	0.34E	0.16E	0.42E	1.73E	na
2015E	**0.82E**	**0.40E**	**0.20E**	**0.46E**	**1.88E**	**1.79E**
Previous	0.82E	0.37E	0.20E	0.46E	1.83E	na

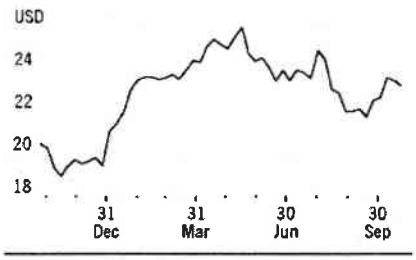
Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Estimate Change

Buy	1
Price (25 Oct 13)	US$23.42
Target price	US$25.00
Expected share price return	6.7%
Expected dividend yield	4.2%
Expected total return	10.9%
Market Cap	US$4,102M

Price Performance
(RIC: STR.N, BB: STR US)



Questar Corp (STR)

Maintain Buy

- **Earnings** — We estimate STR will earn $0.18 in 3Q13. Our forecast puts upcoming results shoulder to shoulder with year-ago levels, with operating income across all segments largely unchanged. STR reaffirmed its FY13 guidance on Aug 1 of $1.12-1.20. We estimate full year 2013 EPS at the higher end of guidance.

- **FY 2014** — Our projections point to an EPS of $1.33 in FY14, slightly higher than consensus. A rising Wexpro investment base (avg. $596.4mn in 2014) with y-o-y growth of 7-10% should lift net income for the segment to $176.6mn..

- **Rate Cases** — We look forward to an update on STR's pending general rate case in Utah, filed Jul. 1. At stake is a $19mn increase (+2.5%) premised on a 10.35% ROE and a 7.89% return on an average rate base of $1.008bn for a CY14 test year. We expect a PSC decision by March 2014.

- **Questar Fueling** — STR has reiterated the ongoing nature of its discussions with many large national fleets regarding 3 dozen potential anchor-tenant sites for its CNG fueling initiative launched in 2012. We look for additional colors on the call about the capital spend entailed in the initiative, contracts in place, and the build-out timeline.

- **Wexpro and Wexpro II** — Wexpro anticipates a $150mn drilling program in CY13, with the development focus shifting to the Pinedale basin in SW Wyoming in 2013-5. We look for additional guidance about basin dynamics and estimated yield growth potential in PA-A (begun in fall '12) and PA-C (expected 2018). In August, STR acquired an additional 42% working interest in the Trail Field of Wyoming's Vermillion Basin for $106mn, with total working interest now 88%. We anticipate an update on the call about the submission of the acquired properties (~195 Bcfe in 3P reserves) to UT and WY regulators for review and inclusion in the Wexpro II development portfolio.

- **Recommendation** — We maintain our Buy rating and target price of $25 per share.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.41A	0.22A	0.18A	0.36A	1.18A	1.21A
2013E	**0.41A**	**0.22A**	**0.18E**	**0.38E**	**1.20E**	**1.18E**
Previous	0.44E	0.19E	0.15E	0.35E	1.13E	na
2014E	**0.48E**	**0.25E**	**0.20E**	**0.41E**	**1.33E**	**1.27E**
Previous	0.48E	0.21E	0.16E	0.37E	1.23E	na
2015E	**0.50E**	**0.26E**	**0.21E**	**0.43E**	**1.40E**	**1.34E**
Previous	0.51E	0.23E	0.18E	0.40E	1.31E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

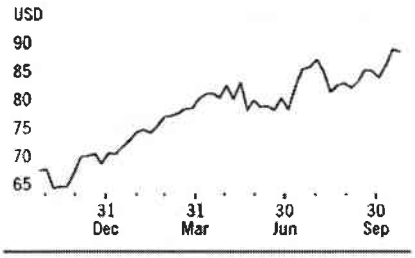
Company Focus

Sempra Energy (SRE)
Waiting for LNG Permit

- **Earnings** — Our estimate for 3Q earnings is $1.21 per share, $0.04 below consensus. SRE's 2013 EPS guidance is $4.30-4.60, which excludes the $119mn loss on the SONGS plant closure but includes the $77mn retroactive GRC benefit for 2012 and the $29mn retroactive GRC benefit for 1Q'13.
- **FY 2014** — We estimate a 2014 EPS of $4.77, above the consensus of $4.54 per share. SRE guidance for post-2013 earnings is 6-8% CGR, based off an adjusted 2013 figure of $4.00-4.30 per share. That guidance excludes both the 2012 retroactive GRC benefit and the loss at SONGS. The FY14 guidance range incorporates the impact of the loss of ongoing rate base earnings for SONGS (annual earnings between $15-20mn). We admit that our 2014 forecast is aggressive.
- **Cameron LNG** — We look forward to an update on the call about the state of play of SRE's timeline for its proposed liquefaction terminal. We expect SRE to make a decision on EPC bids in 4Q, as well as commitments from lenders. We believe SRE could receive the long-awaited non-FTA permit any day. FERC's schedule calls for publication of the results of its Environmental Impact Study by Nov. 22. A delay in receiving the permit would threaten the 1H14 schedule to begin construction.
- **CA Utilities** — We await additional color on the call about settlement discussions underway at the time of last quarter's call regarding FERC's order of an 11.3% ROE effective Sept. 1, which had conditionally accepted SDG&E's transmission rate case filing. The order was made subject to refund, pending an approved settlement, or final decision.
- **Sonora Pipeline** — We anticipate an update on the $1bn Sonora Pipeline project. With construction and pipeline supply agreements already in place, construction began in 3Q, with an in-service date for the first phase of the project in 2H14.
- **Nebraska Wind Project** — On Sept. 26, SRE announced that it had acquired and will develop the Broken Bow 2 wind project in Nebraska, with construction slated to begin December 2013. The 75 MW wind farm has a 25-year purchase agreement with the Nebraska Public Power District.

Buy	1
Price (25 Oct 13)	US$91.21
Target price	US$91.00
Expected share price return	-0.2%
Expected dividend yield	2.8%
Expected total return	**2.5%**
Market Cap	US$22,278M

Price Performance
(RIC: SRE.N, BB: SRE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.97A	0.97A	1.12A	1.17A	4.23A	4.35A
2013E	**0.85A**	**1.04A**	**1.21E**	**0.91E**	**4.02E**	**4.48E**
Previous	0.85A	1.04A	1.21E	0.91E	4.02E	na
2014E	**1.17E**	**1.09E**	**1.38E**	**1.14E**	**4.77E**	**4.54E**
Previous	1.17E	1.09E	1.38E	1.14E	4.77E	na
2015E	**1.31E**	**1.26E**	**1.54E**	**1.26E**	**5.37E**	**4.91E**
Previous	1.31E	1.26E	1.54E	1.26E	5.37E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

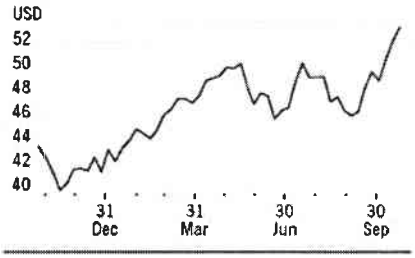
Southwest Gas Corp (SWX)

Maintain Neutral; Raise Price Target to $57

- Estimate Change
- Target Price Change

Neutral	2
Price (25 Oct 13)	US$54.10
Target price	US$57.00
from US$51.00	
Expected share price return	5.4%
Expected dividend yield	2.4%
Expected total return	7.8%
Market Cap	US$2,507M

Price Performance
(RIC: SWX.N, BB: SWX US)



- **Earnings** — We estimate a 3Q seasonal loss of $0.05 per share. We estimate full year 2013 EPS of $3.15.
- **FY 2014** — In 2014, we estimate EPS could rise to $3.35. We see a fiscal year EBIT of $301.1mn vs. 2013's projected $285mn, with modest earning growth across NV, CA, and AZ. Current guidance from SWX is that 2013 construction revenues are "expected to approximate 2012 levels." Given the rebound in economic activity in SWX's footprint, we see little downside risk to our forecast of 6.3% EPS growth.
- **CA Pipeline Replacement** — On Oct. 17, the CA PUC approved SWX's $7.3mn pipeline implementation plan. The decision calls for the company to replace 7.1 miles of gas pipeline in the Victor Valley Transmission System, put in place its transmission pipeline pressure testing implementation plan, and add a remote controlled shut-off to its Harper Lake transmission system. Ratepayers and shareholders will share the cost of pipe replacement, while the costs of the shut-off valve will be factored into the company's revenue requirement.
- **Capital Spending** — SWX raised its estimates for 2013-5 capex for natural gas operations to $320-340mn
- **Rate Cases** — We look for an update on the call about the company's pending CA general rate case, filed on December 20, 2012, requesting an aggregate rate increase of $11.6mn. The request is pending for a 10.7% ROE, annual attrition adjustment for 2015-18 of 2.95%, and an infrastructure replacement mechanism. CA's Dvision of Ratepayer Advocates have pushed back for a deal well shy of the request, proposing a revenue increase of no more than $1.1mn. Hearings began in 3Q and settlement discussions are ongoing. Rates are to be effective on January 1, 2014.
- **Notes Offering** — SWX closed a public offering of $250mn of 4.875% senior notes due 2043 priced Oct. 1.
- **Recommendation** — We raise our target price to $57 per share on our revised estimates for rate base and maintain our Neutral rating.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.70A	-0.08A	-0.09A	1.33A	2.86A	2.72A
2013E	**1.73A**	**0.22A**	**-0.05E**	**1.25E**	**3.15E**	**2.96E**
Previous	1.65E	0.12E	0.01E	1.22E	3.00E	na
2014E	**1.79E**	**0.32E**	**-0.02E**	**1.26E**	**3.34E**	**3.06E**
Previous	1.68E	0.21E	0.04E	1.24E	3.16E	na

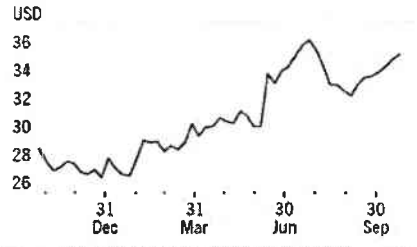
Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Estimate Change
- Target Price Change

Neutral	**2**
Price (25 Oct 13)	US$35.95
Target price	US$35.00
from US$36.00	
Expected share price return	-2.6%
Expected dividend yield	3.6%
Expected total return	**1.0%**
Market Cap	US$24,051M

Price Performance
(RIC: SE.N, BB: SE US)



Spectra Energy Corp (SE)

Maintain Neutral; Target Price to $35

- **Earnings** — We estimate 3Q EPS of $0.28. We currently estimate 2013 EPS of $1.44 per share.
- **FY 2014** — We currently estimate 2014 EPS in-line with 2013; however, we have not yet adjusted our model for the drop down of all the US pipelines into the MLP.
- **Projects** —The NJ-NY transmission project is expected to be in service Nov. 1. On Oct. 8, FERC approved raising the TX Eastern's FT-1 initial incremental reservation recourse rate from $18.7/Dth per month to $26.1/Dth per month. SE petitioned on the basis of a rise in total cost for the expansion project from $850mn in the initial December 2010 FERC application to $1.2bn. SE cited increased contractor labor costs.
- **Sabal Trail** — On Oct. 16, FERC accepted SE and NextEra Energy's Sabal Trail prefiling request into its early environmental review process. The request had been filed on Oct. 4. The request encompassed three major components of the plan: the construction and operation of 474 miles of 36-inch-diameter gas transmission pipeline through AL, GA, and FL; the construction and operation of 5 compression stations; and modification of 2 existing compressor stations.
- **AIM Update** — In light of an unsuccessful second open season on its Algonquin Incremental Market (AIM) gas pipeline project, we await additional insight on the call about any new plans to secure additional contracts. Interest from the power industry was apparently tepid. Management said in September that the facility applications filing will be for only 340,000 Mcfpd, rather than the initial plan of 500,000 Mcfpd
- **Recommendation** — We lower our target price to $35 per share based on our revised P/E multiple analysis and maintain our Neutral rating.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.52A	0.33A	0.27A	0.33A	1.44A	1.43A
2013E	**0.51A**	**0.30A**	**0.27E**	**0.34E**	1.42E	**1.53E**
Previous	0.50A	0.30A	0.30E	0.38E	1.48E	na
2014E	**0.52E**	**0.31E**	**0.29E**	**0.34E**	**1.45E**	**1.67E**
Previous	0.55E	0.33E	0.31E	0.37E	1.56E	na
2015E	**0.57E**	**0.35E**	**0.33E**	**0.41E**	**1.64E**	**1.74E**
Previous	0.63E	0.41E	0.39E	0.48E	1.90E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

TransCanada Corp (TRP.TO)

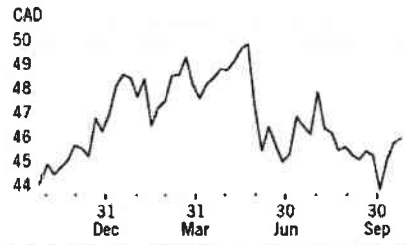
Maintain Neutral

- **Earnings** — We estimate 3Q EPS of $0.57 (consensus of $0.59).
- **Rate Increase** — In 3Q, Great Lakes Transmission reached a settlement with its customers to increase transportation rates by roughly 21%, effective November 1, 2013. TRP expects FERC approval by year end. The deal included a moratorium on rate case filings or challenges for the 18 months following Nov. 1.
- **Line Rupture** — We expect a status update on the call regarding repairs to the NOVA Gas Transmission system in northern Alberta after a break on its 36-inch North Central Corridor pipe on Oct. 17. The following day, management indicated gas deliveries had resumed to all but two of its north Alberta customers that were impacted by the break. The time and effort to move the necessary personnel to the site of the rupture will be higher than normal given the remote location. No statement regarding the cause of the break has been given.
- **Keystone XL Litigation** — TRP was the beneficiary of a federal appeals court decision on Oct. 9 to uphold a lower court's order to refuse a request to halt construction of a 485-mile section of XL in OK and TX. The Sierra Club, Clean Energy Future Oklahoma, and East Texas Sub Regional Planning Commission were on the other side of the case.
- **Keystone Southern Leg** — We look forward to reaffirmation from TRP on the call that the southern portion of XL will be in service by the end of 2013, in line with public statements. As of Oct. 2 the construction of this segment of line was 95% complete. We are optimistic that the remaining steps to put the line in operation will go forward on schedule.
- **Solar** — Earlier this month, TRP announced its acquisition of 2 more Ontario power plants, Brockville 2 and Burritts Rapids, part of a previously announced deal in 2011 to acquire 9 solar power facilities from Canadian Solar Solutions. The 2 plants combine for 16.0 MW AC at a reported value of C$95mn. The 9 facilities have a combined capacity of 86 MW at a cost of C$470mn, with Ontario Power Authority having agreed to 20-year power purchase agreements.

■ Estimate Change

Neutral	2
Price (25 Oct 13)	C$46.96
Target price	C$51.00
Expected share price return	8.6%
Expected dividend yield	4.1%
Expected total return	12.7%
Market Cap	C$33,206M
	US$31,781M

Price Performance
(RIC: TRP.TO, BB: TRP CN)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.29A	0.37A	0.51A	0.41A	1.57A	1.89A
2013E	**0.58A**	**0.51A**	**0.57E**	**0.65E**	**2.31E**	**2.25E**
Previous	0.52A	0.48E	0.59E	0.68E	2.26E	na
2014E	**0.60E**	**0.55E**	**0.70E**	**0.75E**	**2.61E**	**2.52E**
Previous	0.60E	0.55E	0.70E	0.77E	2.62E	na
2015E	**0.53E**	**0.42E**	**0.88E**	**0.97E**	**2.80E**	**2.63E**
Previous	0.52E	0.41E	0.86E	0.95E	2.75E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

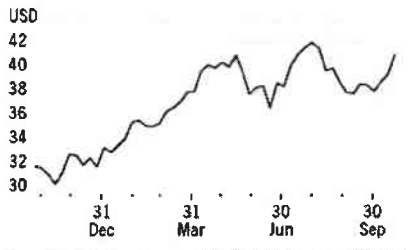
UGI Corp (UGI)

Increase Target Price to $42

- Estimate Change
- Target Price Change

Neutral	2
Price (25 Oct 13)	US$42.04
Target price	US$42.00
from US$40.00	
Expected share price return	-0.1%
Expected dividend yield	2.8%
Expected total return	2.7%
Market Cap	US$4,797M

Price Performance
(RIC: UGI.N, BB: UGI US)



- **Earnings** — Our estimate for 4Q13 EPS is a seasonal loss of $0.06. UGI's 2013 EPS guidance is $2.40-2.50.
- **FY 2014** — Looking ahead to next year, we project 2014 EPS of $2.72, implying 9.7% growth y-o-y. Consensus is $2.80. We assume 3% annual growth in AmeriGas retail volumes and 1% customer growth in the utility segment. Our growth forecast for utilities is conservative given 2012 realized net customer growth of 2%. We look for additional color on the call
- **LPG Acquisition** — We look for additional colors from UGI about the financial ramifications of its recent acquisition of BP's liquefied petroleum gas (LPG) distribution business in Poland. The acquisition adds 150mm gallons of LPG (for 2012) with a presence in the residential, commercial, autogas, and wholesale segments, which represents a quarter of the 600mm gallons UGI's international operation distributed over the year.
- **Restructuring** — Effective Oct. 1, UGI Energy Services merged with and into UGI Newco. The new unit assumed the name of UGI Energy Services, with the the go-forward segment assuming the terms of the defunct unit's credit agreement and other outstanding obligations. Although we expect management to mention the issue on the call, we do not see the change having a material effect on go-forward operational results.
- **Recommendation** — We raise our target price to $42 per share based on our revised rate base forecasts and maintain our Neutral rating.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.78A	1.20A	-0.03A	-0.09A	1.86A	1.90A
2013E	**0.90A**	**1.49A**	**0.13A**	**-0.06E**	**2.44E**	**2.46E**
Previous	0.91A	1.38E	0.12E	0.10E	2.50E	na
2014E	**0.93E**	**1.43E**	**0.39E**	**-0.05E**	**2.71E**	**2.80E**
Previous	1.06E	1.46E	0.16E	0.15E	2.82E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

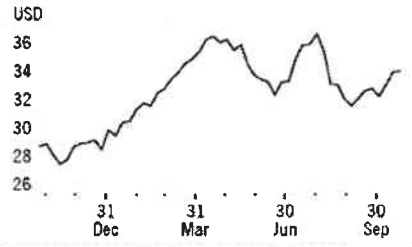
Vectren Corp (VVC)

Maintain Neutral Rating

- Estimate Change
- Target Price Change

Neutral	2
Price (25 Oct 13)	US$35.13
Target price	US$38.00
from US$36.00	
Expected share price return	8.2%
Expected dividend yield	4.1%
Expected total return	12.3%
Market Cap	US$2,892M

Price Performance
(RIC: VVC.N, BB: VVC US)



- **Earnings** — We expect Vectren to report 3Q13 EPS of $0.46 (compared to $0.48 in 3Q12 and $0.49 consensus). Management guidance is $1.65-1.75 per share for utility group and $0.20-0.40 for nonutility ($1.90-2.10 per share for FY13), excluding the ProLiance results. Our estimated FY13 EPS is $1.95.
- **FY 2014** — Our estimated earnings for FY14 is $2.10 per share. We estimate earnings growth will be driven higher utility earnings, growth in the pipeline construction business with upside from the coal business.
- **Utility** — Recent legislation in Ohio and Indiana such as S.B. 560 allows the company to accelerate the recovery of infrastructure investment while implementing interim rate increases.
- **Non-regulated** — Infrastructure services continues to show momentum in growth, both q-o-q and y-o-y. As of June 30, 2013, the energy services backlog was $62mn, compared to $77mn at the end of last year. We expect the backlog to be lower this quarter, due to customers' budgetary constraints. Coal mining and energy marketing are still a net loss. However, we believe the results will improve as the Oaktown mines start producing at lower costs.
- **Valuation** — We maintain our Neutral rating, and revise our target price to $38 on our updated earnings outlook.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.63A	0.32A	0.47A	0.51A	1.92A	1.94A
2013E	**0.61A**	**-0.07A**	**0.46E**	**0.56E**	**1.95E**	**2.02E**
Previous	0.69E	0.20E	0.51E	0.62E	2.02E	na
2014E	**0.73E**	**0.31E**	**0.48E**	**0.58E**	**2.10E**	**2.18E**
Previous	0.70E	0.17E	0.52E	0.59E	1.98E	na
2015E	**0.76E**	**0.28E**	**0.46E**	**0.62E**	**2.11E**	**2.21E**
Previous	0.71E	0.17E	0.53E	0.61E	2.03E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

AGL Resources Inc

Valuation

Risks

Company description

AGL Resources (AGL) is a natural gas distribution company serving over 4.5 million customers in seven eastern U.S. states through its regulated gas delivery businesses. AGL also operates three subsidiaries, Sequent Energy Management, Southstar Energy Services and Pivotal Energy Development, which provide merchant energy services, retail energy supply and storage capacity

Investment strategy

We rate the shares of AGL (GAS) Neutral (2). AGL has created shareholder value through a focus on operational efficiency at its legacy operations and by capital discipline through investments in under-managed assets. AGL will be able to grow earnings through a combination of rate relief and capital growth at its utilities and construction of storage fields at its Energy Services segment. Earnings at the wholesale gas business could be volatile as margins are highly dependent on seasonal price differentials and basis spreads; however, this is now a relatively small part of earnings.

On Dec 2011, AGL completed the acquisition of NiCor for $2.4 billion. While the deal appears expensive, we believe the deal can be accretive through a combination of balance sheet optimization and synergies at the wholesale business. On Jan 2013, AGL announced to acquire NiSource retail service business with 500,000 existing customer plans. We believe the deal will not be accretive earnings sooner than 2014, given the current natural gas markets and weaker retail consumption trend

Valuation

We apply four valuation methods to derive a $47 target.

(1) NAV yields a value of $53. We value regulated assets at a multiple of rate base (1.6x for utilities, 1.6x for pipelines /storage). We value the Energy Investments unit, which includes storage assets and a propane facility, at 8x 2014E EBITDA (in line with the pipeline/storage multiple), given stable cash flows. AGL's wholesale and retail segments are at slightly lower multiples, since they have less stable earnings and cash flows. The segments are valued at 6x and 7x 2014E EBITDA, respectively, in line with midstream & marketing multiples. These values are partially offset by AGL's net debt. Atlanta Gas Light includes regulatory assets associated with the pipeline replacement program, which we treat as rate base as the program's costs earns a return on capital invested. Environmental recovery costs are not included in rate base (no return is associated with program).

(2) Our DDM values the company at $43. We calculate a hypothetical dividend, based on AGL's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

(3) Our P/E multiples are based on our proprietary analyses, which utilizes current ERPs, current betas & projected risk-free yields. Our analysis indicates the company value is around $46, with hard assets and retail multiples of 16x, while wholesale 10x.

(4) For our EV/EBITDA analysis, we use multiples of 16x for the company's regulated & retail marketing assets and 10x for the wholesale assets. For our EV/EBITDA analysis, we use multiples of 8.5x for the company's regulated and retail marketing assets and 6.5x for the wholesale business. We come at the value of $45.

Risks

The key risks to our thesis on AGL are

(1) Regulatory: AGL has a constructive relationship with its regulators in Georgia, Virginia, Illinois and New Jersey. We believe these states have generally been constructive when it comes to rate setting for gas utilities.

(2) Market and counterparty risk: AGL's wholesale segment is exposed to counterparty risk since it deals with over 270 counterparties and re-contracting risk related to its asset management activities and adverse movements in commodity prices. However, as earnings from the utilities have grown over time, wholesale is now only 5% of the business.

(3) Customer growth: An unexpected increase or decrease in population could affect earnings and cash flows (favorably or unfavorably).

(4) Capital markets: AGL is a relatively small utility in terms of market cap and trading volumes, impacting AGL's ability to access capital markets while this type of liquidity may make it difficult for institutional. We believe the merger with NiCor will alleviate some of this risk.

(5) Integration risk: AGL has a history of M&A. The integration of the NiCor deal could face challenges given AGL's entrance into a new regional territory and scrutiny from regulators in arriving at cost cuts to generate value from the deal. So far, the company is retail performance from NiSource is not performing in line as expected.

If the impact on the company from any of these factors proves to be less or more than we anticipate, the stock could materially outperform or underperform our target.

Atmos Energy Corp

Company description

Atmos Energy is an integrated natural gas company headquartered in Dallas, Texas. The company's business consists of both regulated and unregulated businesses. On the regulated side, Atmos engages in natural gas distribution, which also entails a related sales operation. Covering eight states, the distribution division delivers gas to roughly three million customers. The regulated side of the business also includes pipeline and storage operations. On the non-regulated side, Atmos operates through various wholly-owned subsidies of Atmos Energy Holdings, Inc. This unit provides natural gas management and transportation services.

Investment strategy

We rate Atmos Energy (ATO) Neutral (2). Our Neutral rating on ATO is premised on the company's limited growth profile and lack of near-term catalysts. Atmos

generates stable earnings from a mostly regulated utility asset base with low-to-mid single-digit EPS growth and a stable dividend over the next five years.

Valuation

We average multiple valuation methodologies to derive our $47 target. Our NAV yields a value of $50. We value regulated assets at a multiple of rate base (1.6x for utilities). We value the pipeline assets at 9x '14E EBITDA and the marketing business at 6.5x '14E EBITDA. These values are partially offset by the company's net debt. Our DDM values the company at $47. We calculate a hypothetical dividend, based on ATO's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x, 16x and 10x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 9x, 9x and 6.5x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2014E earnings) yield values of $44 and $46.

Risks

The key risks to our investment thesis on ATO are (1) Capital Investment Recovery: ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (2) Customer Growth: An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably. (3) Capital Markets: ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock. (4) Derivatives Markets: ATO operates a gas marketing business. Our research shows that ATO hedges their physical delivery of gas using its access to storage and pipeline transportation capacity. If the financial hedges and local markets become dislocated, ATO could incur a liability. If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Brookfield Infrastructure Partners

Company description

Brookfield Infrastructure Partners is dual-listed on both the Toronto & New York Stock Exchanges under the ticker BIP. BIP is a Bermuda based infrastructure holding company with operational headquarters in Toronto, Canada. BIP's asset portfolio encompasses operations around the globe, with its primary business lines divided into 2 major segments: Utilities and Transport & Energy. BIP recently divested the rest of its Timber business.

Investment strategy

We rate Brookfield Infrastructure Partners (BIP) Neutral. BIP's risk-averse (long-term contracts) and diversified business model (across industries & geographic locations) offers a predictable cash flow stream with distribution growth. Despite our view on the stability and growth of BIP's cash flow stream, the shares appear appropriately valued.

Valuation

Our target price is based on four valuation scenarios. Our yield analysis takes into account BIP's dividend yield versus the ten-year treasury which results in $34 per share. This scenario is based on a 2014 estimated distribution of $1.92 per unit and a 5.67% implied target yield. Our target yield is derived from BIP's historical average spread to the US 10-year Treasury. We estimate an average 10-year yield of 3% in 2014, up from 2% earlier this year.

Our net asset value takes into account BIP's regulated asset base, which yields $42. We estimate BIP has a regulated or contracted asset base of $9Bn. We currently estimate a conservative RAB multiple of 1.6x which we believe is a rationale multiple in a liquidation scenario.

We used relative EV/EBITDA multiples based on similar assets in other parts of the world to reach a valuation of $38. For some of the Latin American and Australian assets, we employed a 14.0x EV/EBITDA multiple. For other assets, we used multiples of 9.0x to 10.x EV/EBITDA.

Our discounted cash flow results in a valuation of $31 using 7% cost of capital. We assume a long-term inflation rate of 3.5%.

Our target price of $39 per share takes the average of the four scenarios above ($36) and then uses BIP's cost of equity to get to $39 per share.

Risks

The primary upside risks to our target price are: 1) Accretive asset acquisitions; 2) Organic growth project announcements; and 3) Higher than expected distribution payout (over the historical 60-70% range). On the downside, we identify: 1) Continued economic weakness could lead to some re-contracting risk; 2) Project execution around the company's $1bn growth project backlog; 3) Potential changes on the regulatory front with respect to partnership tax treatment in the US; and 4) long-term currency risk.

CenterPoint Energy Inc

Company description

CenterPoint Energy Inc (CNP) is a public utility holding company, which owns and operates electric transmission and distribution facilities and natural gas distribution facilities. It has six segments: Electric transmission and distribution, natural gas distribution, interstate pipelines, field services, natural gas sales and services, and other operations. CenterPoint also operates two interstate natural gas pipelines and a field services business. The company holds a 50% interest in Enable Midstream Partners LP. In May 2013, the FERC-regulated gas pipelines and storage segment, as well as the primarily fee-based field services segment, became a part of Enable. The company is headquartered in Houston, Texas.

Investment strategy

We rate the shares of CNP Buy (1). Our rating takes into account stable cash flows on CNP's gas and electric utility system, complemented by growth on the pipeline and gathering system, through re-contracting of pipeline capacity, expansion of pipeline capacity, regulated growth and gas well connections.

Valuation

We average multiple valuation methodologies to derive our $29 target.

Our NAV yields a value of $35. We value regulated assets at a multiple of rate base (1.6x for utilities, 1.6x for pipelines). The company's marketing and midstream segments are valued at 5x and 10x 2014 EBITDA, respectively. These values are partially offset by the company's net debt. Our DDM values the company at $26. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x and 18x on 2014E earnings for the company's utility and pipeline/gathering assets, respectively, while applying 18x and 8x multiples to the company's gathering and marketing assets. For our EV/EBITDA analysis, we use multiples of 9x and 10x on 2014E EBITDA for the company's utility and pipeline assets, while applying 10x and 5x multiples to the company's gathering and marketing assets, respectively. Our P/E and EV/EBITDA analyses yield values of $22 and $32.

Risks

The key risks to our investment thesis are (1) TX Regulatory Environment: The PUCT could reduce delivery rates below what we consider to be a reasonable rate of return. (2) Capital Investment Recovery: CNP, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (3) Customer Growth: An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably. (4) Commodity Prices: Earnings at the field services segments are highly sensitive to changes in NGL and natural gas prices. (5) Gathering Projects: Our estimates are dependent on the future build-out of gathering facilities. Any decision to limit the build-out or difficulties encountered during build-out projects could impact our estimates.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Enbridge Inc.

Company description

Enbridge is one of Canada's largest energy companies by market capitalization, and is headquartered in Calgary, Alberta. The company operates in the following business segments: 1) Crude Oil Pipelines & Storage, 2) Natural Gas Pipelines, Processing & Energy Services, 3) Natural Gas Distribution; and 4) Sponsored Investments & Corporate. Enbridge also has an ownership interest in Enbridge Energy Partners (NYSE: EEP), whose assets include pipeline, gas gathering, and processing infrastructure. EEP is accounted for under the Sponsored Investments segment. Enbridge also owns a stake in Enbridge Income Fund (EIF), a publicly traded yield-oriented investment vehicle listed on the Toronto stock exchange. EIF is also accounted for under the Sponsored Investments segment.

Investment strategy

We rate shares of Enbridge as Neutral (2). Our enthusiasm over the company's risk-averse business model and earnings growth projections are tempered by what we believe is a full valuation. Enbridge's performance since the beginning of the

decade is highlighted by industry-leading returns on equity and an increase in enterprise value from $12.3bn to $65bn.

Valuation

We use four methodologies to derive our C$46 target price. We value ENB at C$37 per share on a NAV basis; C$48 on a DCF model, where we estimate long-term growth (beyond 2015) at 3% per annum; C$43p/s on an EV/EBITDA basis where we use 2015E EBITDA discounted two years at the company's cost of capital and a 13.5x forward trading multiple; and C$43p/s on a long-term P/E multiple using 2015E earnings discounted by two years at the company's cost of capital and a 19.5x historical forward trading multiple.

Risks

The primary upside risk to our thesis is that ENB is able to secure a larger amount of growth projects than we have estimated in our numbers. In addition, higher than expected volumes on ENB's mainline system tied to higher than expected oil sands growth could lead to better than expected results. The primary downside risk to our thesis is that ENB is unable to execute on its growth backlog in an efficient manner, reducing returns on capital. In addition, lower than expected crude oil demand in the United States could have an adverse effect on volumes on ENB's mainline system.

Energen Corp

Company description

Energen Corp is an integrated natural gas company with operations in the exploration and production and natural gas delivery businesses. The company operates two primary segments: 1) a natural gas and oil production business with over 330 million barrels of oil equivalent (MMBoe) of proved reserves located primarily in the Permian and San Juan Basins; 2) a regulated gas delivery business providing service to roughly 425,000 customers in northern Alabama (Alagasco).

Investment strategy

We rate Energen Buy. We believe that the company's strong asset base in the Permian, relatively low internal decline rate and exposure to crude oil will bode well over the longer term with respect to cash flow generation and earnings growth.

Valuation

Our target price is $100, based on the average of the following valuation methodologies:

Our NAV calculation results in a valuation of $99. We value EGN's E&P business at ~$8.2bn, which includes proved reserves of 330MMBoe, and provides risked benefit for 2P and 3P reserves. We value natural gas reserves at $1.15/Mcf and crude oil reserves at $18/bbl. We then subtract ~$2.1 billion of net debt to derive an equity value of $8Bn. We estimate that Alagasco is worth ~$1.2bn based on 2014E EBITDA of $141mm and an 8.5x EBITDA multiple.

Our DCF analysis results in $120p/s at Citi Research's oil and gas price deck. We use a weighted average cost of capital of 7.4% for EGN. Our WACC is based on an equity risk premium of 4.92%, a 10-year Treasury Yield of 2.51%, a bond spread of 280 bps and a 2-year raw beta of 1.3 (source Bloomberg).

Our long-term P/E analysis results in a value of $85p/s. We base our analysis on a blended 20x multiple on 2014E earnings of $4.26p/s.

Our EV/EBITDA analysis values Energen at $96 a share applying an 8x multiple to 2014 EBITDA estimates.

Risks

Commodity Prices and Interest Rate: EGN's exploration and production business represents a majority of projected operating income. Fluctuation in the price of oil and natural gas will cause volatility in our estimates and could affect the share price positively and negatively.

Accounting and Financial Risk: On the financial front, Energen frequently enters into derivative transactions for the purpose of hedging its oil and gas production. While limiting downside risk, these arrangements could limit upside in a rising commodity price environment.

If the impact on the company from any of these factors proves to be greater or less than we anticipate, the stock would likely have difficulty achieving our target price or could exceed our target price.

Integrys Energy Group, Inc.

Company description

Integrys Energy Group (TEG) operates as a natural gas and electric utility with almost 2 million customers in Minnesota, Wisconsin, Michigan, and Illinois. Integrys also offers retail and wholesale energy services. Wisconsin Public Service Corporation (WPSC) merged with People's Energy Corporation (PEC) in February 2007 to form Integrys Energy Group. The company operates in five segments: gas utility, electric utility, electric transmission, Integrys Energy Services and other. TEG has a 34% equity interest in ATC (an electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois). On April 2013, TEG acquired Fox Energy from GE and Tyr Energy.

Investment strategy

We rate TEG Neutral (2). Our rating on Integrys Energy Group (TEG) takes into account the company's recent outperformance, related to a move by investor's towards higher yielding stocks. The company has undergone tremendous change over the last couple years through multiple acquisitions and divestitures. As TEG exits its energy services business and provides better visibility on its earnings growth platform based on its remaining businesses, we feel the stock could justify a premium, but at its current level, the premium is too high.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

(1) Capital investment – TEG spends capital in excess of depreciation to maintain and expand its utility, relying on adequate base rates to earn its cost of capital. We assume regular, fair rate relief.

(2) Concentration in the Midwest – Changes in the economy in TEG's service areas could increase or decrease the need for gas and power.

(3) Weather fluctuations – Without weather normalization or decoupling rate mechanisms at all its gas and electric utilities, TEG is exposed to fluctuations in temperatures and conservation

(4)Higher gas and purchased power costs – TEG may encounter energy costs, which are generally passed on to customers, but lead to near term working capital requirements

(5) Marketing business – TEG's energy marketing business continually enters into forwards and options which may create unanticipated gains and losses depending on any changes in contract values. Uncertainty surrounding the future of this business and collateral requirements may also impact the value of the stock.

(6) Short interest - A significant short interest in the stock could lead to near-term volatility.

If the impact on the company from any of these factors is more or less than we expect, the stock could outperform or underperform our target.

MDU Resources Group Inc

Company description

MDU Resources Group, Inc. is a diversified natural resources company. It has five business segments: 1) Electric and Natural Gas Utilities, 2) Construction Services, 3) Pipeline and Energy Services, 4) Exploration and Production, and 5) Construction Materials and Contracting. The company is headquartered in Bismarck, North Dakota.

Investment strategy

We rate MDU Neutral. While we believe the company has executed its strategy well, we believe that the current market valuation largely incorporates MDU's future earnings for the time being. Going forward, we look for additional upside possibilities in the company's liquids-focused exploration and production portfolio as a potential catalyst for medium term price gains.

Valuation

Our target price is $30 per share, based on the average of the following valuation methodologies. Our NAV calculation results in a valuation of $34 per share. We value MDU's E&P business at ~$1.0bn, which includes proved reserves of 40.6mn bbl of oil and natural gas liquids and 239.3 Bcf of natural gas. We value natural gas reserves at $1.25/Mcf and crude oil reserves at $18/bbl. We see $8.8bn for the total value of hard assets and subtract ~$2.0 billion of net debt to derive and $965mn for the cost of expansion projects to arrive at an equity value of $5.9bn. Our DCF analysis results in $30 per share at Citi Research's oil and gas price deck. We use a weighted average cost of capital of 6.85% for MDU. Our long-term P/E analysis results in a value of $26 per share. We base our analysis on a blended 16.4x multiple on 2014E earnings of $1.59. Our EV/EBITDA analysis values MDU at $28 a share applying an 8x multiple to 2014 EBITDA estimates.

Risks

Although the firm has E&P exposure, it is balanced to some degree by the regulated utility & pipeline assets. MDU is subject to at least the following risks: 1) Commodity Price Risk: Commodity prices remain volatile. Stockholders' expectations of future hydrocarbon prices will have an impact on MDU stock; 2) Execution Risk: MDU operates in capital intensive industries in which project cost overruns can put strain on the company's balance sheet; 3) Regulation Risk: Decisions made by public utility commissions and other government bodies have a material impact on the company's profitability and viability. If the negative impact on the company from any of these factors proves to be greater than we anticipate, the stock could have difficulty achieving our target price. On the other hand, we may have overestimated these risk factors and the stock could increase more than we expect.

National Fuel Gas Co

Company description

National Fuel Gas (NFG) is an integrated natural gas company that produces, transports, distributes and markets natural gas and oil. It operates through four business segments: Utility, Pipeline and Storage, Exploration and Production, and Energy Marketing. Seneca Resources Corp., the company's upstream subsidiary, produces crude oil and natural gas from about 1.55 billion cubic feet (Bcfe) of proved reserves out of the Appalachian Region and the West Coast. NFG's distribution business provides natural gas and transportation service to roughly 732,000 customers in western New York and northwestern Pennsylvania through its utility, National Fuel Gas Distribution. NFG'ss interstate natural gas pipelines and storage assets provide service to customers in the surrounding utility territories.

Investment strategy

We rate NFG Buy. We estimate that the firm's Marcellus acreage could significantly boost long-term production levels. The company's regulated business lines (Pipes & Distribution) bear no direct commodity price exposure and serve as a balancing point with respect to overall risk exposure.

Valuation

Our target price is $83, based on the average of the following valuation methodologies. Our NAV calculation results in a target price of $76 per share valuing NFG's hard assets at $7.9bn and then backing out ~$1.6bn of net debt for an equity value of $6.4bn. Our DCF valuation results in a target price of $95 per share. We use the company's cost of capital as our discount rate. Our EV/EBITDA methodology results in $83 per share using 2014E EBITDA and a blended multiple of 8.8x, while our long-term earnings calculation is $79 per share using 2014E EPS.

Risks

The future price of National Fuel Gas shares are subject to various risks, including but not limited to the following: Commodity Price Risk: Fluctuation in the price of oil and natural gas will cause volatility in our estimates. If the commodity prices go up from the current level, it could affect NFG's share price positively. Reserve replacement: NFG's ability to find reserves in its undeveloped acreage and to sustain production is key to our valuation framework. To the extent that NFG is not able to find more reserves, replace reserves it uses in production, and sustain production through its current inventory of developed reserves, our valuation model

would become impaired. Conversely, to the extent that NFG can find more reserves cheaply and increase its production, this would increase its valuation. NFG's commodity exposed business lines are offset through regulated (i.e. minimal direct commodity price risk) segments. If the impact from the above risks turns out to be greater/less than we anticipate, the stock could fail to achieve/exceed our target price

NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company operates four business units, including: 1) Gas Distribution, which delivers natural gas in several states; 2) Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; 3) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCo); and 4) Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of $1.60+ per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include i) substantial industrial load growth at the utility or ii) the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale, and iii) better than expected production results across NI's mineral right holdings.

Valuation

We average multiple valuation methodologies to derive our $35 target. Our NAV yields a value of $40. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $40. Our P/E and EV/EBITDA multiples (2014 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields.Our P/E and EV/EBITDA analyses yield values of $30 and $33.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

Questar Corp

Company description

Questar Corp (STR) is a regional, integrated natural gas utility company with operations in the Rocky Mountains. The company has three operating segments, including 1) a regulated gas delivery business in Utah, Questar Gas; 2) an interstate pipeline and underground storage business, Questar Pipeline; and 3) a regulated natural gas and oil E&P buisness (Wexpro).

Investment strategy

We rate the shares of Questar Corp Buy. We believe that STR will benefit from a relatively strong rate of return on an increasing capital base (i.e., Wexpro), the recent approval of Wexpro II by regulators, and incremental upside tied to the company's Southern Trails pipeline conversion project are likely to support long-term gains in cash flow generation and earnings growth

Valuation

Our target price is $25, based on the average of the following valuation methodologies: Our NAV calculation results in a target price of $28 per share. We estimate that the distribution business is worth $1.3bn based on 2014E EBITDA and an 9x mid-cycle EBITDA multiple. We value STR's Pipeline & Storage business at $1.9bn, which is based on 2014E EBITDA and an 10x mid-cycle multiple. We value the regulated E&P business, Wexpro, at $2.8bn. This is based on a DDM (dividend discount model) and net income (for Wexpro II). We then subtract ~$1.5 billion of net debt to derive an equity value. Our DCF analysis results in $24p/s. We derive a NPV of cash flows over the next 10 years discounted at the firm's WACC of 5.23%. Our long-term P/E analysis results in a value of $22 per share. We base our analysis on 2015 estimated earnings discounted to 2014. Our EV/EBITDA multiple analysis values Questar at $25p/s. We use a weighted average 2015E EBITDA multiple of 10.2x on projected EBITDA of $578mm (discounted to 2013). We subtract ~$1.5bn of net debt to reach our $25p/s target. We then average these four values together for a target price of $25.

Risks

The primary risks to achieving our target price are: 1) Lack of drilling success at the regulated E&P segment would result in a lower investment base and therefore a lower return and a potentially lower share price. 2) Regulatory pushback or a failure to sign up adequate capacity on the Southern Trails conversion is a key downside risk. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

Sempra Energy

Company description

Sempra Energy (SRE) is an integrated natural gas and electric company. The company's operations include Sempra Utilities, which consists of 6.2 million gas and 1.3 million electric meters in Southern California; Sempra Generation, which owns about 2,600 megawatts (MW) of net, active generation; Sempra Pipeline & Storage, which operates natural gas pipeline, storage, and owns interests in utility assets in

South America; and Sempra LNG, which is currently developing and operating LNG re-gasification plants to import natural gas into the U.S.

Investment strategy

We rate the shares of Sempra Energy Buy (1). Sempra's diversified portfolio of assets in the gas and power sector gives the company sustained earnings power through consistent and growing returns from its utility operations, and a power generation portfolio that is 80% contracted. We believe Sempra is well positioned to take advantage of the current volatility in commodity prices, power demand in California, and future expected demand for liquefied natural gas (LNG).

Valuation

We average multiple valuation methodologies to derive our $91 target.

Our NAV yields a value of $89. We value regulated assets at a multiple of rate base (1.6X for utilities, 1.6X for pipelines, transmission and storage assets). The company's trading business is valued at the expected sale price. We value SRE's electric generation at replacement value ($800-$1,000/KW for CCGT assets). These values are partially offset by the company's net debt.

Our DDM values the company at $95. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we apply multiples of 16.5X, 16.5X and 14X to 2014 earnings at the utility, pipeline and generation segments. Our P/E analysis yields a value of $90.

For our EV/EBITDA analysis, we apply multiples of 9X,9X and 8.5X to 2014 utility, pipeline and generation EBITDA. Our EV/EBITDA analysis yields a value of $89.

Risks

The key risks to our investment thesis are (1) The utilities are subject to regulation from federal, state and local authorities which may impose rulings adverse to Sempra's interests. (2) California's Department of Water Resources power contract with Sempra Generation expired in 2011. Earnings may be materially impacted as a result of volatile merchant power prices. (3) Uncertainty in the contracting of capacity on expansions at the company's LNG facilities may negatively impact earnings in the coming years, along with changes in the regulatory outlook towards exporting gas. (4) Sempra is exposed to currency issues in Mexico and earnings could be impacted with significant volatility in the value of the Mexican Peso. (5) Ability to access debt or equity markets at a reasonable cost in the future could materially impact growth in the future. (6) The opportunity for further upside exists if Sempra can take advantage of the growing need for renewable generation in the desert SW. (7) SRE is successful in obtaining regulatory approval to export natural and close financing. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price and our rating.

Southwest Gas Corp

Company description

Southwest Gas operates its business in two segments: Natural Gas Operations and Construction Services. The company provides regulated gas distribution services

for 1.9 million customers in Arizona, Nevada and California. SWX also operates two FERC-regulated pipelines and an unregulated pipeline construction business.

Investment strategy

We rate SWX Neutral (2). Our Neutral rating is premised on the company obtaining a reasonable rate of return on its regulated asset base. Although the utility segment benefited from decoupling in Arizona, we believe that regulatory change has been fully valued. SWX's regulated customer base has been driven by population growth in Arizona and Nevada. We estimate that rate relief and slowing capital growth should help to mitigate the impact of regulatory lag in the coming years and improve return metrics for the utility segment. The construction business has potential to grow, yet competition from larger pipeline service companies could limit the growth potential of the division. We remain constructive on the firm's growth prospects but feel current valuations have somewhat limited upside for the time being.

Valuation

We average multiple valuation methodologies to derive our $57 target. Our NAV yields a value of $65. We value regulated assets at a multiple of rate base (1.6x for utilities, 1.6x for pipelines). We value the Construction Services segment at 5x EBITDA, based on a midstream asset multiple. These values are partially offset by the company's net debt. Our DDM values the company at $57. We calculate a hypothetical dividend, based on We average multiple valuation methodologies to derive our $57 target. Our NAV yields a value of $65. We value regulated assets at a multiple of rate base (1.6x for utilities, 1.6x for pipelines). We value the Construction Services segment at 5x EBITDA, based on a midstream asset multiple. These values are partially offset by the company's net debt. Our DDM values the company at $57. We calculate a hypothetical dividend, based on SWX's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x, 16x and 10x for the company's utility, pipeline and pipeline construction assets. For our EV/EBITDA analysis, we use multiples of 9x, 9x and 5x for the company's utility, pipeline and pipeline construction assets. Our P/E and EV/EBITDA analyses yield values of $50 and $54.

Risks

The key risks to our investment thesis include: 1) Population growth: Housing demand and tepid economic growth within the Southwest region of the U.S. could slow to a rate below estimates or increase above our estimates, causing us to revise our estimates and valuation; 2) Capital investment recovery: SWX spends capital to maintain and expand its operations. The company will continue to rely on state regulatory commissions to recover costs in excess of depreciation; 3) Weather: The company's earnings vary seasonally according to demand for heating and cooling across its geographic footprint. Weather patterns out of the norm or expectation can significantly affect utility revenue; 4) Capital markets: SWX is a relatively small utility in terms of market capitalization and daily volumes. This may impact its ability to access the capital markets. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Spectra Energy Corp

Company description

Spectra Energy is an integrated natural gas company that operates in the United States and Canada. The company maintains four distinct operating segments with over $30 billion in assets: 1) natural gas transmission and storage in the US; 2) natural gas distribution in Canada; 3) natural gas gathering, processing and transmission in Canada; and 4) gathering & processing in the US through a 50% joint venture with ConocoPhillips.

Investment strategy

We rate Spectra (SE) at Neutral (2). We expect SE will grow regulated earnings by expanding its North American pipeline and storage network; however, fluctuations to commodity prices and USD-CAD exchange rates may add volatility to midstream earnings. Although SE has a solid slate of projects underway, we see limited upside potential beyond market expectations in the near term without an additional earnings catalyst.

Valuation

We apply multiple valuation methodologies to derive our $35 target. Our NAV yields a value of $33. We value the regulated assets at a multiple of rate base (1.6x for utilities, 1.6x for pipelines). We value the Field Services segment at 10.0x 2015E EBITDA, based on our midstream multiple. These values are partially offset by the company's net debt. Our 10-year DCF yields a value of $36, by utilizing a 5.3% WACC. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use a 18.5x blended multiple for SE's mix of assets. Our P/E and EV/EBITDA analyses yield values of $30 and $32. We then average our valuation scenarios and increase the average by the company's cost of equity to reach our target of $35.

Risks

The key risks to our investment thesis include: 1) Commodity price and exchange rate exposure: Significant capital requirements over the medium term and the earnings sensitivity to volatile commodity prices and the Canadian dollar; 2) Capital Investment Recovery: SE spends capital to maintain and expand its pipeline and distribution operations. SE relies on the OEB and the FERC to recover costs or approve projects; 3) Processing Contract Volatility: SE is exposed to commodity price volatility through its POP and keep-whole processing contracts. An increase in commodity prices could allow SE to outperform our expectations; 4) Production from Gas Producing Regions: SE is dependent on volumes from producing fields throughout North America. Significant production declines could require SE to charge producers higher fees to compensate for lower volume on its systems, potentially degrading its competitive position. Conversely, production increases could enhance its competitive position; 5) Demand from Refineries and Petrochemical Producers: Nat gas liquids produced by SE are primarily marketed to refineries and petrochemical producers. Lower demand could lead to margin compression. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

TransCanada Corp

Company description

TransCanada Corp. is a North American energy infrastructure company, which has one of the country's largest natural gas pipeline networks and storage operations. It operates through three segments: Natural Gas Pipelines, Oil Pipelines, and Energy. The Natural Gas Pipelines segment owns and operates infrastructure that includes gas pipelines and storage facilities, while the Oil Pipelines segments transports crude oil. The company's pipeline network transports 14 Bcf/d of natural gas and extends over 42,000 miles, while its storage capacity is 406 Bcf. Additionally, TransCanada owns or has an interest in 11,800 MW of generation throughout Canada and the northeast United States.

Investment strategy

We rate TRP Neutral (2). TRP's asset mix of both pipeline (70%) and power (30%) assets offers attractive organic growth with incremental returns on new capital of 13% excluding acquisitions over the next five years. Despite attractive returns on organic and new build projects, we believe this growth comes with the risk of capital cost overruns at new projects, namely, the restart of two units at TRP's operated nuclear power plant (Bruce Power) and a C$12.2 billion oil export pipeline from Alberta into the Midwest (Keystone Pipeline).

Valuation

We apply average multiple valuation methodologies to derive our $51 target. Our NAV yields a value of $48 per share. We value regulated assets at a multiple of rate base (1.6x for pipelines and storage assets). We apply a 10% haircut to Canadian assets as they earn lower authorized returns. We value TRP's power generation assets at replacement value. These values are partially offset by the company's net debt. Our 10-year DCF yields a value of $61 per share, using a 4.1% WACC. Our P/E and EV/EBITDA multiples for the pipelines are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. This analysis yields a multiple of 17x 2015E earnings and 10x 2015E EBITDA. We apply a merchant power multiple of 14.5x and 8x to power generation 2015E earnings and EBITDA. Our P/E and EV/EBITDA analyses yield values of $46 per share and $45 per share.

Risks

The key risks to our investment thesis include: 1) Exchange Rates: TRP has energy assets in the US and Canada. Significant changes in exchange rates could materially increase or decrease earnings; 2) Regulatory Risk: TRP spends capital in excess of depreciation to maintain and expand its pipeline infrastructure and relies on fair regulated returns. Changes in the regulatory environment could adversely impact returns; 3) Nuclear Risk: Because of the high safety risks of operating a nuclear power plant, regulatory impediments may arise. Unplanned outages from sensitive technology, cost overruns or even terrorist attacks could also cause damage and create outages, impacting earnings; 4) Capital Risk: We expect about half of TRP capex program will be funded through debt. Difficulties getting the appropriate debt funding could reduce the likelihood of projects being built timely; 5) Energy Prices: TRP sells to the merchant market. Changes in power prices and/or cost of fuel could materially impact our estimates or WC requirements; 6) Execution Risk: Expansion projects should add incremental earnings, but overspending could lead to lower returns. There is also a risk that projects will not be completed on-time

or at all. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

UGI Corp

Company description

UGI Corp operates as a diversified gas utility, electric utility and global propane distribution company. The company's utility and power assets are located in Pennsylvania. The company's propane business is composed of a 46% equity interest in AmeriGas Partners and an international propane distribution unit with principal operations in Europe, where the company controls about a quarter of the market. UGI also operates an energy services business with generation and storage assets.

Investment strategy

We rate UGI a Neutral (2). The company provides stable cash flows through a combination of an electric and gas utility. In addition, the company has one of the largest propane businesses in the US and has an International Propane division that serves customers in Europe. Historically UGI has generated strong free cash flows from its domestic propane and utilities businesses enabling the company to make bolt-on acquisitions and increase its dividend over time. However, the propane business in the US looks challenged as commodity prices move higher, and customers migrate to alternative fuels.

Valuation

Our average multiple valuation methodologies derives a $42 target price. Our NAV yields a value of $49. We value regulated assets at a multiple of rate base (1.6x for gas utilities). The company's gas marketing segment is valued at 6x EBITDA, in-line with multiples for other marketers. These values are partially offset by the UGI's net debt. We value UGI's interest in APU using our MLP team's target price ($38.50). We value UGI's coal-fired power plants at their estimated replacement cost, which includes a discount applicable to Central App coal plants, of $981/KW. International propane operations are valued at a 15% discount to our gas utility EV/EBITDA multiple of 6.8x, due to significant exposure to weather and exchange rates. Our DDM values the company at $39. We calculate a hypothetical dividend, based on UGI's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current corporate spreads, betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x, 13.6x, 16x and 10.5x for the company's Gas Utility, Propane, Electric Utility and Marketing/Energy Services assets. For our EV/EBITDA analysis, we use multiples of 8x and 6.8x for the company's Gas & Electric Utility/Propane businesses and Marketing/Energy Services assets. International propane operations are valued at a 15% discount to our gas utilities, due to exposure to weather and exchange rates. Our P/E and EV/EBITDA analyses yield values of $39 and $42.

Risks

The key risks to our investment thesis are: 1) Weather and exchange rates: Slightly affecting UGI's stable cash flows are sensitivities to weather and exchange rates. Flaga and Antargaz's earnings remain exposed to foreign currency fluctuations; 2)

Demand fluctuation and industry evolution: Propane distributors compete in an unregulated market. While the barriers to entry are high, UGI competes with a number of propane distributors in the U.S. and Europe. Economics for other fuel types is also making it more economical for customers to switch into other fuels; 3) Regulation: Our earnings estimates assume normal weather and recovery of capital spent in excess of depreciation through higher customer rates. These rates depend on orders from Pennsylvania Public Utility Commission; 4) Commodity prices: Our margin assumptions at UGI's power plants are based on market prices and the capacity market in PJM. Higher fuel costs or regulatory impediments within the PJM market could adversely affect our earnings estimates. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Vectren Corp

Company description

Vectren operates regulated electric and gas utilities in Indiana and Ohio, distributing natural gas to about 1 million customers and serving about 140,000 electric customers through its wholly owned subsidiary, Vectren Utility Holdings. The utilities represent over 80% of VVC's earnings. Vectren also operates non-regulated businesses, including coal mining, pipeline construction, and gas marketing.

Investment strategy

We rate Vectren shares Neutral. We believe the stock is fairly valued as a constructive regulatory environment is offset by concerns over the impact of flat basis spreads on the gas marketing operations and light demand for the coal mining unit. Over 80% of earnings at VVC are derived from operations at the gas and electric utilities. We expect growth at the utility will be arise from infrastructure riders, which allow timely returns on capital spending and customer growth. The non-regulated operations include coal mining, gas marketing, pipeline construction and energy services. Coal mining and gas marketing operations have been hampered as of late due to reduced coal demand and thinning basis spreads.

Valuation

We average multiple valuation methodologies to derive our $38 target. We reiterate Neutral rating on VVC.

(1) Our NAV yields a value of $44. We value regulated assets at a 1.6x multiple of rate base. The company's coal mining and energy services segments are valued at 6x 2014E earnings and 6x 2014E EBITDA, based on midstream and marketing multiples. These values are partially offset by the company's net debt. Our DDM values the company at $38. We calculate hypothetical dividends, based on VVC's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

(2) Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use 2014E multiples of 16x for the gas and electric utilities and 10x for the company's unregulated assets. For our EV/EBITDA analysis, we use multiples of 8x and 6x for the company's utility and unregulated assets. Our P/E and EV/EBITDA analyses yield values of $33 and $37, respectively.

Risks

The key risks to our investment thesis include:

(1) Capital investment growth – VVC spends capital to maintain and expand its utility systems. VVC relies on adequate base rates to earn its cost of capital.

(2) Concentration in the Midwest – Changes in the service area's economy could reduce demand for power.

(3) Gas and purchased power costs – Higher costs can lead to higher working capital requirements and interest expense.

(4) Coal margins – Key drivers behind the performance of the coal mining unit include coal prices, volumes and costs, which are all volatile.

(5) Non-regulated business – VVC's unregulated business continually enters into forwards and options that may create unanticipated losses.

(6) Capital markets – VVC is a relatively small utility in terms of market cap and volume compared with other utilities. This may affect its ability to access the capital markets.

(7) Customer growth – An unexpected increase or decrease in population could affect earnings substantially.

Events that would present upside risk to our target price include: 1) an improving economy in Vectren's service areas; 2) increased natural gas price volatility, including wider summer/winter differentials; and 3) improvements in coal production volumes and per unit margins.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Appendix A-1

Analyst Certification

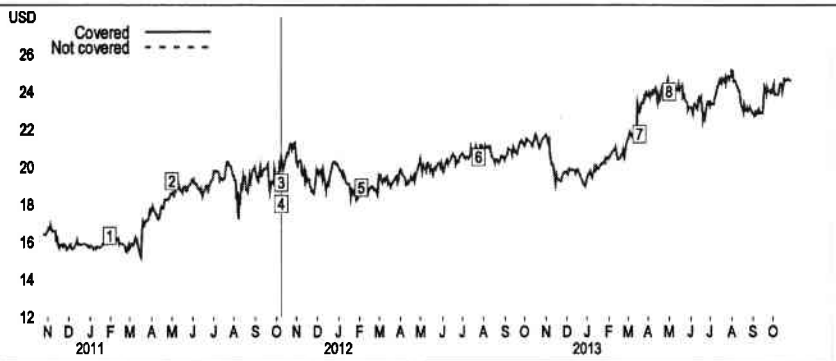
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jan-11	1M	*18.00	16.15
2	2-May-11	1M	*21.00	18.59
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*2	21.00	19.93
5	3-Feb-12	*1	*22.00	18.88
6	25-Jul-12	1	*23.00	20.57
7	19-Mar-13	1	*26.00	22.97
8	1-May-13	1	*27.00	24.34

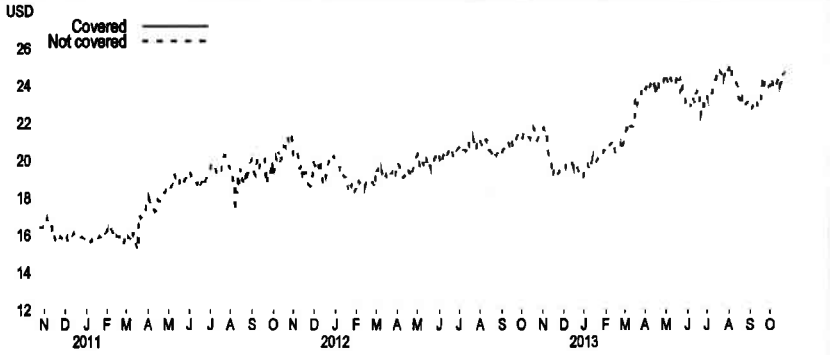
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



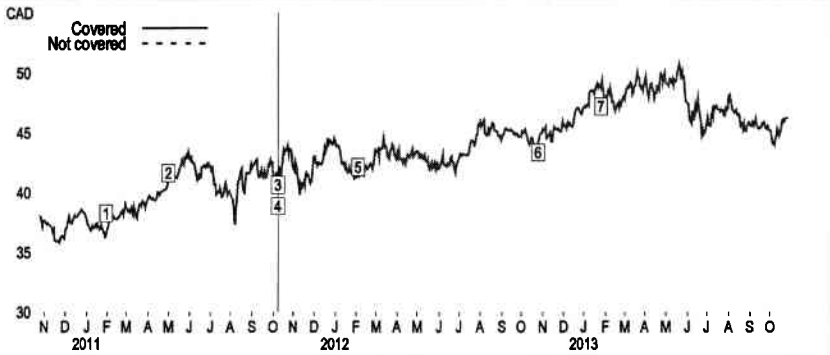
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jan-11	2H	*36.00	36.55
2	2-May-11	*2M	*40.00	41.62
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*2	40.00	41.52
5	3-Feb-12	2	*42.00	41.50
6	25-Oct-12	2	*44.00	44.10
7	25-Jan-13	2	*51.00	48.77

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA

	Date	Rating	Target Price	Closing Price
1	19-Apr-11	*ADD LP	-	39.83
2	26-Sep-11	*REM LP	-	42.29
3	7-Oct-11	*ADD LP	-	41.52
4	11-Jul-12	*REM LP	-	43.16
5	16-Jul-12	*ADD LP	-	43.35
6	4-Jun-13	*REM LP	-	47.40

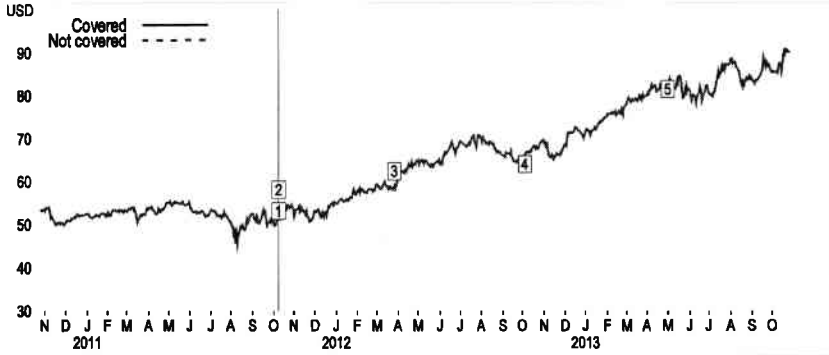
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	8-Oct-11	*1	60.00	50.93
3	27-Mar-12	1	*65.00	59.05
4	4-Oct-12	1	*80.00	66.39
5	1-May-13	1	*91.00	82.10

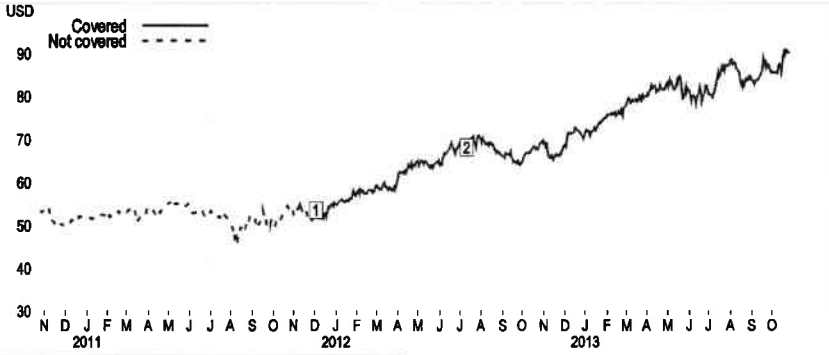
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	2-Dec-11	*ADD MP	-	52.92
2	11-Jul-12	*REM MP	-	68.46

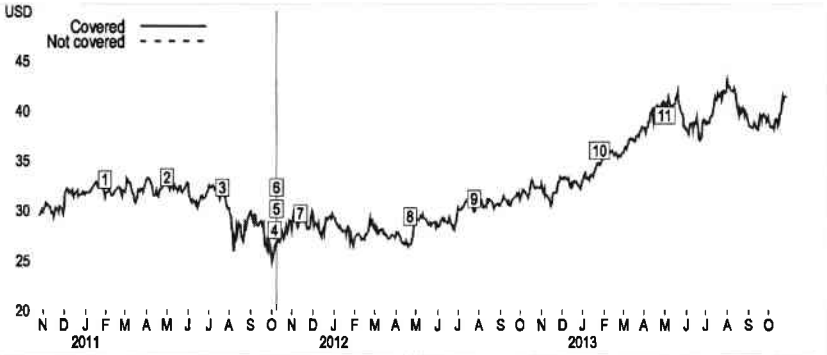
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jan-11	*2M	33.00	31.35
2	2-May-11	2M	*36.00	32.74
3	21-Jul-11	2M	*34.00	32.29
4	6-Oct-11	*1M	*31.00	26.40
5	6-Oct-11	Stock rating system changed		
6	6-Oct-11	*1	31.00	26.27
7	13-Nov-11	1	*33.00	29.41
8	23-Apr-12	1	*31.00	26.62
9	25-Jul-12	1	*34.00	29.92
10	25-Jan-13	*2	*37.00	34.56
11	1-May-13	2	*40.00	40.48

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA

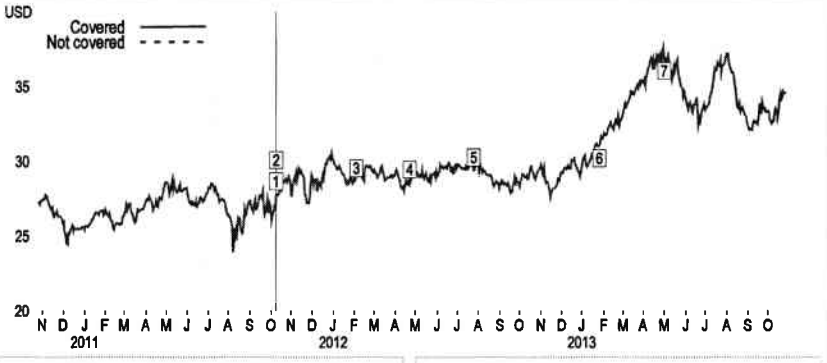
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	8-Oct-11	*2	26.00	26.77
3	3-Feb-12	2	*28.00	29.08
4	23-Apr-12	2	*29.00	28.46
5	25-Jul-12	2	*31.00	29.41
6	25-Jan-13	2	*30.00	31.05
7	1-May-13	2	*36.00	36.96

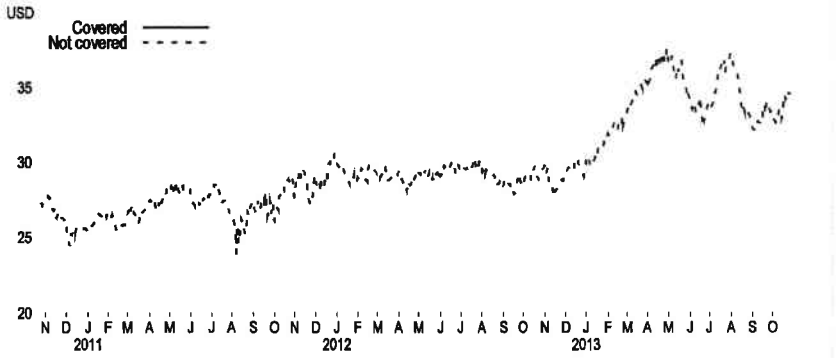
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



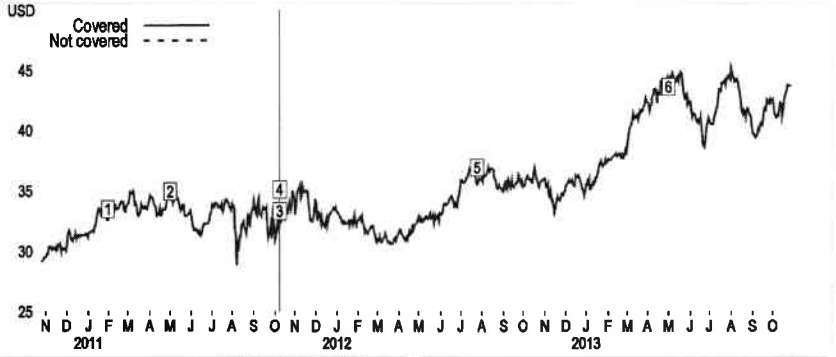
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jan-11	2M	*32.00	32.60
2	2-May-11	*2L	*35.00	34.61
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*2	35.00	31.94
5	25-Jul-12	2	*39.00	35.53
6	1-May-13	2	*43.00	43.62

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA

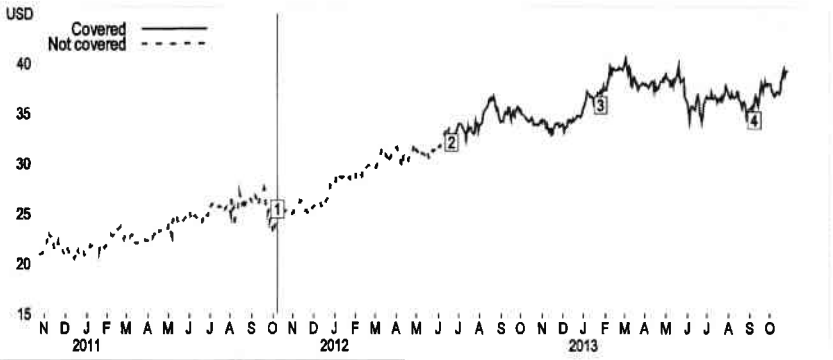
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brookfield Infrastructure Partners (BIP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	21-Jun-12	*2	*34.00	32.18
3	25-Jan-13	2	*36.00	37.25
4	8-Sep-13	2	*39.00	35.67

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brookfield Infrastructure Partners (BIP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA
Covered since March 22 2013

	Date	Rating	Target Price	Closing Price
1	10-Dec-12	*ADD LP	-	34.27
2	22-Mar-13	*REM LP	-	37.62

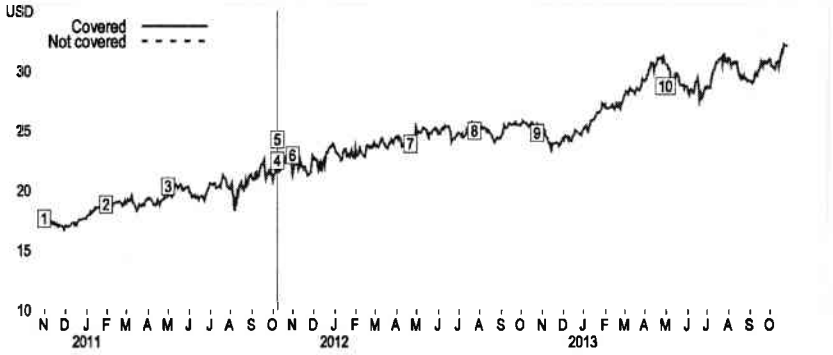
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	1-Nov-10	2M	*18.00	17.17
2	31-Jan-11	2M	*20.00	18.62
3	2-May-11	2M	*21.00	19.52
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	21.00	21.55
6	1-Nov-11	2	*22.00	21.32
7	23-Apr-12	2	*24.00	24.30
8	25-Jul-12	2	*26.00	25.12
9	25-Oct-12	2	*27.00	25.54
10	1-May-13	2	*30.00	30.61

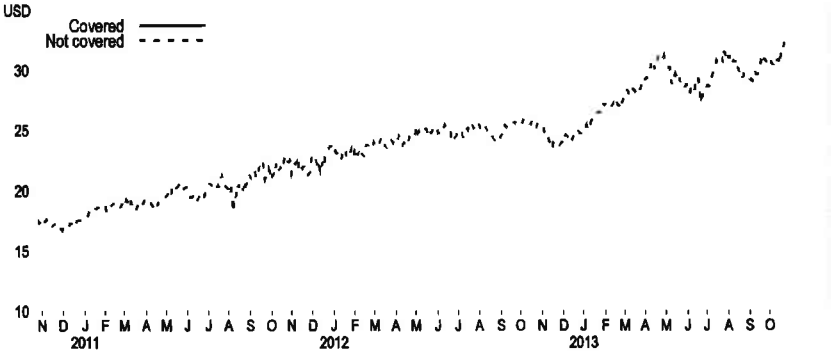
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



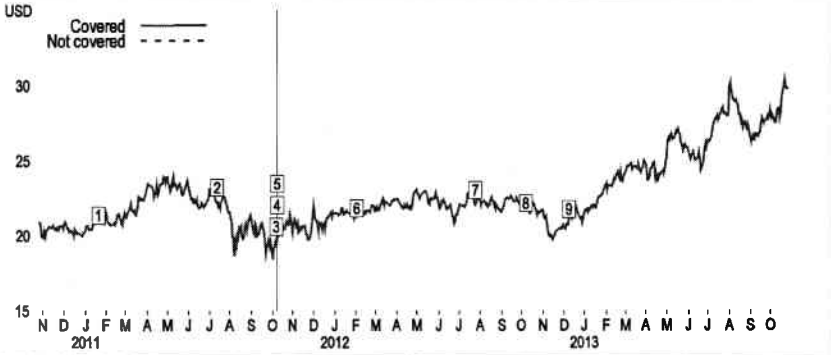
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	1M	*23.50	21.32
2	13-Jul-11	*2M	*24.00	22.26
3	7-Oct-11	2M	*21.50	19.34
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	21.50	19.34
6	2-Feb-12	2	*21.00	21.31
7	25-Jul-12	2	*23.00	22.04
8	8-Oct-12	2	*22.00	21.90
9	10-Dec-12	*1	*29.00	21.38

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA
Covered since March 22 2013

	Date	Rating	Target Price	Closing Price
1	9-Oct-12	*ADD LP	-	21.82
2	10-Dec-12	*REM LP	-	21.38

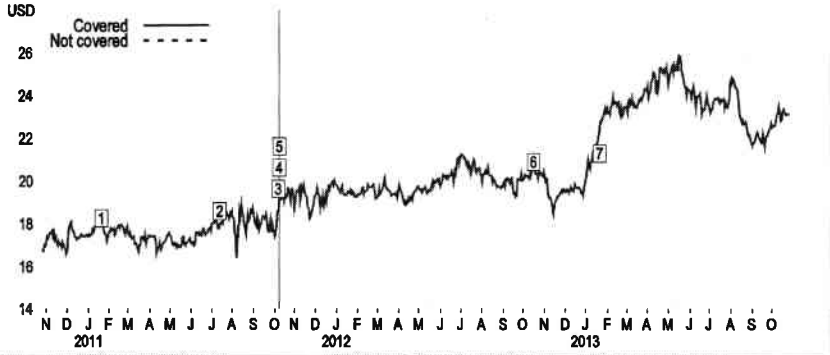
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*1L	*19.00	17.92
2	13-Jul-11	1L	*19.25	17.99
3	7-Oct-11	1L	*20.50	18.55
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	20.50	18.55
6	17-Oct-12	*2	*21.75	20.91
7	22-Jan-13	*1	*25.00	22.37

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA
Covered since March 22 2013

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Energen Corp (EGN)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013

	Date	Rating	Target Price	Closing Price
1	20-Jan-11	2M	*60.00	53.84
2	26-Apr-11	2M	*64.00	62.82
3	13-Jul-11	*1M	*69.00	57.12
4	6-Oct-11	1M	*61.00	43.74
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	61.00	42.92
7	27-Jan-12	1	*63.00	49.29
8	23-Apr-12	1	*60.00	46.01
9	26-Apr-12	1	*65.00	51.30
10	25-Jul-12	1	*63.00	46.41
11	2-Oct-12	1	*65.00	51.82
12	18-Dec-12	1	*61.00	45.30

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Energen Corp (EGN)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA
Covered since March 22 2013

	Date	Rating	Target Price	Closing Price
1	27-Apr-12	*ADD MP	-	51.72
2	22-Mar-13	*REM MP	-	51.28

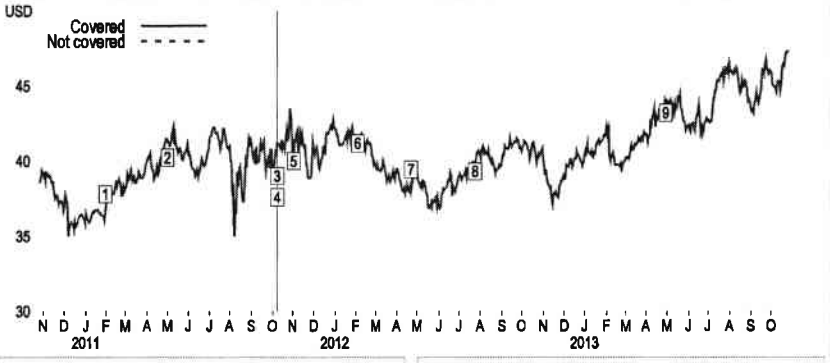
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AGL Resources Inc (GAS)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	30-Jan-11	*1M	*41.00	36.09
2	2-May-11	*1L	*44.00	41.45
3	6-Oct-11	Stock rating system changed		
4	6-Oct-11	*2	44.00	40.44
5	2-Nov-11	2	*42.00	39.99
6	3-Feb-12	2	*43.00	41.55
7	23-Apr-12	2	*41.00	37.95
8	25-Jul-12	2	*43.00	39.70
9	30-Apr-13	2	*44.00	43.85

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AGL Resources Inc (GAS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA

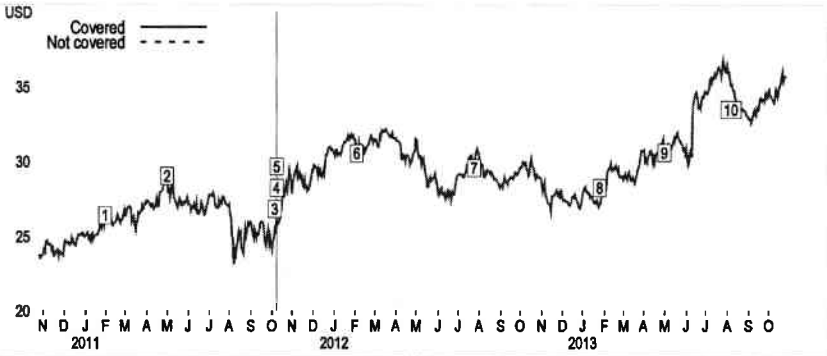
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jan-11	*2M	*25.00	26.23
2	2-May-11	2M	*28.00	28.71
3	6-Oct-11	2M	*26.00	25.51
4	8-Oct-11	Stock rating system changed		
5	6-Oct-11	*2	26.00	25.33
6	3-Feb-12	2	*32.00	30.58
7	25-Jul-12	2	*29.00	29.89
8	25-Jan-13	2	*27.00	27.09
9	1-May-13	2	*30.00	30.81
10	7-Aug-13	2	*36.00	35.15

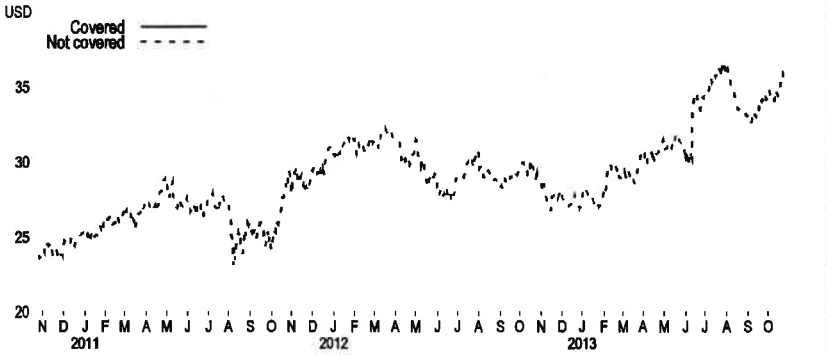
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



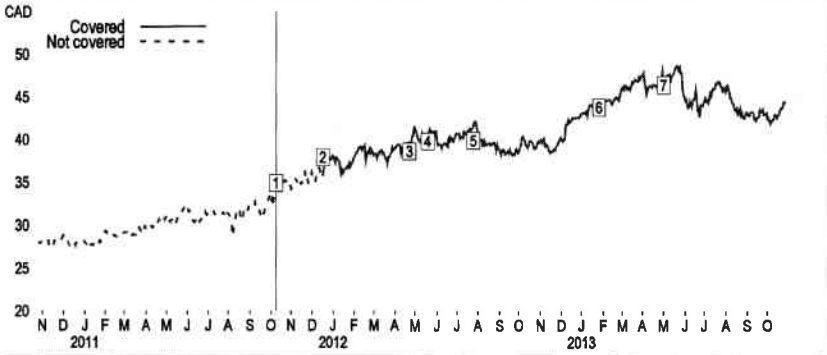
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	16-Dec-11	*2	*37.37	35.85
3	23-Apr-12	2	*35.68	39.50
4	18-May-12	2	*41.50	40.03
5	25-Jul-12	2	*44.00	41.59
6	25-Jan-13	2	*45.00	44.18
7	1-May-13	2	*46.00	47.11

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA
Covered since March 22 2013

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013

	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*3S	*67.00	66.81
2	26-Apr-11	3S	*70.00	73.45
3	13-Jul-11	*2H	70.00	70.82
4	7-Oct-11	*1H	*64.00	51.92
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	64.00	51.92
7	29-Jan-12	1	*63.00	50.56
8	23-Apr-12	1	*57.00	44.60
9	25-Jul-12	1	*55.50	48.25
10	3-Aug-12	1	*57.00	49.38

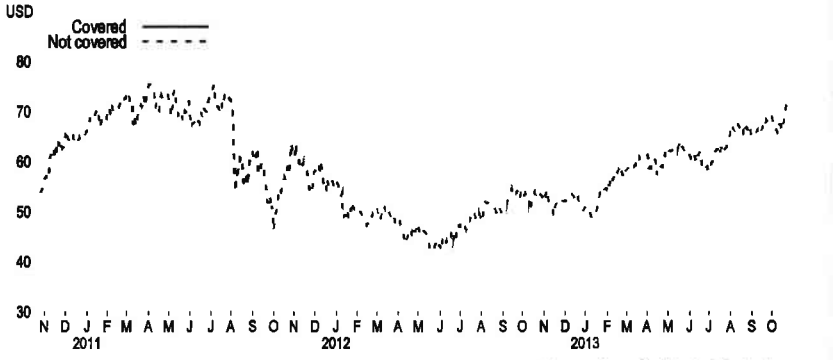
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA
Covered since March 22 2013

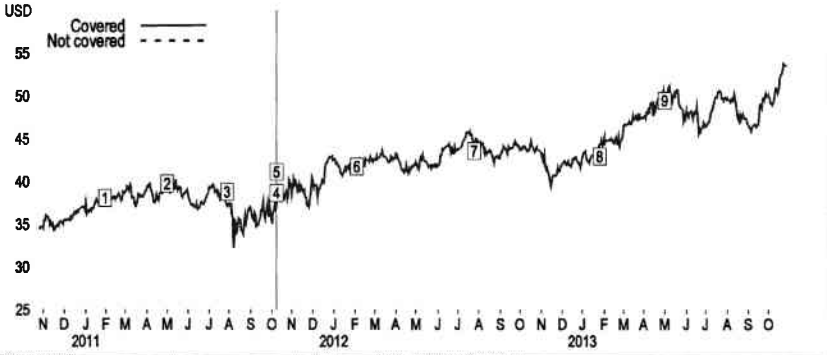


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



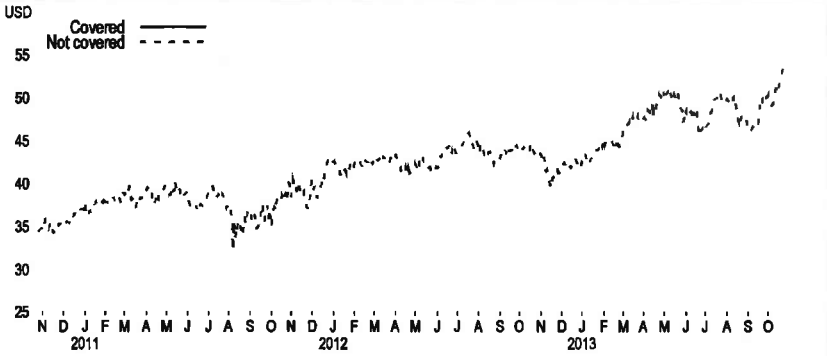
	Date	Rating	Target Price	Closing Price
1	31-Jan-11	*2M	*41.00	37.24
2	2-May-11	2M	*43.00	39.59
3	28-Jul-11	*1M	*45.00	37.09
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	45.00	36.78
6	3-Feb-12	1	*47.00	42.68
7	25-Jul-12	*2	*50.00	44.12
8	25-Jan-13	2	*48.00	44.37
9	1-May-13	2	*51.00	49.70

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA

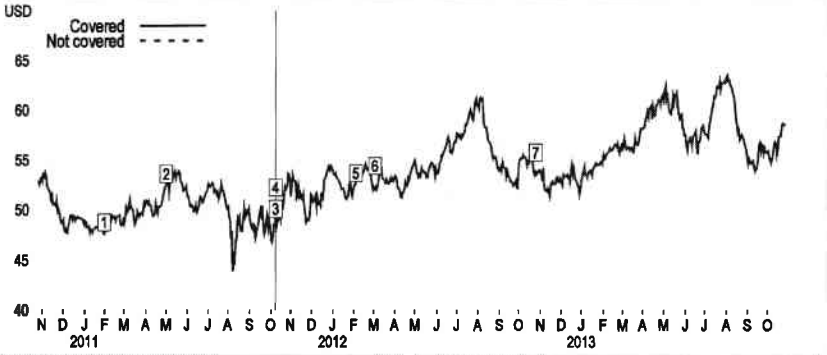


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jan-11	*2H	*46.00	47.59
2	2-May-11	*2M	*51.00	52.48
3	6-Oct-11	Stock rating system changed		
4	8-Oct-11	*2	51.00	48.42
5	3-Feb-12	2	*56.00	52.72
6	2-Mar-12	2	*55.00	52.07
7	25-Oct-12	2	-	53.85

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA

	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	48.32
2	19-Apr-11	*REM LP	-	49.68

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of CenterPoint Energy Inc. Citigroup Global Markets Inc. acted as an advisor to CenterPoint Energy Inc. in the formation of the joint venture with OGE Energy and ArcLight Capital.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Sempra Energy

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of UGI Corp

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01 November 2013
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**NEUTRAL***
Price (31 Oct 13, US$)	31.52
Target price (US$)	(from 32.00) 33.00[1]
52-week price range	32.32 - 23.40
Market cap. (US$ m)	9,852.55
Enterprise value (US$ m)	18,365.82

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

Paul Jacobs
713 890 1596
paul.jacob@credit-suisse.com

INCREASE TARGET PRICE

Q3 Slight Beat; Maintaining Neutral, TP to $33 on MLP Possibility

- **Maintaining Rating at Neutral.** Our TP increases by $1, to $33, after rolling our estimates forward one period. We are electing to maintain our Neutral rating as NI deserves a premium in our view given the possibility of formulating an MLP in the future.
- **Valuation to $33.** Our $33 TP is based on a projected price to earnings multiple of ~17x-20x 2015E EPS. Together with NTM dividend of $1.02, this translates to a total return of approximately (2)-15% with a mid-point of ~7%, which is below our median total return expectations for midstream MLPs. While we have a slightly negative bias, we acknowledge continuing robust demand for low risk, yield-oriented investments such as that offered by NI which has a broader investor base than MLPs and utilities with MLP possibilities tend to trade at premiums to other utilities.
- **Risks.** NI's low risk business model of regulated assets operating in a relatively benign regulatory environment, highly visible investment opportunities in each of NI's segments together with a 3.2% dividend has appeal to defensive, yield-oriented investors. However, we would expect that flare-ups in the macro political, economic, or financial environment could result in a pull-back in the valuation of the shares given that NI is trading at over 5 turns above its forward P/E average and its peers are trading at approximately 6.5 turns above their forward P/E average.

Share price performance

On 10/31/13 the S&P 500 INDEX closed at 1756.54

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.73	0.23	-0.10	0.44
2013E	0.69	0.23	0.18	0.48
2014E	0.73	0.26	0.20	0.49

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US$)	1.43	1.58	1.67	1.76
Prev. EPS (US$)	—	1.55	1.65	1.75
P/E (x)	22.1	19.9	18.8	17.9
P/E rel. (%)	132.3	126.6	132.5	138.4
Revenue (US$ m)	5,070.0	5,578.6	5,843.6	6,227.5
EBITDA (US$ m)	1,633.3	1,725.7	1,911.8	2,071.5
OCFPS (US$)	4.26	5.04	4.46	4.81
P/OCF (x)	5.8	6.2	7.1	6.6
EV/EBITDA (current)	10.9	10.4	9.3	8.6
Net debt (US$ m)	8,067	8,513	9,154	9,390
ROIC (%)	5.13	5.25	5.42	5.55
Number of shares (m)	312.58	IC (current, US$ m)		13,621.20
BV/share (Next Qtr., US$)	18.6	EV/IC (x)		1.3
Net debt (Next Qtr., US$ m)	8,436.2	Dividend (current, US$)		0.99
Net debt/tot cap (Next Qtr., %)	148.0	Dividend yield (%)		0.79

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 639 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 458,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI holds substantial acreage.

NI also has an inventory of project opportunities of ~$10 billion in its regulated Gas Distribution segment, $6-$8 billion in its regulated electric segment and $8-$10B in its Gas Transmission and Storage Segment. Importantly, we believe NI has the liquidity ($1.4B as of 3Q), balance sheet, and opportunity set in place to maintain an annual cap ex program of $1.5-1.8B (closer to ~$2B this year).

Outlook: Holding Our Forecast

- **3Q13 Results: Beat against our estimates, but mixed against Street**: NI reported 3Q EPU of $0.18 and EBITDA of $328 million, exceeding our $0.15 and $320 million estimates respectively but mixed against the Street at $0.17 and $346 million respectively. The largest differential to our model was a positive benefit to Columbia Pipeline Group vs. the same period a year ago due to a modernization settlement charge that impacted the 3Q12 period by ~$50 million.
- **Modeling 4% Dividend Growth**: Our forecasted 4% growth rate is consistent with management growth guidance of 3-5% dividend/share and 60-70% payout.
- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit of ~$1.4B at the end of 2Q13.
- **Cap Ex Forecast of $25-$30b over the long term**: NI has a total inventory of 25-$30b (equivalent to $1.5-$1.8B/year) in .infrastructure focused investment opportunities over the next 15-20 years. With the earnings report, NI raised their 2013 capex forecast to $2B, with a significant driver being increased investment in tracked infrastructure replacement and modernization programs.
- **MLP option entered discussion again:** From the tone of the 3Q call, management still views an MLP as a viable option to help finance growth of its midstream business. At the same time, we believe that any MLP opportunity will come in 2H15 or beyond, when NI is likelly to get more proactive with capital market transaction due to capital growth needs.

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Largely Maintaining Forecasts

We slightly raised our outlook for the Columbian Pipeline segment due to the 3Q beat vs. our numbers. We continue to expect that NI will be able to grow earnings at ~5-7% per year over the next several year with 3-5% dividend growth.

Exhibit 1: **Estimate Comparison**

Earnings Variance	Old estimates					New estimates				
	3Q13E	4Q13E	2013E	2014E	2015E	3Q13A	4Q13E	2013E	2014E	2015E
Segment EBITDA										
Gas Distribution	71	187	642	688	745	51	186	621	684	741
NIPSCO Electric	147	127	521	535	567	151	127	525	533	565
Gas Transmission & Storage	107	175	556	687	757	125	175	575	696	767
Other	(5)	(1)	(1)	1	1	1	1	5	(1)	(1)
Total EBITDA (recurring)	**320**	**488**	**1,718**	**1,911**	**2,070**	**328**	**489**	**1,725**	**1,912**	**2,072**
Segment EBIT										
Gas Distribution	20	135	440	466	504	(0)	134	418	462	500
NIPSCO Electric	82	61	263	265	286	91	61	268	263	284
Gas Transmission & Storage	78	145	445	556	606	99	145	464	564	615
Other	(7)	(4)	(15)	(11)	(12)	(5)	(2)	(6)	(13)	(13)
Total EBIT (recurring)	**173**	**338**	**1,133**	**1,277**	**1,384**	**184**	**339**	**1,144**	**1,277**	**1,386**
Interest Expense	103	107	410	468	518	104	108	412	461	514
Other Expenses	0	0	(17)	0	0	(5)	0	(22)	0	0
Taxes	25	81	257	287	312	28	81	259	290	314
Recurring Net Income	**46**	**150**	**484**	**522**	**555**	**57**	**150**	**494**	**526**	**558**
Diluted Wtd Avg shares outstanding	314	314	313	315	317	313	313	313	315	316
Recurring EPS - Diluted	**$0.15**	**$0.48**	**$1.55**	**$1.65**	**$1.75**	**$0.18**	**$0.48**	**$1.58**	**$1.67**	**$1.76**
Dividend per share	**$0.25**	**$0.25**	**$0.99**	**$1.03**	**$1.07**	**$0.25**	**$0.25**	**$0.99**	**$1.03**	**$1.07**
Financing & Credit Metrics										
Total Debt / Total Cap	59.6%	59.8%	59.8%	60.6%	59.1%	59.7%	59.6%	59.6%	60.3%	58.8%
Net Debt / Total Cap	59.4%	59.7%	59.7%	60.4%	58.9%	59.7%	59.6%	59.6%	60.3%	58.7%
Net Debt / Equity	146.6%	148.2%	148.2%	152.8%	143.6%	148.0%	147.3%	147.3%	151.8%	142.2%
Book Value Per Share	$18.10	$18.32	$18.39	$19.04	$20.70	$18.23	$18.45	$18.49	$19.18	$20.86
Net Debt / TTM EBITDA	4.9x	5.0x	5.0x	4.8x	4.6x	5.0x	4.9x	4.9x	4.8x	4.5x

Source: Company data, Credit Suisse estimates

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Exhibit 2: **3Q Results beat our expectations on higher CPG margin**

Earnings Variance	3Q13 Actual	3Q13 CS Estimate	Diff.	Diff. (%)	3Q12 Actual
Segment EBITDA					
Gas Distribution	51	71	(21)	-29%	64
NIPSCO Electric	151	147	5	3%	141
Gas Transmission & Storage	125	107	19	17%	47
Other	1	(5)	6	-124%	(47)
Total EBITDA (recurring)	**328**	**320**	**8**	**3%**	**205**
Segment EBIT					
Gas Distribution	(0)	20	(21)	-102%	16
NIPSCO Electric	91	82	9	11%	78
Gas Transmission & Storage	99	78	20	26%	39
Other	(5)	(7)	2	-32%	(51)
Total EBIT (recurring)	**184**	**173**	**11**	**6%**	**82**
Interest Expense	104	103	1	1%	108
Other Expenses	(5)	0	(5)	NM	(2)
Taxes	28	25	3	13%	6
Recurring Net Income	**57**	**46**	**12**	**25%**	**(30)**
Diluted Wtd Avg shares outstanding	313	314	(1)	0%	300
Recurring EPS - Diluted	**$0.18**	**$0.15**	**$0.00**	**0%**	**($0.10)**
Dividend per share	**$0.25**	**$0.25**	**$0.00**	**0%**	**$0.24**

Source: Company data, Credit Suisse estimates

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Valuation

- We are raising our target price by $1, to $33, based on a valuation range of $30-$33 tied to a projected price to earnings multiple of ~17-19x 2015E EPS. The stock trades at price to earnings multiples of ~19x NTM and ~18x 2015E, respectively.
- Applying "normal" valuation multiples to NI's three segments results in a valuation range between $24 and $35, resulting in a value of $29 at the midpoint – below where NI currently trades and a ~16x multiple on NI's 2015E EPS of $1.76/share.

Exhibit 3: Sum of the Parts Valuation (Normal)
NTM - Next Twelve Months Valuation

	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple Low	Multiple Base	Multiple High	Enterprise Value / Equity Value Low	Enterprise Value / Equity Value Base	Enterprise Value / Equity Value High
Electric Services	258.0	266.4	172.3	P/E	17.5x	19.5x	21.5x	3,016.1	3,360.8	3,705.5
Natural Gas Utilities	450.9	217.3	668.1	EV/EBITDA	9.0x	10.0x	11.0x	6,013.2	6,681.4	7,349.5
Transmission and Storage	560.1	126.7	686.8	EV/EBITDA	10.0x	11.0x	12.0x	6,867.7	7,554.4	8,241.2
Total Enterprise / Equity Value								**15,897.0**	17,596.6	**19,296.2**
Cash & Equivalents								33.2	33.2	33.2
Short-term Debt								1,362.0	1,362.0	1,362.0
Long-term Debt								7,089.1	7,089.1	7,089.1
Less Net Debt								8,417.9	8,417.9	8,417.9
Total Equity Value								**7,479.1**	9,178.7	**10,878.3**
Shares Outstanding								313	313	313
Per Share								**$23.88**	$29.31	**$34.73**
Current Share Price (Feb 19, 2013)								$31.52	$31.52	$31.52
Return								(21%)	(4%)	13%
Dividend per share (Est.)								$0.99	$0.99	$0.99
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*(18%)*	*(1%)*	*16%*
2015E EPS								$1.76	$1.76	$1.76
Implied P/E								**13.5x**	**16.6x**	**19.7x**
									$29.00	
									$29.00	
							Implied P/E		16.4x	

Source: Credit Suisse estimates

However, when accounting for the possible MLP spinoff, our SOTP valuation yields a $35 implied price at the midpoint, suggesting that the MLP concept could continue to support a premium valuation over the coming months.

Exhibit 4: SOTP Valuation Accounting for MLP Spinoff

NTM - MLP Valuation Multiple for Transmission and Storage

	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple Low	Multiple Base	Multiple High	Enterprise Value / Equity Value Low	Enterprise Value / Equity Value Base	Enterprise Value / Equity Value High
Electric Services	258.0	266.4	172.3	P/E	18.0x	19.0x	20.0x	3,102.3	3,274.6	3,447.0
Natural Gas Utilities	450.9	217.3	668.1	EV/EBITDA	9.0x	10.0x	11.0x	6,013.2	6,681.4	7,349.5
Transmission and Storage	560.1	126.7	686.8	EV/EBITDA	12.5x	13.5x	15.5x	8,584.6	9,271.4	10,644.9
Total Enterprise / Equity Value								**17,700.1**	**19,227.4**	**21,441.4**
Cash & Equivalents								33.2	33.2	33.2
Short-term Debt								1,362.0	1,362.0	1,362.0
Long-term Debt								7,089.1	7,089.1	7,089.1
Less Net Debt								8,417.9	8,417.9	8,417.9
Total Equity Value								**9,282.2**	**10,809.5**	**13,023.5**
Shares Outstanding								313	313	313
Per Share								**$29.64**	**$34.51**	**$41.58**
Current Share Price (Feb 19, 2012)								$31.52	$31.52	$31.52
Return								(3%)	13%	35%
Dividend per share (Est.)								$0.99	$0.99	$0.99
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*0%*	*16%*	*38%*
2015E EPS								$1.76	$1.76	$1.76
Implied P/E								**16.8x**	**19.6x**	**23.6x**
									$35.00	
									$35.00	
							Implied P/E		19.8x	

Source: Credit Suisse estimates

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Risks

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of having enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and $1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Of the ~$2B in cap ex for 2013, $520mm is for age and condition and the remaining portion is for growth and tracker investments which effectively have support from NI's from the state regulatory authorities in which it operates.

Commodity price risk is very low and under the current regulatory regime is recovered in utility rates.

The main risk in our view is valuation – as explained above NI and for that matter its peers have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. Consequently NI's shares are up ~27% YTD with no meaningful change in earnings outlook. The shares yield 3.2% and the company is guiding to 3-5% dividend growth giving 7% annual return potential all else being equal. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

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Exhibit 5: Financial Summary

NiSource Inc. (NYSE: NI)
Abbreviated Financial Statements

Credit Suisse - Master Limited Partnerships and Natural Gas

Year ending December 31
($ millions, except per share data)

Abbreviated Income Statement	2010	2011	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Segment EBITDA														
Gas Distribution	582.1	608.6	639.9	281.8	101.9	50.6	186.3	620.6	290.4	108.9	82.5	202.3	684.2	740.5
NIPSCO Electric	429.0	414.9	487.3	128.1	119.0	151.1	126.9	525.1	123.1	121.0	153.4	135.2	532.7	564.7
Gas Transmission & Storage	507.8	490.3	497.0	159.0	115.3	125.4	175.0	574.7	203.5	163.1	145.2	183.9	695.6	766.8
Other	(5.7)	(32.0)	(38.3)	2.5	0.4	1.1	1.1	5.1	1.1	4.3	(7.3)	1.2	(0.7)	(0.6)
Total EBITDA (recurring)	**1,513.2**	**1,481.8**	**1,585.9**	**571.4**	**336.6**	**328.2**	**489.3**	**1,725.5**	**618.1**	**397.3**	**373.8**	**522.6**	**1,911.8**	**2,071.5**
Segment EBIT														
Gas Distribution	342.8	435.4	449.1	233.3	51.8	(0.5)	133.7	418.3	236.6	54.0	26.5	145.1	462.3	500.1
NIPSCO Electric	217.9	195.5	237.6	64.9	58.6	90.5	61.3	267.6	56.9	54.0	85.7	66.8	263.5	284.1
Gas Transmission & Storage	377.2	360.3	397.7	133.3	88.8	98.7	145.2	463.7	172.5	130.7	111.6	149.1	563.9	615.1
Other	(21.3)	(45.1)	(13.0)	(3.6)	(5.7)	(5.0)	(1.8)	(6.0)	(1.8)	1.4	(10.2)	(1.8)	(12.5)	(13.0)
Total EBIT (recurring)	**916.6**	**946.1**	**1,071.4**	**427.9**	**193.5**	**183.7**	**338.5**	**1,143.6**	**464.2**	**240.2**	**213.6**	**359.1**	**1,277.1**	**1,386.3**
Interest Expense	392.2	376.8	418.3	98.6	102.0	103.7	107.8	412.1	109.8	113.3	116.9	121.4	461.4	513.7
Other Expenses	(3.8)	7.4	(2.4)	(4.1)	(13.3)	(4.7)	0.0	(22.1)	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Taxes	**528.2**	**561.9**	**655.5**	**333.4**	**104.8**	**84.7**	**230.8**	**753.7**	**354.4**	**126.9**	**96.7**	**237.7**	**815.7**	**872.5**
Taxes	189.0	199.4	228.3	118.1	32.7	27.6	80.8	259.2	125.8	45.1	34.3	84.4	289.6	314.1
Recurring Net Income	**339.2**	**362.5**	**427.2**	**215.3**	**72.1**	**57.1**	**150.0**	**494.5**	**228.6**	**81.9**	**62.3**	**153.3**	**526.1**	**558.4**
Recurring EPS														
Basic	$1.22	$1.29	$1.46	$0.69	$0.23	$0.18	$0.48	$1.58	$0.73	$0.26	$0.20	$0.49	$1.67	$1.76
Diluted	**$1.21**	**$1.26**	**$1.43**	**$0.69**	**$0.23**	**$0.18**	**$0.48**	**$1.58**	**$0.73**	**$0.26**	**$0.20**	**$0.49**	**$1.67**	**$1.76**
YoY %Change	*14.2%*	*5.9%*	*13.2%*		*1.26*			*8.2%*		*1.65*			*5.7%*	*5.5%*
					21.42									
Weighted Average Shares Outstanding														
Basic	277.8	280.4	291.9	311.1	312.2	312.8	313.3	312.3	313.8	314.3	314.7	315.2	314.5	316.4
Diluted	280.1	288.5	299.7	311.1	313.2	312.8	313.3	312.6	313.8	314.3	314.7	315.2	314.5	316.4
Dividend/Share	**$0.92**	**$0.92**	**$0.95**	**$0.24**	**$0.25**	**$0.25**	**$0.25**	**$0.99**	**$0.25**	**$0.26**	**$0.26**	**$0.26**	**$1.03**	**$1.07**
Payout Ratio	*75.4%*	*71.1%*	*63.9%*					*61.9%*					*61.6%*	*60.6%*
Abbreviated Balance Sheet														
Cash and Equivalents	9.2	11.5	36.3	101.4	44.5	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Restricted Cash	202.9	160.6	46.8	23.1	29.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3
Accounts Receivables	1,079.3	854.8	907.3	1,070.3	716.5	591.0	886.2	886.2	1,034.8	761.1	675.9	813.5	813.5	771.8
Inventories	298.2	427.6	326.6	70.3	266.0	454.8	298.1	298.1	45.4	194.5	419.0	183.4	183.4	163.3
Other Current Assets	859.3	793.9	1,035.4	766.7	651.3	666.5	647.6	647.6	661.6	665.1	665.9	647.6	647.6	647.6
Current Assets	**2,448.9**	**2,248.4**	**2,352.4**	**2,031.8**	**1,707.6**	**1,745.5**	**1,865.1**	**1,865.1**	**1,775.0**	**1,653.9**	**1,794.0**	**1,677.7**	**1,677.7**	**1,616.0**
Net PP&E	11,002.3	11,667.6	12,655.9	12,834.7	13,176.3	13,611.1	14,010.3	14,010.3	14,298.9	14,584.3	14,866.5	15,145.6	15,145.6	16,230.3
Other Assets	6,487.6	6,792.5	6,836.4	6,769.9	6,737.7	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5
Total Assets	**19,938.8**	**20,708.5**	**21,844.7**	**21,636.4**	**21,621.6**	**22,084.1**	**22,602.9**	**22,602.9**	**22,801.4**	**22,965.7**	**23,388.1**	**23,550.8**	**23,550.8**	**24,573.8**
Accounts Payable	581.8	434.8	538.9	527.4	393.0	369.6	578.3	578.3	509.9	417.5	422.7	614.1	614.1	737.5
Current Portion of LT Debt	34.2	327.3	507.2	89.3	70.7	541.2	541.2	541.2	541.2	541.2	541.2	541.2	541.2	541.2
Other Short Term Borrowings	1,382.5	1,359.4	776.9	1,131.2	377.7	820.8	397.9	397.9	669.6	951.8	1,298.8	1,041.7	1,041.7	977.6
Other Current Liabilities	1,650.9	1,524.9	1,478.6	1,226.5	1,226.6	1,274.0	1,428.5	1,428.5	1,261.0	1,222.9	1,300.1	1,448.1	1,448.1	1,541.9
Current Liabilities	**3,649.4**	**3,646.4**	**3,301.6**	**2,974.4**	**2,068.0**	**3,005.6**	**2,945.9**	**2,945.9**	**2,981.7**	**3,133.4**	**3,562.7**	**3,645.1**	**3,645.1**	**3,798.2**
Long Term Debt	5,936.1	6,267.1	6,819.1	6,803.9	7,616.7	7,089.1	7,589.1	7,589.1	7,589.1	7,589.1	7,589.1	7,585.6	7,585.6	7,685.6
Other Liabilities	5,430.1	5,797.7	6,169.7	6,167.4	6,234.2	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5
Total Liabilities	**15,015.6**	**15,711.2**	**16,290.4**	**15,945.7**	**15,918.9**	**16,383.2**	**16,823.5**	**16,823.5**	**16,859.3**	**17,011.0**	**17,440.3**	**17,519.2**	**17,519.2**	**17,972.3**
Shareholders Equity	4,923.2	4,997.3	5,554.3	5,690.7	5,702.7	5,700.9	5,779.5	5,779.5	5,942.1	5,954.8	5,947.8	6,031.7	6,031.7	6,601.5
Total Liabilities and Equity	**19,938.8**	**20,708.5**	**21,844.7**	**21,636.4**	**21,621.6**	**22,084.1**	**22,602.9**	**22,602.9**	**22,801.4**	**22,965.7**	**23,388.1**	**23,550.8**	**23,550.8**	**24,573.8**
Total Capital Expenditures	**911.6**	**1,131.0**	**1,396.0**	**500.0**	**500.0**	**500.0**	**500.0**	**2,000.0**	**442.5**	**442.5**	**442.5**	**442.5**	**1,770.0**	**1,770.0**
Financial Metrics														
Total Debt / Total Cap	59.9%	61.4%	59.3%	58.5%	58.6%	59.7%	59.6%	59.6%	59.7%	60.4%	61.3%	60.3%	60.3%	58.8%
Net Debt / Total Cap	59.9%	61.4%	59.2%	58.2%	58.4%	59.7%	59.6%	59.6%	59.7%	60.4%	61.3%	60.3%	60.3%	58.7%
Net Debt / Equity	149.2%	158.9%	145.2%	139.2%	140.6%	146.0%	147.3%	147.3%	147.8%	152.3%	158.3%	151.8%	151.8%	142.2%
Book Value Per Share	$17.58	$17.73	$18.53	$18.29	$18.21	$18.23	$18.45	$18.49	$18.94	$18.95	$18.90	$19.13	$19.18	$20.86
Net Debt / TTM EBITDA	4.9x	5.4x	4.9x	5.0x	5.1x	5.0x	4.9x	4.9x	5.0x	4.9x	5.0x	4.8x	4.8x	4.5x

Source: Credit Suisse estimates

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Companies Mentioned *(Price as of 31-Oct-2013)*

NiSource Inc. (NI.N, $31.52, NEUTRAL, TP $33.0)

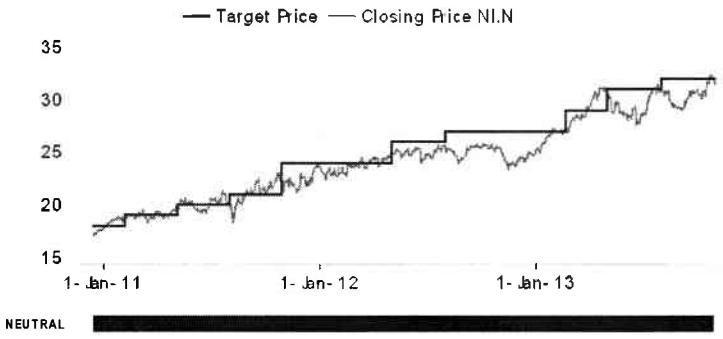
Disclosure Appendix

Important Global Disclosures

John Edwards, CFA and Bhavesh Lodaya, each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
15-Dec-10	17.09	18.00	N *
06-Feb-11	18.40	19.00	
06-May-11	19.44	20.00	
16-Jun-11	19.30		*
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	
01-Aug-13	31.11	32.00	



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

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Neutral/Hold*	41%	(49% banking clients)
Underperform/Sell*	15%	(40% banking clients)
Restricted	3%	

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: We derive our 12-month price target of $33 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 17-19x 2015E EPS estimate of $1.76, which is at the upper end of NI's historic trading range but below its historic average relative to peers.

Risk: Main risks to our 12-month price target of $33 for NiSource would be mean reversion on multiples. Both NI and peers are trading well above historical multiples both compared to themselves and the S&P 500. Consequently, should issues surface on the macro political, financial, economic, or other fronts, there is risk of pull back from current multiples. valuation.

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See the Companies Mentioned section for full company names

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HILLIARD LYONS

Electric Utilities
David Burks
J.J.B. Hilliard, W.L. Lyons, LLC
502.588.8648 / DBurks@hilliard.com
October 31, 2013

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports higher third quarter earnings and reaffirms 2013 earnings guidance

Key Metrics

NI - NYSE (Price as of 10/30/13)	$31.70
Price Target	NA
52-Week Range	$32.52 - $23.14
Shares Outstanding (mm)	312.8
Market Cap. ($mm)	$9,915
3-Mo. Average Daily Volume	1,953,000
Institutional Ownership	81.0%
Debt/Total Capital (9/30)	59.7%
ROE (ttm)	7.9%
Book Value/Share	$18.03
Price/Book Value	1.76x
Indicated Dividend / Yield	$1.00 3.2%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2012	Prior 2013E	2013E	Prior 2014E	Curr. 2014E
1Q		--		-	-
2Q		--		-	-
3Q		--		-	-
4Q		--		-	-
Year	$1.46		$1.55		$1.67
P/E	21.7x		20.4x		19.0x
Payout	66%		65%		60%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2012	Prior 2013E	2013E	Prior 2014E	Curr. 2014E
1Q		--		-	-
2Q		--		-	-
3Q		--		-	-
4Q		--		-	-
Year	$5,070		$5,300	-	$5,750

Company Description: *Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.*

Investment Highlights

- **NiSource reported third quarter net operating earnings of $0.18 per share versus $0.04 per share earned in the third quarter of 2012 and slightly above expectations.** These results include the impact of a 24 million share $340 million equity issuance done last September. The company's Columbia pipeline group operations and electric operations segments saw their earnings contributions rise in the third quarter. NI's gas distribution operations division saw its earnings contribution deline in the period. In sum, it was yet another favorable quarter for NI, in our view.
- **Management reaffirmed 2013 earnings guidance of $1.50 to $1.60 per share.** The outlook is expected to be driven by the ongoing execution of its infrastructure-investment programs and a modest and gradual economic recovery. We are maintaining our 2013 EPS estimate of $1.55. In addition, we are maintaining our 2014 EPS estimate of $1.67 per share.
- **The company continues to expect 2013 capital expenditures of $2.0 billion.** Virtually all of these additional capital investments are allocated to track infrastructure replacement and modernization programs. This is part of the company's large ongoing capital investment program, and approximately 75% of these investments remain focused in accretive growth. We also expect significant ongoing capital expenditures going forward which should drive future earnings growth.
- **We believe NiSource is fairly valued.** However, we think NI has a positive fundamental outlook. Management is continuing to target annual earnings growth of 5% to 7% and growing the dividend by 3% to 5% annually. We would maintain positions in NI and regard it as a well positioned core holding.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Additional information is available upon request.

Analyst Certification

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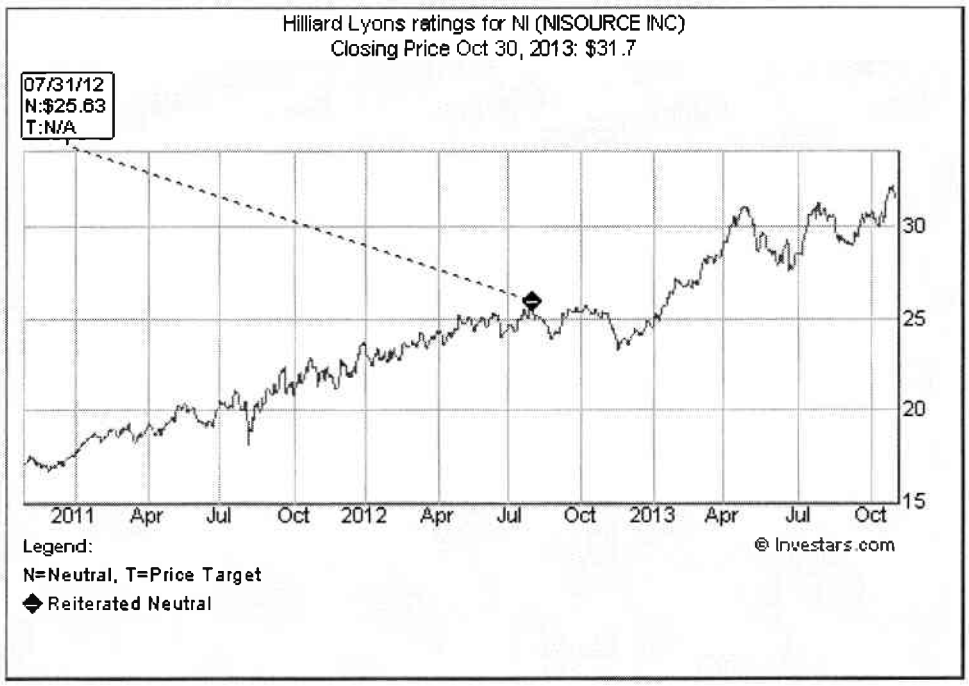
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	53	37%	21%	79%
Hold/Neutral	81	57%	12%	88%
Sell	9	6%	0%	100%

As of 7 October 2013

Other Disclosures

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NiSource, Inc. (BUY)

NI- Quick Alert: 3Q13 Results

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com

KEY INVESTMENT POINTS

October 30, 2013 Close: $31.70
3Q13 KBCM EPS Estimate: $0.18 (Consensus: $0.17)
2013 KBCM EPS Estimate: $1.55 (Consensus: $1.55)
2014 KBCM EPS Estimate: $1.65 (Consensus: $1.67)

3Q13 Actual Results (vs. 3Q12):

- Ongoing EPS $0.18. vs. $0.05; GAAP EPS $0.16 vs. $0.06.
- NI excludes the impact weather variations from normal in its ongoing earnings. Results reported include roughly a half cent of weather benefit.
- Results were in line with our estimate of $0.18 and consensus of $0.17 per share.

Guidance - NI maintained 2013 guidance of $1.50 to $1.60 per share.

3Q Highlights:

- Growth projects remain on track in all segments.
- NIPSCo filed with the Indiana commission a $700 million natural gas infrastructure modernization program, complementing the $1 billion+ electric filing earlier this year. Recent Indiana legislation allows for timely recovery of these investments.
- Columbia Pipeline Group improved (operating earnings of $ 98.7 million vs. $38.8 million) as NI booked the full $50 million 2012- 2013 refund in 3Q12 as agreed under its infrastructure modernization settlement. Revenue enhancements were partly offset by higher expenses, driven by higher depreciation. Lower outside service costs and the sale of base gas offset some of the higher costs.
- Electric operations earnings were $90.5 million vs. $77.8 million as revenues rose on recovery of environmental spending and improved industrial results. The roll- off of a gain related to a customer true- up and lower residential margins partially offset higher revenues. Expenses fell modestly due to lower storm activity, partly offset by higher employee costs. Cooling degree days fell 21% to 7% below normal.
- Gas Distribution operating earnings were a loss of $0.5 million vs. earnings of $9.7 million as new rates in Ohio and Pennsylvania were offset by higher costs.
- Corporate losses rose approximately $3 million primarily due to higher outside services.

Initial Take: We expect a neutral to positive response to results modestly ahead of consensus and the Indiana natural gas filing

9:00 AM ET Conference Call #: (866) 318- 8617; ID#: 31410581
We will be focused on:

- Color on pace of development activity in the Utica/Marcellus.
- Drilling updates on adjacent acreage.
- Management thoughts around MLP structures.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 2 - 3 OF THIS NOTE.

KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

NiSource, Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource, Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

During the past 12 months, NiSource, Inc. has been a client of the firm or its affiliates for non- securities related services.

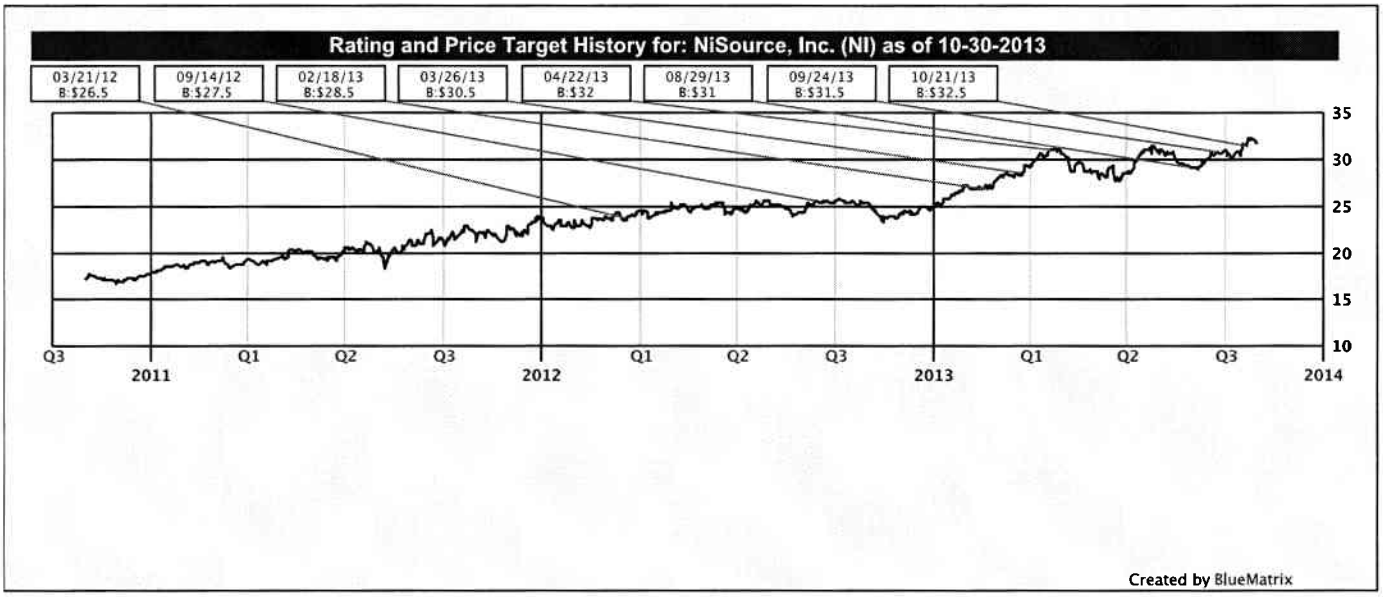
As of the date of this report, we make a market in NiSource, Inc..

We have managed or co- managed a public offering of securities for NiSource, Inc. within the past 12 months.

Reg AIC Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	225	43.35	53	23.56	BUY [BUY]	33	47.14	21	63.64
HOLD [HOLD]	282	54.34	67	23.76	HOLD [HOLD]	37	52.86	17	45.95
SELL [UND]	12	2.31	4	33.33	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

Morgan Stanley

MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Stephen J. Maresca, CFA
Stephen.Maresca@morganstanley.com
+1 212 761 8343

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6385

Brian Lasky
Brian.Lasky@morganstanley.com

Shaan Sheikh, CFA
Shaan.Sheikh@morganstanley.com

Matthew Giacobbe
Matthew.Giacobbe@morganstanley.com

October 31, 2013

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Solid Execution in 3Q13

NI reported solid 3Q13 results that underscored it is on track to deliver 5 – 7% EPS and 3 – 5% div growth through 2015. We maintain our Equal-weight rating and we are raising our price target to $32 from $30 (Bull Case including MLP formation is $38).

3Q13 results: NI reported operating earnings of $0.18 in-line with MS / Consensus estimates of $0.18/$0.17. NI continues to capitalize on its well-positioned midstream asset base (northeast) and much improved utility profile. We believe NI is an attractive lower risk stock with modest upside (MSe 7.1% EPS growth in 2014e and 6.2% in 2015e; with 4.2% dividend growth each year). While NI shares could continue to see support given its low-risk profile and attractive utility and midstream growth attributes, the stock trades near our Sum of the Parts value of $32 and at 19.1x P/E for 2014e, thus we think near-term upside is somewhat limited. Upcoming drivers will be execution of midstream and infrastructure growth opportunities along with its upstream Utica JV initiatives. NI continues to "carefully consider" forming an MLP, weighing tax, credit metrics and projected NI equity needs in 2H15 as considerations. We ultimately believe that NI will get this MLP formation over the goal line at some point (a change in our thinking from before).

Segment results. *Electric EBIT* increased to $90.5mm vs. $77.8mm y/y due to the increase in environmental investment cost recovery and higher industrial and commercial margins. *Gas Distribution EBIT* decreased to a loss of $0.5mm from a gain of $9.7mm last year. While net revenues increased $12mm, opex increased by $22mm due to higher environmental costs, depreciation and g&a. *Columbia Pipeline Group EBIT* increased to $98.7mm from $38.8mm y/y due to impact from the 2012 customer settlement.

What's next: over $20b in long-term opportunities driven by system modernization and Marcellus midstream. Pipeline modernization ($300m / year), Marcellus/Utica infrastructure ($3 – 5b currently), and a self-funded Utica minerals arrangement are just some examples of the fuel that should drive steady growth.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	**$32.00**
Shr price, close (Oct 30, 2013)	$31.70
Mkt cap, curr (mm)	$9,958
52-Week Range	$32.51-23.15

Fiscal Year ending	**12/12**	**12/13e**	**12/14e**	**12/15e**
ModelWare EPS ($)	**1.44**	**1.55**	**1.66**	**1.76**
Prior ModelWare EPS ($)	**-**	**1.55**	**1.64**	**1.74**
P/E	**17.3**	**20.5**	**19.1**	**18.0**
Consensus EPS ($)§	**1.45**	**1.56**	**1.68**	**1.80**
Div yld (%)	3.8	3.1	3.3	3.4
Div per shr ($)	0.95	0.99	1.03	1.07
EBITDA ($mm)	1,645	1,670	1,804	1,912
EV/EBITDA	10.3	12.0	11.6	11.4
Shrs out, diluted, avg (mm)	300	314	314	314

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

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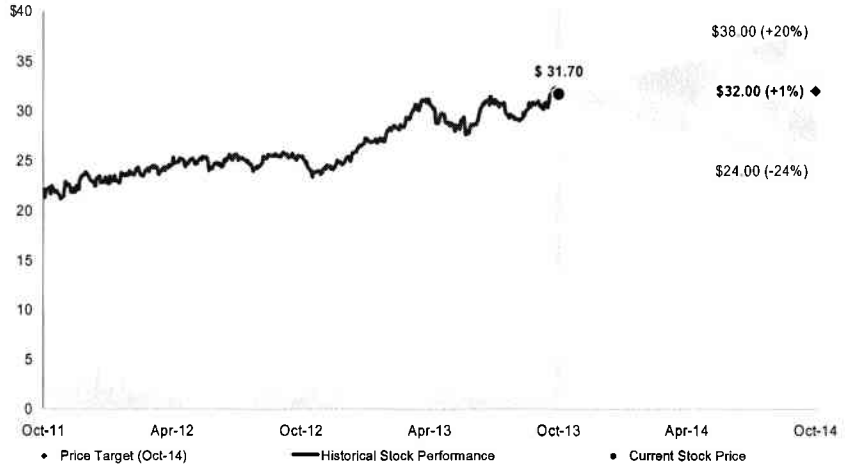
Morgan Stanley

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target $32		Derived from our Sum of the Parts asset valuation.
Bull Case $38	12x GT&S '14e EBITDA, 9x Electric EBITDA	**Increasing Marcellus/Utica market share and utilities outperform; more projects, MLP creation.** NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case $32	10x GT&S '14e EBITDA, 9.0x Electric EBITDA	**Executing on Marcellus opportunities with a steady recovery and execution in utility segments.** NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover.
Bear Case $24	9x GT&S '14e EBITDA, 8x Electric EBITDA	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist or worsen, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions and the stock to re-rate lower given weaker growth profile.

Sum-of-the-Parts (SOTP) Breakdown

NiSource Inc.	Value ($ m)	$/Share
Gas Distribution	$ 5,958	$ 18.99
Gas Transmission & Storage	6,047	19.27
Electric Utility	4,836	15.41
Utica	1,375	4.38
Value per Share	**$ 18,217**	**$ 58.05**
Net Debt	(8,228)	(26.22)
Net Equity Value	**$ 9,988**	**$ 31.83**
Shares Outstanding (in mm)		313.8

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments.
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples and a sum of the parts (SOTP) basis.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 4 – 5% annual growth to go along with 5 – 7% EPS growth potential over multiple years.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.
- MLP formation adds to value of NI and offers further upside on projects and acquisitions.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Unfavorable outcomes in the northeast due to legislation, slower drilling, more competition.

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October 31, 2013
NiSource, Inc.

Exhibit 1

NI: Earnings Results and Preview

(amounts in 000s, except per unit)

	Actual 3Q12	Actual 3Q13	A / A % chg	MS 3Q13E	A / E % chg	MS 4Q13E
Operating Revenues						
Gas Distribution	225,800	255,300	13.1%	483,101	-47.2%	820,492
Gas Transportation and Storage	278,200	350,100	25.8%	214,398	63.3%	296,566
Electric	412,100	416,400	1.0%	423,792	-1.7%	359,835
Other	45,800	61,200		-		-
Total operating revenues	**961,900**	**1,083,000**	12.6%	**1,121,291**	-3.4%	**1,476,892**
Operating Expenses						
Cost of Sales	229,300	243,200	6.1%	324,591	-25.1%	493,841
Operation and maintenance	422,400	468,900	11.0%	431,492	8.7%	477,273
Depreciation and amortization	125,900	144,500	14.8%	137,685	4.9%	139,092
Other taxes	62,200	64,300	3.4%	64,298	0.0%	72,194
Total operating expenses	**839,800**	**920,900**	9.7%	**958,065**	-3.9%	**1,182,400**
Equity Earnings (Loss) in Uncon. Affiliates	**8,000**	**10,500**	31.3%	**10,000**	5.0%	**10,000**
EBIT	**130,100**	**172,600**	32.7%	**173,226**	-0.4%	**304,492**
EBITDA	**256,000**	**317,100**	23.9%	**310,911**	2.0%	**443,584**
Interest expense, net	(107,900)	(103,700)	-3.9%	(100,559)	3.1%	(103,700)
Other income	2,200	15,800		13,300		15,800
Total other income and expenses	**(105,700)**	**(87,900)**	-16.8%	**(87,259)**	0.7%	**(87,900)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**24,400**	**84,700**	247.1%	**85,966**	-1.5%	**216,592**
Income tax (provision)	8,600	27,600	220.9%	28,431	-2.9%	75,916
Net Income (Operating)	**15,800**	**57,100**	261.4%	**57,536**	-0.8%	**140,676**
Average # of Shares Outstanding	300,000	313,800	4.6%	313,200	0.2%	313,800
Net Income per Share (Operating)	**$ 0.05**	**$ 0.18**		**$ 0.18**		**$ 0.45**
Net Income per Share (GAAP)	**$ 0.07**	**$ 0.16**		**$ 0.18**		**$ 0.45**
Segment Data						
Gas Distribution (MMDth)						
Residential	15.4	15.2	-1.3%	15.4	-1.3%	83.9
Commercial	19.7	16.2	-17.8%	19.7	-17.8%	50.1
Industrial	119.2	120.7	1.3%	121.6	-0.7%	115.9
Off System	16.0	15.6	-2.5%	16.8	-7.1%	14.8
Other	-	-		0.2		-
Gas Transmission & Storage (MMDth)						
Columbia Transmission	189.1	158.4	-16.2%	198.6	-20.2%	276.2
Columbia Gulf	205.9	134.0	-34.9%	160.6	-16.6%	138.8
Crossroads Gas Pipeline	3.3	4.1	24.2%	2.7	54.4%	4.3
Intrasegment eliminations	(86.1)	(36.5)	-57.6%	(99.1)	-63.2%	(99.1)
Electric Operations (Gigawatt Hours)						
Residential	1,118.7	1,000.5	-10.6%	1,118.7	-10.6%	763.2
Commercial	1,071.1	1,066.1	-0.5%	1,087.2	-1.9%	921.4
Industrial	2,247.9	2,337.2	4.0%	2,247.9	4.0%	2,286.1
Wholesale	157.9	108.6	-31.2%	161.1	-32.6%	18.2
Other	26.7	31.3	17.2%	27.2	14.9%	34.7

NI confirmed 2013 EPS guidance of $1.50-$1.60

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MORGAN STANLEY RESEARCH

October 31, 2013
NiSource, Inc.

Exhibit 2

NI Income Statement

Income Statement

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
Net Revenues					
Gas Distribution	2,006,400	2,362,292	3,097,177	3,262,165	3,452,762
Gas Transportation and Storage	1,462,400	1,481,666	1,255,582	1,385,881	1,502,406
Electric	1,497,500	1,536,835	1,634,858	1,692,568	1,752,316
Other	133,600	162,800	-	-	-
Total Net Revenues	**5,099,900**	**5,543,592**	**5,987,617**	**6,340,614**	**6,707,483**
Operating Costs					
Cost of Sales	1,525,200	1,762,241	1,950,320	2,046,272	2,155,827
Operation and maintenance	1,674,600	1,852,873	1,963,554	2,096,490	2,227,928
Depreciation and amortization	563,900	570,492	600,015	613,364	628,333
Other taxes	287,800	293,894	301,884	318,677	333,721
Total Operating Costs	**4,051,500**	**4,479,500**	**4,815,773**	**5,074,803**	**5,345,809**
Equity Earnings (Loss) in Uncon. Affiliates	**32,200**	**35,600**	**32,241**	**33,054**	**33,888**
EBIT	**1,080,600**	**1,099,692**	**1,204,085**	**1,298,865**	**1,395,563**
EBITDA	**1,644,500**	**1,670,184**	**1,804,099**	**1,912,229**	**2,023,895**
Other Income					
Interest expense, net	(418,300)	(408,000)	(470,519)	(517,087)	(553,893)
Other income	2,400	49,000	63,200	63,200	63,200
Inc. from continuing operations bef inc. taxes	**664,700**	**740,692**	**796,766**	**844,978**	**904,870**
Income tax (provision)	231,800	254,816	276,481	292,325	313,374
Operating Net income (Loss)	**432,900**	**485,876**	**520,284**	**552,653**	**591,496**
Net Income per Share (Operating)	**$1.44**	**$1.55**	**$1.66**	**$1.76**	**$1.88**
Net Income per Share (GAAP)	**$1.38**	**$1.52**	**$1.66**	**$1.76**	**$1.88**
Weighted Avg Diluted Units Outstanding	300,400	313,800	313,800	313,800	313,800
Dividends per share	0.95	0.99	1.03	1.07	1.12

Source: Company data, Morgan Stanley Research

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October 31, 2013
NiSource, Inc.

Exhibit 3

NI Operating Data

Operating Data

	2012	2013E	2014E	2015E	2016E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	226.5	265.9	271.2	279.3	287.7
Commercial	156.2	168.6	172.0	175.4	178.9
Industrial	478.2	483.3	497.8	512.7	528.1
Off System	61.5	70.5	71.9	73.3	74.8
Other	0.3	0.4	-	-	-
Total Sales and Transports	**922.7**	**988.7**	**1,012.9**	**1,040.8**	**1,069.5**
Weather Adjustment	58.8	0.4	(0.4)	(0.4)	(0.4)
Sales and Transport Vols — Excluding Weather	**981.5**	**989.1**	**1,012.5**	**1,040.4**	**1,069.1**
y/y change	*7.6%*	*0.8%*	*2.4%*	*2.8%*	*2.8%*
Sales Price ($ / Dth)	$2.79	$2.98	$3.06	$3.14	$3.23
y/y change	*-27.5%*	*7.1%*	*2.5%*	*2.5%*	*3.0%*
COGS Price ($ / Dth)	$1.19	$1.35	$1.38	$1.42	$1.46
y/y change	*-43.2%*	*13.0%*	*2.2%*	*2.6%*	*2.9%*
Gross Margin ($ / Dth)	$1.59	$1.64	$1.68	$1.72	$1.77
y/y change	*-8.6%*	*2.6%*	*2.7%*	*2.4%*	*3.1%*
COLUMBIA PIPELINE GROUP					
Throughput (MMDth):					
Columbia Transmission	1,107.7	1,067.0	1,131.0	1,187.6	1,223.2
Columbia Gulf	883.0	632.8	670.7	700.9	721.9
Crossroads Gas Pipeline	15.8	16.7	17.2	17.7	18.3
Total throughput	**2,006.5**	**1,716.4**	**1,818.9**	**1,906.2**	**1,963.4**
Intrasegment eliminations	(422.6)	(310.9)	(393.3)	(384.6)	(392.1)
Total third-party throughput	**1,583.9**	**1,405.5**	**1,425.6**	**1,521.6**	**1,571.3**
y/y change	*-3.2%*	*-11.3%*	*1.4%*	*6.7%*	*3.3%*
Tariff ($ / Dth)	$0.46	$0.53	$0.55	$0.57	$0.59
y/y change	*-4.0%*	*16.7%*	*3.8%*	*3.0%*	*3.0%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,524.3	3,396.9	3,498.8	3,568.8	3,640.2
Commercial	3,863.1	3,851.3	3,928.3	4,006.9	4,087.0
Industrial	9,251.0	9,199.2	9,245.2	9,430.1	9,618.7
Wholesale	250.7	682.8	696.4	710.3	724.5
Other	119.1	126.2	128.7	131.3	133.9
Total sales	**17,008.2**	**17,256.4**	**17,497.5**	**17,847.4**	**18,204.4**
Weather Adjustment	(146.0)	26.5	-	-	-
Total sales volumes — Adj. for weather impacts	**16,862.2**	**17,282.9**	**17,497.5**	**17,847.4**	**18,204.4**
y/y change	*-3.0%*	*2.5%*	*1.2%*	*2.0%*	*2.0%*
Revenue ($ / Gigawatt hour)	$89.18	$88.99	$93.43	$94.84	$96.26
y/y change	*8.5%*	*-0.2%*	*5.0%*	*1.5%*	*1.5%*
COGS ($ / Gigawatt hour)	$29.58	$30.84	$31.68	$32.16	$32.88
y/y change	*-6.3%*	*4.3%*	*2.7%*	*1.5%*	*2.2%*
Gross Margin ($ / Gigawatt hour)	$59.60	$58.15	$61.75	$62.67	$63.37
y/y change	*17.7%*	*-2.4%*	*6.2%*	*1.5%*	*1.1%*

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

October 31, 2013
NiSource, Inc.

Exhibit 4

NI Balance Sheet

Balance Sheet

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
ASSETS					
Cash and cash equivalents	36,300	20,000	20,000	20,000	20,000
Restricted cash	46,800	18,300	18,300	18,300	18,300
Accounts receivable	907,300	805,950	896,547	876,015	962,856
Income tax receivable	130,900	6,400	6,400	6,400	6,400
Gas inventory	326,600	923,515	963,762	1,009,675	1,068,249
Regulatory assets	162,800	152,500	152,500	152,500	152,500
Other	383,900	246,100	246,100	246,100	246,100
Total Current Assets	**2,352,400**	**2,434,265**	**2,565,109**	**2,590,489**	**2,735,906**
Net Property, Plant and Equipment	**12,915,900**	**14,476,008**	**15,575,993**	**16,562,629**	**17,534,296**
Unconsolidated affiliates	243,300	327,800	327,800	327,800	327,800
Other investments	194,400	201,600	201,600	201,600	201,600
Price risk management assets	56,000	-	-	-	-
Regulatory assets	2,024,400	1,863,200	1,863,200	1,863,200	1,863,200
Goodwill	3,677,300	3,666,200	3,666,200	3,666,200	3,666,200
Intangible assets	286,600	278,400	278,400	278,400	278,400
Deferred charges, Postretiremen, other	94,400	89,000	89,000	89,000	89,000
TOTAL ASSETS	**21,844,700**	**23,336,473**	**24,567,302**	**25,579,318**	**26,696,402**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	507,200	541,200	541,200	541,200	541,200
Short-term borrowings	776,900	1,630,038	2,631,483	3,390,624	4,219,746
Accounts payable	538,900	750,509	783,215	820,527	868,129
Dividends payable	-	78,300	78,300	78,300	78,300
Customer deposits and credits	269,600	249,200	249,200	249,200	249,200
Taxes accrued	235,500	181,300	181,300	181,300	181,300
Interest accrued	133,700	71,600	71,600	71,600	71,600
Price risk management liabilities	95,200	8,800	8,800	8,800	8,800
Exchange gas payable	146,200	207,300	207,300	207,300	207,300
Deferred revenue	42,800	21,300	21,300	21,300	21,300
Regulatory liabilities	171,600	75,500	75,500	75,500	75,500
Acc liab for post-retirement / -employment benefits	6,100	6,100	6,100	6,100	6,100
Other accruals	309,700	308,700	308,700	308,700	308,700
Total Current Liabilities	**3,301,600**	**4,195,747**	**5,229,898**	**6,026,351**	**6,903,074**
Long-term debt, excl amounts due within one year	6,819,100	7,089,100	7,089,100	7,089,100	7,089,100
Price risk management liabilities	20,300	1,500	1,500	1,500	1,500
Deferred income taxes	2,953,300	3,133,500	3,133,500	3,133,500	3,133,500
Deferred inc. taxes, credits, other	108,900	139,900	139,900	139,900	139,900
Acc liability for post-retirement/-employment benefits	1,107,300	1,003,100	1,003,100	1,003,100	1,003,100
Regulatory liabilities and other removal costs	1,593,300	1,615,900	1,615,900	1,615,900	1,615,900
Asset retirement obligations	160,400	175,500	175,500	175,500	175,500
Other noncurrent liabilities	226,200	219,100	219,100	219,100	219,100
Total Other Liabilities and Deferred Credits	**12,988,800**	**13,377,600**	**13,377,600**	**13,377,600**	**13,377,600**
Common stock	3,100	3,200	3,200	3,200	3,200
Additional paid-in capital	4,597,600	4,672,900	4,672,900	4,672,900	4,672,900
Retained earnings	1,059,600	1,196,026	1,392,704	1,608,267	1,848,628
Treasury stock	(65,500)	(48,600)	(48,600)	(48,600)	(48,600)
Accumulated other comprehensive loss	(40,500)	(60,400)	(60,400)	(60,400)	(60,400)
Total Common Stockholders' Equity	**5,554,300**	**5,763,126**	**5,959,804**	**6,175,367**	**6,415,728**
TOTAL CAPITALIZATION & LIABILITIES	**21,844,700**	**23,336,473**	**24,567,302**	**25,579,318**	**26,696,402**

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

October 31, 2013
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)	2012	2013E	2014E	2015E	2016E
Cash from Operating Activities					
Net Income	416,100	520,976	520,284	552,653	591,496
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,700	7,000	-	-	-
Depreciation and Amortization	561,900	570,492	600,015	613,364	628,333
Net Changes in Price Risk Mgmt A / L	(18,500)	1,900	-	-	-
Deferred: Inc. Tax/Credits; Revenues	301,200	200,700	-	-	-
Stock Compensation Expense	45,000	39,700	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(3,800)	(10,200)	-	-	-
Income from Unconsolidated Affiliates	(30,900)	(25,500)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	5,700	(42,400)	-	-	-
AFUDC Equity	(10,600)	(12,700)	-	-	-
Dist. of Earnings Received from Equity Investee	34,900	19,000	-	-	-
Other	-	10,900	-	-	-
Changes in Assets and Liabilities:	**(35,200)**	**(224,256)**	**(98,137)**	**11,932**	**(97,815)**
Net cash from operating activities	**1,275,500**	**1,055,612**	**1,022,162**	**1,177,949**	**1,122,013**
Cash from Investing Activities					
Capital Expenditures	(1,498,800)	(2,000,000)	(1,700,000)	(1,600,000)	(1,600,000)
Insurance Recoveries	6,500	6,400	-	-	-
Proceeds from Disposition of Assets	25,600	17,900	-	-	-
Restricted Cash Deposits (Borrowings)	114,200	28,500	-	-	-
Contributions to Equity Investments	(20,400)	(77,100)	-	-	-
Other Investing Activities	(52,300)	70,300	-	-	-
Net cash from investing activities	**(1,425,200)**	**(1,954,000)**	**(1,700,000)**	**(1,600,000)**	**(1,600,000)**
Cash from Financing Activities					
Issuance of Long-Term Debt	991,400	815,300	-	-	-
Retirement/Repurchase of Long-Term Debt	(331,600)	(505,200)	-	-	-
Change in Short-Term Borrowings, Net	(582,200)	853,138	1,001,445	759,141	829,122
Issuance of Common Stock	383,500	36,100	-	-	-
Acquisition of Treasury Stock	(10,000)	(8,000)	-	-	-
Dividends Paid - Common Stock	(273,200)	(306,050)	(323,606)	(337,090)	(351,135)
Other	(3,400)	(3,200)	-	-	-
Net cash from financing activities	**174,500**	**882,088**	**677,838**	**422,051**	**477,987**
Net change in cash	**24,800**	**(16,300)**	**-**	**-**	**-**
Cash at beginning of period	**11,500**	**36,300**	**20,000**	**20,000**	**20,000**
Cash at end of period	**36,300**	**20,000**	**20,000**	**20,000**	**20,000**

Source: Company data, Morgan Stanley Research

Morgan Stanley

Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 5,958	**$ 18.99**
Gas Transmission & Storage	6,047	**19.27**
Electric Utility	4,836	**15.41**
Utica	1,375	**4.38**
Value	**$ 18,217**	**$ 58.05**
Net Debt	**(8,228)**	**(26.22)**
Net Equity Value	**$ 9,988**	**$ 31.83**
Shares Outstanding (in m)		313.8

GAS DISTRIBUTION		
Forward EBITDA (2014E)	$ 662	
Forward multiple	9.0x	
Enterprise value	**$ 5,958**	
GAS TRANSMISSION & STORAGE		
Forward EBITDA (2014E)	$ 605	
Forward multiple	10.0x	
Enterprise value	**$ 6,047**	
ELECTRIC UTILITY		
Forward EBITDA (2014E)	$ 537	
Forward multiple	9.0x	
Enterprise value	**$ 4,836**	
Estimated Utica 'Value' Credit		
Acres	125,000	
$/acre	$ 11,000	
Enterprise value	**$ 1,375**	

Source: Company data, Morgan Stanley Research.

Valuation Methodology & Risks

Assets in an MLP have typically traded at a premium to C-Corps. MLPs have traded at higher valuations than would similar assets in a corporate structure due to: 1) their tax efficiency (no federal taxes) and 2) the premium investors tend to place on yield. These two factors have typically produced: 3) a lower cost of capital, which can facilitate a potentially faster growth rate.

Interest rates are not the driver. Although MLPs have benefited from declining interest rates, so have other asset classes. We believe that gains in MLP stocks are a function of their ability to grow cash flows, not just their current yield.

The key value proposition is total return (growing cash flow yield + stock price appreciation). We find a statistically insignificant correlation between bond and MLP prices. Several periods of rate increases (1994, 1999, 2004) are correlated with poor performance, but there is little day-to-day link.

Distribution discount models (DDM) and implied yield targets. We use a 10-year distribution discount model to arrive at our price targets along with our implied yield target for each individual MLP as we view long-term cash flow stability and growth as the true measure of an MLP stock's value.

Yield spread. Despite historical day-to-day insignificance, we think this is worth looking at as a check on valuation. Overall, yields tend to revert to their mean, and even if we have modest yield compression, significant share price upside is possible.

Multiples provide valuation check. While we generally think it is difficult to target an EV (enterprise value) / EBITDA or P / DCF (distributable cash flow) multiple for an MLP stock, we think it certainly provides a gauge as to the stock's valuation. Currently, MLP multiples are near their historical average over time and we believe this provides another metric of valuation support along with looking at the high yield spreads and distribution growth.

Relative (historical) valuation measures support MLPs. The primary argument against improving valuation is weak relative performance in a rising interest rate environment. While we believe that the relationship to Treasury yields will become less relevant over time, using traditional dividend yield analysis, and the MLP index dividend yield spread to Treasury MLPs appear undervalued. Valuation supports MLPs relative to peers. Pipeline MLPs offer organic growth in a rising petroleum demand environment that requires infrastructure development. When we compare MLPs to comparable income asset classes — utilities and REITs — the valuation disconnect is unwarranted, in our opinion, as the pipeline MLPs offer twice the implied return of REITs and utilities.

Distribution growth is predicated on energy fundamentals. The United States is short on critical energy infrastructure, much of which has scarcity/franchise value, in our view, and this should drive a number of expansion projects for MLPs over the next five years. This scarcity is apparent, given the age of most US energy infrastructure assets (many were constructed during or shortly after World War II), combined with approximately 1.5–2.0% demand growth for oil, natural gas, and refined products, along with changing sources of supply for natural gas — deepwater Gulf of Mexico, the US Rockies, and liquefied natural gas (LNG) versus more traditional, conventional sources of supply.

Access to capital markets is of particular importance in this space. Given that MLPs pay out a majority of their free cash flow to unitholders each quarter, growth is funded largely through ongoing debt and equity capital raises. To the extent MLPs are unable to raise financing on favorable terms, organic capital spending budgets and third party acquisitions will likely be delayed or forgone. A prolonged period of limited capital market access could place downward pressure on unit prices if investors are concerned that distribution growth could be limited for a significant amount of time.

Investment concerns. The risks to our thesis include economic growth and demand, alternative energy programs, legislative items including tax reform and easing of product restrictions for natural gas and refined products, as well as a return to Treasury yield valuation and infrastructure reliability. Increased institutional ownership would likely create a revaluation of the sector, as new money would flood the current market. Our analysis is based on the current capital markets and economic outlook, with our Overweight names likely to outperform with or without institutional equity.

Glossary of MLP Terms

Cash Available (distributable cash flow or "DCF"): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements.

Cash Distributed (distributions): Quarterly dividend payments made to limited partner (LP) and general partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Yield or Distribution Yield: Yield or distribution yield as referenced in this report are defined as most recent distribution declared, annualized, and then divided by the current market price. It may consist of short-term capital gains, long-term capital gains, and/or return of capital.

General Partner (GP): Corporate sponsor, management team, or financial investor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

Incentive Distribution Rights (IDRs): Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in many cases upwards of 50% of incremental cash payouts).

Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated by the partnership through a quarterly distribution. LPs typically cannot participate in making decisions regarding the operation of the MLP unless they secure a definitive majority (e.g., 66%, but it can vary) in a proxy vote.

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate.

Publicly Traded Partnership (PTP): a master limited partnership (MLP) or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are roughly 75 publicly traded partnerships and the majority is involved in energy-related activities. Energy related PTP's comprise approximately 85% of total PTP market cap, with REITs making up the majority of the 15% balance.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include 1) interest 2) dividends 3) real property rents 4) gains from the sale or other disposition of real estate 5) income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource 6) Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 7) Income and gains from commodities, if buying and selling commodities is the PTP's principal activity 8) Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).

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MORGAN STANLEY RESEARCH

October 31, 2013
NiSource, Inc.

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of September 30, 2013)

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Morgan Stanley

MORGAN STANLEY RESEARCH

October 31, 2013
NiSource, Inc.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1002**	**34%**	**410**	**38%**	**41%**
Equal-weight/Hold	**1278**	**44%**	**493**	**46%**	**39%**
Not-Rated/Hold	**114**	**4%**	**28**	**3%**	**25%**
Underweight/Sell	**526**	**18%**	**140**	**13%**	**27%**
Total	**2,920**		**1071**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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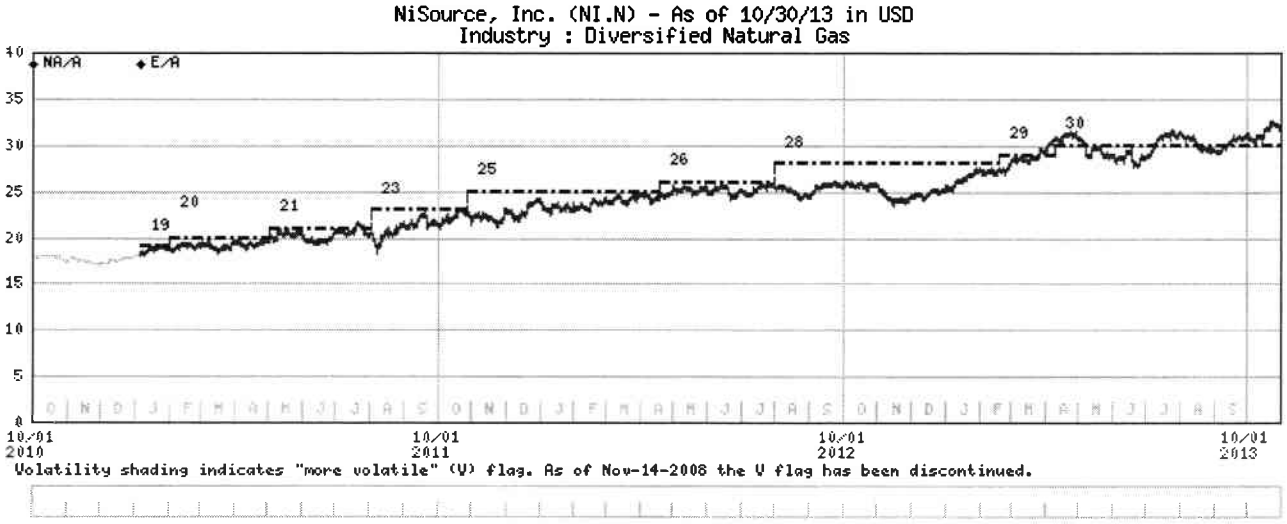
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 10/1/10 : NA/A; 1/6/11 : E/A

Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -•- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ··· Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Morgan Stanley

MORGAN STANLEY RESEARCH

October 31, 2013
NiSource, Inc.

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The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (10/30/2013)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	$24.48
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$29.83
National Fuel Gas Co (NFG.N)	E (01/10/2012)	$71.99
NiSource, Inc. (NI.N)	E (01/06/2011)	$31.7
Oneok Inc. (OKE.N)	O (07/25/2013)	$56.83
Questar Corp. (STR.N)	E (02/11/2013)	$23.75
SemGroup Corp (SEMG.N)	O (04/10/2013)	$61.24
Spectra Energy Corp. (SE.N)	O (06/12/2013)	$35.55
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$36.95

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* Historical prices are not split adjusted.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 USD	27.00 USD	18.90 USD	36.45 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Reports Solid 3Q Results; Indiana Modernization Plan on Track

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 01 Nov 2013
Estimates as of 11 Sep 2013
Pricing data through 31 Oct 2013
Rating updated as of 31 Oct 2013

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 01 Nov 2013

NiSource reported third-quarter operating earnings per share of $0.18 versus $0.04 in the same period last year. The improved results were primarily due to the fact that in 2012, Columbia Pipeline Group operations were negatively affected by the customer settlement related to the infrastructure modernization program. NiSource reiterated its 2013 operating earnings guidance of $1.50-$1.60 per share. Our estimate of $1.56 per share is unchanged. We are also reaffirming our narrow moat and stable moat trend ratings and our fair value estimate of $27 per share.

In line with Indiana legislation passed earlier this year, in early October NIPSCO filed its natural gas infrastructure modernization and expansion plan with the Indiana Utility Regulatory Commission. Management indicated the $700 million seven-year gas program and the previously filed $1 billion electric modernization program will begin by the middle of next year following approval by the IURC. These programs will ramp up as the environmental expenditures for NIPSCO's coal-fired power plants are nearing completion. Management believes this timing will result in steady capital expenditures during the next few years and additional equity will not be required until 2015. Management now believes the equity issuance will be in the second half of 2015. We assume a $400 million equity issuance.

Vital Statistics

Market Cap (USD Mil)	9,853
52-Week High (USD)	32.52
52-Week Low (USD)	23.14
52-Week Total Return %	27.6
YTD Total Return %	30.6
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	8.8
5-Yr Forward EPS CAGR %	6.6
Price/Fair Value	1.17

Valuation Summary and Forecasts

Fiscal Year:	2011	2012	*2013(E)*	*2014(E)*
Price/Earnings	17.6	17.0	*20.3*	*19.2*
EV/EBITDA	10.1	10.0	*10.4*	*9.4*
EV/EBIT	16.1	15.7	*16.0*	*14.4*
Free Cash Flow Yield %	-3.1	-3.0	*-3.6*	*-2.4*
Dividend Yield %	3.8	3.5	*3.2*	*3.4*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	*2013(E)*	*2014(E)*
Revenue	6,019	5,061	*5,536*	*6,246*
Revenue YoY %	-6.3	-15.9	*9.4*	*12.8*
EBIT	907	1,007	*1,117*	*1,243*
EBIT YoY %	-0.1	11.0	*11.0*	*11.3*
Net Income, Adjusted	389	437	*498*	*531*
Net Income YoY %	14.1	12.4	*14.0*	*6.5*
Diluted EPS	1.35	1.46	*1.55*	*1.64*
Diluted EPS YoY %	10.8	7.9	*6.4*	*6.0*
Free Cash Flow	16	71	*-140*	*20*
Free Cash Flow YoY %	-88.9	339.3	*-298.1*	*-114.6*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource distributes natural gas to more than 3.3 million customers with more than 58,000 miles of pipelines in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource also owns 15,000 miles of natural gas transmission pipeline, operates one of the nation's largest underground natural gas storage systems, and provides unregulated midstream services in the growing Marcellus and Utica shale production area. NiSource's electric utility generates, transmits, and distributes electricity in northern Indiana.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 USD	27.00 USD	18.90 USD	36.45 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2010	2011	2012	Forecast 2013	Forecast 2014	5-Year Proj. CAGR
Revenue	-8.7	-3.4	-6.3	-15.9	9.4	12.8	8.8
EBIT	7.7	12.8	-0.1	11.0	11.0	11.3	8.7
EBITDA	4.0	7.9	-4.0	8.5	9.9	10.2	7.9
Net Income	14.0	15.6	14.1	12.4	14.0	6.5	9.3
Diluted EPS	10.8	13.8	10.8	7.9	6.4	6.0	6.6
Earnings Before Interest, after Tax	6.4	4.7	10.4	4.1	0.0	2.7	3.8
Free Cash Flow	-63.8	-90.2	-88.9	339.3	-298.1	-114.6	38.5

Profitability	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Operating Margin %	16.4	14.1	15.1	19.9	20.2	19.9	19.9
EBITDA Margin %	26.2	23.4	24.0	31.0	31.1	30.4	30.3
Net Margin %	6.8	5.3	6.5	8.6	9.0	8.5	8.7
Free Cash Flow Margin %	1.3	2.3	0.3	1.4	-2.5	0.3	1.5
ROIC %	7.4	7.2	7.6	7.5	7.0	6.8	6.9
Adjusted ROIC %	10.4	10.3	10.6	10.2	9.3	8.9	8.9
Return on Assets %	1.6	1.5	1.5	2.0	2.2	2.2	2.3
Return on Equity %	6.6	6.0	6.0	7.9	8.8	9.0	9.2

Leverage	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Debt/Capital	0.60	0.60	0.61	0.59	0.61	0.61	0.60
Total Debt/EBITDA	5.18	4.88	5.50	5.17	5.16	5.00	4.84
EBITDA/Interest Expense	3.81	3.84	3.84	3.75	4.26	4.13	4.29

Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.40	1.00	—	—
Price/Earnings	17.6	17.0	20.3	19.2
EV/EBITDA	10.1	10.0	10.4	9.4
EV/EBIT	16.1	15.7	16.0	14.4
Free Cash Flow Yield %	-3.1	-3.0	-3.6	-2.4
Dividend Yield %	3.8	3.5	3.2	3.4

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	34.9
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	87.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	414	2.6	1.28
Present Value Stage II	1,129	7.0	3.50
Present Value Stage III	14,614	90.5	45.37
Total Firm Value	**16,156**	**100.0**	**50.16**
Cash and Equivalents	118	—	0.37
Debt	-8,103	—	-25.16
Preferred Stock	—	—	—
Other Adjustments	35	—	0.11
Equity Value	**8,206**	**—**	**25.48**
Projected Diluted Shares	322		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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31.52 USD	27.00 USD	18.90 USD	36.45 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	*Forecast* 2013	*Forecast* 2014
Revenue	**6,422**	**6,019**	**5,061**	***5,536***	***6,246***
Cost of Goods Sold	2,974	2,556	1,542	*1,773*	*2,166*
Gross Profit	**3,448**	**3,463**	**3,520**	***3,762***	***4,080***
Selling, General & Administrative Expenses	1,656	1,723	1,663	*1,753*	*1,885*
Other Operating Expense (Income)	287	295	288	*281*	*289*
Other Operating Expense (Income)	—	—	—	*5*	*5*
Depreciation & Amortization (if reported separately)	596	538	562	*607*	*657*
Operating Income (ex charges)	**908**	**907**	**1,007**	***1,117***	***1,243***
Restructuring & Other Cash Charges	2	17	-4	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	-15	-15	-32	*-32*	*-33*
Operating Income (incl charges)	**921**	**905**	**1,043**	***1,149***	***1,276***
Interest Expense	392	377	418	*405*	*460*
Interest Income	-93	-61	2	*15*	—
Pre-Tax Income	**436**	**467**	**626**	***759***	***816***
Income Tax Expense	142	163	216	*261*	*286*
Other After-Tax Cash Gains (Losses)	-3	-5	6	—	—
Other After-Tax Non-Cash Gains (Losses)	0	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**292**	**299**	**416**	***498***	***531***
Weighted Average Diluted Shares Outstanding	280	289	300	*322*	*323*
Diluted Earnings Per Share	**1.04**	**1.03**	**1.39**	***1.55***	***1.64***
Adjusted Net Income	341	389	437	*498*	*531*
Diluted Earnings Per Share (Adjusted)	**1.22**	**1.35**	**1.46**	***1.55***	***1.64***
Dividends Per Common Share	0.92	0.92	0.94	*0.98*	*1.02*
EBITDA	**1,518**	**1,443**	**1,605**	***1,756***	***1,933***
Adjusted EBITDA	**1,505**	**1,446**	**1,569**	***1,724***	***1,900***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2010	2011	2012	Forecast 2013	Forecast 2014
Cash and Equivalents	212	172	83	*198*	*220*
Investments	—	—	—	—	—
Accounts Receivable	1,079	855	907	*834*	*941*
Inventory	428	566	496	*437*	*534*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	730	655	866	*875*	*900*
Current Assets	**2,449**	**2,248**	**2,352**	***2,345***	***2,596***
Net Property Plant, and Equipment	11,097	11,800	12,916	*14,296*	*15,331*
Goodwill	3,677	3,677	3,677	*3,677*	*3,677*
Other Intangibles	309	298	287	*287*	*287*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,407	2,685	2,613	*2,700*	*2,800*
Long-Term Non-Operating Assets	—	—	—	*32*	*65*
Total Assets	**19,939**	**20,708**	**21,845**	***23,337***	***24,756***
Accounts Payable	582	435	539	*620*	*757*
Short-Term Debt	1,417	1,687	1,284	*1,100*	*1,500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,651	1,525	1,479	*1,500*	*1,600*
Current Liabilities	**3,649**	**3,646**	**3,302**	***3,220***	***3,857***
Long-Term Debt	5,936	6,267	6,819	*7,800*	*8,000*
Deferred Tax Liabilities (Long-Term)	2,210	2,542	2,953	*3,250*	*3,500*
Other Long-Term Operating Liabilities	3,220	3,256	3,216	*3,300*	*3,400*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**15,016**	**15,711**	**16,290**	***17,570***	***18,757***
Preferred Stock	—	—	—	—	—
Common Stock	4,923	3	3	*3*	*3*
Additional Paid-in Capital	—	4,168	4,598	*4,633*	*4,668*
Retained Earnings (Deficit)	—	917	1,060	*1,243*	*1,444*
(Treasury Stock)	—	-31	-41	*-41*	*-41*
Other Equity	—	-60	-66	*-71*	*-76*
Shareholder's Equity	**4,923**	**4,997**	**5,554**	***5,767***	***5,998***
Minority Interest	—	—	—	—	—
Total Equity	**4,923**	**4,997**	**5,554**	***5,767***	***5,998***

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MORNINGSTAR

NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 USD	27.00 USD	18.90 USD	36.45 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2010	2011	2012	Forecast 2013	Forecast 2014
Net Income	283	299	416	*498*	*531*
Depreciation	597	538	562	*607*	*657*
Amortization	—	—	—	—	—
Stock-Based Compensation	31	39	45	*35*	*38*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	194	178	305	*297*	*250*
Other Non-Cash Adjustments	72	217	25	*-32*	*-33*
(Increase) Decrease in Accounts Receivable	-244	220	-51	*73*	*-107*
(Increase) Decrease in Inventory	103	-142	62	*58*	*-97*
Change in Other Short-Term Assets	-291	-274	-157	*-9*	*-25*
Increase (Decrease) in Accounts Payable	38	-155	57	*81*	*137*
Change in Other Short-Term Liabilities	—	—	—	*21*	*100*
Cash From Operations	**783**	**920**	**1,264**	***1,630***	***1,450***
(Capital Expenditures)	-804	-1,125	-1,499	*-1,987*	*-1,691*
Net (Acquisitions), Asset Sales, and Disposals	1	9	26	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-140	-34	51	*-4*	—
Cash From Investing	**-944**	**-1,149**	**-1,422**	***-1,991***	***-1,691***
Common Stock Issuance (or Repurchase)	13	21	374	*35*	*35*
Common Stock (Dividends)	-256	-258	-273	*-316*	*-330*
Short-Term Debt Issuance (or Retirement)	1,280	-23	-582	*-184*	*400*
Long-Term Debt Issuance (or Retirement)	-826	541	656	*981*	*200*
Other Financing Cash Flows	—	—	—	*-35*	*-38*
Cash From Financing	**211**	**281**	**175**	***481***	***268***
Exchange Rates, Discontinued Ops, etc. (net)	-57	-50	8	*-5*	*-5*
Net Change in Cash	**-8**	**2**	**25**	***115***	***22***

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BARCLAYS

EQUITY RESEARCH | INSTANT INSIGHTS 19 March 2013

Daniel Ford, CFA +1 212 526 0836 daniel.x.ford@barclays.com BCI, New York

NI: Columbia Gas of Pennsylvania Settlement Reached

Stock Rating/Industry View: Overweight / Positive
Price Target: $29
Price (18-Mar-2013): $28.10
Potential Upside/Downside: 3%
Ticker: NI

On March 15, NI's Columbia Gas of Pennsylvania utility entered into a settlement with the Pennsylvania PUC and consumer advocates for its rate case filed in September 2012. The agreement allows for a $55.25 million revenue increase, compared to an ask of $77.3 million. The black box settlement was silent on ROE and other traditional rate case parameters. Importantly, however, the settlement allows for a forecasted rate base, to be based on a projection through June 30, 2014, and a quarterly tracker for infrastructure capex not included in base rates.

The constructive result was consistent with our expectations, as the new recovery mechanisms were enabled by Act 11, a state law enacted in 2012 allowing utilities to 1) recover modernization costs via a quarterly-adjusted distribution system improvement charge (DSIC) based on costs incurred in the previous quarter, and 2) use fully forecasted test years in rate case filings. With this settlement, we note that nearly all 7 of the states in which NI's gas utilities operate now have expedited rate treatment. We estimate Columbia Gas of Pennsylvania represents around 20% of total rate base for NI's Gas Distribution segment.

Daniel Ford, CFA +1 212 526 0836 daniel.x.ford@barclays.com BCI, New York

NI: FERC Approves Columbia Gas Transmission Customer Settlement

Stock Rating/Industry View: Overweight / Positive
Price Target: $27
Price (24-Jan-2013): $26.50
Potential Upside/Downside: 2%
Ticker: NI

Earlier today the FERC approved Columbia Gas Transmission's settlement with customers, laying out a multi-year plan for pipeline infrastructure investment. The settlement was approved in its original form. We believe this result was positive but largely in line with expectations, given the broad support among pipeline customers for the settlement prior to its approval.

The settlement provides for $300 million per year in growth capex and $100 million per year in maintenance capex over an initial 5-year period from 2013 to 2017. It also provides for an annual tracker for recovery of returns, taxes, and depreciation. Investments include replacing 1,000 miles of aging interstate pipeline, upgrading compressors along the pipeline system, and increasing system reliability and maintenance capabilities. As previously announced, the settlement would come with a $25 million annual refund to customers starting in 2014. A $50 million refund was recorded as a charge in 3Q12 towards the 2012 and 2013 years. The settlement should be earnings-accretive in 2014, and cash-accretive in 2015.

Over the longer term, there are opportunities to expand the settlement plan beyond the initial 5-year period to include a total of around $4 billion in capex over a 10-15 year period.

BARCLAYS

EQUITY RESEARCH | INSTANT INSIGHTS 1 February 2013

Daniel Ford, CFA +1 212 526 0836 daniel.x.ford@barclays.com BCI, New York

NI: Divestiture of Non-Core Gas Retail Services Announced

Stock Rating/Industry View: Overweight / Positive
Price Target: $27
Price (31-Jan-2013): $27.03
Potential Upside/Downside: 0%
Ticker: NI

On January 31, NI announced the sale of a portion of its non-core Natural Gas Distribution retail services business for around $120 million to AGL Resources. The sale encompasses the ESP and Columbia Retail Services businesses, which provide appliance repair services and line protection insurance for residential and small-business gas utility customers. We believe the divestiture of the non-core assets for NI would allow the company to further invest in its core utility and infrastructure businesses.

We expect no significant earnings impact for NI in 2012 and 2013. However, the proceeds from the sale could potentially offset the size of the equity offering expected in 2015. In our view, NI could apply the proceeds towards its $1.5-1.8 billion annual infrastructure investment plan.

BARCLAYS

Equity Research | Instant Insights

25 July 2013

Daniel Ford, CFA	+1 212 526 0836	daniel.x.ford@barclays.com	BCI, New York
William Zhang	+1 212 526 6203	william.zhang@barclays.com	BCI, New York

NiSource, Inc.
NIPSCO Files 7-Year Electric Plan

Stock Rating/Industry View: Overweight / Positive
Price Target: $32
Price (24-Jul-2013): $30.59
Potential Upside/Downside: +5%
Ticker: NI

Proposal provides capex visibility through 2020 with tracker recovery

Last Friday, NIPSCO Electric filed a 7-year electric infrastructure development plan for approval in Indiana. The filing details the company's electric transmission and distribution spending program through 2020 which it expects to recover via the state's newly enacted utility infrastructure tracker law (S.B. 560). Under the legislation, NIPSCO would be able to recover on 80% of approved TDSIC expenditures via a periodic tracker. The filing states that the annual revenue increase from the TDSIC program is below 2% each year.

The remaining 20% of capex under the spending program would need to be recovered under a general rate case proceeding, which NIPSCO is required to file before the expiration of the 7-year plan. We expect the rate case will be filed in the latter part of the 7-year timeframe (2017-2020). NIPSCO will be allowed to use a forward-looking test year in the general rate case, under S.B. 560. In the meantime, NIPSCO will continue to earn based on its authorized ROE of 10.2%.

NIPSCO's 7-year spending proposal is as follows:

NIPSCO 7-Year Capex Proposal in Filing ($ in millions)

Source: Company filings

We still expect NIPSCO annual capex of $400-450 million

While the initial take from the chart would be that the program is heavily back-weighted with spending lighter in the front end, we expect overall capex at NIPSCO to remain at a steady $400-450 million run rate over the 7-year period. This is because the filing excludes a number of items, including:

Environmental: The lighter capex numbers in the program in 2014-2015 are made up by capital investments on Scrubbers at the Schahfer and Michigan City generating stations in those years which are not included in the filing, as they are already covered under the Environmental Cost Recovery Mechanism (ECRM), a separate tracker in Indiana.

MISO transmission: The filing also does not include two larger, FERC-approved transmission projects which are planned to fall within the 7-year timeframe. The 345Kv Reynolds-Topeka line represents $250-300 million in capex and the $765 Kv Reynolds to Greentown line represents $150-200 million in capex for NIPSCO.

Maintenance capital: NIPSCO expects maintenance capital to continue at around a $150 million annual run rate.

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BMO Capital Markets

North American Pipelines

Industry Rating: Market Perform

May 14, 2013

Carl Kirst, CFA
BMO Capital Markets Corp.
713-546-9756
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com / leah.jordan@bmo.com

Natural Gas IQ: Recapping AGA Conf Take-Aways

The Natural Gas IQ is aimed at developments in the natural gas infrastructure space, and importantly, the implications for our pipeline equities.

Not to be lost in the final throes of the quarterly earnings season was our attendance at last week's American Gas Association's (AGA) annual Financial Forum. Over the course of the conference we had one-on-one or dinner meetings with the mostly US half of our sector coverage, including AGL Resources (GAS), CenterPoint (CNP), National Fuel (NFG), NiSource (NI), ONEOK (OKE), Questar (STR), Spectra (SE), TransCanada (TRP), and UGI Corp (UGI). We highlight our primary takeaways for each name on the following pages, but note three in particular relating to our three Outperform-rated names we met with:

- **ONEOK (OKE, Outperform, $60 Target).** On the heels of its recent 1Q miss and stock slide, management was clear that at the time of its revised annual guidance in February that it fully knew how challenging 1Q13 would be (albeit made more complicated in that it doesn't give quarterly guidance), and that in effect it was on plan with annual guidance to maintain at least 1.0x cash coverage of its MLP distribution. The further implication is that the implied y/y ramp in midstream volumes will itself see a strengthening through the year as assets recently placed in service April begin to ramp, and new assets come online 2H13 (e.g., Sterling 3).
- **National Fuel (NFG, Outperform, $70 Target).** Confirming that the pilot development (nine wells) in the WDA Rich Valley will happen this summer, but WITH flexibility is the full development program in 2014 or delineation of other areas (depending on results of pilot). Management is not looking to add a fourth rig in the Marcellus, but notes that come late 2014 it should have enough production and cash flow to support an additional rig at that time without extending its balance sheet.
- **TransCanada (TRP, Outperform, C$55 Target).** TRP reaffirmed its intent to work within the framework of the recent National Energy Board decision on the gas mainline rather than undo it (details of its recently filed Review and Variance are on page 7). We also got a better understanding of how Energy East, if a successful open season happens, would impact the mainline, as well as gained more confidence of TRP's ability to use rolled-in rates in BC to support its $10B in LNG initiatives.

Gas Industry Snapshot

NYMEX Natural Gas 12-Mo. Strip ($/mmbtu):	$4.17
Weekly Change	*1.2%*
YTD Change	*14.1%*
NYMEX Crude Oil 12-Mo. Strip ($/bbl):	$93.31
Weekly Change	*-1.0%*
YTD Change	*0.1%*
Natural Gas Liquids (40% ethane, $/gal):	$0.83
Current $ Correlation to Spot Crude Oil	37%
Weekly Change	*-1.8%*
YTD Change	*-11.2%*
Processing Frac-Spread (Gulf Coast, $/gal):	$0.50
Weekly Change	*-2.4%*
YTD Change	*-22.2%*
LNG U.S. Imports (monthly avg, Bcf/d):	0.12
Monthly Change	*5.6%*
Y-o-Y Change	*-63.5%*
Natural Gas in Storage (Bcf):	+88 to 1,865
Vs. this week last year	+30 to 2,602
Vs. this week 5-yr avg	+69 to 1,964
Natural Gas Directed Rig Count:	-4 to 354
Weekly Change	*-1.1%*
Y-o-Y Change	*-41.7%*
Stock Performance: Weekly	
US Gas Diversifieds	*0.1%*
US Gas Utilities	*-1.2%*
Canadian Pipelines	*-1.1%*
Canadian Income	*2.6%*
UTY (Philadelphia Utility Index)	*-2.0%*
XOP (S&P E&P SPDR)	*0.2%*
OSX (Oil Service Index)	*0.6%*
S&P 500 (SPX)	*1.0%*
10-Year US Treasury Yield	*6.7%*
Stock Performance: YTD	
US Gas Diversifieds	*17.5%*
US Gas Utilities	*14.6%*
Canadian Pipelines	*6.7%*
Canadian Income	*4.9%*
UTY (Philadelphia Utility Index)	*12.6%*
XOP (S&P E&P SPDR)	*9.6%*
OSX (Oil Service Index)	*17.7%*
S&P 500 (SPX)	*14.6%*
10-Year US Treasury Yield	*7.9%*

All data priced as of close May 14, 2013 in US$.
Source: Bloomberg, EIA, Waterborne, Baker Hughes, Platts, Company data.

Refer to pages 28 to 29 for Important Disclosures, including Analyst's Certification.

AGL Resource (GAS, Underperform, $43 Price Target)
Mgmt: John Somerhalder (CEO), Drew Evans (CFO), Steve Cave (Treasurer), Bryan Seas (CAO)

- Looking for catalysts to a return the stock to outperformance, we note a regulatory filing at Nicor would occur by January 2014. Given an 11-month statutory process, this would put new rates into effect for 2015, aligning with the acquisition stipulation of a three-year stay-out (ending 2014). That said, GAS is closely watching potential depreciation legislation that could potentially reduce DD&A expense (NICOR has a 4.1% DD&A rate, or ~25 year asset life, versus 2.5% for AGL's broader system average), boosting in turn the Illinois utility's ROE and making a rate case filing moot for return purposes (although rate structure, such as weather normalization, could still be pursued). We would note that while lower depreciation expense would help EPS, it would not affect EBITDA, and thus has a tempered impact on our valuation (which is based on a mix of relative P/E and sum-of-the-parts EV/EBTIDA).
- The SE-led $1 billion Renaissance Pipeline project remains in discussion with potential shippers in addition to AGL as the anchor, which may also own an equity share. We should hear a final investment decision in 3-6 months in order to meet the targeted 2017 in service.
- The storage market remains weak with current rates ranging $0.04-$0.08/mcf per month (dependent on location) and management does not expect a more balanced market until 2015/2016 (a view we share). In the interim, the company is evaluating the potential to repurpose some of its gas storage for other products, ranging from propane to crude, although the likelihood is less repurposing (due to costs) and more possible the addition of new adjacent caverns that would leverage surface infrastructure already in place.
- We don't see the company aggressively in the M&A market at this point given both sector valuation and NICOR digestion, although we would note that, given its larger scale, regional barriers are not overly critical; a lot can be accomplished with the right density, meaning any utility with a customer count greater than 0.5 million would likely be intriguing, whether or not GAS already operates in the region.

CenterPoint (CNP, Market Perform, $25 Price Target)
Mgmt: Gary Whitlock (CFO), Scott Prochazka (COO), Mark Kilbride (Treasurer)

- CNP reiterated that its new NewCo MLP joint venture will be dilutive to 2013 EPS by $0.05, but with the expectation that such impact should taper in 2014 with the early realization of up to $50 million in cost and revenue synergies, inflecting into EPS accretion in 2015 as full synergies are achieved. We had calculated $0.05 of dilution with the modeled synergies, which implies that our 2015 EPS estimate of $1.33 could be conservative by a nickel (but in line with consensus of $1.40).
- The NewCo MLP IPO will likely raise some $300-$500 million of new proceeds (typically 15% of targeted market cap), with the range dependent on the partnership's needs for cash with respect to timing of growth projects. Notably, CNP's proceeds from the public offering will be prioritized into: 1) regulated investments, where CEHE expects to grow rate base by 5% and the LDC by 7% over the next several years; and 2) dividend growth.
- Management was clear that, with the MLP, its capital allocation calculus has changed, and while that no decisions have been made, the company now has greater flexibility with respect to its dividend and dividend payout ratio, raising our confidence that the rate of dividend growth will increase from the most recent 2% rate to a level closer to 5%.

- The managements of both CNP and OGE are currently evaluating leadership positions of the NewCo MLP from both internal and external candidates, with announcements we expect in the next 30 days or so.

National Fuel Gas (NFG, Outperform, $70 Price Target)
Mgmt: Ron Tanski (CEO), Dave Bauer (CFO), Matt Cabell (VP, Seneca), Anna Marie Cellino (President, LDC)

- We confirmed the recent increase in FY2013 production guidance is driven entirely by better performance at Tract 100. This was also accompanied by an increase in capex guidance to $525-$585 million, up about $35 million at the midpoint, to accelerate completion of Tract 595 wells, which were previously uneconomic (meaning below NFG's double-digit hurdle rate) owing to lower natural gas prices. These wells, in turn, are expected to flow mostly in FY2014, thus driving the 4% improvement in production guidance of 132-142 Bcfe for the year.
- Recent well results at Rich Valley in the western Marcellus (WDA) of 7 Bcf EUR have now improved EUR expectations in this specific region to 5-8 Bcfe. Seneca expects to advance its pilot development program in Rich Valley with two wells currently drilled, with an additional seven wells planned for FY2014. The acceleration of this pilot program is currently limited by gathering capacity and the maintenance of a three-rig drilling plan, but production upside could be had with favorable test well results and improving gas prices. Importantly, as these wells commence generating cash flow, Seneca could support the addition of a fourth rig as early as mid-FY2014.
- Delineation of the WDA is also under way with two drilled wet gas wells at Owl's Nest and a dry gas well at Ridgeway; well tests results should be available this summer. Further, delineation of the Utica is also in Seneca's near-term plans with a well result from the Mount Jewett area expected by late fall/early winter (early FY2014).
- Despite rates being unchanged since 2007, the New York Public Service Commission (NYPSC) is currently evaluating retroactive review of the Utility's returns as the last three years of the NY utility has averaged 11% ROE versus its allowed 9.1% ROE (although such claw-back is limited to 12 months). Of note, the NYPSC has struck customer sharing mechanisms with other state utilities, and management is hopeful such a settlement can be achieved here as well. While it remains too early to determine the impact, NFG estimates $0.03-$0.05 annual earnings impact for 100 basis points of ROE, in effect putting $0.05-$0.10 of EPS risk into our FY2014 estimate of $2.87.

NiSource (NI, Market Perform, $31 Price Target)
Mgmt: Bob Skaggs (CEO), Steve Smith (CFO), Glen Kettering (VP, Corp Affairs), Jimmy Staton (Pipes CEO), Joe Hamrock (LDC CEO), Jim Stanley (Electric CEO)

- The Indiana governor recently signed the respective legislation approving a tracking mechanism for electric T&D modernization (e.g., transformers, poles, lines). As such, NI plans to file its seven-year plan by mid-year, with the expectation to have it in place by year-end 2013. While our general expectations was that this wouldn't kick in until late decade, early investment dollars could start flowing in 2014, although it should start relatively small and ramp over time for a reaffirmed total investment of $3-$4 billion. Overall, the Electric business is expected to maintain its annual $500 million capex spending over the next decade (more than double its $225 million depreciation), and this modernization program effectively confirms an extended life and growth rate. Moreover,

the tracker, which correlates to NI's allowed 10.2% ROE, gives 80% recovery, with 20% deferred to presumably be pursued under a general rate case once the first seven-year period concludes.

- Although management's view of an MLP remains the same (meaning highly unlikely with respect to legacy assets), it did acknowledge that the opportunity remains open with respect to its growing midstream business. On that front, new midstream-related EBITDA in the $70 million range was identified as the fulcrum where such discussion becomes more relevant, but at present not "front of mind."
- Currently, there are no ethane rejection concerns with respect to btu content on any of NI's pipes; management estimates it sees about 12-24 months of running room. Over that time, there should be additional infrastructure built in order for capacity to remain well matched with production growth, keeping concerns at bay should ethane reject persist.
- Management is evaluating an opportunity on Columbia Gulf, where open capacity exists, to isolate one of the lines and effectively turn it into a high-btu rich gas transporter, helping to move dissolved NGLs from the infrastructure-constrained Marcellus to the Gulf Coast region. Early stages, but such a debottlenecking could potentially be done at relatively minimal investment cost in the $200 million range.
- Regarding its Utica E&P joint venture interest, Hilcorp has advanced from the 'science' stage, with seven wells now drilled. Additionally, Hilcorp has expanded its acreage position by 30%-40% since the project's original announcement. As such, NI continues to anticipate additional lateral needs in the Utica, leveraging off of the Pennant JV, above the $300 million gross investment for phase 1. Each lateral opportunity should total about $10-15 million of investment at consistent mid-teens returns.

ONEOK (OKE, Outperform, $60 Price Target)
Mgmt: Pierce Norton (VP, Commercial)

- On the heels of its recent quarterly weakness and stock reaction, management was clear that at the time of its revised guidance in February that it knew how challenging 1Q13 would be, and that, in effect, it was on plan. The implication is that the implied ramp in volumes will see a much stronger year-end (4Q13 over 4Q12) growth rate relative to 1Q or the average growth through the year as assets just placed in service April begin to ramp, and new assets come in 2H13 (e.g., Sterling 3).
- The NGL optimization business was effectively zero in 1Q13, tracking the $0.01/gal ethane price spread between Conway and Mont Belvieu (as a physical day-to-day business it is highly unlikely for its margin to go negative), implying the NGL marketing business was effectively zero in 1Q13, creating a hard baseline in which to grow from. Although the optimization business is expected to decline over time as capacity is transferred to fee-based business, we do anticipate a sequential uptick as the ethane spread has averaged $0.07/gal 2QTD, and believe more opportunities could arise in 4Q13 with the in-service of the Sterling 3 pipeline.
- OKE continues to see ethane rejection on its systems, as expected through the year. While its Rockies assets used to receive ethane volumes, OKE's Bakken assets have never recovered ethane (nor do growth projects assume as such to gain board approval). If the geographic spread widens as it has in 2Q, then ethane rejection can be tempered, as it creates empty pipeline space that the company can then remarket for its own account.

- OKE currently has acreage dedications from 3 million out of the 5 million total developable land in the Bakken for its gas midstream operations. With an additional 1 million handled by the respective E&P producers (mainly Continental), 1 million remains up for grabs with prime competitors being Targa and the new CNP/OGE MLP joint venture. Notably, OKE sees most of its growth as organic in the Bakken.

Questar (STR, Market Perform, $25 Price Target)
Mgmt: Ron Jibson (CEO), Kevin Hadlock (CFO), Allen Bradley (CEO Pipes), Craig Wagstaff (COO Questar Gas)

- STR remains highly focused on maximizing shareholder value through the strategic review of repurposing the Southern Trails natural gas pipeline to crude oil. The company is currently in the second phase of the bidding process, which includes detailed due diligence (i.e., data room access). Final binding bids are due by late June, with a review in July followed by the board's decision. While this places the time frame closer to 2Q results, any decision would be material enough to press release on its own. Management was clear that all options remain on the table, although we continue to believe that if the price is right, an outright sale of the project could occur. Importantly, use of proceeds in such a scenario would first go to support growth investments (e.g., acquisition of properties under Wexpro II), followed by dividend growth and share buybacks. Given break-even EBITDA and book value of only $100 million, any incremental project is expected to be value accretive, of which we currently ascribe after-tax equity value of ~$350 million (~$500 million gross) in our $25 price target.
- Given the recent approval of Wexpro II, STR is seeking ways to replicate the success of the Wexpro framework in other jurisdictions beyond its Utah and Wyoming footprints. Management stated the key to getting regulatory buy-in in different states would be to illustrate the long-term benefit to customers of having a portion of natural gas supplies coming from a cost-of-service vehicle like Wexpro II, which would benefit not only LDCs, but also small scale regulated power generators. In effect, it becomes a long-term hedge on market prices. Such opportunities could be more conducive in the West, in our opinion, given other similar utility arrangements, and overall regulatory culture. Importantly, management sees this opportunity as accretive to its long-term 4%-6% EPS growth rate.
- STR continues to advance its Questar Fueling initiative and the company now owns the largest compressed natural gas (CNG) fueling facility in the United Texas, located in Houston, Texas. The market for CNG has advanced rapidly over the last few years and the competitive landscape will likely change with new formidable entrants such as Chevron and Shell. That said, STR still expects Questar Fueling to add a few cents in annual EPS, but doesn't see Questar Fueling as an emerging business that will ultimately have the scale to be a fourth business segment.

Spectra Energy (SE, Market Perform, $31 Price Target)
Mgmt: Pat Reddy (CFO)

- SE's 2013 annualized EBITDA for the Express-Platte system has moved to the $145 million level a year earlier than expected, effectively shaving over a multiple point from the December purchase price. The increase is in part driven by higher utilization of the Express pipeline to 80% from 70% as higher refinery runs of Bakken crude has sought higher netback markets via rail. As well, the increase stems from early contract maturities moving to spot tolls, which have moved to a premium versus initial estimates. Over the

next two years even more contracts expire (with the bulk in 2015), and if such dynamics persist then the aforementioned EBITDA effectively becomes the new baseline.

- The gas utility remains in constructive discussions with customers and Ontario Energy Board over entering into a new multi-year rate framework. Management believes it will have more clarity in the coming months, and if a settlement can't be reached the company will simply revert to the traditional single-year, serial rate case filer with the primary goal of raising the utility's equity layer to 40%, from 36% currently.
- Empress remains in a state of strategic review, and management reaffirmed a decision is still expected mid-year in the June/July time frame. We continue to believe any resolution that gets Empress off the books—even though now fully expected—to be a positive one.
- Details on the bidding process for a Florida pipeline and the AIM expansion could potentially be known mid-summer (July/August), while the $1 billion-plus Renaissance pipeline could be firmed up in 3Q13. All three projects represent upside option value to our $31 valuation.

TransCanada (TRP, Outperform, C$55 Price Target)
Mgmt: Steve Clark (VP, Gas Pipes)

- TRP reaffirmed its intent to work within the framework of the recent National Energy Board (NEB) decision on the natural gas mainline rather than undo it. Most of our focus was spent on better understanding the recently filed Review and Variance (R&V) of the NEB decision. There has been no early reaction at this point from the NEB (it's not uncommon for it to go dark after a major decision), but TRP believes its requests do not amount to "a big stretch." Of note, the R&V has the following elements:

  1. **Higher toll to avoid deferrals.** Given that the calculus behind the decision's C$1.42/gj long haul toll was not clearly spelled out, TRP is asking for a slightly higher toll of C$1.52/gj, which it still sees as being in the competitive spectrum (even if at the upper end). The delta is meant to combat a C$95 million annual shortfall, which extends through 2017, and is recouped through a Long Term Adjustment Account (LTAA), which works like a second rate base that collects its cost of capital but grows like non cash AFUDC (and which management effectively sees as imprudent). Alternatively, TRP has suggested keeping short-haul rates unchanged (normally they would move down in lockstep with long-haul rates), in which case the LTAA deferrals could be eliminated with a lower long-haul rate in the C$1.50/gj range. Timing??
  2. **Improved flexibility.** TRP is asking for the elimination of certain diversion processes, which would eliminate gaming of the system (e.g., shippers not indicating their future intent to hold or release capacity) and in turn allow TRP to provide new shippers incremental service via long-term firm commitments.
  3. **Delayed timing.** TRP is asking for delayed implementation of the new tolls, to November 1, 2013 from July 1, 2013 both due to the vast number of tolls that still need to be recalculated, but more in our opinion due to the better alignment of market-based short-haul rates with the relevant winter season demand period.
  4. **Cost abandonment.** TRP is asking for mechanisms to implement a surcharge to recover unplanned costs (i.e. abandonment costs), a regulatory decision that came out after the filing of the mainline rate case.

- Should the Energy East open season prove successful, TRP expects that it would reopen a new regulatory framework by the NEB. The asset base from the gas line would come out in stages, with the last section being the North Bay shortcut likely in the spring of 2016. At this point the timing of such a new mainline review is highly uncertain, and largely depends on how successful TRP would be in simplifying its contracts with its shippers, but it has the potential to take as long as the two-year regulatory review of Energy East itself.

UGI Corp. (UGI, Market Perform, $42 Price Target)
Mgmt: John Walsh (CEO), Kirk Oliver (CFO)

- UGI reiterated its target long-term EPS growth rate of 6-10%. With respect to FY2014 earnings, 3-4% of the growth is coming from organic growth projects, with the balance coming from the collective of APU growth, the Poland LPG acquisition and Auburn II.
- Management reaffirmed the return of earnings power in FY2013 owing to normal weather. While lower cost of wholesale propane helped results during the quarter, the company underscored that the bulk of the rebounding earnings also came from continuing margin management rather than a parachute effect from declining wholesale propane prices during the heating season. Importantly, UGI also reiterated that its internal forecasts are done independently from a propane price outlook, and it pointed to its ability to expand margins over the last decade despite the volatility with wholesale propane. While the company does not explicitly hold a proprietary view on propane prices, management expects robust NGL supplies to continue to weigh on wholesale prices, which it sees as a positive for secular retail propane demand.
- The Heritage integration remains on target and management now expects to achieve a minimum of $60 million in synergies. While the company does not currently provide visibility on synergy upside, it believes that further cost management and network logistics could add a meaningful incremental uplift. Importantly, after the integration is complete, AmeriGas (APU) expects to have the balance sheet to resume its 20 million gallons per year acquisition program.
- UGI's power marketing operations were a minor contributor to strong quarterly Midstream and Marketing results as margins were squeezed from higher costs. Management does not expect to grow this business to compete with larger players and would be amenable to selling Hunlock and even divesting its small electric utility for the right price.
- Auburn II remains in the field execution phase and the company expects to have a seamless regulatory process. Importantly, management noted that stronger gas prices have started to change the tone of Marcellus producers, which could present new opportunities including the possibility of an Auburn III project on the horizon.
- Management expects to initiate investments in a new gathering system sometime in 2014 as part of its upstream joint venture with Tenaska. UGI expects to spend approximately $25 million annually to build gathering systems over the next few years.

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Company Data & Valuation

Exhibit 1: North American Pipelines Coverage Universe

Company	Ticker	FYE	Rating	Price Target	Price 05/14/13	Shares O/S (mm)	Market Cap (mm)	Enterprise Value (mm)	Indicated Dividend $	Indicated Dividend 2013E Payout	Yield	Net Tot Debt/ Cap	S&P Rating	Potential Price Appr	Indicated Div Yield	Potential Total Return
BMO North American Pipeline Coverage Universe																
U.S. Commodity Sensitive					last											
Energen Corp	EGN	Dec	MKT	$54	51.34	72.1	$3,703	$5,659	$0.58	16.8%	1.1%	33.8%	BBB	5.2%	1.1%	6.3%
National Fuel Gas Company	NFG	Sep	OP	$70	62.81	83.3	$5,233	$7,004	$1.46	47.9%	2.3%	38.4%	BBB	11.4%	2.3%	13.8%
Oneok Inc.	OKE	Dec	OP	$60	48.60	205.1	$9,966	$18,186	$1.44	79.1%	3.0%	72.2%	BBB	23.5%	3.0%	26.4%
Spectra Energy	SE	Dec	MKT	$31	31.17	652.9	$20,350	$34,901	$1.22	78.1%	3.9%	56.4%	BBB+	-0.5%	3.9%	3.4%
Williams Cos	WMB	Dec	OP	$41	36.63	626.5	$22,947	$38,023	$1.36	137.5%	3.7%	69.7%	BBB-	11.9%	3.7%	15.6%
Average							**$62,199**	**$103,773**		**71.9%**	**2.8%**	**54.1%**		**10.3%**	**2.8%**	**13.1%**
U.S. Gas Utilities																
AGL Resources Inc	GAS	Dec	UND	$43	43.81	117.5	$5,148	$9,687	$1.88	71.1%	4.3%	53.8%	A-	-1.8%	4.3%	2.4%
CenterPoint Energy	CNP	Dec	MKT	$25	24.13	427.4	$10,313	$14,843	$0.83	66.0%	3.4%	59.5%	A-	3.6%	3.4%	7.0%
NiSource Inc	NI	Dec	MKT	$31	29.09	284.9	$8,288	$16,915	$0.96	61.4%	3.3%	60.3%	BBB-	6.6%	3.3%	9.9%
Questar Corp	STR	Dec	MKT	$25	25.25	178.2	$4,499	$6,010	$0.72	61.7%	2.9%	55.7%	A	-1.0%	2.9%	1.9%
UGI Corp	UGI	Sep	MKT	$42	40.57	112.3	$4,558	$8,093	$1.08	44.2%	2.7%	58.4%	A-	3.5%	2.7%	6.2%
Average							**$32,806**	**$55,548**		**61.3%**	**3.3%**	**57.6%**		**2.2%**	**3.3%**	**5.5%**
Canadian Pipes*																
Enbridge Inc	ENB	Dec	OP	$54	47.43	799.6	$37,923	$66,557	$1.26	66.0%	2.7%	65.1%	A-	13.9%	2.7%	16.5%
TransCanada Corp	TRP	Dec	OP	$55	49.44	704.9	$34,852	$63,449	$1.84	77.3%	3.7%	55.1%	A-	11.2%	3.7%	15.0%
Average							**$72,775**	**$130,007**		**72.6%**	**3.2%**	**60.1%**		**12.5%**	**3.2%**	**15.7%**
Canadian Income*																
AltaGas	ALA	Dec	OP	$40	38.96	104.5	$4,071	$7,412	$1.50	100.0%	3.9%	45.2%	BBB	2.7%	3.9%	6.5%
Enbridge Income Fund	ENF	Dec	MKT	$26	26.09	51.7	$1,349	$1,349	$1.34	83.3%	5.1%	0.0%	-	-0.3%	5.1%	4.8%
Gibson Energy	GEI	Dec	MKT	$28	26.65	118.9	$3,168	$3,745	$1.10	89.5%	4.1%	37.6%	-	5.1%	4.1%	9.2%
Inter Pipeline Fund	IPL	Dec	MKT	$26	24.23	270.6	$6,558	$10,601	$1.11	103.9%	4.6%	65.5%	BBB+	7.3%	4.6%	11.9%
Keyera	KEY	Dec	MKT	$60	61.90	77.1	$4,773	$5,806	$2.16	102.5%	3.5%	46.3%	-	-3.1%	3.5%	0.4%
Pembina Pipeline Corp	PPL	Dec	MKT	$34	34.38	288.7	$9,925	$12,570	$1.62	223.8%	4.7%	35.6%	BBB	-1.1%	4.7%	3.6%
Valener	VNR	Sep	MKT	$17	16.21	37.5	$609	$782	$1.00	119.0%	6.2%	-1.9%	BBB+	4.9%	6.2%	11.0%
Veresen	VSN	Dec	OP	$14	13.40	196.6	$2,635	$4,236	$1.00	501.4%	7.5%	45.7%	BBB	4.5%	7.5%	11.9%
Average							**$33,088**	**$46,503**		**165.4%**	**4.9%**	**34.6%**		**2.5%**	**4.9%**	**7.4%**

Source: BMO Capital Markets estimates, company data.

Exhibit 2: BMO North American Pipeline Comparative Valuation - Estimates

Company	Ticker	Price 05/14/13	Dividend Yield	Operating EPS 2012A	2013E	2014E	2015E	Operating CFPS 2012A	2013E	2014E	2015E	EBITDA 2012A	2013E	2014E	2015E
BMO North American Pipeline Coverage Universe															
U.S. Commodity Sensitive															
Energen Corp	EGN	51.34	1.1%	$3.15	$3.45	$3.66	$2.65	$11.30	$12.91	$13.89	$12.76	$883	$952	$1,101	$1,013
National Fuel Gas Company	NFG	62.81	2.3%	$2.58	$3.05	$2.87	$2.68	$7.48	$8.53	$8.07	$8.23	$727	$836	$897	$912
Oneok Inc.	OKE	48.60	3.0%	$1.69	$1.82	$2.12	$2.45	$6.55	$8.51	$9.97	$11.21	$1,583	$1,645	$2,008	$2,275
Spectra Energy	SE	31.17	3.9%	$1.43	$1.56	$1.60	$1.75	$2.72	$3.21	$3.19	$3.22	$3,087	$3,311	$3,407	$0
Williams Cos	WMB	36.63	3.7%	$1.11	$0.99	$1.44	$1.61	$2.99	$3.25	$3.94	$3.89	$2,556	$2,742	$3,528	$3,874
Average			**2.8%**												
U.S. Utilities															
AGL Resources Inc	GAS	43.81	4.3%	$2.46	$2.64	$2.72	$2.92	$7.89	$6.45	$6.67	$6.89	$1,034	$1,124	$1,148	$1,186
CenterPoint Energy	CNP	24.13	3.4%	$1.25	$1.22	$1.24	$1.33	$4.18	$3.92	$3.74	$3.85	$1,912	$1,901	$1,832	$1,895
NiSource Inc	NI	29.09	3.3%	$1.44	$1.56	$1.65	$1.76	$4.31	$4.20	$4.01	$4.17	$1,615	$1,785	$1,905	$2,053
Questar Corp	STR	25.25	2.9%	$1.19	$1.17	$1.21	$1.24	$2.96	$2.44	$2.39	$2.44	$568	$570	$582	$598
UGI Corp.	UGI	40.57	2.7%	$1.79	$2.44	$2.70	$2.82	$4.19	$4.84	$5.03	$5.18	$824	$1,172	$1,261	$1,303
Average			**3.3%**												
Canadian Pipes*															
Enbridge Inc.	ENB	47.43	2.7%	$1.62	$1.85	$2.13	$2.39	$4.50	$4.14	$4.94	$5.12	$2,890	$4,136	$5,211	$5,814
TransCanada Corp.	TRP	49.44	3.7%	$1.89	$2.38	$2.59	$2.75	$4.61	$5.22	$5.36	$6.01	$4,204	$5,081	$5,407	$5,922
Average			**3.2%**												
Canadian Income*															
AltaGas	ALA	38.96	3.9%	$1.15	$1.50	$1.85	$2.13	$2.67	$3.61	$3.98	$4.37	$330	$509	$590	$646
Enbridge Income Fund	ENF	26.09	5.1%	$1.48	$1.60	$1.34	$1.07	$1.48	$1.60	$1.55	$1.35	$60	$90	$92	$93
Gibson Energy	GEI	26.65	4.1%	$0.97	$1.23	$1.26	$1.33	$2.26	$2.75	$2.83	$2.85	$318	$410	$426	$450
Inter Pipeline Fund	IPL	24.23	4.6%	$1.02	$1.07	$1.15	$1.33	$1.56	$1.59	$1.69	$1.97	$617	$651	$746	$862
Keyera	KEY	61.90	3.5%	$1.95	$2.11	$2.34	$2.79	$3.48	$3.91	$4.53	$5.19	$308	$364	$406	$473
Pembina Pipeline Corp	PPL	34.38	4.7%	$0.84	$0.72	$0.94	$1.21	$1.81	$1.67	$1.97	$2.28	$589	$651	$792	$907
Valener	VNR	16.21	6.2%	$0.81	$0.84	$1.02	$1.08	$1.03	$0.95	$1.12	$1.18	$40	$56	$62	$65
Veresen	VSN	13.40	7.5%	$0.20	$0.20	$0.25	$0.29	$1.05	$1.11	$1.14	$1.15	$272	$294	$306	$313
Average			**4.9%**												

Source: BMO Capital Markets estimates, company data.

Exhibit 3: BMO North American Pipeline Comparative Valuation – Metrics

Company	Ticker	P/E 2012A	P/E 2013E	P/E 2014E	P/E 2015E	TEV/EBITDA 2012A	TEV/EBITDA 2013E	TEV/EBITDA 2014E	TEV/EBITDA 2015E	P/CFPS 2012A	P/CFPS 2013E	P/CFPS 2014E	P/CFPS 2015E	CF Reinv Yie 2012A	CF Reinv Yie 2013E	CF Reinv Yie 20
BMO North American Pipeline Coverage Universe																
U.S. Commodity Sensitive																
Energen Corp	EGN	16.3x	14.9x	14.0x	19.4x	6.4x	5.9x	5.1x	5.6x	4.5x	4.0x	3.7x	4.0x	13.2%	16.4%	1
National Fuel Gas Company	NFG	24.3x	20.6x	21.9x	23.4x	9.6x	8.4x	7.8x	7.7x	8.4x	7.4x	7.8x	7.6x	7.4%	6.5%	
Oneok Inc.	OKE	28.7x	26.7x	23.0x	19.9x	11.5x	11.1x	9.1x	8.0x	7.4x	5.7x	4.9x	4.3x	1.4%	4.6%	
Spectra Energy	SE	21.8x	20.0x	19.5x	17.8x	11.3x	10.5x	10.2x	NM	11.5x	9.7x	9.8x	9.7x	4.9%	5.9%	
Williams Cos	WMB	33.0x	37.2x	25.5x	22.7x	14.9x	13.9x	10.8x	9.8x	12.3x	11.3x	9.3x	9.4x	4.1%	6.5%	
Average		**24.8x**	**23.9x**	**20.8x**	**20.6x**	**10.7x**	**10.0x**	**8.6x**	**7.8x**	**8.8x**	**7.6x**	**7.1x**	**7.0x**	**6.2%**	**8.0%**	
U.S. Utilities																
AGL Resources Inc	GAS	17.8x	16.6x	16.1x	15.0x	9.4x	8.6x	8.4x	8.2x	5.6x	6.8x	6.6x	6.4x	9.9%	6.4%	
CenterPoint Energy	CNP	19.3x	19.8x	19.5x	18.2x	7.8x	7.8x	8.1x	7.8x	5.8x	6.2x	6.4x	6.3x	10.5%	10.7%	1
NiSource Inc	NI	20.2x	18.6x	17.7x	16.6x	10.5x	9.5x	8.9x	8.2x	6.8x	6.9x	7.2x	7.0x	8.8%	8.9%	
Questar Corp	STR	21.1x	21.6x	20.9x	20.3x	10.6x	10.5x	10.3x	10.0x	8.5x	10.3x	10.6x	10.4x	7.9%	5.8%	
UGI Corp.	UGI	22.7x	16.6x	15.0x	14.4x	9.8x	6.9x	6.4x	6.2x	9.7x	8.4x	8.1x	7.8x	7.1%	6.8%	
Average		**20.2x**	**18.6x**	**17.8x**	**16.9x**	**9.6x**	**8.7x**	**8.4x**	**8.1x**	**7.3x**	**7.7x**	**7.8x**	**7.6x**	**8.9%**	**7.7%**	
Canadian Pipes*																
Enbridge Inc.	ENB	29.3x	25.6x	22.2x	19.9x	23.0x	16.1x	12.8x	11.4x	10.5x	11.4x	9.6x	9.3x	6.5%	5.9%	
TransCanada Corp.	TRP	26.1x	20.8x	19.1x	17.9x	15.1x	12.5x	11.7x	10.7x	10.7x	9.5x	9.2x	8.2x	7.6%	8.8%	
Average		**27.7x**	**23.2x**	**20.6x**	**18.9x**	**19.1x**	**14.3x**	**12.3x**	**11.1x**	**10.6x**	**10.5x**	**9.4x**	**8.7x**	**7.1%**	**7.4%**	
Canadian Income*																
AltaGas	ALA	33.9x	26.0x	21.0x	18.3x	22.5x	14.6x	12.6x	11.5x	14.6x	10.8x	9.8x	8.9x	6.5%	8.3%	
Enbridge Income Fund	ENF	17.6x	16.3x	19.5x	24.5x	22.6x	14.9x	14.7x	14.6x	17.6x	16.3x	16.8x	19.3x	5.7%	6.1%	
Gibson Energy	GEI	27.4x	21.7x	21.2x	20.0x	11.8x	9.1x	8.6x	8.3x	11.8x	9.7x	9.4x	9.4x	6.7%	8.4%	
Inter Pipeline Fund	IPL	23.7x	22.7x	21.1x	18.2x	17.2x	16.3x	14.2x	12.3x	15.5x	15.2x	14.3x	12.3x	5.8%	6.0%	
Keyera	KEY	31.8x	29.4x	26.5x	22.2x	18.8x	15.9x	14.3x	12.3x	17.8x	15.8x	13.7x	11.9x	4.5%	5.9%	
Pembina Pipeline Corp	PPL	41.1x	47.5x	36.7x	28.5x	21.3x	19.3x	15.9x	13.9x	19.0x	20.6x	17.5x	15.1x	5.1%	4.7%	
Valener	VNR	20.0x	19.3x	15.8x	14.9x	19.4x	14.0x	12.6x	12.0x	15.7x	17.1x	14.5x	13.7x	3.9%	6.5%	
Veresen	VSN	68.1x	67.2x	53.8x	46.8x	15.6x	14.4x	13.8x	13.5x	12.7x	12.1x	11.8x	11.7x	7.6%	8.0%	
Average		**33.0x**	**31.3x**	**26.9x**	**24.2x**	**18.6x**	**14.8x**	**13.4x**	**12.3x**	**15.6x**	**14.7x**	**13.5x**	**12.8x**	**5.7%**	**6.7%**	
INDUSTRY COMPS																
Industry Comps																
U.S. Commodity Sensitive																
Average		**1605.9x**	**25.2x**	**20.7x**	**17.3x**	**12.8x**	**9.5x**	**8.3x**	**7.4x**	**12.0x**	**9.7x**	**7.4x**	**6.3x**			
U.S. Gas Utilities																
Average		**18.6x**	**18.3x**	**16.9x**	**16.3x**	**8.9x**	**8.8x**	**8.4x**	**8.5x**	**12.2x**	**16.7x**	**9.7x**	**8.8x**			
U.S. Master Limited Partnerships																
Average		**34.4x**	**26.3x**	**22.5x**	**21.2x**	**19.9x**	**12.1x**	**10.4x**	**9.5x**	**12.7x**	**12.6x**	**11.4x**	**9.6x**			
U.S. Regulated Electric Utilities																
Average		**27.3x**	**16.7x**	**15.7x**	**14.9x**	**10.0x**	**8.4x**	**7.9x**	**7.6x**	**6.8x**	**7.9x**	**7.6x**	**7.4x**			
Canadian Income*																
Average		**0.0x**	**10.3x**	**14.6x**	**11.5x**	**11.9x**	**11.9x**	**12.9x**	**12.4x**	**3.8x**	**11.1x**	**12.0x**	**12.1x**			
Other Canadian Pipelines & Utility*																
Average		**29.6x**	**33.3x**	**25.1x**	**26.4x**	**11.9x**	**9.5x**	**8.6x**	**7.7x**	**12.0x**	**8.6x**	**7.9x**	**7.5x**			

* All Data in C$ unless otherwise indicated

** Operating cash flow less maintenance capital; shareholder cash available for dividend or growth reinvestment

Source: BMO Capital Markets estimates, company data.

Exhibit 4: N. America Pipeline Short Interest

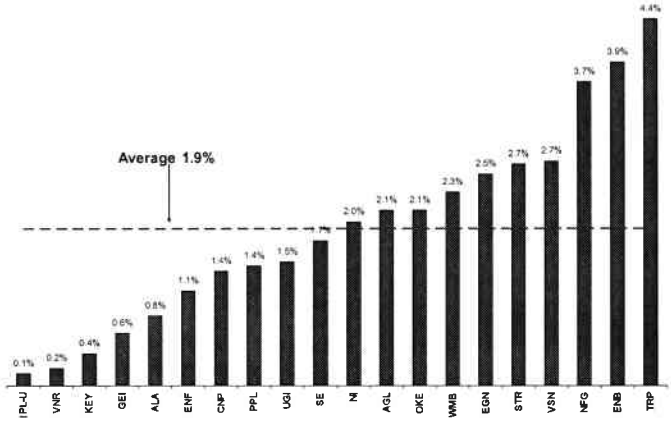


Exhibit 5: N. America Pipeline Days To Cover

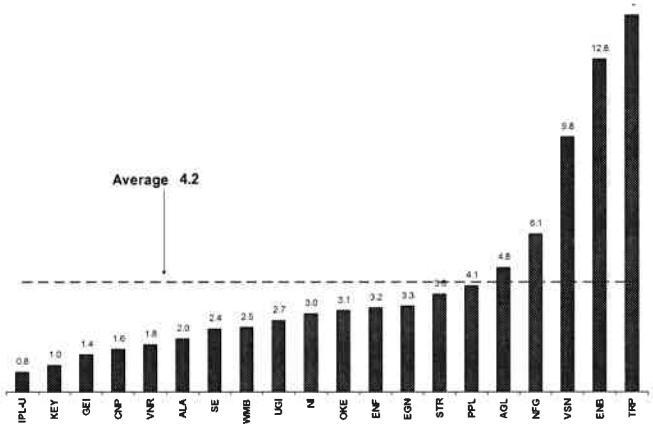


Exhibit 6: 2-Week Absolute Change in SI

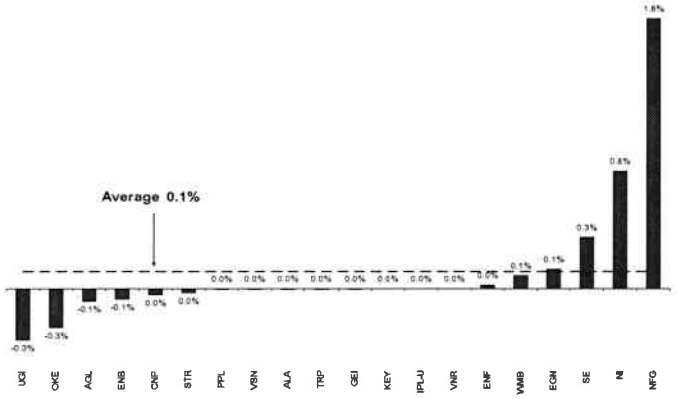


Exhibit 7: 2-Week Absolute Change in Days

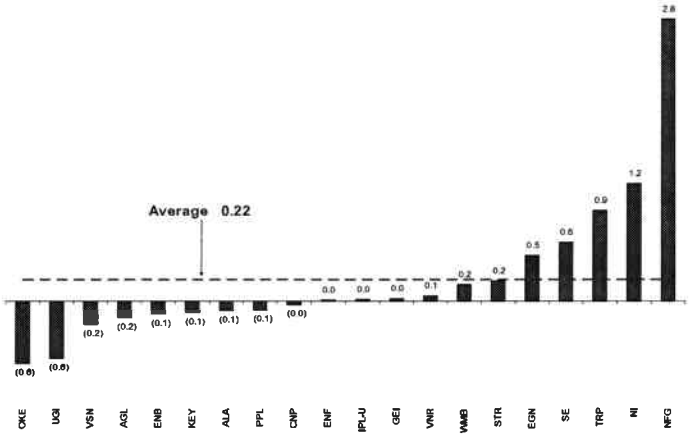


Exhibit 8: 2-Week Relative Change in SI

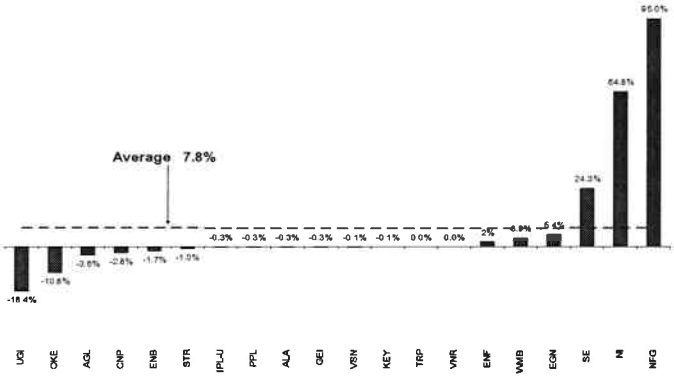
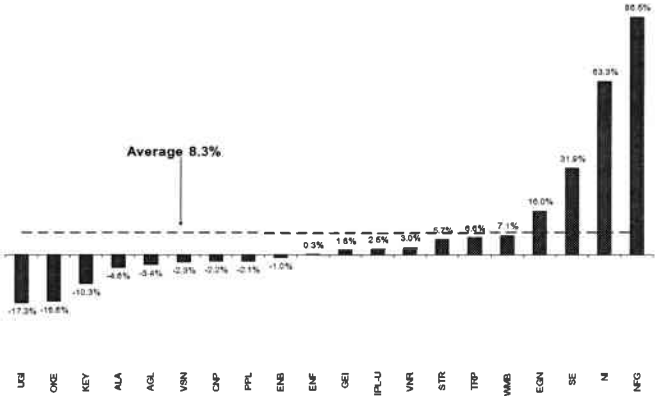


Exhibit 9: 2-Week Relative Change in Days



Source: BMO Capital Markets estimates, Bloomberg.

* Last available update: May 2, 2013. Short interest is defined as absolute short volume divided by public float.

Earnings

Exhibit 10: BMO Capital Estimates vs. Consensus

	2012A	2013E 1QE	2013E 2QE	2013E 3QE	2013E 4QE	2013E	2014E	2015E	Year-Over-Year Growth '12 vs.'13	'13 vs.'14	'14 vs.'15
U.S. Commodity Sensitive											
EGN	$3.15	$1.14	$0.70	$0.60	$1.00	$3.45	$3.66	$2.65	9.5%	6.1%	-27.7%
Consensus			*$0.65*	*$0.59*	*$0.92*	*$3.31*	*$3.96*	*$4.40*	*4.9%*	*19.7%*	*11.2%*
NFG	$2.58	$0.81	$1.02	$0.65	$0.57	$3.05	$2.87	$2.68	18.0%	-6.0%	-6.5%
Consensus				*$0.62*	*$0.56*	*$3.01*	*$3.13*	*$3.28*	*16.4%*	*3.9%*	*5.0%*
OKE	$1.69	$0.54	$0.35	$0.36	$0.57	$1.82	$2.12	$2.45	7.6%	16.3%	15.5%
Consensus			*$0.32*	*$0.33*	*$0.55*	*$1.76*	*$2.18*	*$2.62*	*3.8%*	*24.3%*	*19.8%*
SE	$1.43	$0.51	$0.35	$0.27	$0.42	$1.56	$1.60	$1.75	9.3%	2.2%	9.9%
Consensus			*$0.33*	*$0.30*	*$0.39*	*$1.53*	*$1.64*	*$1.76*	*6.8%*	*7.1%*	*7.6%*
WMB	$1.11	$0.22	$0.16	$0.19	$0.21	$0.78	$1.24	$1.61	-29.7%	58.0%	29.9%
Consensus			*$0.19*	*$0.21*	*$0.26*	*$0.89*	*$1.32*	*$1.52*	*-20.6%*	*48.9%*	*15.2%*
U.S. Utilities											
GAS	$2.46	$1.31	$0.35	$0.15	$0.84	$2.64	$2.72	$2.92	7.4%	2.7%	7.6%
Consensus			*$0.28*	*$0.15*	*$0.89*	*$2.64*	*$2.76*	*$2.94*	*7.0%*	*4.8%*	*6.5%*
CNP	$1.25	$0.36	$0.26	$0.32	$0.28	$1.22	$1.24	$1.33	-2.2%	1.2%	7.3%
Consensus			*$0.28*	*$0.35*	*$0.27*	*$1.23*	*$1.31*	*$1.40*	*-1.8%*	*6.6%*	*6.9%*
NI	$1.44	$0.69	$0.19	$0.19	$0.50	$1.56	$1.65	$1.76	8.5%	5.3%	6.7%
Consensus			*$0.25*	*$0.15*	*$0.47*	*$1.55*	*$1.67*	*$1.79*	*7.8%*	*7.5%*	*7.4%*
STR	$1.19	$0.41	$0.22	$0.17	$0.37	$1.17	$1.21	$1.24	-2.3%	3.6%	2.7%
Consensus			*$0.21*	*$0.17*	*$0.36*	*$1.17*	*$1.26*	*$1.33*	*-2.0%*	*7.4%*	*5.7%*
UGI	$1.79	$0.90	$1.51	$0.05	-$0.02	$2.44	$2.70	$2.82	36.8%	10.6%	4.2%
Consensus				*$0.07*	*$0.02*	*$2.47*	*$2.81*	*$3.16*	*38.1%*	*13.8%*	*12.6%*
Canadian Pipes*											
ENB	$1.62	$0.62	$0.39	$0.36	$0.49	$1.85	$2.13	$2.39	14.6%	15.1%	11.9%
Consensus			*$0.39*	*$0.36*	*$0.48*	*$1.83*	*$2.10*	*$2.48*	*13.0%*	*14.7%*	*18.4%*
TRP	$1.89	$0.52	$0.52	$0.59	$0.74	$2.38	$2.59	$2.75	26.0%	9.0%	6.2%
Consensus			*$0.50*	*$0.58*	*$0.60*	*$2.21*	*$2.52*	*$2.66*	*16.8%*	*13.9%*	*5.8%*
Canadian Income*											
ALA	$1.15	$0.53	$0.22	$0.24	$0.53	$1.50	$1.85	$2.13	30.6%	23.6%	15.0%
Consensus			*$0.15*	*$0.15*	*$0.52*	*$1.33*	*$1.63*	*$2.02*	*15.9%*	*22.8%*	*23.6%*
ENF	$1.48	$0.40	$0.40	$0.40	$0.40	$1.60	$1.34	$1.07	8.2%	-16.4%	-20.4%
Consensus			*$0.35*	*$0.34*	*$0.35*	*$1.25*	*$1.21*	*$1.41*	*-15.6%*	*-2.6%*	*16.1%*
GEI	$0.97	$0.39	$0.23	$0.34	$0.34	$1.30	$1.31	$1.35	34.0%	0.3%	3.2%
Consensus			*$0.22*	*$0.32*	*$0.27*	*$1.24*	*$1.10*	*$1.37*	*27.8%*	*-11.7%*	*25.1%*
IPL	$1.02	$0.26	$0.27	$0.28	$0.23	$1.03	$1.15	$1.33	0.7%	12.0%	15.1%
Consensus			*$0.24*	*$0.26*	*$0.26*	*$1.02*	*$1.11*	*$1.37*	*-0.1%*	*8.6%*	*23.5%*
KEY	$1.95	$0.30	$0.41	$0.46	$0.69	$1.86	$2.40	$2.85	-4.4%	28.7%	19.1%
Consensus			*$0.48*	*$0.61*	*$0.75*	*$2.11*	*$2.38*	*$2.76*	*8.4%*	*12.6%*	*15.9%*
PPL	$0.84	$0.29	$0.25	$0.25	$0.26	$1.05	$1.10	$1.40	25.1%	4.9%	27.6%
Consensus			*$0.23*	*$0.25*	*$0.27*	*$1.11*	*$1.19*	*$1.29*	*32.7%*	*7.5%*	*8.3%*
VNR	$0.81	$0.38	$0.64	$0.03	-$0.18	$0.87	$1.02	$1.08	7.5%	16.8%	6.4%
Consensus				*$0.03*	*-$0.16*	*$0.85*	*$0.96*	*$1.06*	*4.5%*	*13.7%*	*9.7%*
VSN	$0.20	$0.01	$0.04	$0.04	$0.08	$0.17	$0.25	$0.29	-16.1%	48.7%	19.6%
Consensus			*$0.05*	*$0.06*	*$0.08*	*$0.27*	*$0.32*	*$0.30*	*36.6%*	*20.4%*	*-6.8%*

(1) Estimates are Bloomberg Consensus
* All Data in C$ unless otherwise indicated

Source: BMO Capital Markets estimates, company data, Bloomberg.

Exhibit 11: EPS Commodity Sensitivity

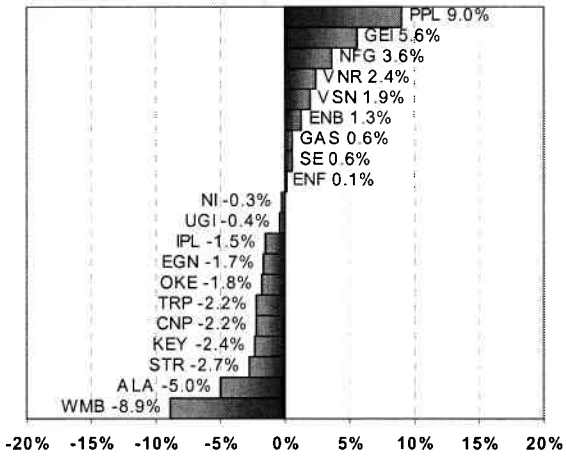
		ALA		EGN		IPL		KEY		NFG		OKE		PPL		SE		TRP		VSN		WMB	
Base Case 2013 EPS	***hedged***	**$1.50**		**$3.45**		**$1.03**		**$1.86**		**$3.05**		**$1.82**		**$1.05**		**$1.56**		**$2.38**		**$0.17**		**$0.78**	
NATURAL GAS																							
-$1 nat gas ($/MMBtu)	*hedged*	(0.02)	*-1.3%*	(0.16)	*-4.6%*					0.25	*8.2%*	(0.02)	*-1.1%*	0.14	*13.4%*			(0.14)	*-5.9%*				
	unhedged	(0.14)	*-8.1%*	(0.60)	*-24.5%*	0.03	*2.9%*			(0.45)	*-19.1%*	(0.05)	*-2.5%*	0.15	*19.7%*	(0.03)	*-1.6%*	(0.25)	*-12.2%*	0.02	*12.1%*	0.09	*8.6%*
+$1 nat gas ($/MMBtu)	*hedged*	0.02	*1.3%*	0.16	*4.6%*					0.25	*8.2%*	0.02	*1.1%*	(0.14)	*-13.4%*			0.14	*5.9%*				
	unhedged	0.14	*8.1%*	0.60	*24.5%*	(0.03)	*-2.9%*			0.45	*19.1%*	0.05	*2.5%*	(0.15)	*-19.7%*	0.03	*1.6%*	0.25	*12.2%*	(0.02)	*-12.1%*	-$0.09	*-8.6%*
NATURAL GAS LIQUIDS																							
-$.05 NGL ($/gal)	*hedged*	(0.04)	*-2.7%*	(0.04)	*-1.2%*							(0.02)	*-1.1%*	(0.04)	*-3.8%*								
	unhedged	(0.06)	*-3.5%*	(0.06)	*-2.4%*	(0.01)	*-1.0%*					(0.02)	*-0.7%*	(0.04)	*-5.3%*	(0.03)	*-1.6%*			(0.01)	*-6.1%*	(0.04)	*-3.8%*
+$.05 NGL ($/gal)	*hedged*	0.04	*2.7%*	0.04	*1.2%*							0.02	*1.1%*	0.04	*3.6%*								
	unhedged	0.06	*3.5%*	0.06	*2.4%*	0.01	*1.0%*					0.02	*0.7%*	0.04	*5.3%*	0.03	*1.6%*			0.01	*6.1%*	0.04	*3.8%*
CRUDE OIL**																							
-$10 OIL ($/Bbl)	*hedged*			(0.10)	*-2.9%*			(0.10)	*-5.4%*	(0.06)	*-2.0%*	(0.01)	*-0.5%*										
	unhedged			(0.86)	*-35.1%*			(0.15)	*-6.5%*	(0.18)	*-7.6%*	(0.02)	*-1.0%*										
+$10 OIL ($/Bbl)	*hedged*			0.10	*2.9%*			0.10	*5.4%*	0.06	*2.0%*	0.01	*0.5%*										
	unhedged			0.86	*35.1%*			0.15	*6.5%*	0.14	*5.9%*	0.02	*1.0%*										

*All unhedged positions shown assume BMO 2013 commodity forecast of $4.00 nat gas, $91.11 oil and $0.97 NGLs.

Source: BMO Capital Markets estimates, company data, Bloomberg.

Exhibit 12: Consensus EPS Revisions – Trailing 4 Weeks

2013E



2014E

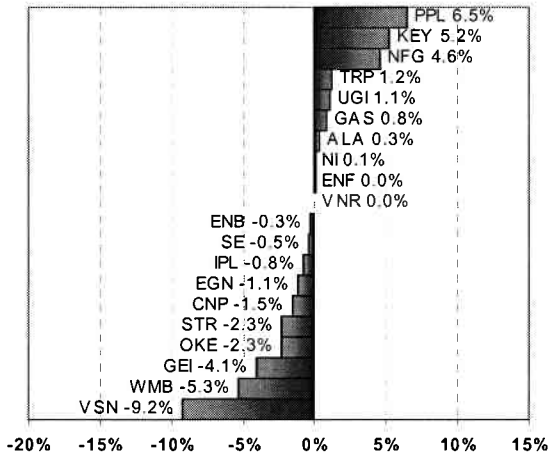
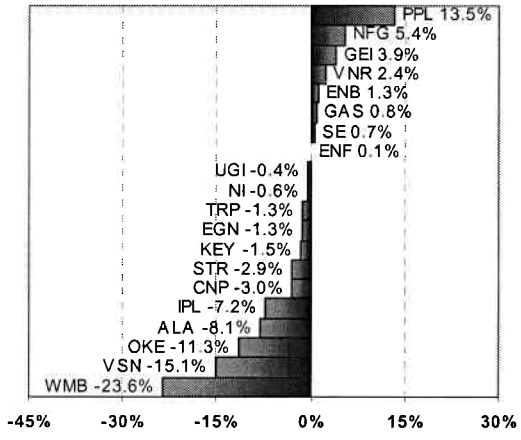
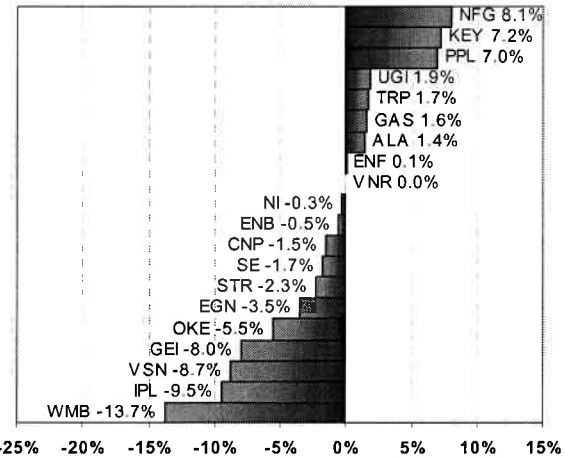


Exhibit 13: Consensus EPS Revisions – Trailing 3 Months

2013E



2014E



Source (all Exhibits): BMO Capital Markets estimates, company data, Bloomberg.

Stock Performance

Exhibit 14: 5-Day Performance (May 8 thru May 14)

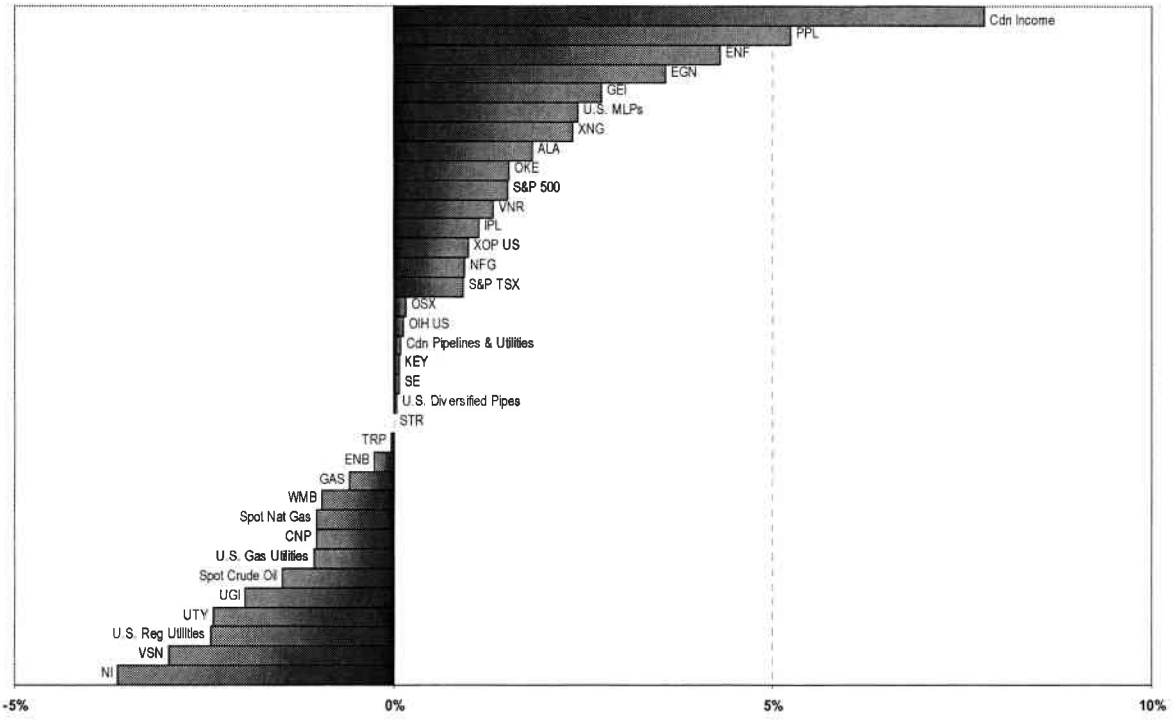
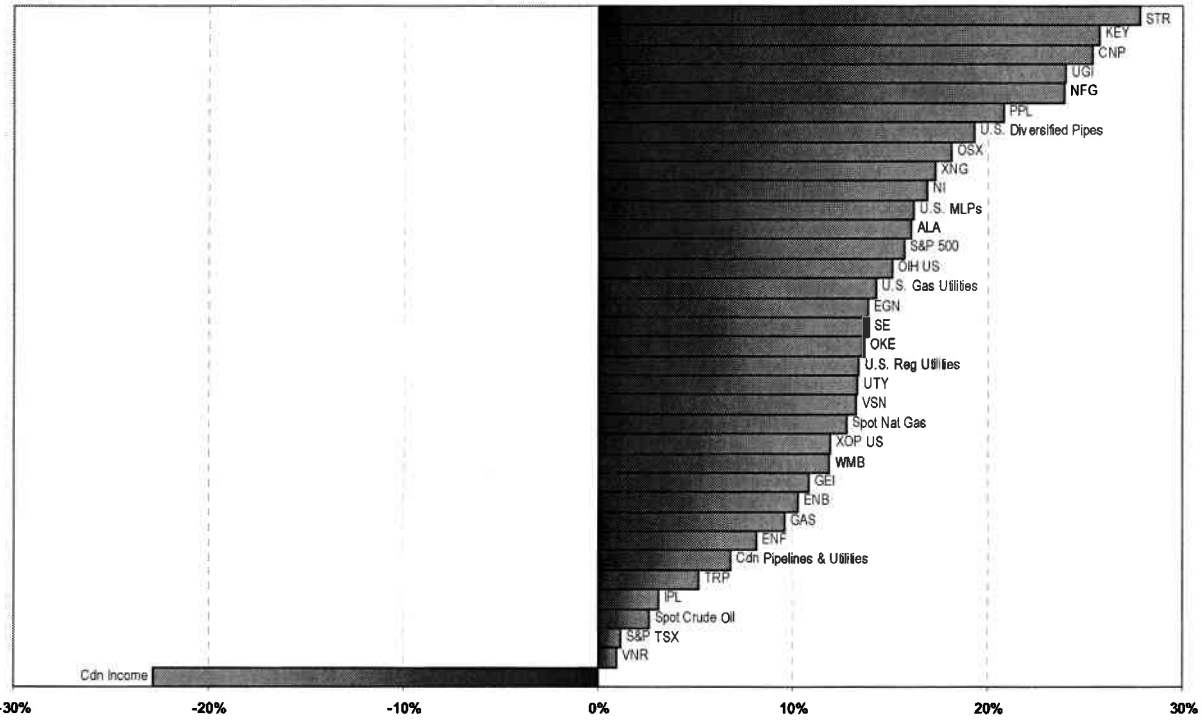


Exhibit 15: Year-to-Date Performance



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 16: Price Performance – United States

	Ticker	Rating	Price	Price Performance**** 1 Day	5 Day	1 Month	QTD	Three Months	YTD	1 Year	% from 52 Wk High	Date of High	% from 52 Wk Low	Date of Low
BMO North American Pipeline Coverage Universe														
U.S. Commodity Sensitive														
Energen Corp	EGN	MKT	51.34	2.4%	3.6%	4.4%	-1.3%	4.9%	13.9%	13.7%	-7.6%	9/17/2012	27.9%	6/25/2012
National Fuel Gas Company	NFG	OP	62.81	1.0%	0.9%	4.2%	2.4%	8.1%	23.9%	38.9%	-0.7%	5/3/2013	51.1%	6/4/2012
Oneok Inc.	OKE	OP	48.60	1.7%	1.5%	-1.6%	2.0%	2.1%	13.7%	14.9%	-7.4%	5/15/2013	23.6%	6/4/2012
Spectra Energy	SE	MKT	31.17	0.2%	0.1%	2.1%	1.4%	5.4%	13.8%	5.4%	-1.1%	4/30/2013	17.4%	12/28/2012
Williams Cos	WMB	OP	36.63	0.4%	-0.9%	-2.9%	-2.2%	3.3%	11.0%	15.7%	-5.0%	4/25/2013	34.4%	6/25/2012
Average				**1.1%**	**1.0%**	**1.2%**	**0.4%**	**4.8%**	**15.4%**	**17.7%**	**-4.4%**		**30.9%**	
U.S. Utilities														
AGL Resources Inc	GAS	UND	43.81	1.4%	-0.6%	0.7%	4.4%	10.2%	9.6%	14.4%	-1.2%	5/2/2013	19.7%	5/21/2012
CenterPoint Energy	CNP	MKT	24.13	1.1%	-1.0%	0.5%	0.7%	18.1%	25.4%	20.2%	-2.4%	5/1/2013	28.4%	12/31/2012
NiSource Inc	NI	MKT	29.09	1.1%	-3.6%	-5.0%	-0.9%	8.1%	16.9%	15.8%	-7.3%	4/24/2013	25.7%	11/15/2012
Questar Corp	STR	MKT	25.25	0.1%	0.0%	1.0%	3.8%	6.4%	27.8%	29.9%	-1.3%	5/15/2013	46.8%	11/9/2012
UGI Corp.	UGI	MKT	40.57	0.9%	-2.0%	1.2%	5.7%	13.4%	24.0%	39.0%	-2.2%	5/8/2013	46.0%	6/27/2012
Average				**0.9%**	**-1.4%**	**-0.3%**	**2.8%**	**11.2%**	**20.7%**	**23.9%**	**-2.9%**		**33.3%**	
Industry Comps														
U.S. Commodity Sensitive														
Equitable Resources***	EQT	OP	76.53	2.2%	1.0%	11.1%	13.0%	26.5%	29.8%	57.0%	-0.5%	4/29/2013	75.2%	6/4/2012
Sempra Energy**	SRE	MKT	82.30	0.9%	-1.2%	-0.2%	3.0%	9.2%	16.0%	27.1%	-2.8%	5/2/2013	30.6%	5/23/2012
Average				**1.5%**	**-0.1%**	**5.5%**	**8.0%**	**17.9%**	**22.9%**	**42.0%**	**-1.7%**		**52.9%**	
U.S. Gas Utilities														
Atmos Energy	ATO	NR	44.42	0.9%	-0.8%	2.6%	4.1%	17.4%	26.5%	36.0%	-1.0%	5/8/2013	38.0%	5/23/2012
Integrys Energy Group	TEG	NR	60.29	1.1%	-1.9%	-0.3%	3.7%	7.7%	15.5%	11.9%	-3.9%	5/3/2013	17.9%	11/15/2012
The Laclede Group	LG	NR	45.93	1.1%	-0.9%	3.1%	7.6%	13.9%	19.0%	18.7%	-2.5%	4/30/2013	25.7%	6/1/2012
New Jersey Resources	NJR	NR	45.96	1.0%	-1.3%	-0.5%	2.5%	5.3%	16.0%	6.9%	-3.3%	9/25/2012	19.3%	11/16/2012
Northwest Natural Gas Company	NWN	NR	45.08	1.2%	0.1%	0.2%	2.9%	-0.9%	2.0%	-1.1%	-11.3%	10/9/2012	9.9%	11/16/2012
Piedmont Natural Gas	PNY	NR	34.48	1.3%	0.3%	0.3%	4.9%	7.9%	10.1%	16.8%	-1.3%	4/24/2013	20.9%	11/16/2012
South Jersey Industries	SJI	NR	59.12	0.4%	-1.6%	1.4%	6.4%	8.9%	17.5%	25.0%	-4.2%	4/30/2013	29.1%	11/16/2012
Vectren	VVC	NR	35.83	1.0%	-3.3%	-2.6%	1.2%	11.2%	21.9%	24.2%	-4.6%	4/30/2013	30.5%	11/15/2012
Washington Gas Light	WGL	NR	44.88	1.1%	-1.0%	0.8%	1.8%	6.8%	14.5%	16.0%	-2.9%	4/30/2013	24.8%	11/16/2012
Average				**0.9%**	**-1.0%**	**0.5%**	**3.5%**	**7.8%**	**14.3%**	**15.4%**	**-3.5%**		**21.6%**	
U.S. Master Limited Partnerships														
Ameriges Partners	APU	NR	46.36	1.5%	-1.4%	6.1%	3.2%	8.1%	19.7%	20.6%	-2.3%	5/10/2013	25.3%	6/4/2012
Enbridge Energy Partners	EEP	NR	29.98	-0.2%	3.8%	0.8%	-0.5%	4.4%	7.5%	1.6%	-3.7%	7/2/2012	11.5%	12/13/2012
Enbridge Energy Management	EEQ	NR	30.15	-0.7%	4.8%	3.0%	1.6%	4.4%	8.2%	4.1%	-9.1%	7/18/2012	14.9%	2/26/2013
El Paso Pipeline Partners	EPB	NR	42.95	-0.8%	0.8%	0.5%	-2.1%	1.1%	16.2%	31.2%	-4.0%	4/2/2013	40.2%	5/18/2012
Cheniere Energy Partners	CQP	NR	28.20	1.4%	3.4%	5.9%	3.0%	20.3%	32.6%	12.6%	0.0%	5/15/2013	60.3%	11/14/2012
Targa Resource Partners	NGLS	NR	48.11	0.6%	3.2%	2.8%	4.5%	14.9%	28.7%	15.9%	-2.3%	4/22/2013	47.2%	6/25/2012
Williams Partners	WPZ	NR	51.61	-0.9%	0.4%	-2.3%	-0.4%	-3.4%	6.1%	-5.9%	-8.1%	5/29/2012	14.7%	12/13/2012
Spectra Energy Partners	SEP	NR	37.00	-1.0%	2.5%	-1.1%	-6.0%	2.2%	18.5%	21.5%	-7.8%	4/1/2013	36.3%	11/15/2012
DCP Midstream Partners	DPM	NR	49.87	-1.3%	0.9%	5.9%	7.0%	7.5%	19.4%	17.5%	-1.8%	5/10/2013	36.7%	6/4/2012
Oneok Partners	OKS	NR	52.95	0.9%	4.3%	-3.8%	-7.8%	-12.5%	-1.9%	-5.8%	-13.7%	2/20/2013	6.8%	5/2/2013
Kinder Morgan Energy Partners	KMP	NR	88.54	0.4%	1.8%	-1.9%	-1.4%	1.1%	11.0%	10.7%	-4.8%	4/24/2013	19.4%	6/5/2012
Enterprise Product Partners	EPD	NR	61.39	-0.2%	1.1%	1.3%	1.8%	7.3%	22.6%	22.4%	-1.7%	4/25/2013	34.4%	6/4/2012
Boardwalk Pipeline Partners	BWP	NR	30.81	0.5%	3.4%	2.3%	5.1%	14.7%	23.7%	13.5%	-0.9%	4/24/2013	30.8%	11/15/2012
Average				**-0.1%**	**2.3%**	**0.8%**	**-0.5%**	**3.5%**	**14.6%**	**12.0%**	**-5.4%**		**26.8%**	
U.S. Regulated Electric Utilities														
American Electric Power**	AEP	MKT	48.87	0.4%	-4.3%	-2.2%	0.5%	9.2%	14.5%	27.7%	-5.3%	5/1/2013	30.6%	5/17/2012
Dominion Resources**	D	MKT	60.46	1.3%	-0.8%	0.6%	3.9%	11.0%	16.7%	15.7%	-2.2%	5/1/2013	23.5%	11/13/2012
Duke Energy**	DUK	MKT	72.08	0.4%	-2.2%	-1.2%	-0.7%	6.0%	13.0%	10.8%	-4.5%	5/1/2013	20.9%	11/15/2012
Ameren	AEE	NR	35.87	0.6%	-0.6%	1.1%	2.4%	8.2%	16.8%	10.0%	-2.4%	5/3/2013	26.2%	11/23/2012
Consolidated Edison**	ED	MKT	60.47	0.0%	-4.1%	-2.3%	-0.9%	7.3%	8.9%	2.5%	-8.4%	8/1/2012	12.8%	11/21/2012
PG&E Corp.**	PCG	MKT	46.90	0.8%	-1.4%	-0.7%	5.3%	10.5%	16.7%	6.4%	-3.3%	4/30/2013	19.1%	12/31/2012
Southern Company**	SO	MKT	46.26	0.9%	-2.1%	-3.4%	-1.4%	5.4%	8.1%	1.8%	-5.1%	4/23/2013	10.8%	11/23/2012
Xcel Energy**	XEL	MKT	30.03	0.0%	-3.7%	-2.9%	1.1%	7.7%	12.4%	9.2%	-5.5%	4/30/2013	16.2%	11/23/2012
Average				**0.6%**	**-2.4%**	**-1.4%**	**1.3%**	**8.2%**	**13.4%**	**10.5%**	**-4.6%**		**20.0%**	
Indices/Treasury														
Spot Henry Hub Natural Gas	NGUSHHUB		3.88	-0.8%	-1.0%	-7.6%	-5.4%	17.9%	12.8%	64.4%	NA	NA	NA	NA
Spot WTI	USCRWTIC		94.21	-1.0%	-1.5%	3.2%	-3.1%	-3.2%	2.6%	-0.6%	NA	NA	NA	NA
OIL SERVICE HOLDRS TRUST	OIH US		44.47	0.3%	0.1%	4.9%	3.6%	-0.9%	15.1%		-1.4%	2/14/2013	36.7%	6/26/2012
OIL SERVICE SECTOR INDEX	OSX		260.10	0.4%	0.2%	4.3%	5.9%	1.6%	18.1%	23.1%	-0.4%	5/9/2013	NA	NA
AMEX NATURAL GAS INDEX	XNG		762.79	1.4%	2.4%	2.7%	3.2%	9.1%	17.3%	23.9%	0.0%	5/15/2013	25.0%	8/29/2012
SPDR S&P OIL & GAS EXPLORATI	XOP US		60.53	2.1%	1.0%	3.1%	0.1%	1.5%	11.9%	20.1%	-3.4%	3/15/2013	36.9%	6/4/2012
PHILA UTILITY INDEX	UTY		519.54	0.6%	-2.4%	-1.6%	1.4%	9.1%	13.3%	8.9%	-4.4%	4/30/2013	NA	NA
S&P 500 INDEX	SPX		1,650.34	1.0%	1.5%	3.9%	5.2%	8.5%	15.7%	23.3%	0.0%	5/15/2013	NA	NA
US Generic Govt 10 Year Yield	USGG10YR		1.97	2.9%	11.1%	14.8%	6.8%	-1.1%	12.4%	12.0%	NA	NA	NA	NA
S&P/TSX COMPOSITE INDEX	SPTSX		12,577.05	0.4%	0.9%	1.9%	-1.4%	-1.1%	1.2%	9.5%	-2.5%	3/12/2013	NA	NA
Canadian Govt Bonds 10 Year No	GCAN10YR		1.96	2.5%	7.3%	12.5%	4.5%	-2.2%	8.8%	0.9%				

* All Data in C$ unless otherwise indicated

** Covered by Michael Worms, BMO Capital Markets' Electric Utilities and Independent Power analyst

*** Covered by Phillip Jungwirth, BMO Capital Markets' Energy Exploration and Production analyst

****1-Day / 5-Day / 1-Month / 1-Year measures mentioned period performance from 5.14.13/5.08.13/4.14.13/5.14.12

Mkt= Market Perform; OP= Outperform; Und= Underperform; R=Restricted

Source: BMO Capital Markets estimates, Bloomberg.

Exhibit 17: Price Performance – Canada

				Price Performance**									
	Ticker	Rating	Price	1 Day	5 Day	1 Month	QTD	Three Months	YTD	1 Year	% from 52 Wk High	Date of High	% from 52 Wk Low	Date of Low
BMO North American Pipeline Coverage Universe														
Canadian Pipes*														
Enbridge Inc.	ENB	OP	47.43	0.9%	-0.3%	2.6%	0.3%	7.5%	10.3%	196.4%	-1.4%	5/1/2013	25.7%	11/15/2012
TransCanada Corp.	TRP	OP	49.44	1.0%	0.0%	1.9%	1.9%	5.0%	5.1%	15.9%	-1.6%	4/24/2013	19.2%	6/27/2012
Average				0.9%	-0.1%	2.3%	1.1%	6.2%	7.7%	106.2%	-1.5%		22.5%	
Canadian Income*														
AltaGas	ALA	OP	38.96	-0.1%	1.8%	10.4%	11.6%	12.5%	16.1%	29.5%	-0.6%	5/15/2013	41.9%	6/4/2012
Enbridge Income Fund	ENF	MKT	26.09	1.1%	4.3%	6.1%	2.9%	4.6%	8.1%	13.3%	-0.4%	2/12/2013	21.1%	9/4/2012
Gibson Energy	GEI	MKT	26.65	0.2%	2.7%	4.8%	1.4%	2.5%	10.6%	24.0%	-2.7%	5/8/2013	34.5%	6/4/2012
Inter Pipeline Fund	IPL	MKT	24.23	0.4%	1.1%	2.0%	1.7%	7.6%	3.1%	21.1%	-1.0%	4/17/2013	39.3%	6/1/2012
Keyera	KEY	MKT	61.90	0.4%	0.1%	5.6%	8.4%	17.7%	25.7%	44.0%	-3.3%	5/1/2013	56.8%	6/18/2012
Pembina Pipeline Income Fund	PPL	MKT	34.38	0.6%	5.2%	8.3%	7.1%	16.6%	20.8%	13.1%	-0.8%	5/10/2013	38.3%	6/25/2012
Valener	VNR	MKT	16.21	0.2%	1.3%	0.2%	0.7%	0.3%	1.0%	7.0%	-1.6%	9/7/2012	11.0%	6/1/2012
Veresen	VSN	OP	13.40	0.3%	-3.0%	3.5%	3.4%	3.6%	13.3%	-4.6%	-4.9%	5/14/2012	19.4%	12/12/2012
Average				0.4%	1.7%	5.1%	4.6%	8.5%	12.4%	18.4%	-1.9%		32.8%	
Industry Comps														
Canadian Income*														
Atlantic Power Corp.	ATP	MKT	5.23	-0.9%	11.3%	2.1%	4.6%	-56.1%	-53.8%	-62.5%	-65.4%	11/2/2012	14.4%	5/2/2013
Average				-0.9%	11.3%	2.1%	4.6%	-56.1%	-53.8%	-62.5%	-65.4%		14.4%	
Other Canadian Pipelines & Utility*														
Algonquin Power**	AQN	OP	8.03	-1.1%	1.8%	6.8%	7.9%	9.7%	17.4%	30.8%	-3.6%	5/10/2013	35.4%	11/15/2012
Canadian Utilities**	CU	MKT	79.25	-0.8%	-1.6%	-0.3%	-1.6%	6.5%	10.2%	11.5%	-4.9%	5/1/2013	25.6%	11/15/2012
Emera Incorporated**	EMA	MKT	36.30	-1.3%	-1.0%	1.5%	3.4%	4.8%	4.5%	7.8%	-2.6%	4/25/2013	12.5%	6/4/2012
Fortis Inc.**	FTS	MKT	33.97	-0.7%	-2.9%	0.7%	-0.5%	2.7%	-0.7%	0.7%	-3.4%	5/6/2013	6.1%	6/28/2012
Innergex Renewable Energy Inc.**	INE	OP	10.24	-0.1%	1.9%	3.9%	6.2%	-1.7%	-1.1%	-1.6%	-9.2%	9/6/2012	9.8%	4/4/2013
TransAlta Corporation**	TA	MKT	15.32	1.3%	2.3%	5.8%	3.2%	-5.2%	1.3%	-8.0%	-14.2%	7/4/2012	13.9%	4/23/2013
Average				-0.4%	0.1%	3.1%	3.1%	3.1%	5.3%	6.9%	-6.3%		17.2%	
Indices/Treasury														
Spot Henry Hub Natural Gas	NGUSHHUB		3.88	-0.8%	-1.0%	-7.6%	-5.4%	17.9%	12.8%	64.4%	NA	NA	NA	NA
Spot WTI	USCRWTIC		94.21	-1.0%	-1.5%	3.2%	-3.1%	-3.2%	2.6%	-0.6%	NA	NA	NA	NA
OIL SERVICE HOLDRS TRUST	OIH US		44.47	0.3%	0.1%	4.9%	3.6%	-0.9%	15.1%		-1.4%	2/14/2013	36.7%	6/26/2012
OIL SERVICE SECTOR INDEX	OSX		260.10	0.4%	0.2%	4.3%	5.9%	1.6%	18.1%	23.1%	-0.4%	5/9/2013	NA	NA
AMEX NATURAL GAS INDEX	XNG		762.79	1.4%	2.4%	2.7%	3.2%	9.1%	17.3%	23.9%	0.0%	5/15/2013	25.0%	6/29/2012
SPDR S&P OIL & GAS EXPLORATI	XOP US		60.53	2.1%	1.0%	3.1%	0.1%	1.5%	11.9%	20.1%	-3.4%	3/15/2013	36.9%	6/4/2012
PHILA UTILITY INDEX	UTY		519.54	0.6%	-2.4%	-1.6%	1.4%	9.1%	13.3%	8.9%	-4.4%	4/30/2013	NA	NA
S&P 500 INDEX	SPX		1,650.34	1.0%	1.5%	3.9%	5.2%	8.5%	15.7%	23.3%	0.0%	5/15/2013	NA	NA
US Generic Govt 10 Year Yield	USGG10YR		1.97	2.9%	11.1%	14.8%	6.8%	-1.1%	12.4%	12.0%	NA	NA	NA	NA
S&P/TSX COMPOSITE INDEX	SPTSX		12,577.05	0.4%	0.9%	1.9%	-1.4%	-1.1%	1.2%	9.5%	-2.5%	3/12/2013		5/24/2012
Canadian Govt Bonds 10 Year No	GCAN10YR		1.96	2.5%	7.3%	12.5%	4.5%	-2.2%	8.8%	0.9%				

* All Data in C$ unless otherwise indicated

** Covered by Ben Pham at our Canadian Affiliate, BMO Nesbitt Burns Inc.

Source: BMO Capital Markets estimates, Bloomberg.

Commodity Review

Exhibit 18: Commodity Outlook

	QUARTERLY										ANNUAL							
	2012					2013E											BMO Estimate	
	1Q	2Q	3Q	4Q	2012	1Q	2QTD	3QE	4QE	2013E	2007A	2008A	2009A	2010A	2011A	2012A	2013E	2014E
Commodity Price Summary																		
Henry Hub Natural Gas ($/mmbtu)	$2.45	$2.29	$2.88	$3.40	$2.76	$3.50	$4.11	$4.00	$4.49	$4.02	$6.96	$8.85	$3.94	$4.38	$3.99	$2.76	$4.02	$4.00
Y/Y % Change	-52%	-47%	-33%	-11%	-37%	42%	80%	39%	32%	46%	3%	27%	-55%	11%	-9%	-31%	46%	-1%
WTI Crude Oil ($/bbl)	$102.86	$93.42	$92.16	$88.15	$94.12	$94.35	$93.00	$90.00	$90.10	$91.86	$72.12	$99.53	$61.85	$79.49	$95.08	$94.12	$91.86	$85.00
Y/Y % Change	31%	20%	21%	3%	18%	-8%	0%	-2%	2%	-2%	9%	38%	-38%	29%	20%	-1%	-2%	-7%
NGL Composite (40% ethane)	$1.23	$1.00	$0.91	$0.93	$1.02	$0.89	$0.85	$0.97	$1.04	$0.95	$1.13	$1.33	$0.80	$1.07	$1.35	$1.02	$0.95	$1.01
Y/Y % Change	7%	-1%	-4%	-19%	-5%	-27%	-15%	6%	11%	-7%	19%	17%	-40%	34%	27%	-25%	-7%	6%
NGL / WTI (% $ basis)	50%	45%	41%	45%	45%	40%	38%	45%	48%	43%	66%	56%	54%	56%	60%	45%	43%	50%
Y/Y % Change	-18%	-19%	-22%	-22%	-20%	-21%	-15%	9%	9%	-4%	10%	-15%	-3%	4%	6%	-24%	-4%	15%
Frac Spread (Gulf Coast, $/gal)	$1.02	$0.80	$0.67	$0.65	$0.78	$0.60	$0.50	$0.63	$0.66	$0.61	$0.54	$0.58	$0.46	$0.70	$1.02	$0.78	$0.61	$0.67
Y/Y % Change	42%	23%	13%	-22%	12%	-42%	-38%	-6%	2%	-22%	43%	6%	-20%	50%	46%	-23%	-22%	10%
Natural Gas Liquids																		
Mont Belvieu (Gulf Coast)																		
Ethane	$0.57	$0.40	$0.34	$0.29	$0.40	$0.26	$0.29	$0.25	$0.35	$0.30	$0.79	$0.90	$0.48	$0.60	$0.77	$0.40	$0.30	$0.35
Propane	$1.26	$0.97	$0.89	$0.89	$1.00	$0.87	$0.94	$1.10	$1.20	$1.05	$1.20	$1.42	$0.84	$1.16	$1.47	$1.00	$1.05	$1.20
Butane	$1.92	$1.70	$1.54	$1.67	$1.71	$1.56	$1.26	$1.64	$1.64	$1.53	$1.42	$1.68	$1.07	$1.46	$1.79	$1.71	$1.53	$1.54
Iso-Butane	$2.04	$1.75	$1.61	$1.81	$1.80	$1.65	$1.32	$1.78	$1.78	$1.63	$1.51	$1.73	$1.19	$1.58	$2.05	$1.80	$1.63	$1.68
Natural Gasoline	$2.39	$2.05	$2.01	$2.15	$2.15	$2.23	$2.07	$2.05	$2.05	$2.10	$1.68	$2.10	$1.31	$1.84	$2.34	$2.15	$2.10	$1.93
MB Composite ($/gal)	$1.23	$1.00	$0.91	$0.93	$1.02	$0.89	$0.85	$0.97	$1.04	$0.95	$1.13	$1.33	$0.80	$1.07	$1.35	$1.02	$0.95	$1.01
MB Composite ($/mmbtu)	$14.56	$11.78	$10.78	$11.07	$12.04	$10.57	$10.03	$11.46	$12.30	$11.24	$13.40	$15.70	$9.44	$12.64	$16.03	$12.04	$11.24	$11.92
Conway (Midcontinent)																		
Ethane	$0.27	$0.12	$0.15	$0.19	$0.18	$0.24	$0.22	$0.20	$0.20	$0.21	$0.73	$0.81	$0.34	$0.40	$0.45	$0.18	$0.21	$0.25
Propane	$1.04	$0.72	$0.70	$0.79	$0.81	$0.82	$0.88	$1.00	$1.10	$0.95	$1.19	$1.40	$0.81	$1.12	$1.35	$0.81	$0.95	$1.10
Butane	$1.69	$1.34	$1.24	$1.65	$1.48	$1.55	$1.22	$1.54	$1.54	$1.46	$1.36	$1.55	$0.97	$1.42	$1.67	$1.48	$1.46	$1.44
Iso-Butane	$1.85	$1.60	$1.67	$1.74	$1.72	$1.62	$1.25	$1.68	$1.68	$1.56	$1.55	$1.70	$1.14	$1.52	$1.95	$1.72	$1.56	$1.56
Natural Gasoline	$2.27	$2.02	$1.96	$2.10	$2.09	$2.23	$2.14	$1.95	$1.95	$2.07	$1.72	$2.05	$1.33	$1.78	$2.18	$2.09	$2.07	$1.83
CW Composite ($/gal)	$0.99	$0.75	$0.74	$0.85	$0.83	$0.87	$0.79	$0.89	$0.92	$0.87	$1.10	$1.27	$0.72	$0.96	$1.16	$0.83	$0.87	$0.91
CW Composite ($/mmbtu)	$11.70	$8.83	$8.78	$10.09	$9.85	$10.28	$9.40	$10.51	$10.88	$10.27	$13.07	$14.99	$8.48	$11.37	$13.70	$9.85	$10.27	$10.74
NGL Basis Differential																		
Mont Belvieu-Conway ($/gal)	($0.24)	($0.25)	($0.17)	($0.08)	($0.18)	($0.02)	($0.05)	($0.08)	($0.12)	($0.07)	($0.03)	($0.06)	($0.08)	($0.11)	($0.20)	($0.18)	($0.07)	($0.10)
Frac Spread Margin																		
Gulf Coast ($/gal)	$1.02	$0.80	$0.67	$0.65	$0.78	$0.60	$0.50	$0.63	$0.66	$0.61	$0.54	$0.58	$0.46	$0.70	$1.02	$0.78	$0.61	$0.67
Conway ($/gal)	$0.78	$0.56	$0.50	$0.56	$0.60	$0.56	$0.44	$0.56	$0.55	$0.53	$0.55	$0.63	$0.41	$0.59	$0.82	$0.60	$0.53	$0.56
Correlations																		
NGL / WTI (% $ basis)	50%	45%	41%	45%	45%	40%	38%	45%	48%	43%	66%	56%	54%	56%	60%	45%	43%	50%
Ethane / Nat Gas (btu basis)	351%	268%	179%	128%	220%	112%	106%	95%	119%	108%	173%	154%	186%	208%	292%	220%	108%	133%
Ethane / WTI (% $ basis)	23%	18%	15%	14%	18%	11%	13%	12%	16%	14%	46%	38%	33%	32%	34%	18%	14%	17%
Propane / WTI (% $ basis)	51%	44%	41%	42%	45%	39%	43%	51%	56%	48%	70%	60%	57%	62%	65%	45%	48%	59%
Butane / WTI (% $ basis)	78%	76%	70%	80%	76%	69%	57%	77%	77%	70%	83%	71%	72%	77%	79%	76%	70%	76%
Iso-Butane / WTI (% $ basis)	83%	79%	74%	86%	80%	73%	60%	83%	83%	75%	88%	73%	81%	83%	91%	80%	75%	83%
Natural Gasoline / WTI (% $ basis)	97%	92%	92%	103%	96%	99%	93%	96%	96%	96%	98%	88%	89%	97%	103%	96%	96%	96%

Exhibit 19: BMO Crude Oil Forecast

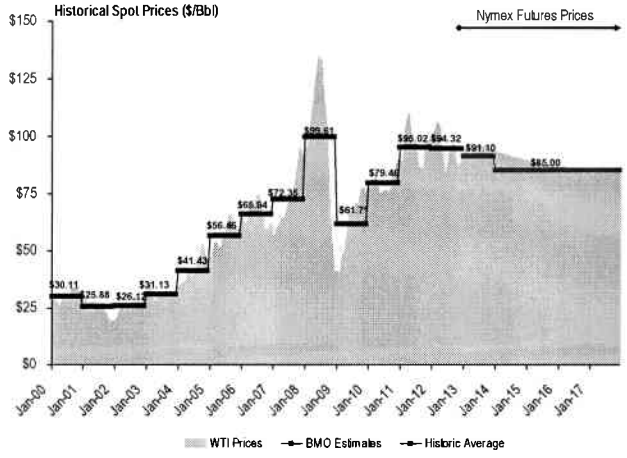
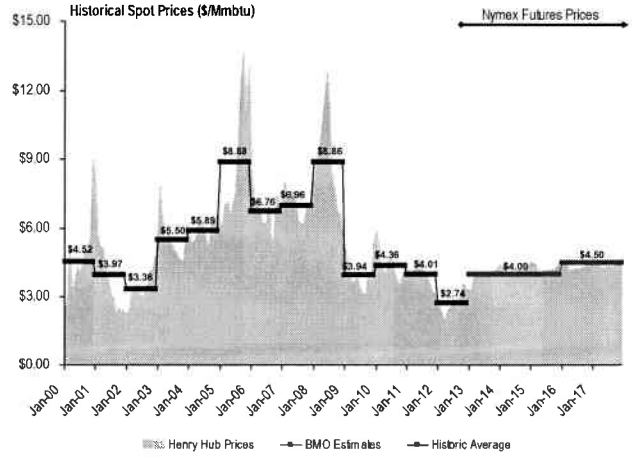


Exhibit 20: BMO Natural Gas Forecast



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 21: BMO EIA Natural Gas Supply-Demand Data

	US Natural Gas Supply (Bcf/d)						US Natural Gas Demand (Bcf/d)								Storage		"Error"	
	Domestic Dry Gas Production	Pipeline Imports	LNG Imports	Pipeline Exports	LNG Exports	Total Supply	Residential Consumption	Commercial Consumers	Industrial	Power	Lease, Pipe & Other	Total Implied Demand	Balancing "Other"	Storage	Monthly	Weekly	Other (% Dmd)	Storage (Bcf/d)
2012A																		
Jan	65.9	8.6	0.4	4.0	0.1	70.8	25.9	14.5	21.1	20.9	6.4	88.7	(0.3)	(17.6)	(544.7)	(537.0)	-0.4%	0.2
Feb	65.2	8.6	0.6	4.4	0.1	69.9	23.0	13.5	21.1	22.3	6.3	86.2	(0.5)	(15.8)	(443.1)	(465.6)	-0.6%	(0.8)
Mar	65.1	7.9	0.5	4.5	0.0	69.1	13.2	8.5	19.2	21.8	5.8	68.5	(0.7)	1.3	39.1	24.3	-1.0%	(0.5)
Apr	65.4	7.8	0.2	4.1	0.0	69.4	9.5	7.0	19.0	24.0	5.7	65.2	(0.4)	4.6	137.5	108.7	-0.6%	(1.0)
May	65.6	7.8	0.5	4.2	0.1	69.7	5.3	4.9	18.2	26.4	5.6	60.3	0.2	9.1	282.6	279.3	0.4%	(0.1)
Jun	65.4	8.4	0.3	4.1	0.1	69.9	4.2	4.4	18.6	29.5	5.6	62.2	(0.1)	7.7	230.0	238.6	-0.1%	0.3
Jul	65.7	8.6	0.5	3.8	0.0	70.9	3.5	4.1	18.2	35.3	5.8	66.8	(0.2)	4.3	134.1	124.0	-0.3%	(0.3)
Aug	65.3	8.5	0.6	4.4	0.1	69.9	3.4	4.4	18.6	32.5	5.7	64.6	(0.1)	5.4	168.4	171.3	-0.1%	0.1
Sep	66.0	8.2	0.4	4.6	0.0	70.1	4.0	4.7	18.8	26.9	5.6	60.0	0.4	9.7	291.2	271.6	0.6%	(0.7)
Oct	66.3	7.8	0.3	4.4	0.1	70.0	7.8	6.8	19.1	21.7	5.7	61.0	1.2	7.8	241.0	249.4	2.0%	0.3
Nov	66.4	7.3	0.4	4.7	0.0	69.3	16.0	10.2	20.3	19.3	6.0	71.8	1.7	(4.2)	(125.4)	(124.5)	2.4%	0.0
Dec	65.8	7.5	0.4	4.9	0.0	68.8	21.5	12.5	20.7	18.9	6.1	79.8	1.5	(12.4)	(384.8)	(287.0)	1.8%	3.2
FY	65.7	8.1	0.4	4.3	0.0	69.8	11.4	7.9	19.4	25.0	5.8	69.5	0.2	0.1	25.9	53.1	0.3%	0.1
2013E Deltas																		
Jan	(0.7)	(0.1)	(0.1)	1.0	(0.1)	(1.7)	2.6	1.0	0.7	(0.6)	0.1	3.7	0.3	(5.7)				
Feb	1.0	(0.4)	(0.2)	0.3	(0.1)	0.1	4.1	1.9	1.1	(2.1)	0.2	5.1	0.8	(5.8)				
Mar	(0.7)	(0.1)	(0.2)	0.5	0.0	(1.4)	7.9	1.7	0.6	0.4	0.0	10.6	0.0	(12.0)				
Apr	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.5	0.0	0.9	0.0	(0.9)				
May	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.5	0.0	0.9	0.0	(0.9)				
Jun	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.6	0.0	1.0	0.0	(1.0)				
Jul	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.7	0.0	1.1	0.0	(1.1)				
Aug	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.6	0.0	1.0	0.0	(1.0)				
Sep	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.5	0.0	0.9	0.0	(0.9)				
Oct	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.8	0.0	(0.8)				
Nov	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.8	0.0	(0.8)				
Dec	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.8	0.0	(0.8)				
FY	(0.0)	(0.1)	(0.0)	0.2	(0.0)	(0.3)	1.2	0.4	0.5	0.2	0.0	2.3	0.1	(2.6)				
Jan	-1.1%	-1.1%	-17.2%	24.4%	-99.6%	-2.5%	9.9%	6.6%	3.4%	-2.9%	1.0%	4.1%	-84.7%	32.5%				
Feb	1.5%	-5.0%	-32.2%	7.3%	-98.7%	0.1%	17.6%	13.8%	5.2%	-9.5%	3.2%	5.9%	-147.8%	36.5%				
Mar	-1.0%	-1.0%	-30.0%	12.0%	0.0%	-2.1%	60.0%	20.0%	3.0%	2.0%	0.0%	15.5%	0.0%	-954.2%				
Apr	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.3%	0.0%	-18.8%				
May	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.5%	0.0%	-9.8%				
Jun	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.5%	0.0%	-12.5%				
Jul	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.6%	0.0%	-24.7%				
Aug	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.6%	0.0%	-18.8%				
Sep	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.5%	0.0%	-9.4%				
Oct	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.3%	0.0%	-10.5%				
Nov	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.1%	0.0%	18.9%				
Dec	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.0%	0.0%	6.4%				
FY	0.0%	-0.6%	-8.4%	3.5%	-35.0%	-0.4%	10.6%	4.7%	2.5%	0.8%	0.4%	3.3%	37.3%	NM				
2013E																		
Jan	65.2	8.5	0.3	5.0	0.0	69.0	28.4	15.4	21.8	20.3	6.5	92.4	(0.1)	(23.3)	(721.7)	(730.0)	-0.1%	(0.3)
Feb	66.1	8.2	0.4	4.7	0.0	70.0	27.1	15.3	22.2	20.2	6.5	91.3	0.2	(21.6)	(604.9)	(597.0)	0.3%	0.3
Mar	64.4	7.9	0.4	5.0	0.0	67.6	21.1	10.2	19.8	22.3	5.8	79.1	(0.7)	(10.8)	(334.1)	(420.9)	-0.9%	(2.8)
Apr	65.4	7.8	0.2	4.1	0.0	69.4	9.5	7.0	19.4	24.5	5.7	66.0	(0.4)	3.7	111.7	144.3	-0.6%	1.1
May	65.6	7.8	0.5	4.2	0.1	69.7	5.3	4.9	18.6	26.9	5.6	61.2	0.2	8.2	254.9	37.7	0.4%	(7.0)
Jun	65.4	8.4	0.3	4.1	0.1	69.9	4.2	4.4	18.9	30.1	5.6	63.2	(0.1)	6.7	201.2		-0.1%	(6.7)
Jul	65.7	8.6	0.5	3.8	0.0	70.9	3.5	4.1	18.6	36.0	5.8	67.9	(0.2)	3.3	101.0		-0.3%	(3.3)
Aug	65.3	8.5	0.6	4.4	0.1	69.9	3.4	4.4	18.9	33.1	5.7	65.6	(0.1)	4.4	136.7		-0.1%	0.0
Sep	66.0	8.2	0.4	4.6	0.0	70.1	4.0	4.7	19.2	27.4	5.6	60.9	0.4	8.8	263.7		0.6%	0.0
Oct	66.3	7.8	0.3	4.4	0.1	70.0	7.8	6.8	19.5	22.1	5.7	61.8	1.2	7.0	215.7		2.0%	0.0
Nov	66.4	7.3	0.4	4.7	0.0	69.3	16.0	10.2	20.7	19.6	6.0	72.6	1.7	(5.0)	(149.1)		2.4%	0.0
Dec	65.8	7.5	0.4	4.9	0.0	68.8	21.5	12.5	21.1	19.3	6.1	80.5	1.5	(13.2)	(409.3)		1.8%	0.0
FY	65.7	8.0	0.4	4.5	0.0	69.6	12.6	8.3	19.9	25.2	5.9	71.8	0.3	(2.6)	(934.1)		0.4%	0.0

Storage @ 05/03/13	1,865
Est. Storage @ 3/31/13	1,683
Est. Storage @ 10/31/13	3,001

Source: BMO Capital Markets estimates, EIA.

Exhibit 22: US Natural Gas Storage

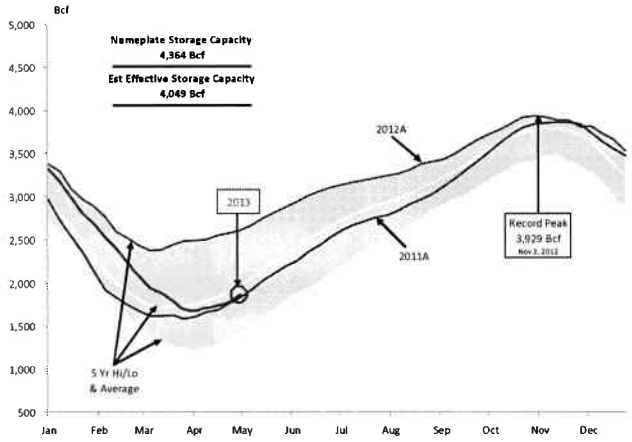


Exhibit 23: Canadian Natural Gas Storage

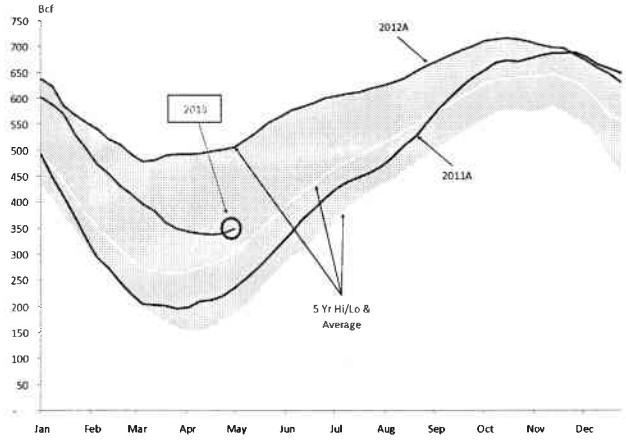


Exhibit 24: U.S. Onshore Production

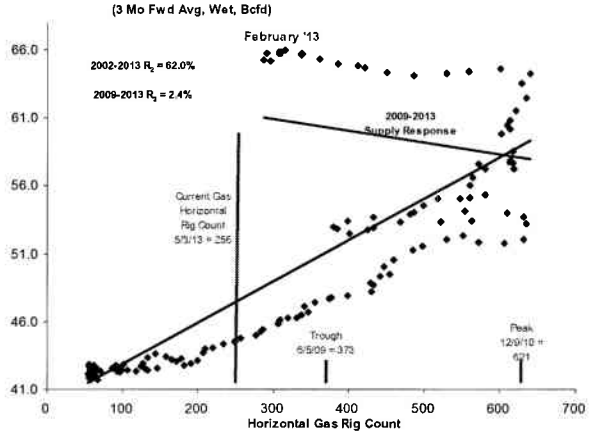


Exhibit 25: Alberta Gathering Receipts

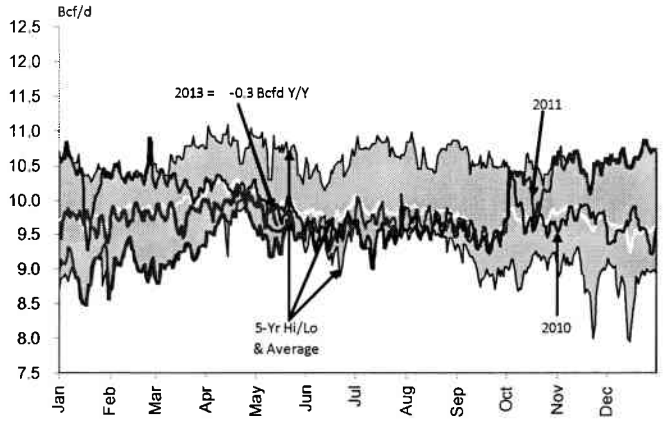


Exhibit 26: Degree Day Variance

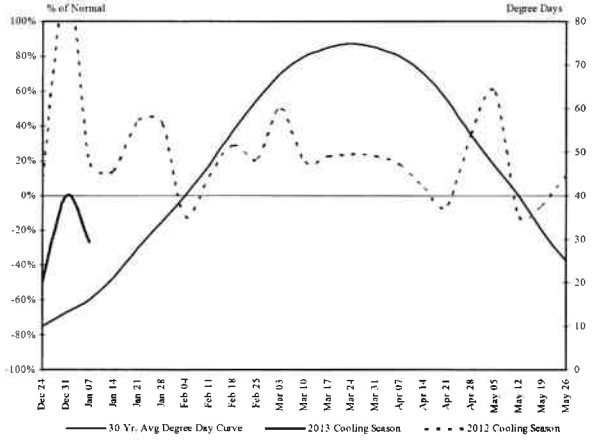
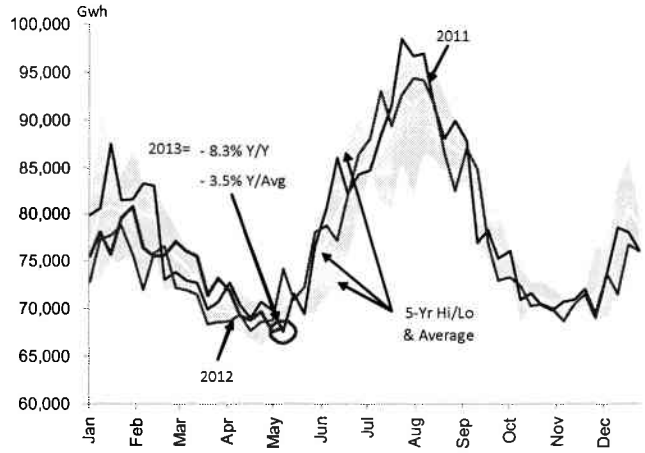


Exhibit 27: U.S. Electricity Output



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg, EIA.

Midstream/Natural Gas Liquids

Exhibit 28: Historic NGL Prices

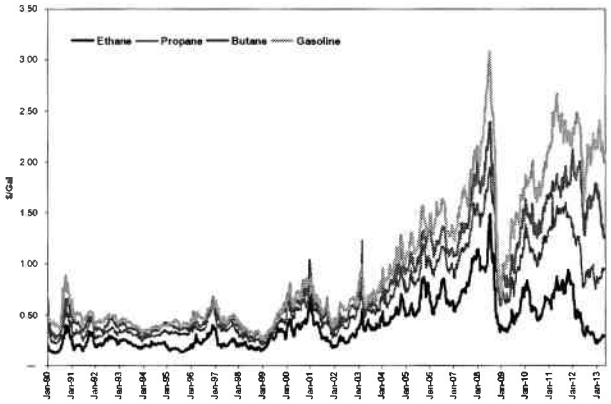


Exhibit 29: Average NGL Barrel % WTI Crude

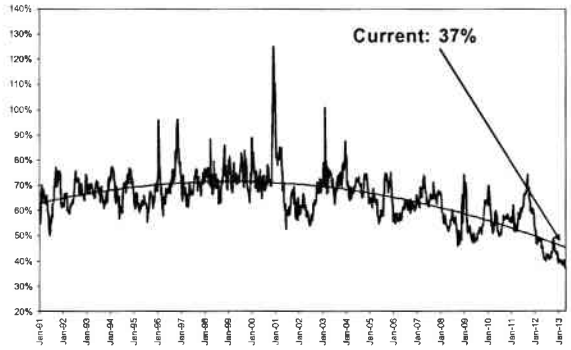


Exhibit 30: Keep-Whole "Frac" Spreads

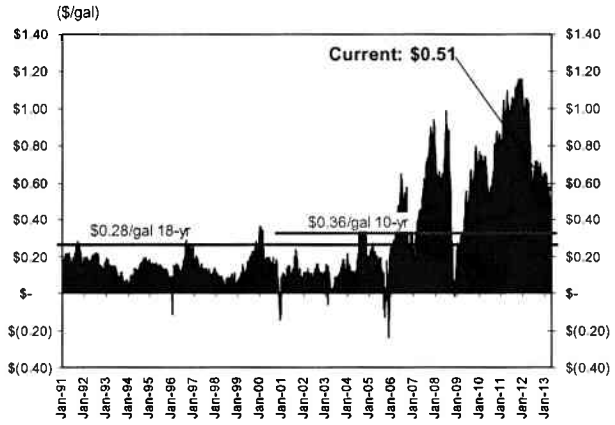


Exhibit 31: Oil – Gas Ratio

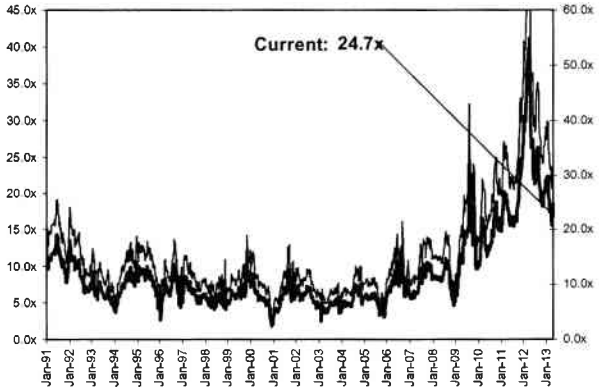


Exhibit 32: Ethane % Henry Hub Natural Gas

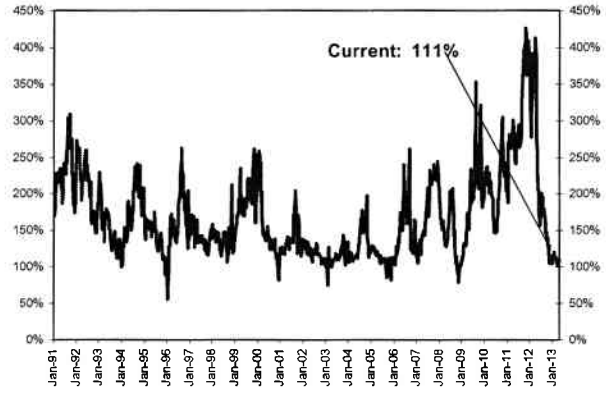
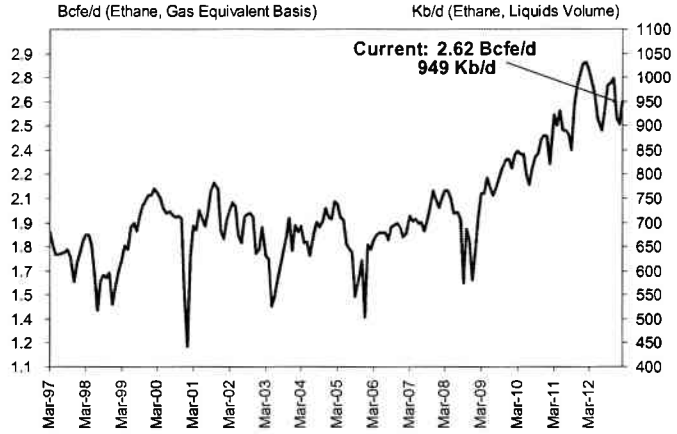


Exhibit 33: U.S. Monthly Ethane Production



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 34: Mt. Belvieu Premium to Conway

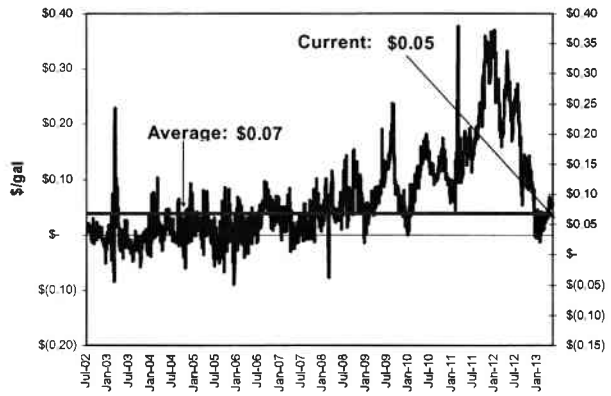


Exhibit 35: NGL Storage

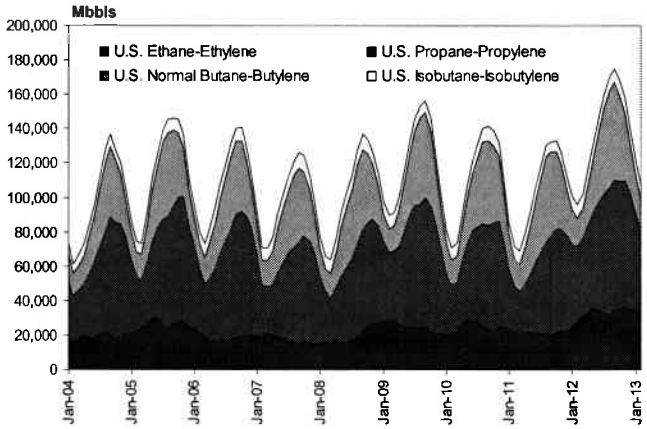


Exhibit 36: Chemical Rail Car Loadings

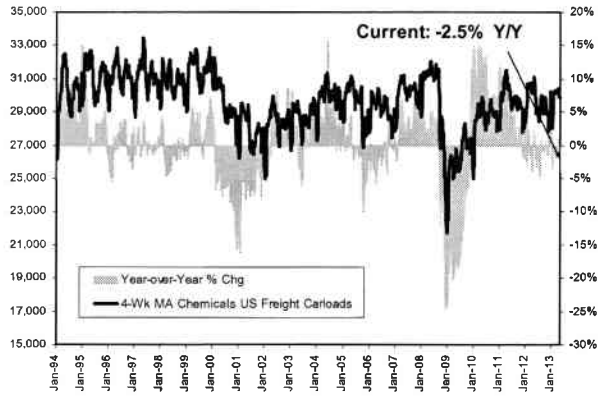


Exhibit 37: Ethane vs. Naphtha (Gulf Coast)

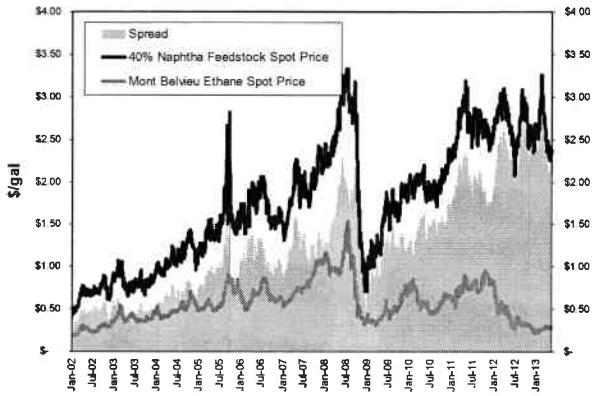


Exhibit 38: Petrochemical Price Trends

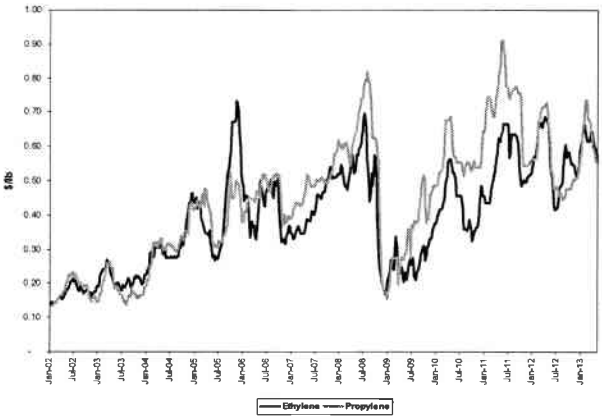
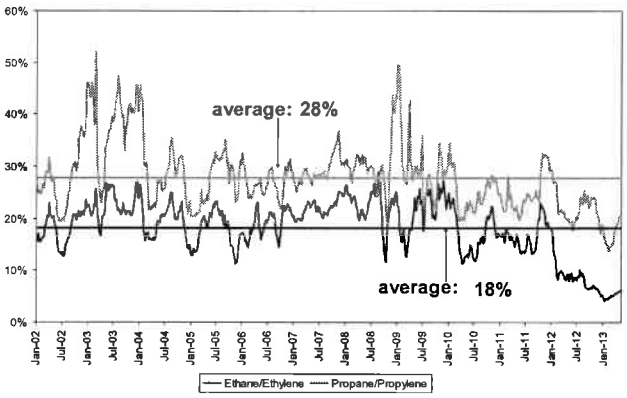


Exhibit 39: NGL/Petchem Price Correlation



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

LNG Update

Exhibit 40: US LNG Imports

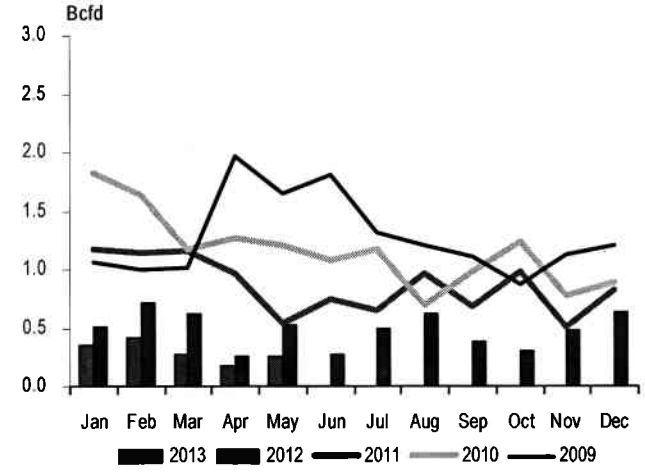


Exhibit 41: 2012 US LNG Imports by Terminal

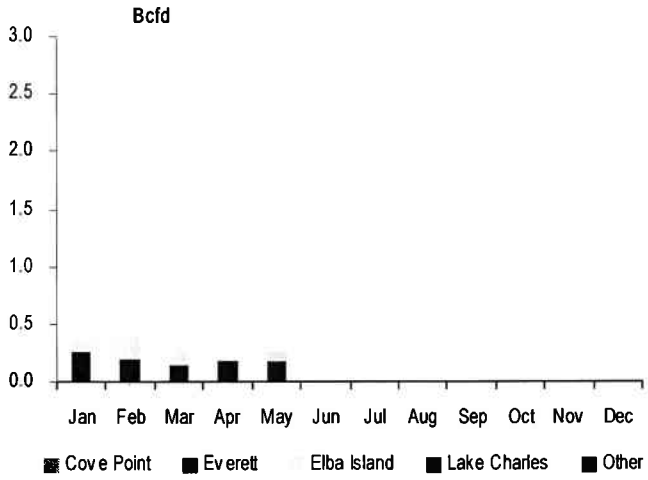


Exhibit 42: European Natural Gas Storage

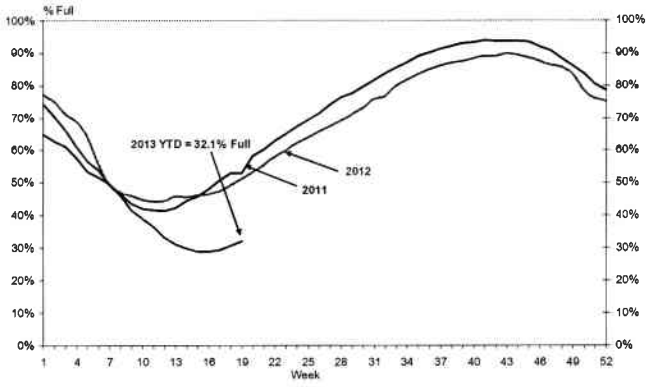


Exhibit 43: UK vs. US Natural Gas Price

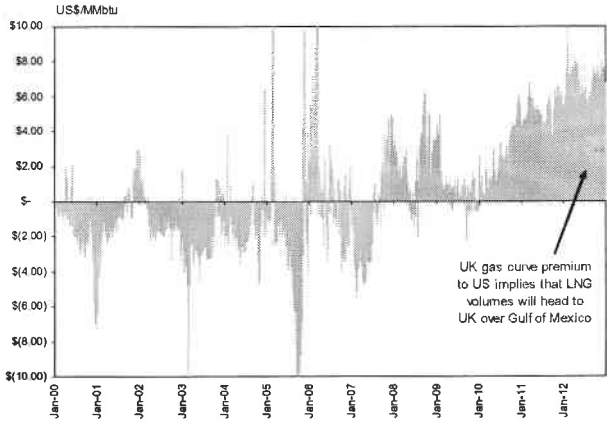


Exhibit 44: Global LNG Price Comparison

	Alta-mira	Argen-tina	Spain	Cana-port	Cove Point	India	China	Korea	UK	Taiwan	Lake Charles	France	Brazil	Japan	Belgium
Market**	$17.20	$16.21	$10.05	$5.25	$3.90	$13.65	$13.70	$14.10	$9.49	$13.60	$3.56	$10.08	$15.16	$14.10	$9.77
Algeria	$15.61	$14.37	$9.80	$4.21	$2.64	$11.86	$10.75	$10.91	$8.97	$10.69	$1.97	$9.60	$13.87	$10.81	$9.19
Australia	$13.23	$13.41	$7.33	$1.51	$0.11	$12.44	$12.73	$12.94	$6.33	$12.69	($0.41)	$6.97	$12.45	$12.91	$6.54
Egypt	$15.13	$13.86	$9.46	$3.71	$2.15	$12.35	$11.26	$11.43	$8.50	$11.21	$1.49	$9.13	$13.42	$11.34	$8.72
Malaysia	$12.82	$13.31	$7.30	$1.47	($0.09)	$12.48	$12.98	$13.29	$6.30	$13.00	($0.82)	$6.94	$12.10	$13.27	$6.51
Nigeria	$15.25	$14.73	$8.82	$3.69	$2.24	$11.44	$10.67	$10.83	$8.17	$10.62	$1.61	$8.81	$14.15	$10.74	$8.39
Norway	$15.55	$13.78	$9.04	$4.21	$2.55	$11.00	$9.84	$9.99	$8.93	$9.79	$1.91	$9.43	$13.38	$9.89	$9.25
Peru	$14.08	$15.07	$7.26	$2.29	$0.95	$10.04	$10.53	$11.20	$6.40	$10.56	$0.44	$6.97	$13.42	$11.44	$6.68
Qatar	$13.87	$13.49	$8.28	$2.50	$0.94	$13.16	$11.96	$12.17	$7.30	$11.91	$0.23	$7.93	$12.56	$12.06	$7.52
Russia	$12.07	$12.91	$6.60	$0.74	($0.83)	$11.76	$13.05	$13.60	$5.58	$12.97	($1.57)	$6.22	$11.20	$13.71	$5.79
Trinidad	$16.42	$14.77	$8.76	$4.50	$3.24	$10.71	$9.73	$9.88	$8.29	$9.68	$2.78	$8.87	$14.33	$9.78	$8.48
Yemen	$14.39	$13.80	$8.76	$3.00	$1.45	$13.05	$11.96	$12.17	$7.79	$11.91	$0.75	$8.42	$12.72	$12.06	$8.01

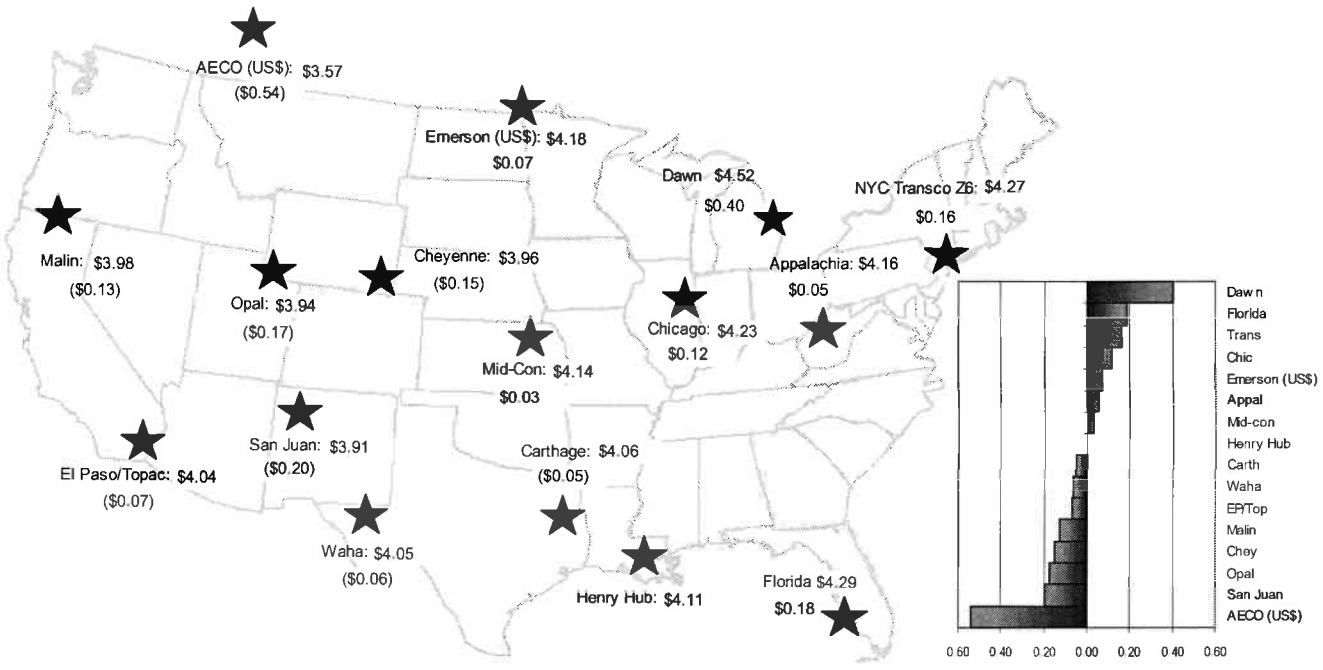
** Estimated June 2013 landed price

Source (all Exhibits): Bloomberg, Waterborne, LNG Unlimited, EIA, IEA, Gas Infrastructure Europe, BMO Capital Markets estimates.

Basis and Transportation Update

Exhibit 45: US Gas Prices and Basis Differentials to Henry Hub ($/Mmbtu) – May 14, 2013

Exhibit 46: US Gas Prices and Basis Differentials to Henry Hub ($/Mmbtu) – 2nd Quarter to date



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 47: NY Transco Zone 6 Basis

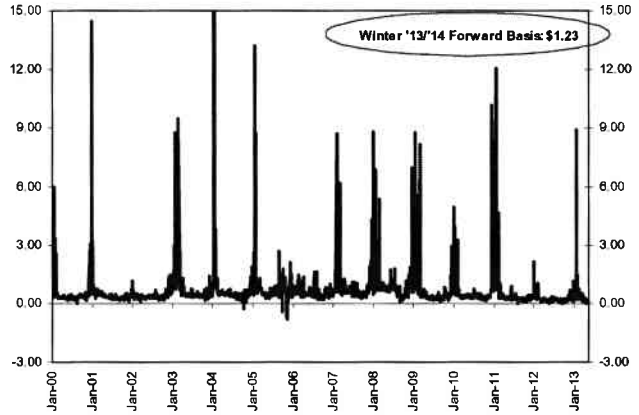


Exhibit 48: Appalachia Basis

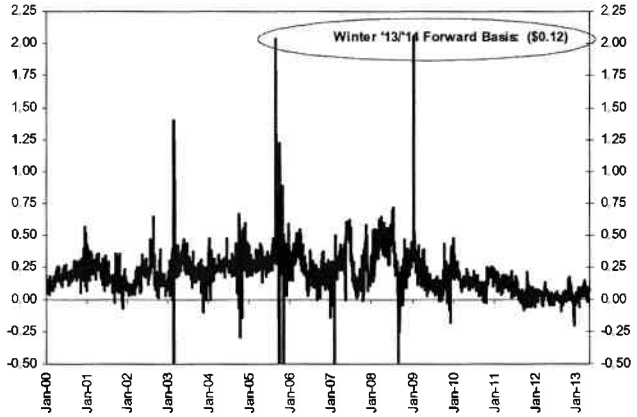


Exhibit 49: Mid Continent Basis

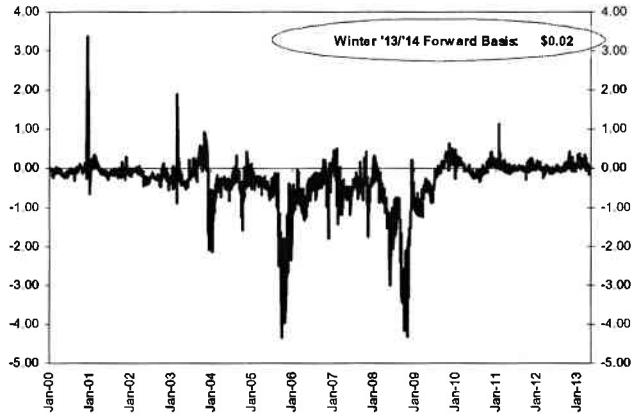


Exhibit 50: AECO Basis

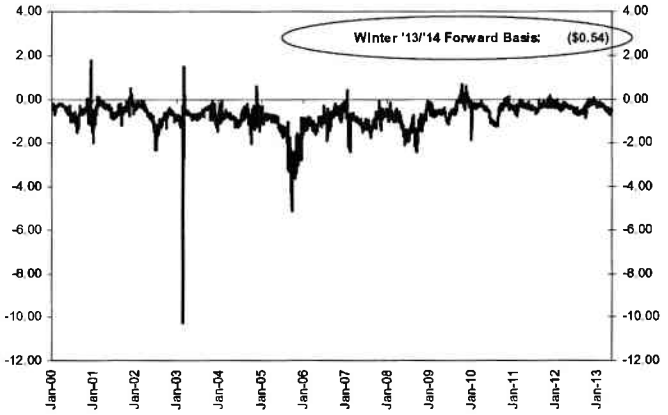


Exhibit 51: Rockies Basis

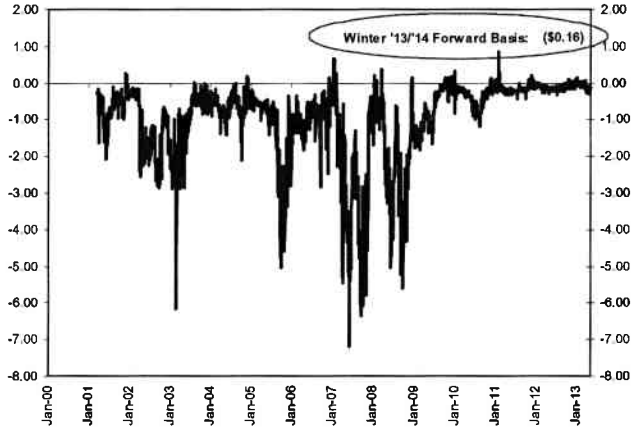
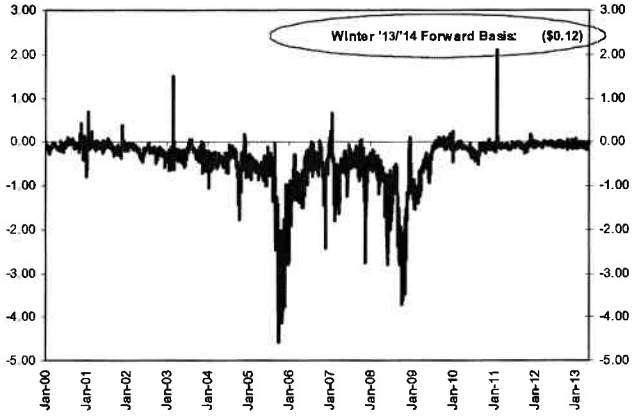


Exhibit 52: Waha Basis



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Relative Coal / Natural Gas Thermal Comparisons

Exhibit 53: Weighted Avg. Coal vs. Natural Gas

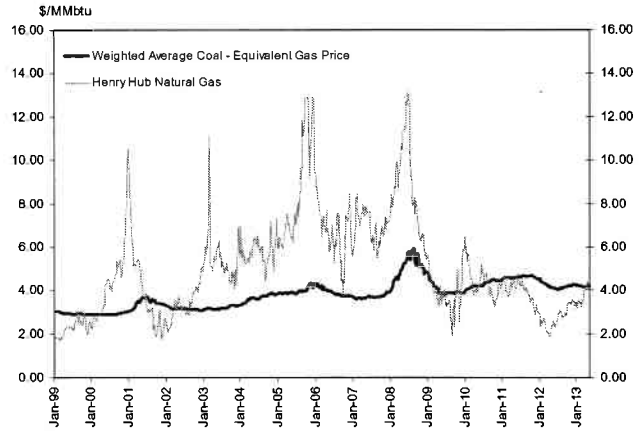


Exhibit 54: NAPP Coal vs. Natural Gas

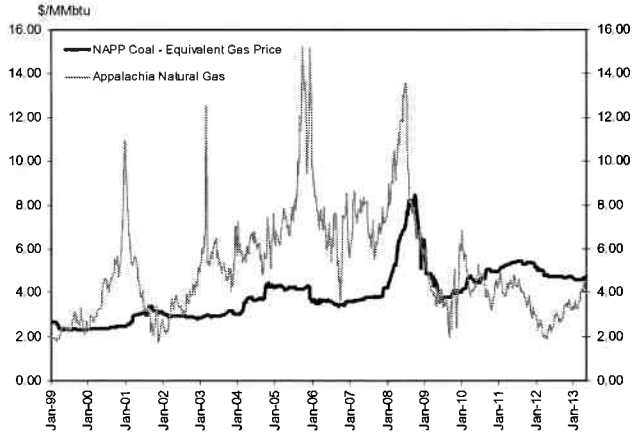


Exhibit 55: CAPP Coal vs. Natural Gas

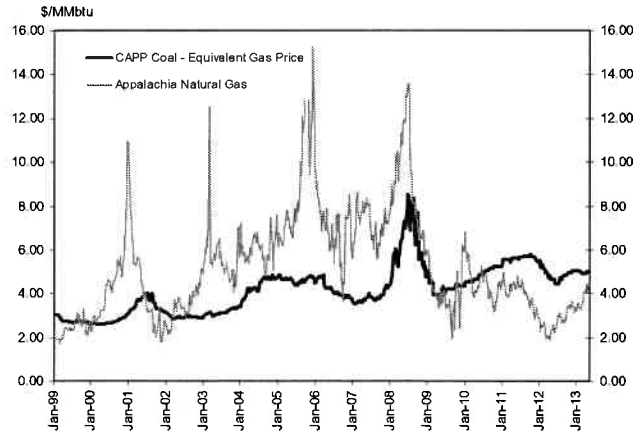


Exhibit 56: Interior Coal vs. Natural Gas

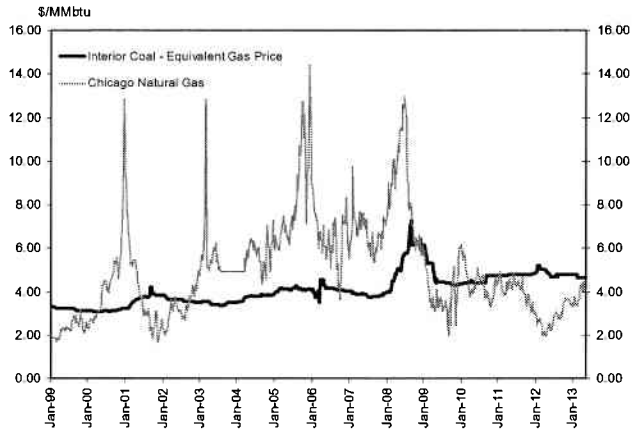


Exhibit 57: Southwest Coal vs. Natural Gas

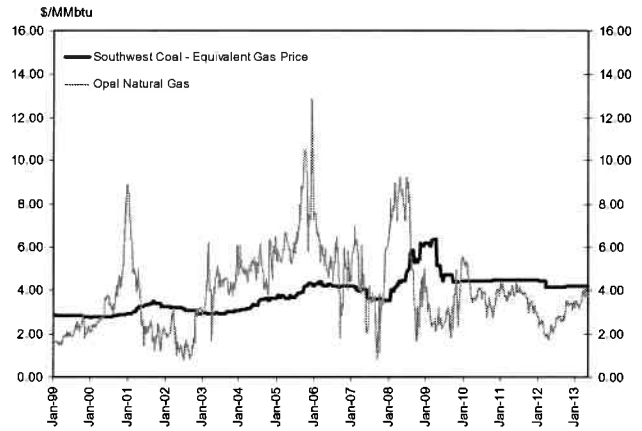
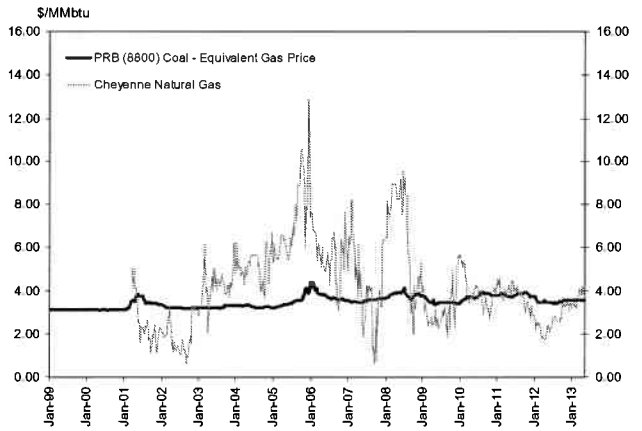


Exhibit 58: PRB Coal vs. Natural Gas



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 59: BMO Natural Gas-Coal Switching Parity

Industry Assumptions:	NAPP	CAPP	Interior	Southwest	PRB
Heat Content (Btu/lb)	13,000	12,500	11,800	11,500	8,800
Heat Content (MMBtu/ton)	26.0	25.0	23.6	23.0	17.6
SO_2 Content (lb/Mmbtu)	3.0	1.2	5.0	1.0	0.8
SO_2 Content (% coal)	3.9%	1.6%	6.5%	1.3%	1.0%
NO_2 Content (lb/Mmbtu)	0.37	0.37	0.37	0.37	0.37
NO_2 Content (% coal)	0.5%	0.5%	0.5%	0.5%	0.5%
CO_2 Content (lb/Mmbtu)	210	210	210	210	205
Coal Plant Heat Rate (btu/kwh)	10,000	10,000	10,000	10,000	10,000
CCGT Heat Rate (btu/kwh)	7,500	7,500	7,500	7,500	7,500
Pricing Assumptions:	**NAPP**	**CAPP**	**Interior**	**Southwest**	**PRB**
Minehead Coal Spot Price ($/ton)	$65.00	$67.27	$45.15	$35.85	$10.55
Transportation Expense	$20.00	$20.00	$13.00	$25.00	$25.00
Delivered Coal ($/ton)	$85.00	$87.27	$58.15	$60.85	$35.55
SO_2 Price ($/ton)	$0.73	$0.73	$0.73	$0.73	$0.73
SO_2 Cost ($/coal ton)	$0.03	$0.01	$0.04	$0.01	$0.01
SO_2 Cost ($/MMbtu)	$0.00	$0.00	$0.00	$0.00	$0.00
NO_2 Price ($/ton)	$400.00	$400.00	$400.00	$400.00	$400.00
NO_2 Cost ($/coal ton)	$1.92	$1.85	$1.75	$1.70	$1.30
NO_2 Cost ($/MMbtu)	$0.07	$0.07	$0.07	$0.07	$0.07
CO_2 Price ($/ton)	$0.00	$0.00	$0.00	$0.00	$0.00
CO_2 Cost ($/coal ton)	$0.00	$0.00	$0.00	$0.00	$0.00
CO_2 Cost ($/MMbtu)	$0.00	$0.00	$0.00	$0.00	$0.00
Total Coal Cost ($/ton)	$86.95	$89.13	$59.94	$62.56	$36.86
Total Coal Cost ($/MMbtu)	$3.34	$3.57	$2.54	$2.72	$2.09
Coal Plant Fuel Cost ($/Mwh)	$33.44	$35.65	$25.40	$27.20	$20.94
Plus: Variable O&M ($/Mwh)	$3.00	$3.00	$3.00	$3.00	$4.00
Total Variable Coal Cost ($/Mwh)	$36.44	$38.65	$28.40	$30.20	$24.94
Gas Equivalence					
CCGT Total Variable Fuel Cost ($/Mwh)	$36.44	$38.65	$28.40	$30.20	$24.94
Less: Variable O&M ($/Mwh)	($1.00)	($1.00)	($1.00)	($1.00)	($1.00)
CCGT Fuel Cost ($/Mwh)	$35.44	$37.65	$27.40	$29.20	$23.94
Equivalent Gas Price ($/Mmbtu, at the CCGT)	**$4.73**	**$5.02**	**$3.65**	**$3.89**	**$3.19**
Coal Weightings Across United States	14%	23%	10%	8%	45%
Weighted Average					$3.93
Marginal Coal Capacity MW (11,000+ heat rate)					7,765
Total US Coal Capacity (MW)					336,291
% Marginal Coal Capacity					2.3%
Normal Capacity Factor					65%
Annual Power Volumes Generated (MW)					44,213,910
Coal Displaced (Mmbtu)					442,139,100
Wtd Avg Coal Heat Content (Mmbtu/ton)					21.5
Coal Tons Displaced Anually					20,555,049
"Normalized" Natural Gas Switchable Demand Potential (MMcf/d)					908.5

Source: BMO Capital Markets estimates, SNL, EIA.

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Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

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March 26, 2013

ENERGY: Electric Utilities / Multi- Utilities

Industry Update / Price Target Change

KeyBanc Capital Markets

Utilities: Updating Price Targets

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com

Sym	Cur Rtg	Prv Rtg	Cur Target	Prv Target	FC 2013	FC 2014	Current EPS 2012	Current EPS 2013	Current EPS 2014	Previous EPS 2012	Previous EPS 2013	Previous EPS 2014
AEP	BUY	BUY	$49.50	$47.00	$3.16	$3.31	$3.09	$3.10	--	$3.09	$3.10	--
ALE	BUY	BUY	$50.00	$48.00	$2.74	$3.01	$2.58	$2.70	--	$2.58	$2.70	--
CMS	BUY	BUY	$28.50	$27.00	$1.65	$1.74	$1.55	$1.65	--	$1.55	$1.65	--
CNL	BUY	BUY	$46.50	$45.00	$2.52	$2.83	$2.46	$2.55	--	$2.40	$2.55	--
IDA	BUY	BUY	$49.50	$48.00	$3.26	$3.37	$3.37	$3.25	--	$3.35	$3.25	--
NI	BUY	BUY	$30.50	$28.50	$1.56	$1.68	$1.46	$1.55	--	$1.45	$1.55	--

ACTION STATEMENT

We are revisiting price targets on some of our **BUY**-rated names after the strength in the markets has lifted the overall valuation of the utility group. On a relative basis, we still find value in these names despite the fact that several of them have traded through our prior price targets. We are raising our price targets on American Electric Power Company, Inc. (AEP-NYSE), ALLETE, Inc. (ALE-NYSE), CMS Energy Corporation (CMS-NYSE), Cleco Corporation (CNL-NYSE), IDACORP, Inc. (IDA-NYSE) and NiSource, Inc. (NI-NYSE). Given the nature of how the utility sector historically trades as a group, we use essentially the same valuation methodology, grounded against a higher group multiple. Since we last revisited our price targets in mid-February, the Philadelphia Utility index has risen by over 5%.

KEY INVESTMENT POINTS

Given recent market strength, including in the utilities sector, we are revisiting several price targets for our **BUY**- rated names. Since the end of 2012, the S&P 500 is up 8.8%, while the Philadelphia Utility Index (UTY) has also risen by 8.9%.

We are raising price targets on **BUY**- rated AEP, ALE, CMS, CNL, IDA and NI to reflect a higher group multiple. Some of these names have traded through our previous price targets given a strong overall market. Our coverage universe currently trades at a P/E multiple of 16.1x 2013 earnings. We continue to view these names favorably based on relative valuation.

Below we discuss the characteristics that attract us to these companies:

American Electric Power Company, Inc. (AEP- NYSE; BUY; $49.50 price target; $3.10 EPS 2013E) - We continue to view AEP as a core large cap holding. At its recent Analyst Day, AEP issued 2013 and 2014 guidance ranges of $3.05- $3.25 and $3.15- $3.45 per share, respectively. The dividend policy was raised from a 50- 60% payout ratio to 60- 70%, supported by regulated earnings. The Company's 4- 6% growth rate was reaffirmed. We believe AEP offers investment opportunity on generally reasonable regulatory environments and offers upside in a tightening commodity market. **We have increased our price target to $49.50 from $47.00 per share.** Our valuation is based upon a modest discount to large cap regulated peers.

ALLETE, Inc. (ALE- NYSE; BUY; $50.00 price target; $2.70 EPS 2013E) - We believe ALE offers above- average growth prospects through investment in renewables, environmental, transmission and potentially new generation, all in a constructive regulatory environment. Potential near- to medium- term catalysts include incremental wind capacity and possible monetization of Florida real estate assets. **We have increased our price target to $50.00 from $48.00 per share.** We add back the Florida real estate losses and apply a premium valuation, and then add back 70% of the real estate book value in our valuation.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGE 3 OF THIS NOTE.

CMS Energy Corporation (CMS- NYSE; BUY; $28.50 price target; $1.65 EPS 2013E) - In our view, CMS offers solid capital opportunities in a constructive regulatory environment. CMS has potential investment in renewables and baseload natural gas generation. NOLs (net operating loss carry forwards) allow investment without meaningful equity needs. **We have increased our price objective to $28.50 from $27.00 per share.** We use a valuation premium of 6% to a peer group of larger regulated names.

Cleco Corporation (CNL- NYSE; BUY; $46.50 price target; $2.55 EPS 2013E) - CNL has successfully completed its large capital program and represents a free cash flow story. We estimate CNL can generate roughly $90 million of free cash annually. Management has indicated it would utilize this free cash to seek investment opportunities with utility- like risk and returns and/or return cash to shareholders through higher dividend payments or share repurchases. **Our new $46.50 price target (prior $45.00)** is derived from the value of a premium utility, including earnings from rate- basing the Coughlin plant, and adding the cash generated by levering the plant to the utility's capital structure.

IDACORP, Inc. (IDA- NYSE; BUY; $49.50 price target; $3.25 EPS 2013E) - IDA has investment opportunities around large transmission projects and potential generation to fill the needs caused by expiring power contracts. We believe Idaho regulation continues to improve as evidenced by recent constructive settlements that act to put a 9.5% floor on IDA's earned ROE. **We have raised our price target to $49.50 from $48.00 per share,** based upon our view that shares should trade at a 5% discount to the group given lingering risk that improvement in Idaho regulation stalls.

NiSource, Inc. (NI- NYSE; BUY; $30.50 price target; $1.55 EPS 2013E) - We view NI as a portfolio of attractive assets in the gas distribution, electric utility and gas midstream businesses, coupled with a meaningful (100,000- 200,000 acres) position in the Utica/ Marcellus. Our valuation is based on a sum- of- the- parts of companies in respective peer groups. **We have raised our price objective to $30.50 from $28.50 per share.**

VALUATION TABLE FOR COMPANIES WITH PRICE TARGET CHANGES

Pricing: March 25, 2013 Close Pricing

Company	TKR	Rating	2013E EPS	2013 P/E	Price Tgt P/E	Price Target
Allete, Inc.	ALE	Buy	$2.70	16.0x	17.8x	$50.00
American Electric Power, Inc.	AEP	Buy	$3.10	14.4x	15.2x	$49.50
CMS Energy Corp.	CMS	Buy	$1.65	15.6x	16.4x	$28.50
Cleco Corp.	CNL	Buy	$2.55	16.2x	17.6x	$46.50
IDACORP, Inc.	IDA	Buy	$3.25	14.1x	14.8x	$49.50
NiSource, Inc.	NI	Buy	$1.55	16.9x	18.4x	$30.50
KBCM Utility Peer Group Average Multiple =				**16.1x**		

Source: KeyBanc Capital Markets Inc.

KeyBanc Capital Markets Inc. Disclosures and Certifications

Important disclosures for the companies mentioned in this report can be found at https://key2.bluematrix.com/sellside/Disclosures.action.

Please refer to the analysts' recently published reports for company- specific valuation and risks.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets					ENERGY				
			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	224	44.98	46	20.54	BUY [BUY]	28	44.44	15	53.57
HOLD [HOLD]	263	52.81	64	24.33	HOLD [HOLD]	35	55.56	18	51.43
SELL [UND]	11	2.21	1	9.09	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

NiSource

(NI-NYSE)

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

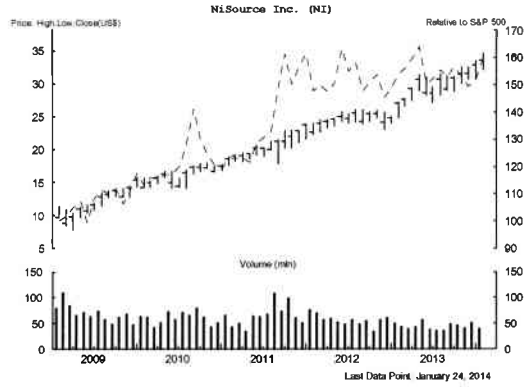
February 19, 2014

Carl Kirst, CFA **713-546-9756**
BMO Capital Markets Corp.
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan, CFA
BMO Capital Markets Corp.
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com / leah.jordan@bmo.com

4Q on Track; Methodically Moving Toward an MLP

Price (18-Feb)	$35.30	**52-Week High**	$35.30
Target Price	$34.00↑	**52-Week Low**	$26.81



Event

NiSource reported clean 4Q EPS of $0.47, square on target with our estimate and a penny above consensus. Likewise, 2014 EPS guidance was also initiated right in line with our expectations at a range of $1.61-$1.71, placing the $1.66 midpoint on top of our estimate and consensus, +5% y/y. NI also reaffirmed its methodical approach toward the possible creation of a pipeline/midstream MLP as an alternative to raising equity in mid-2015 (per its planned budget), with such a decision likely in 3Q14—not surprisingly, 9-12 mos prior to any possible issuance. That said, given more open discussions the past three months (beginning with 3Q13 results) of this as a possibility, we think the market has come to see this action as highly likely, if not inevitable (accounting in part for the stock's 12% rise since then vs. the utility index up only 2%). As a result, we think the value creation of an MLP, while certainly positive, is already largely reflected in the stock's valuation (creating asymmetric risk if for some reason an MLP is not pursued). Fundamentally, NI is humming along, with a much cleaner regulatory structure (no overhangs, and growth via low risk trackers), stronger balance sheet and very transparent 5-7% sustainable EPS growth (4-6% dividend growth). Upcoming catalysts, which could raise our valuation further, are the proposed Rayne and Leach Express expansions on Columbia Gulf and Gas, respectively, which could take 800-1,000 MMcfd out of the Marcellus by 2018; while management believes this could be a material project (presumably $1B+), it is only in a very nascent stage, and we may not know more until 2H14.

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	$1.44	$1.57	$1.66	$1.77
P/E			21.3x	19.9x
CFPS	$4.31	$4.37	$3.94↑	$4.13
P/CFPS			9.0x	8.5x
Rev. ($mm)	$5,091	$5,657	$5,792	$5,975
EV ($mm)	$14,955	$16,838	$16,838	$16,838
EBITDA ($mm)	$1,615	$1,745	$1,884	$2,041
EV/EBITDA	9.3x	9.6x	8.9x	8.2x

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	$0.73	$0.23	$0.05	$0.44
2013A	$0.69	$0.23	$0.18	$0.47
2014E	$0.74↑	$0.25↑	$0.17	$0.50↓

Dividend	$1.00	Yield	2.8%
Book Value	$18.21	Price/Book	1.9x
Shares O/S (mm)	313.3	Mkt. Cap (mm)	$11,059
Float O/S (mm)	310.8	Float Cap (mm)	$10,972
Wkly Vol (000s)	9,844	Wkly $ Vol (mm)	$299,592
Net Debt ($mm)	$6,740	Next Rep. Date	na

Impact & Analysis

With 4Q in line and 2014 guidance as expected, our 2014 and 2015 EPS estimates of $1.66 and $1.77, respectively, remain unchanged.

Valuation & Recommendation

Maintain Market Perform in the context of a flat total return expectation. Our SOTP price target rises to $34 (Exhibit 1), which now explicitly assumes the creation of an MLP in 2015 in a methodical phased-in manner (starting with $100 mn EBITDA, growing in time both organically and through parent drops).

Notes: All values in US$
Major Shareholders:
First Call Mean Estimates: NISOURCE INC (US$) 2013E: $1.56; 2014E: $1.66; 2015E: $1.78

Changes	Annual CFPS	Quarterly EPS		Target
	2014E $3.93 to $3.94	Q1/14E $0.73 to $0.74 Q2/14E $0.24 to $0.25	Q4/14E $0.51 to $0.50	$33.00 to $34.00

Please refer to pages 8 to 11 for Important Disclosures, including the Analyst's Certification.

4Q13 at a Glance

NI reported 4Q13 adjusted EPS of $0.47, in line with our estimate and a penny above consensus. Primary deltas to our estimate along with business segment summaries are detailed below:

-$0.05 Pipes. EBIT of $120 million was lower than our $143 million estimate primarily due to a combination of a lower tariff and higher operating expenses. Of note, total throughput of 460 MMDth increased 5% y/y, mainly due to colder weather increasing natural gas demand.

NI also announced it is going forward with the $300 million-plus Cameron Access Project, which will provide new pipeline facilities (up to 800 MDth/d of capacity) along Columbia Gulf Pipeline to the Cameron LNG export facility. Notably, the Cameron LNG export facility recently received its DOE approval to export to non-FTA countries. With in-service slated for YE17, this pipeline project should provide ~$0.50/sh of NPV. In the longer term, LNG exports continue to present additional opportunities.

+$0.05 LDC. Adjusted EBIT of $164 million (net of weather) was higher than our $139 million estimate primarily owing to a higher tariff. Of note, total volumes of 287 MMDth increased 11% y/y, mainly owing to colder weather.

Of note, one rate case remains outstanding that primarily aims to recapture the infrastructure modernization spending to which we already give credit. Specifically, Columbia Gas of Massachusetts is requesting a $30 million annual revenue increase; a decision is expected with rates in effect by March 2014. Additionally, regulatory approval and implementation of the ~$700 million seven-year modernization program at NIPSCO Gas (filed in October) is still expected by mid-2014.

-$0.02 Electric. Adjusted EBIT of $51 million (net of weather) was lower than our $62 million estimate primarily due to a lower tariff. Of note, total volumes of 4,235 GW hours decreased by 6% y/y, mainly owing to colder weather.

Recently, the Indiana regulator approved the ~$1 billion, seven-year modernization program at NISPCO Electric; investments under this program should begin mid-2014 and are focused on replacing poles, transformers, and other related equipment.

+$0.02Corp/Other. EBIT of $6 million was higher than our –C$5 million estimate, primarily owing to lower operating expenses.

Valuation

We are raising our sum-of-the-parts price target to $34 from $33, as we rework our valuation model to explicitly assume the execution of an MLP in 2015. While our framework is detailed in Exhibit 1—and recognizing there are many details in such a scenario that still need to come to light—our key assumptions follow:

- We've assumed the pipeline MLP will be created with ~$100 million in EBITDA. This reconciles with previous conversations we've had with management (most recently at our December utility conference), and reflects a methodical controlled growth type of scenario, versus a hypothetical 100% pipeline drop. While in the past management has

noted the challenges of negative credit impact and tax leakage, it was specifically mentioned that increasing comfort was being found on both fronts. That said, we find that, for most corporate-owned MLPs, the true long-term value is in the growth of the high-multiple GP cash flow, and that doing a 100% asset drop at once at the start of an MLP's lift would inherently limit the long-term GP cash flow. We also assume zero tax leakage, and no credit impact.

- We assumed the newly created MLP would buy from NI the associated assets (likely the higher basis midstream assets to start) at a 10x multiple, and NI in turn would take the $1 billion in proceeds to reduce parent level debt.

- By 2015, we assume the pipeline segment will be generating nearly $700 million in EBITDA requiring $200 million in maintenance capital (excluding the growth based modernization spend). We assumed a pro rated amount of maintenance for the $100 million of EBITDA dropped, although recognize that if it's newer assets at play, the maintenance capital could be far lower, making our conclusion conservative.

- Assuming a 1.10x distributable cash coverage ratio, and based on a high-single-digit to 10% distribution growth rate (to be driven in the future by both organic spending and continuing drops from the parent), we conservatively see an MLP target yield of 5.0%. (We see an IPO discount to its closest competitor, Spectra Energy Partners (SEP), which is currently yielding 4.6%.) In our model, this translates to $1.00/unit distribution, $20 potential IPO unit price, and 35 million total units at inception. This gives the MLP total market cap of $700 million, $1.2 billion in enterprise value, and effectively 12x EV/EBITDA (the largest wildcard of which we suspect will be the level of maintenance capital, per above).

- While GP multiples can seemingly range from 15x-40x, we use 30x given the GP being on the early phase of its growth curve, although even so the impact to total NI valuation remains muted over the near term given our modeled cash generation. Over the medium term, we could see ~$1/sh of GP value in NI stock by 2017, and nearly $2/sh of GP value by 2018, assuming $1 billion in asset sales per year driving a 10% unit CAGR at the MLP.

- Lastly, we note that the other multiples we utilize outside of the hypothetical MLP remain unchanged: a 10x 2015 EBITDA multiple on the gas distribution, 9x on the electric, and 11x for the Pipelines. We note this reflects a nice 1-2 point premium relative to the 2014 group average—we apply current 2014 multiples to 2015 EBITDA to derive a 12-mo target—of pure LDCs (8.1x) and electric utility (7.8x), respectively, supported by the visible long-term growth of the tracker-based modernization programs. While there are no pure pipeline c-corp comps, we assume a base 10x EBITDA multiple for pipes outside of MLP structures, and have added one point for its own $1.5 billion modernization program (out of $4 billion potential the next 15 years) under way.

Exhibit 1: NiSource Valuation

NiSource Inc.

Sum-of-the-Parts Valuation Analysis

	2015E	Valuation Multiple		Notes:
HYPOTHETICAL NI MLP				Assumes NI files with SEC in 3Q14 for pipeline MLP, putting IPO possibly 2Q15
General Partner Interest / GP Distribution			$1	
Multiple (unlevered, pre-tax free cash)			30.0x	
GP Enterprise Value			$21	
NI MLP units (million units)			10	
NI MLP Share Price			$20.00	
NI MLP Market Value			$200	
Capital Gains Potential on LP units			—	
NI MLP Enterprise Value net to NI			$200	
Total NI MLP Enterprise Value			**$221**	
NI Parent Level				
EBITDA by Segment				
Gas Distribution	$762	10.0x	$7,621	- 1x turn higher given $700mm 7-yr pipe modernization prgm
Gas Pipelines	$682			Consolidated Pipeline EBITDA
Excluding MLP consolidated EBITDA	($100)			Adjusts out $100mm ebitda for MLP
Net Gas Pipelines	$582	11.0x	$6,400	1x turn higher given $4B 10-yr pipe modernization prgm (see tab);
Electric	$579	9.0x	$5,215	- 1x turn higher given $3-4B L-T t&d modernization prgm (see tab)
Other	$79	5.0x	$395	
Enterprise Value of Parent Level Assets	**$2,584**	**7.6x**	**$19,631**	
Enterprise Value of NI			**$19,852**	
Net NI Debt (YE 2014)			($9,970)	
			$1,000	Assumes $1B from MLP capital proceeds (debt/equity) go to pay down NI parent level debt
Preferred & Minority Interests			—	
Pension/OPEB Underfunded Obligation	($1,088)	25%	($272)	- est underfunded at YE12; risk adjusted at 25% (rest assumes recovery in rates)

	Gross	Risked	Net	Value		
Utica Acreage - Central/West	175,000	0%	0	$5,000	—	- Management indicates 150-200k potentially prospective with geotechnical variability on size of oil window (full acreage position is 300k)

Net Equity Value	$10,611
Diluted Shares Outstanding	315
$/sh	**$33.71**
Average Target Price (rounded):	**$34.00**

Valuation Summary:	
Current Price	$35.30
Current Dividend	$1.00
Appreciation Potential	-3.7%
Current Yield	2.8%
Total Return Potential	-0.8%

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	Q1	Q2	Q3	Q4	2014E	2015E
Operating Revenues:															
Gas Distribution	$3,303	$3,096	$2,918	$1,960	$892	$393	$255	$686	$2,226	$1,181	$606	$409	$901	$3,097	$3,178
Pipelines & Storage	1,241	1,261	1,355	1,462	469	367	347	461	1,643	317	284	294	334	1,229	1,325
Electric	1,213	1,375	1,428	1,508	377	385	413	388	1,563	390	397	426	400	1,613	1,621
Other	542	603	319	161	56	68	61	39	224	(30)	(19)	(30)	(67)	(146)	(149)
Revenues	6,299	6,335	6,019	5,091	1,794	1,212	1,077	1,574	5,657	1,857	1,267	1,100	1,569	5,792	5,975
Operating Expenses:															
Cost of Sales	2,978	2,898	2,556	1,549	688	360	243	525	1,816	702	374	224	473	1,773	1,731
Operation & Maintenance	1,650	1,654	1,723	1,674	455	453	469	497	1,874	457	454	470	509	1,890	1,960
DD&A	589	596	538	564	144	143	145	146	577	152	151	152	153	608	644
Loss (gain) on asset sales	16	1	17	(4)	(0)	(0)	(10)	(7)	(18)	0	0	0	0	0	0
Taxes and Other	283	287	295	289	87	71	64	79	301	91	69	65	84	309	317
Total Operating Expenses	5,516	5,436	5,129	4,072	1,373	1,027	911	1,239	4,550	1,403	1,047	911	1,219	4,579	4,652
Operating Income	783	899	890	1,020	421	186	166	335	1,108	454	220	189	350	1,213	1,322
Other:															
Equity in Earnings	16	15	15	32	7	8	11	10	36	16	16	16	16	63	75
Minority Interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	(6)	4	(61)	(1)	4	13	5	2	24	0	0	0	0	0	0
Total Other Income	10	19	(47)	31	11	21	15	12	60	16	16	16	16	63	75
Reported EBIT	**$793**	**$918**	**$844**	**$1,051**	**$432**	**$207**	**$181**	**$348**	**$1,168**	**$470**	**$236**	**$205**	**$365**	**$1,276**	**$1,397**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$1,615**	**$576**	**$350**	**$326**	**$493**	**$1,745**	**$622**	**$386**	**$357**	**$518**	**$1,884**	**$2,041**
EBIT Composition															
Gas Distribution	328	324	394	409	234	50	(4)	169	449	243	67	14	179	502	535
Pipelines & Storage	389	377	360	398	133	89	99	120	441	155	103	98	126	481	548
Electric	117	234	210	252	65	60	88	53	265	74	68	95	61	298	320
Corporate & Other	(40)	(17)	(120)	(8)	(0)	9	(1)	6	12	(1)	(1)	(1)	(1)	(6)	(6)
Total EBIT	**$793**	**$918**	**$844**	**$1,051**	**$432**	**$207**	**$181**	**$348**	**$1,168**	**$470**	**$236**	**$205**	**$365**	**$1,276**	**$1,397**
Interest Expense	399	392	377	416	99	102	104	111	415	112	114	121	122	468	526
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	416	99	102	104	111	415	112	114	121	122	468	526
Income Before Taxes	394	526	467	635	334	105	77	237	753	358	122	84	243	807	871
Income Taxes															
Current	(214)	118	(15)	(86)	2	(18)	(4)	(5)	(26)	63	21	15	43	141	152
Deferred	378	55	178	305	117	51	32	88	287	63	21	15	43	141	152
Total Income Taxes	165	173	163	219	118	33	28	83	262	125	43	29	85	283	305
Effective Inc. Tax Rate (%)	42%	33%	35%	34%	35%	31%	36%	35%	35%	35%	35%	35%	35%	35%	35%
Net Income From Continuing Operations	229	353	304	416	215	72	50	154	491	233	79	55	158	525	566
Discontinued Operations, net	(12)	(0)	(5)	0	9	(0)	(1)	(1)	6	0	0	0	0	0	0
Change in Accounting	(0)	(58)	0	0	36	0	0	(2)	35	0	0	0	0	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$416**	**$261**	**$72**	**$48**	**$152**	**$532**	**$233**	**$79**	**$55**	**$158**	**$525**	**$566**
Adjustments to Core															
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(17)	0	0	(8)	5	(3)	0	0	0	0	0	0
Total Adjustments	(49)	11	(74)	(17)	0	0	(8)	5	(3)	0	0	0	0	0	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$433**	**$215**	**$72**	**$57**	**$149**	**$494**	**$233**	**$79**	**$55**	**$158**	**$525**	**$566**
Shares Outstanding (mm)															
Avg. Diluted Shares Out	276	280	289	300	312	313	314	315	314	315	315	315	316	315	321
Avg. Basic Shares Out	275	278	280	292	311	312	313	313	312	314	314	314	315	314	320
Period-end basic Shares Out	276	279	282	311	312	313	313	314	314	314	314	315	315	315	327
Earnings Per Share (Diluted)															
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$1.39**	**$0.83**	**$0.23**	**$0.16**	**$0.48**	**$1.70**	**$0.74**	**$0.25**	**$0.17**	**$0.50**	**$1.66**	**$1.77**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$1.44**	**$0.69**	**$0.23**	**$0.18**	**$0.47**	**$1.57**	**$0.74**	**$0.25**	**$0.17**	**$0.50**	**$1.66**	**$1.77**
EPS Growth (core)	-19.4%	21.0%	7.4%	10.0%	-5.7%	2.2%	245.5%	8.6%	9.3%	7.3%	9.0%	-4.8%	5.5%	5.7%	6.1%
Dividends															
Cash per share	$0.92	$0.92	$0.92	$0.95	$0.24	$0.25	$0.25	$0.25	$0.99	$0.25	$0.26	$0.26	$0.26	$1.03	$1.07
Div Growth	0.0%	0.0%	0.0%	3.3%	4.3%	4.2%	4.2%	4.2%	4.2%	4.2%	4.0%	4.0%	4.0%	4.0%	3.9%
Payout Ratio (%)	116.6%	87.5%	88.7%	68.6%					58.3%					61.9%	60.6%

Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	Q1	Q2	Q3	Q4	2014E	2015E
Operating Activities															
GAAP Net Income from Cont. Ops	218	292	299	416	261	72	48	152	532	233	79	55	158	525	566
DD&A	589	596	538	562	144	143	145	146	577	152	151	152	153	608	644
Deferred income tax benefit	378	200	178	305	117	51	32	88	287	63	21	15	43	141	152
Deferred Revenues	4	(20)	3	(8)	(0)	0	2	(9)	(7)	0	0	0	0	0	0
Amortization of premium on debt	13	10	9	10	2	2	2	2	9	0	0	0	0	0	0
Less Gain or Loss on assets	(4)	(0)	0	(4)	(0)	(0)	(10)	(7)	(18)	0	0	0	0	0	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	4	(0)	(3)	(4)	3	(4)	(8)	(8)	(8)	(8)	(31)	(37)
Other non-cash income items	36	112	139	11	(37)	11	12	7	(6)	0	0	0	0	0	0
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$1,295**	**$485**	**$276**	**$227**	**$382**	**$1,372**	**$440**	**$243**	**$214**	**$346**	**$1,243**	**$1,326**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$4.31**	**$1.56**	**$0.88**	**$0.72**	**$1.21**	**$4.37**	**$1.40**	**$0.77**	**$0.68**	**$1.10**	**$3.94**	**$4.13**
Working Capital:															
Accounts and notes receivable	259	(244)	318	(181)	(111)	430	124	(412)	31					0	0
Inventory	129	103	(142)	62	255	(182)	(177)	95	(9)					0	0
Less Change of Price Risk Management Activities	0	0	0	0	0	0	0	0	0					0	0
Accounts payable	(192)	38	(155)	57	25	(145)	(59)	246	68					0	0
Customer deposit, net	25	(25)	(5)	(44)	(102)	(3)	85	14	(7)					0	0
Other assets	83	(206)	(201)	144	(90)	226	(188)	73	21					0	0
Other Liabilities	382	(86)	(78)	(68)	(26)	(157)	172	(38)	(49)					0	0
Changes in Working Capital	686	(420)	(262)	(30)	(48)	170	(43)	(23)	55	0	0	0	0	0	0
Discontinued Operations	(255)	(57)	(50)	11	12	(1)	(0)	(1)	10	0	0	0	0	0	0
Cash Flow From Operations	1,651	720	870	1,276	449	445	184	358	1,437	440	243	214	346	1,243	1,326
Investing Activities															
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(1,499)	(369)	(432)	(496)	(583)	(1,880)	(538)	(538)	(538)	(538)	(2,150)	(1,675)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	26	1	0	17	0	18	0	0	0	0	0	0
Other	109	(140)	(34)	51	1	(40)	(52)	(58)	(148)	0	0	0	0	0	0
Cash Used in Investing	(662)	(944)	(1,149)	(1,422)	(368)	(472)	(530)	(640)	(2,010)	(538)	(538)	(538)	(538)	(2,150)	(1,675)
Discontinued Operations	8	0	0	(3)	122	0	(3)	0	119	0	0	0	0	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(1,425)	(246)	(472)	(533)	(640)	(1,891)	(538)	(538)	(538)	(538)	(2,150)	(1,675)
Financing Activities															
Sale of Common Stock	26	14	24	384	17	7	12	8	44	12	12	12	12	48	398
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	988	0	815	0	492	1,308	0	0	1,000	0	1,000	1,230
Redemption of Common Stock	(3)	(2)	(3)	(10)	(8)	(0)	(0)	(0)	(8)	0	0	0	0	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(332)	(427)	(24)	(54)	(6)	(511)	0	0	(500)	0	(500)	(230)
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(582)	354	(754)	443	(122)	(78)	150	350	0	150	650	(650)
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	(253)	(256)	(258)	(273)	(75)	(75)	(78)	(78)	(306)	(73)	(77)	(77)	(77)	(304)	(322)
Other	0	0	(62)	0	0	0	(3)	0	(3)	0	0	0	0	0	0
Cash From (For) Financing	(1,000)	216	281	175	(138)	(30)	320	294	445	89	285	435	85	894	426
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	175	(138)	(30)	320	294	445	89	285	435	85	894	426
Change in Cash	($4)	($7)	$2	$25	$65	($57)	($30)	$12	($9)	($9)	($9)	$112	($106)	($13)	$76
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$36	$102	$45	$15	$36	$27	$18	$9	$120	$27	$14
Cash & Temp. Inv. End of Yr.	**$16**	**$9**	**$12**	**$37**	**$102**	**$45**	**$15**	**$27**	**$27**	**$18**	**$9**	**$120**	**$14**	**$14**	**$90**

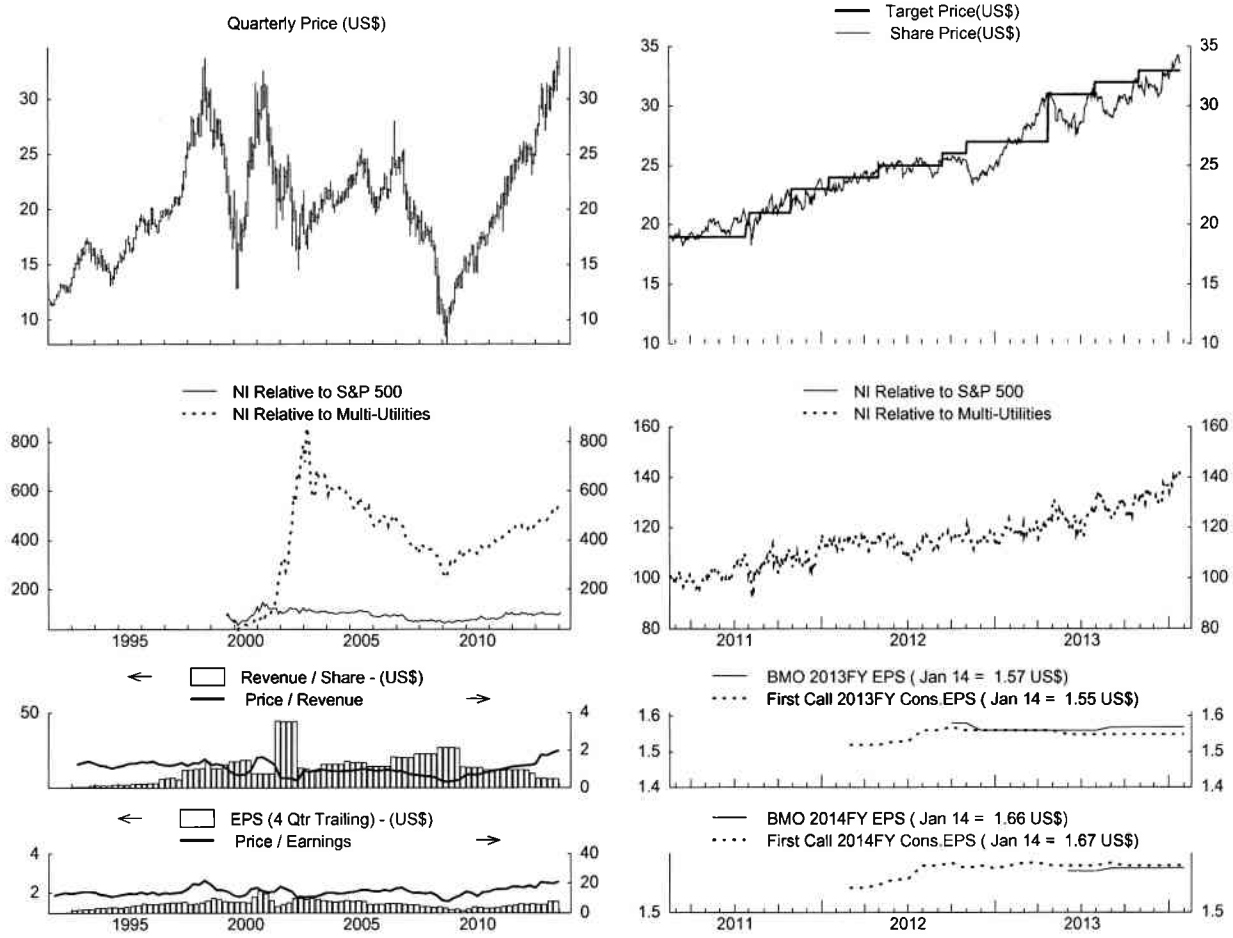
Source: BMO Capital Markets estimates, company data.

Exhibit 4: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	Q1	Q2	Q3	Q4	2013E	Q1	Q2	Q3	Q4	2014E	2015E
Assets:															
Cash & Equivalent	16	9	12	36	101	45	15	27	27	18	9	120	14	14	90
Restricted Cash	175	203	161	47	23	29	18	8	8	8	8	8	8	8	8
Receivables	848	1,121	951	1,114	1,254	836	702	1,105	1,105	1,105	1,105	1,105	1,105	1,105	1,105
Allowance for Uncollectable Acts.	(40)	(41)	(31)	(24)	(32)	(32)	(20)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	40	136	21	45	17	1	16	46	46	46	46	46	46	46	46
Inventories	385	428	566	496	241	420	595	500	500	500	500	500	500	500	500
ST Assets Price Risk Management	173	160	137	92	58	40	21	23	23	23	23	23	23	23	23
Regulatory Assets	238	152	170	163	142	146	153	143	143	143	143	143	143	143	143
Other Current Assets	387	283	262	384	228	224	246	331	331	331	331	331	331	331	331
Total Current Assets	2,224	2,449	2,248	2,352	2,032	1,708	1,746	2,159	2,159	2,150	2,141	2,253	2,146	2,146	2,223
Plant & Equipment (Gross)	19,038	19,590	20,470	21,902	22,194	22,644	23,171	23,622	23,622	24,159	24,697	25,234	25,772	25,772	27,447
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,986)	(9,075)	(9,170)	(9,259)	(9,257)	(9,257)	(9,409)	(9,559)	(9,711)	(9,865)	(9,865)	(10,509)
Plant & Equipment, Net	10,684	11,097	11,800	12,916	13,119	13,474	13,912	14,365	14,365	14,751	15,137	15,523	15,907	15,907	16,938
Investments	295	349	356	438	451	469	529	578	578	578	578	578	578	578	578
LT Assets Price Risk Management	238	240	189	56	36	34	0	1	1	1	1	1	1	1	1
Regulatory Assets	1,644	1,650	1,978	2,024	1,954	1,902	1,863	1,522	1,522	1,522	1,522	1,522	1,522	1,522	1,522
Goodwill	3,677	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Intangible Assets	320	309	298	287	284	281	278	276	276	276	276	276	276	276	276
Other Long Term Assets (& flywheel)	53	168	162	94	94	88	89	87	87	95	102	110	118	118	155
Total Assets	19,134	19,939	20,708	21,845	21,636	21,622	22,084	22,654	22,654	23,038	23,423	23,928	24,214	24,214	25,358
Liabilities & Equity:															
Short Term Debt	800	1,417	1,687	1,284	1,221	448	1,362	1,240	1,240	1,390	1,740	1,740	1,890	1,890	1,240
Accounts Payables	502	582	435	539	527	471	448	805	805	805	805	805	805	805	805
ST Liabilities Price Risk Management	190	174	168	95	53	48	9	1	1	1	1	1	1	1	1
Regulatory Liabilities	44	93	112	172	107	80	76	60	60	60	60	60	60	60	60
Other	1,575	1,384	1,245	1,212	1,067	1,021	1,111	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071
Total Current Liab	3,111	3,649	3,646	3,302	2,974	2,068	3,006	3,178	3,178	3,328	3,678	3,678	3,828	3,828	3,178
Long Term Debt	5,988	5,936	6,267	6,819	6,804	7,617	7,089	7,593	7,593	7,593	7,593	8,093	8,093	8,093	9,093
LT Liabilities Price Risk Management	170	182	139	20	7	5	2	0	0	0	0	0	0	0	0
Accumulated Deferred Taxes	2,018	2,243	2,571	2,953	2,980	3,063	3,134	3,278	3,278	3,341	3,362	3,377	3,419	3,419	3,572
Regulatory Liabilities	1,559	1,596	1,664	1,593	1,611	1,611	1,616	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670
Other Liabilities	1,572	1,409	1,424	1,603	1,569	1,556	1,538	1,048	1,048	1,048	1,048	1,048	1,048	1,048	1,048
Total Liabilities	14,418	15,016	15,711	16,290	15,946	15,919	16,383	16,767	16,767	16,979	17,351	17,865	18,058	18,058	18,560
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,554	5,691	5,703	5,701	5,887	5,887	6,058	6,073	6,062	6,156	6,156	6,798
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	21,845	21,636	21,622	22,084	22,653	22,653	23,038	23,423	23,928	24,214	24,214	25,358

Source: BMO Capital Markets estimates, company data.

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
2009	1.06	14.9	7.3	0.92	11.8	5.8	87	17.6	0.9	0.4	6
2010	1.22	14.7	11.6	0.92	6.5	5.1	75	17.7	1.0	0.8	7
2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.7	1.4	0.9	8
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	17.9	1.5	1.2	8
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.54	21.4		1.00	3.0		65	18.2	1.8		8
Growth(%):											
5 Year:	3.9			1.7				1.1			
10 Year:	-0.4			0.8				0.8			
20 Year:	1.4			1.7				4.0			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q3/2013.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (January 27, 2014): $33.67
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation
Methodology: Our target price for NI is based on a sum-of-the parts valuation. We individually value each one of NI's business segments using a target EV/EBITDA multiple approach. Our target multiple for each segment is derived from analyzing historical multiple trading ranges, peer multiples, and adjusting for any expectation of future changes in investor sentiment, which would lead to multiple expansion/contraction. We next add together the segment valuations to reach an operating enterprise value, which is then adjusted for net debt, off-balance sheet items, operating leases, pension costs, and any other non-operating obligations. After adjustments, we then have our net equity value, which is divided by fully diluted shares outstanding to arrive at our target price.
Risks: Risks to our 12-month price target for NI include: 1) Conservation - conservation and bad debt expense from high commodity prices could impact earnings more than the base level we have accounted for; 2) Weather; 3) Interest rates; 4) Regulatory risk - rulings counter to assumptions and guidance could negatively impact our valuations going forward.

Distribution of Ratings (December 31, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

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NR = No rating at this time;
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18 February 2014 | 8 pages

Pipelines & Gas Utilities
North America | United States

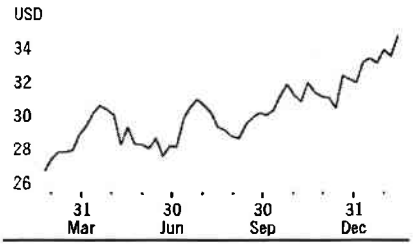
NiSource Inc (NI)

Results: Q4 Slight Beat; '14 Guidance; M&A, MLP Update

- **Citi's Take** — NI reported 4Q13 EPS of $0.47, a penny better than consensus. NI set 2014 EPS guidance at $1.61 - $1.71, in-line with our estimate of $1.67. Earnings growth visibility continues to remain clear through a potential capital spending backlog of nearly $30Bn over the long-run. An MLP of the company's midstream assets appears achievable in the next 12 months. Management reiterated a dividend growth target of 3 - 5%.
- **Gas Distribution** — Reported operating income of $164.2mn vs. our estimate of $181.9mn on lower-than-expected contributions from OH and PA rate changes. Net revenues ex trackers increased by $37.9mn y-o-y primarily due to the rate settlement at Columbia Gas of PA and new rates under Columbia Gas of OH's infrastructure replacement program. Usage was also higher across the board.
- **Gas Transport & Storage** — Reported operating income of $120.4mn vs. our estimate of $112.8mn. Increased demand and commodity margin revenue from projects recently placed into service were partially offset by a decline in transportation services revenues.
- **Electric** — Reported operating income of $51.3mn vs. our estimate of $45.1mn. Higher environmental cost recoveries and industrial and commercial margins boosted revenues above expectations.
- **M&A** — While management did not comment directly on M&A speculation, it described its Dec. 2013 amendment to its change in control agreement as part of an annual process and not related to the speculation.
- **MLP** — Management specified 3Q14 as the time to expect a decision regarding an MLP. That would be 9-12 months before the company's planned 2015 equity raise. The MLP would come in lieu of issuing equity. The company cited tax leakage as a point of concern in the past but that concern appears to have subsided.
- **Implications** — We maintain our Neutral rating and $35 target price.

Neutral	**2**
Price (18 Feb 14)	US$35.30
Target price	US$35.00
Expected share price return	-0.8%
Expected dividend yield	2.9%
Expected total return	**2.0%**
Market Cap	US$11,059M

Price Performance
(RIC: NI.N, BB: NI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.66A	0.23A	0.06A	0.44A	1.38A	1.42A
2013E	**0.69A**	**0.23A**	**0.17A**	**0.45E**	**1.54E**	**1.58E**
Previous	0.69A	0.23A	0.17A	0.45E	1.54E	na
2014E	**0.82E**	**0.28E**	**0.16E**	**0.42E**	**1.67E**	**1.66E**
Previous	0.82E	0.28E	0.16E	0.42E	1.67E	na
2015E	**0.85E**	**0.31E**	**0.19E**	**0.46E**	**1.80E**	**1.78E**
Previous	0.85E	0.31E	0.19E	0.46E	1.80E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Faisel Khan, CFA
+1-212-816-2825
faisel.khan@citi.com

Blake Clayton, PhD
blake.clayton@citi.com

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NI Quarterly Comparison Table

Figure 1. NI Earnings Analysis

	Actual 4Q13	Citi Estimate 4Q13	Actual Delta (%)	Actual 3Q13	Actual Change Q-o-Q Unit	Actual Change Q-o-Q Delta (%)	Actual 4Q12	Actual Change Y-o-Y Unit	Actual Change Y-o-Y Delta (%)
Gas Distribution									
Sales Revenues	924.6	896.6	3%	412.8	511.8	124%	782.7	141.9	18%
Cost of Gas Sold	455.0	328.7	38%	131.8	323.2	245%	356.2	98.8	28%
Net Revenues	469.6	567.9	-17%	281.0	188.6	67%	426.5	43.1	10%
Operating Income	164.2	181.9	-10%	(0.5)	164.7	-32940%	133.8	30.6	23%
Sales and Transportation Volumes (MMDth)									
Residential	90.3			15.2	75.1	494%	79.9	10.4	13%
Commercial	54.4			16.2	38.2	236%	50.1	4.3	9%
Industrial	127.1			120.7	6.4	5%	113.6	13.5	12%
Off-System and Other	14.7			15.6	(0.9)	-6%	14.9	(0.2)	-1%
Total (Including Weather Adjust.)	286.5			167.7	118.8	71%	258.5	28.0	11%
% Warmer (Colder) than Normal	(4.0)			0.1			(0.0)		
Customers									
Residential	3079.6			3022.3	57.3	2%	3058.8	20.8	1%
Commercial	281.5			276.2	5.3	2%	280.8	0.7	0%
Industrial	7.7			7.5	0.2	3%	7.6	0.1	2%
Other	0.0			0.0	(0.0)	0%	0.0	(0.0)	-100%
Total Customers	3368.8			3306.0	62.8	2%	3347.3	21.5	1%
Gas Transmission and Storage									
Transportation Revenues	215.8	232.9	-7%	176.4	39.4	22%	214.9	0.9	0%
Net Revenues	321.8	299.6	7%	282.7	39.1	14%	297.0	24.8	8%
Operating Income	120.4	112.8	7%	98.8	21.6	22%	128.9	(8.5)	-7%
Throughput (MMDth)									
Columbia Transmission	333.8			158.4	175.4	111%	328.8	5.0	2%
Columbia Gulf	149.0			134.0	15.0	11%	213.2	(64.2)	-30%
Crossroads Pipeline	4.5			4.1	0.4	10%	4.1	0.4	10%
Intersegment Eliminations	(27.6)			(36.5)	8.9	-24%	(108.0)	80.4	-74%
Total Throughput	459.7			260.0	199.7	77%	438.1	21.6	5%
Electric Operations									
Sales Revenues	386.6	356.4	8%	416.8	(30.2)	-7%	361.6	25.0	7%
Cost of Sales	134.2	113.8	18%	142.2	(8.0)	-6%	113.2	21.0	19%
Net Revenues	252.4	242.6	4%	274.6	(22.2)	-8%	248.4	4.0	2%
Operating Income	51.3	45.1	14%	90.5	(39.2)	-43%	51.6	(0.3)	-1%
Sales (GWh)									
Residential	811.0	767.0	6%	1000.5	(189.5)	-19%	763.2	47.8	6%
Commercial	952.0	912.3	4%	1066.1	(114.1)	-11%	907.8	44.2	5%
Industrial	2426.0	2297.5	6%	2337.2	88.8	4%	2286.1	139.9	6%
Wholesale	5.1	17.8	-71%	108.6	(103.5)	-95%	17.8	(12.7)	-71%
Other	40.5	34.0	19%	31.3	9.2	29%	34.0	6.5	19%
Total (Including Weather Adjustment)	4235.2	4028.7	5%	4543.7	(308.5)	-7%	4008.9	226.3	6%
% Warmer (Colder) than Normal	(1.0)			0.1			0.3		
Customers									
Residential	402.6	403.2	0%	401.2	1.4	0%	401.2	1.4	0%
Commercial	54.5	54.2	0%	54.3	0.2	0%	54.0	0.5	1%
Industrial	2.4	2.5	-2%	2.4	0.0	1%	2.4	(0.0)	-2%
Wholesale	0.7	0.7	-4%	0.7	(0.0)	-4%	0.0	0.7	11567%
Other	0.0	0.7	-100%	0.0	(0.0)	-100%	0.7	(0.7)	-100%
Total	460.2	460.6	0%	458.5	1.7	0%	458.3	1.9	0%
Corporate/Other									
Operating Income	4.1	(5.8)	-171%	(5.0)	9.1	-182%	(1.2)	5.3	-457%
Consolidated Financial Results									
Gross Revenues	1592.6	1552.6	3%	1112.3	480.3	43%	1445.0	147.6	10%
Costs of Sales (ex D&A)	547.1	442.5	24%	278.1	269.0	97%	469.5	77.6	17%
O&M	498.3	536.9	-7%	460.3	38.0	8%	477.1	21.2	4%
D&A	145.9	168.9	-14%	142.2	3.8	3%	141.1	4.8	3%
Non-Income Taxes	78.9	83.0	-5%	61.3	17.6	29%	52.5	26.4	50%
Total Operating Expenses	715.8	788.8	-9%	663.8	52.1	8%	670.7	45.1	7%
Operating Income	340.0	327.7	4%	181.0	159.1	88%	312.9	27.1	9%
Income Taxes	82.9	77.6	7%	27.6	55.3	200%	69.4	13.5	19%
Net Income from Continuing Ops	**148.7**	**137.9**	**8%**	**54.4**	**94.3**	**174%**	**136.0**	**12.7**	**9%**
EPS	**$0.47**	**$0.45**	**4%**	**$0.17**	**0.30**	**171%**	**$0.44**	**0.03**	**7%**

Source: Citi Research, company filings

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NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $35 target. Our NAV yields a value of $44. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $42. Our P/E and EV/EBITDA multiples (2014 estimates) are based on proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. Our P/E and EV/EBITDA analyses yield values of $28 and $31.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

Appendix A-1

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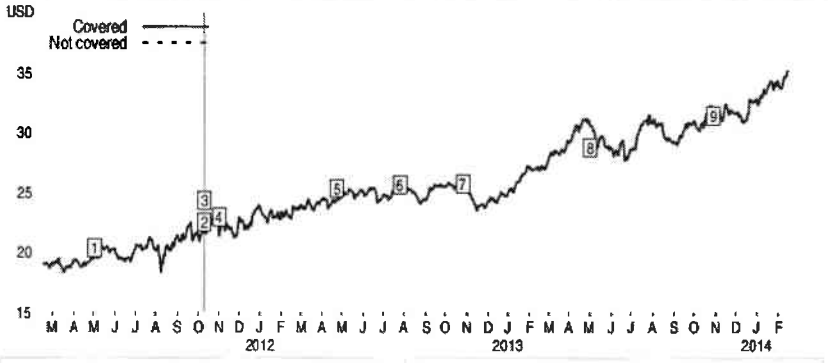
Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	2-May-11	2M	*21.00	19.52
2	8-Oct-11	Stock rating system changed		
3	8-Oct-11	*2	21.00	21.55
4	1-Nov-11	2	*22.00	21.32
5	23-Apr-12	2	*24.00	24.30
6	25-Jul-12	2	*26.00	25.12
7	25-Oct-12	2	*27.00	25.54
8	1-May-13	2	*30.00	30.61
9	29-Oct-13	2	*35.00	31.95

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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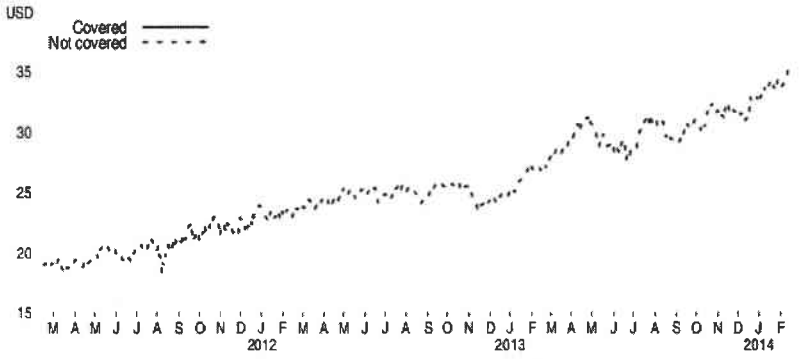
NiSource Inc (NI)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



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	12 Month Rating			*Relative Rating*		
Data current as of 31 Dec 2013	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	49%	40%	12%	6%	88%	6%
% of companies in each rating category that are investment banking clients	55%	52%	44%	62%	52%	49%

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Electric Utilities
Analyst: David Burks
502.588.8648 / DBurks@hilliard.com
Institutional Sales Desk: Tim Rexing
502.585.8509 / TRexing@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
February 18, 2014

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Key Metrics

NI - NYSE (Price as of 2/14/14)		$35.15
Price Target		NA
52-Week Range		$36.82 - $26.81
Shares Outstanding (mm)		313.4
Market Cap. ($mm)		$11,016
3-Mo. Average Daily Volume		2,201,000
Institutional Ownership		81.0%
Debt/Total Capital (12/31)		60.0%
ROE (ttm)		8.1%
Book Value/Share		$18.42
Price/Book Value		1.90x
Indicated Dividend / Yield	$1.00	2.8%
Dividend Cycle		Feb., May, Aug., Nov.

EPS FY 12/31

	2012	Prior 2013E	2013	Prior 2014E	Curr. 2014E
1Q		--		-	-
2Q		--		-	-
3Q		--		-	-
4Q		--		-	-
Year	$1.46		$1.58		$1.67
P/E	24.1x		22.3x		21.0x
Payout	66%		63%		60%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2012	Prior 2013E	2013	Prior 2014E	Curr. 2014E
1Q		--		-	-
2Q		--		-	-
3Q		--		-	-
4Q		--		-	-
Year	$5,070		$5,659	-	$5,875

Company Description: *Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.*

Company reports higher fourth quarter earnings and introduces 2014 earnings guidance

Investment Highlights

- **NiSource reported fourth quarter net operating earnings of $0.47 per share versus $0.44 per share earned in the fourth quarter of 2012 and slightly above expectations.** For the full year, NI earned $1.58 per share compared to $1.46 per share in 2012, an increase of 8.2%. The company's Columbia pipeline group's earnings contribution rose in 2013, helped by a customer settlement and increased demand. Electric operations' earnings also increased, largely due to environmental cost recovery and higher margins. NI's gas distribution business also posted higher earnings last year. Results were helped by new rates.
- **Management introduced 2014 earnings guidance of $1.61 to $1.71 per share.** The outlook is expected to be driven by $2 billion in capital investments this year. We are maintaining our 2014 EPS estimate of $1.67. NI also reaffirmed its goal of growing earnings by 5% to 7% annually. Dividends are expected to grow between 3% to 5% annually.
- **The company is exploring the possibility of a master limited partnership (MLP) for its gas transmission and midstream assets.** Management indicated during its earnings call that such a stragey remains a viable option. The company is expected to issue equity in 2015 and the creation of an MLP could potentially eliminate the need to issue equity. NiSource anticipates being able to make a decision around the third quarter of this year. It appears the odds of an MLP are increasing.
- **We believe NiSource is fairly valued, trading at 21x estimated 2014 earnings.** However, we think NI has a positive fundamental outlook.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Additional information is available upon request.

Analyst Certification

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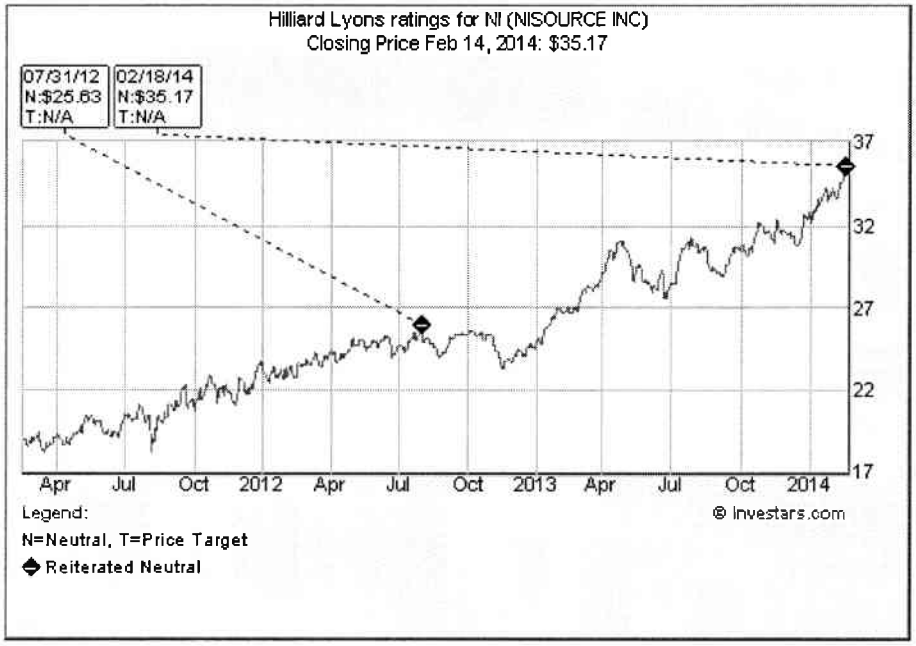
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	46	33%	17%	83%
Hold/Neutral	83	60%	13%	87%
Sell	9	7%	0%	100%

As of 4 February 2014

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MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Stephen J. Maresca, CFA
Stephen.Maresca@morganstanley.com
+1 212 761 8343

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6385

Brian Lasky
Brian.Lasky@morganstanley.com

Shaan Sheikh, CFA
Shaan.Sheikh@morganstanley.com

Matthew Giacobbe
Matthew.Giacobbe@morganstanley.com

February 18, 2014

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

MLP Moves Closer to Reality

NI introduced 2014 guidance ($1.61 – 1.71) in-line with prior MSe ($1.66) and reiterated its long-term guidance of 5 – 7% EPS growth and 3 – 5% div growth. We maintain our E/w rating, but have raised our PT to $36, from $34 (a higher multiple on pipes to give some 'MLP credit'; Bull case is $42).

4Q13 results: NI reported operating earnings of $0.47 slightly ahead of MS / Consensus estimates of $0.45/$0.46. NI reported strong results across the board as they continue to capitalize on their well-positioned infrastructure asset base (Marcellus / Utica) and improved utility profile. During the conference call, management provided incremental color on the possibility of creating an MLP vehicle to help fund a strong backlog of organic capex. NI believes that an MLP remains a "viable option" and they appear more comfortable with its impact on credit metrics and potential tax leakage and expect to make a decision in 3Q14 (MS opinion is an MLP will get announced). We continue to believe NI is an attractive lower risk stock with upside (MSe 6.6% EPS growth in 2014e and 5.9% in 2015e; 4.2% div growth each year), with the majority of further outperformance hinged upon MLP creation and future growth projects (NI shares +8% YTD vs. S&P500 -0.5%). NI shares should continue to see support given its profile and attractive utility and midstream growth attributes. Our current Sum of the Parts value is ~$37 (see p. 8), but creation of an MLP could help finance a strong future slate of organic projects and provide upside to our Bull case.

Segment results. *Electric EBIT* came in at $51.3mm vs. $51.6mm y/y due to the increase in environmental investment cost recovery offset by higher MISO fees. *Gas Distribution EBIT* increased to $164.2mm from $133.5mm last year due to the rate settlement at Columbia Gas of Pennsylvania and the implementation of new rates under Columbia Gas of Ohio's infrastructure replacement program. *Columbia Pipeline Group EBIT* fell to $120.4mm from $128.8mm y/y.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	**$36.00**
Shr price, close (Feb 14, 2014)	$35.17
Mkt cap, curr (mm)	$11,114
52-Week Range	$35.17-26.71

Fiscal Year ending	12/13	12/14e	12/15e	12/16e
ModelWare EPS ($)	**1.57**	**1.68**	**1.78**	**1.91**
Prior ModelWare EPS ($)	**1.55**	**1.66**	**1.76**	**1.88**
P/E	**20.9**	**20.9**	**19.8**	**18.4**
Consensus EPS ($)§	**1.55**	**1.66**	**1.77**	-
Div yld (%)	3.0	2.9	3.1	3.2
Div per shr ($)	0.99	1.03	1.07	1.12
EBITDA ($mm)	1,705	1,832	1,956	2,089
EV/EBITDA	11.4	11.8	11.6	11.4
Shrs out, diluted, avg (mm)	314	314	314	314

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

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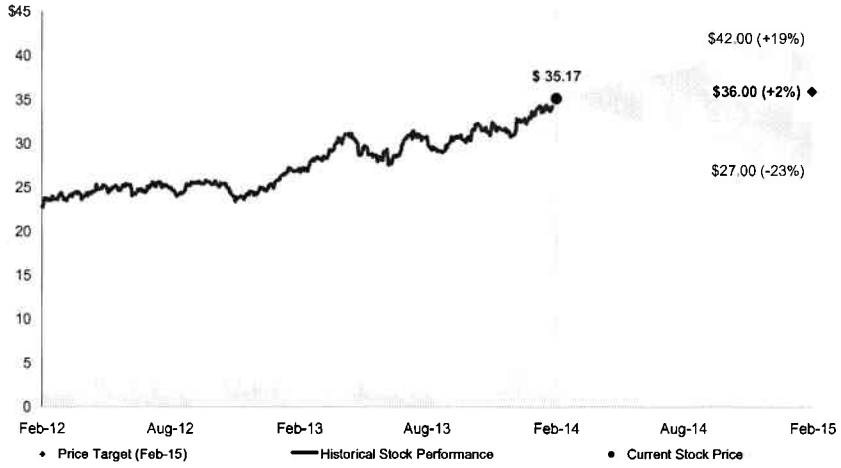
MORGAN STANLEY RESEARCH

February 18, 2014
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target $36		Derived from our Sum of the Parts asset valuation.
Bull Case $42	14x GT&S '14e EBITDA, 9x Electric EBITDA	**Increasing Marcellus/Utica market share and utilities outperform; more projects, MLP creation.** NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case $36	12.5x GT&S '14e EBITDA, 9.0x Electric EBITDA	**Executing on Marcellus opportunities with a steady recovery and execution in utility segments.** NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover.
Bear Case $27	9x GT&S '14e EBITDA, 8x Electric EBITDA	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist or worsen, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions and the stock to re-rate lower given weaker growth profile.

Sum-of-the-Parts (SOTP) Breakdown

NiSource Inc.		Value ($ m)	$/Share
Gas Distribution	$	6,225	$ 19.85
Gas Transmission & Storage		7,597	24.22
Electric Utility		4,790	15.27
Utica		1,375	4.38
Value per Share	**$**	**19,986**	**$ 63.73**
Net Debt		(8,437)	(26.90)
Net Equity Value	**$**	**11,549**	**$ 36.83**
Shares Outstanding (in mm)			313.6

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments.
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples and a sum of the parts (SOTP) basis.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 4 – 5% annual growth to go along with 5 – 7% EPS growth potential over multiple years.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.
- MLP formation adds to value of NI and offers further upside on projects and acquisitions.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Unfavorable outcomes in the northeast due to legislation, slower drilling, more competition.

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February 18, 2014
NiSource, Inc.

Exhibit 1

NI: Earnings Results and Preview

(amounts in 000s, except per unit)

	Actual 4Q12	Actual 4Q13	A / A % chg	MS 4Q13E	A / E % chg	MS 1Q14E
Operating Revenues						
Gas Distribution	582,200	683,500	17.4%	820,492	-16.7%	1,207,306
Gas Transportation and Storage	418,700	461,300	10.2%	296,566	55.5%	338,564
Electric	361,000	386,200	7.0%	359,835	7.3%	392,396
Other	37,800	61,600		-		-
Total operating revenues	**1,399,700**	**1,592,600**	13.8%	**1,476,892**	7.8%	**1,938,266**
Operating Expenses						
Cost of Sales	426,500	547,100	28.3%	493,841	10.8%	673,428
Operation and maintenance	452,000	498,300	10.2%	477,273	4.4%	536,396
Depreciation and amortization	143,900	145,900	1.4%	139,092	4.9%	151,206
Other taxes	72,400	78,900	9.0%	72,194	9.3%	97,700
Total operating expenses	**1,094,800**	**1,270,200**	16.0%	**1,182,400**	7.4%	**1,458,731**
Equity Earnings (Loss) in Uncon. Affiliates	**8,000**	**10,300**	28.8%	**10,000**	3.0%	**8,000**
EBIT	**312,900**	**332,700**	6.3%	**304,492**	9.3%	**487,535**
EBITDA	**456,800**	**478,600**	4.8%	**443,584**	7.9%	**638,741**
Interest expense, net	(103,900)	(110,500)	6.4%	(103,700)	6.6%	(105,858)
Other income	(3,600)	9,400		15,800		9,400
Total other income and expenses	**(107,500)**	**(101,100)**	-6.0%	**(87,900)**	15.0%	**(96,458)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**205,400**	**231,600**	12.8%	**216,592**	6.9%	**391,078**
Income tax (provision)	69,400	82,900	19.5%	75,916	9.2%	138,925
Net Income (Operating)	**136,000**	**148,700**	9.3%	**140,676**	5.7%	**252,153**
Average # of Shares Outstanding	311,300	314,800	1.1%	313,800	0.3%	313,600
Net Income per Share (Operating)	**$ 0.44**	**$ 0.47**		**$ 0.45**		**$ 0.80**
Net Income per Share (GAAP)	**$ 0.42**	**$ 0.49**		**$ 0.45**		**$ 0.80**
Segment Data						
Gas Distribution (MMDth)						
Residential	79.9	90.3	13.0%	83.9	7.6%	136.0
Commercial	50.1	54.4	8.6%	50.1	8.6%	77.6
Industrial	113.6	127.1	11.9%	115.9	9.7%	137.3
Off System	14.8	14.7	-0.7%	14.8	-0.7%	22.1
Other	0.1	-		-		-
Gas Transmission & Storage (MMDth)						
Columbia Transmission	328.8	333.8	1.5%	276.2	20.9%	461.9
Columbia Gulf	213.2	149.0	-30.1%	138.8	7.4%	201.6
Crossroads Gas Pipeline	4.1	4.5	9.8%	4.3	4.5%	5.2
Intrasegment eliminations	(108.0)	(27.6)	-74.4%	(99.1)	-72.2%	(122.1)
Electric Operations (Gigawatt Hours)						
Residential	763.2	811.0	6.3%	763.2	6.3%	890.0
Commercial	907.8	952.0	4.9%	921.4	3.3%	939.6
Industrial	2,286.1	2,426.6	6.1%	2,286.1	6.1%	2,331.2
Wholesale	17.8	5.1	-71.3%	18.2	-71.9%	61.6
Other	34.0	40.5	19.1%	34.7	16.8%	33.9

NI issued 2014 EPS guidance of $1.61-$1.71

Source: Company data, Morgan Stanley Research

Exhibit 2

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February 18, 2014
NiSource, Inc.

NI Income Statement
Income Statement

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
Net Revenues					
Gas Distribution	2,225,300	3,224,731	3,428,458	3,645,148	3,847,411
Gas Transportation and Storage	1,646,400	1,251,288	1,395,926	1,533,724	1,611,500
Electric	1,563,200	1,625,575	1,704,749	1,787,807	1,855,368
Other	224,400	-	-	-	-
Total Net Revenues	**5,659,300**	**6,101,595**	**6,529,133**	**6,966,679**	**7,314,279**
Operating Costs					
Cost of Sales	1,815,500	2,025,405	2,158,772	2,284,443	2,401,054
Operation and maintenance	1,873,900	1,973,919	2,127,142	2,289,272	2,388,403
Depreciation and amortization	577,300	609,172	621,986	634,546	646,235
Other taxes	300,600	302,923	320,761	337,538	359,307
Total Operating Costs	**4,567,300**	**4,911,419**	**5,228,661**	**5,545,799**	**5,794,999**
Equity Earnings (Loss) in Uncon. Affiliates	**35,900**	**32,241**	**33,054**	**33,888**	**34,743**
EBIT	**1,127,900**	**1,222,416**	**1,333,527**	**1,454,768**	**1,554,022**
EBITDA	**1,705,200**	**1,831,588**	**1,955,513**	**2,089,313**	**2,200,257**
Other income					
Interest expense, net	(414,800)	(452,133)	(515,450)	(573,966)	(621,778)
Other income	42,600	37,600	37,600	37,600	37,600
Inc. from continuing operations bef inc. taxes	**755,700**	**807,884**	**855,677**	**918,402**	**969,844**
Income tax (provision)	261,800	281,252	297,830	319,663	337,531
Operating Net income (Loss)	**493,900**	**526,632**	**557,847**	**598,739**	**632,313**
Net Income per Share (Operating)	**$1.57**	**$1.68**	**$1.78**	**$1.91**	**$2.02**
Net Income per Share (GAAP)	**$1.56**	**$1.68**	**$1.78**	**$1.91**	**$2.02**
Weighted Avg Diluted Units Outstanding	313,600	313,600	313,600	313,600	313,600
Dividends per share	0.99	1.03	1.07	1.12	1.15

Source: Company data, Morgan Stanley Research

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MORGAN STANLEY RESEARCH

February 18, 2014
NiSource, Inc.

Exhibit 3

NI Operating Data

Operating Data

	2013	2014E	2015E	2016E	2017E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	272.3	280.5	291.7	303.4	315.5
Commercial	172.9	178.1	183.4	188.9	194.6
Industrial	494.5	509.3	524.6	540.4	556.6
Off System	70.4	71.8	73.2	74.7	76.2
Other	0.4	-	-	-	-
Total Sales and Transports	**1,010.5**	**1,039.7**	**1,073.0**	**1,107.4**	**1,142.9**
Weather Adjustment	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Sales and Transport Vols — Excluding Weather	**1,007.1**	**1,036.3**	**1,069.6**	**1,104.0**	**1,139.5**
y/y change	*2.6%*	*2.9%*	*3.2%*	*3.2%*	*3.2%*
Sales Price ($ / Dth)	$3.03	$3.11	$3.21	$3.30	$3.38
y/y change	*8.9%*	*2.5%*	*3.0%*	*3.0%*	*2.3%*
COGS Price ($ / Dth)	$1.41	$1.42	$1.48	$1.52	$1.55
y/y change	*18.1%*	*0.9%*	*3.9%*	*2.6%*	*2.5%*
Gross Margin ($ / Dth)	$1.62	$1.69	$1.73	$1.79	$1.82
y/y change	*1.9%*	*4.0%*	*2.3%*	*3.4%*	*2.1%*
COLUMBIA PIPELINE GROUP					
Throughput (MMDth):					
Columbia Transmission	1,124.6	1,192.1	1,251.7	1,308.0	1,373.4
Columbia Gulf	643.0	681.6	715.7	747.9	785.3
Crossroads Gas Pipeline	16.9	17.4	17.9	18.5	19.0
Total throughput	**1,784.5**	**1,891.1**	**1,985.3**	**2,074.3**	**2,177.7**
Intrasegment eliminations	(239.4)	(379.0)	(358.7)	(356.3)	(401.3)
Total third-party throughput	**1,545.1**	**1,512.1**	**1,626.6**	**1,718.1**	**1,776.4**
y/y change	*-2.4%*	*-2.1%*	*7.6%*	*5.6%*	*3.4%*
Tariff ($ / Dth)	$0.50	$0.52	$0.54	$0.56	$0.58
y/y change	*10.0%*	*4.2%*	*4.0%*	*3.1%*	*2.9%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,444.7	3,548.0	3,654.5	3,764.1	3,839.4
Commercial	3,881.9	3,959.5	4,058.5	4,160.0	4,201.6
Industrial	9,339.7	9,386.4	9,574.1	9,765.6	9,863.3
Wholesale	669.7	673.0	686.5	700.2	714.2
Other	132.0	134.6	137.3	140.1	142.9
Total sales	**17,468.0**	**17,701.7**	**18,111.0**	**18,530.0**	**18,761.4**
Weather Adjustment	(2.4)	-	-	-	-
Total sales volumes — Adj. for weather impacts	**17,465.6**	**17,701.7**	**18,111.0**	**18,530.0**	**18,761.4**
y/y change	*3.6%*	*1.4%*	*2.3%*	*2.3%*	*1.2%*
Revenue ($ / Gigawatt hour)	$89.59	$91.83	$94.13	$96.48	$98.89
y/y change	*0.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
COGS ($ / Gigawatt hour)	$31.07	$31.13	$31.91	$32.96	$33.61
y/y change	*5.0%*	*0.2%*	*2.5%*	*3.3%*	*2.0%*
Gross Margin ($ / Gigawatt hour)	$58.53	$60.70	$62.21	$63.52	$65.28
y/y change	*-1.8%*	*3.7%*	*2.5%*	*2.1%*	*2.8%*

Source: Company data, Morgan Stanley Research

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February 18, 2014
NiSource, Inc.

Exhibit 4

NI Balance Sheet

Balance Sheet

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
ASSETS					
Cash and cash equivalents	26,800	41,445	117,570	102,987	171,936
Restricted cash	8,000	8,000	8,000	8,000	8,000
Accounts receivable	1,005,800	978,986	968,296	1,132,820	1,148,525
Income tax receivable	5,100	5,100	5,100	5,100	5,100
Gas inventory	354,600	388,701	418,846	442,406	465,937
Regulatory assets	142,800	142,800	142,800	142,800	142,800
Other	330,600	330,600	330,600	330,600	330,600
Total Current Assets	**2,159,200**	**2,181,131**	**2,276,713**	**2,450,212**	**2,558,398**
Net Property, Plant and Equipment	**14,365,100**	**15,905,928**	**17,283,942**	**18,449,396**	**19,303,161**
Unconsolidated affiliates	373,700	373,700	373,700	373,700	373,700
Other investments	204,000	204,000	204,000	204,000	204,000
Price risk management assets	500	500	500	500	500
Regulatory assets	1,522,200	1,522,200	1,522,200	1,522,200	1,522,200
Goodwill	3,666,200	3,666,200	3,666,200	3,666,200	3,666,200
Intangible assets	275,700	275,700	275,700	275,700	275,700
Deferred charges, Postretiremen, other	87,300	87,300	87,300	87,300	87,300
TOTAL ASSETS	**22,653,900**	**24,216,659**	**25,690,255**	**27,029,209**	**27,991,160**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	542,100	542,100	542,100	542,100	542,100
Short-term borrowings	698,700	698,700	698,700	698,700	698,700
Accounts payable	619,000	678,527	731,150	772,276	813,354
Dividends payable	-	-	-	-	-
Customer deposits and credits	262,600	262,600	262,600	262,600	262,600
Taxes accrued	254,800	254,800	254,800	254,800	254,800
Interest accrued	136,400	136,400	136,400	136,400	136,400
Price risk management liabilities	1,400	1,400	1,400	1,400	1,400
Exchange gas payable	186,400	186,400	186,400	186,400	186,400
Deferred revenue	18,500	18,500	18,500	18,500	18,500
Regulatory liabilities	60,200	60,200	60,200	60,200	60,200
Acc liab for post-retirement / -employment benefits	6,200	6,200	6,200	6,200	6,200
Other accruals	327,600	327,600	327,600	327,600	327,600
Total Current Liabilities	**3,178,400**	**3,237,927**	**3,290,550**	**3,331,676**	**3,372,754**
Long-term debt, excl amounts due within one year	7,593,200	8,893,200	10,093,200	11,143,200	11,793,200
Price risk management liabilities	300	300	300	300	300
Deferred income taxes	3,277,800	3,277,800	3,277,800	3,277,800	3,277,800
Deferred inc. taxes, credits, other	129,900	129,900	129,900	129,900	129,900
Acc liability for post-retirement/-employment benefits	527,500	527,500	527,500	527,500	527,500
Regulatory liabilities and other removal costs	1,669,800	1,669,800	1,669,800	1,669,800	1,669,800
Asset retirement obligations	174,400	174,400	174,400	174,400	174,400
Other noncurrent liabilities	216,000	216,000	216,000	216,000	216,000
Total Other Liabilities and Deferred Credits	**13,588,900**	**14,888,900**	**16,088,900**	**17,138,900**	**17,788,900**
Common stock	3,200	3,200	3,200	3,200	3,200
Additional paid-in capital	4,690,100	4,690,100	4,690,100	4,690,100	4,690,100
Retained earnings	1,285,500	1,488,732	1,709,704	1,957,532	2,228,406
Treasury stock	(43,600)	(43,600)	(43,600)	(43,600)	(43,600)
Accumulated other comprehensive loss	(48,600)	(48,600)	(48,600)	(48,600)	(48,600)
Total Common Stockholders' Equity	**5,886,600**	**6,089,832**	**6,310,804**	**6,558,632**	**6,829,506**
TOTAL CAPITALIZATION & LIABILITIES	**22,653,900**	**24,216,659**	**25,690,255**	**27,029,209**	**27,991,160**

Source: Company data, Morgan Stanley Research

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MORGAN STANLEY RESEARCH

February 18, 2014
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
Cash from Operating Activities					
Net Income	532,100	526,632	557,847	598,739	632,313
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,400	-	-	-	-
Depreciation and Amortization	577,300	609,172	621,986	634,546	646,235
Net Changes in Price Risk Mgmt A / L	2,600	-	-	-	-
Deferred: Inc. Tax/Credits; Revenues	280,200	-	-	-	-
Stock Compensation Expense	50,700	-	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(17,500)	-	-	-	-
Income from Unconsolidated Affiliates	(35,700)	-	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	(41,200)	-	-	-	-
AFUDC Equity	(18,500)	-	-	-	-
Dist. of Earnings Received from Equity Investee	32,100	-	-	-	-
Other	10,000	-	-	-	-
Changes in Assets and Liabilities:	**55,300**	**52,241**	**33,167**	**(146,957)**	**1,840**
Net cash from operating activities	**1,436,800**	**1,188,045**	**1,213,000**	**1,086,328**	**1,280,388**
Cash from Investing Activities					
Capital Expenditures	(1,879,900)	(2,150,000)	(2,000,000)	(1,800,000)	(1,500,000)
Insurance Recoveries	6,400	-	-	-	-
Proceeds from Disposition of Assets	18,000	-	-	-	-
Restricted Cash Deposits (Borrowings)	38,700	-	-	-	-
Contributions to Equity Investments	(125,400)	-	-	-	-
Other Investing Activities	50,800	-	-	-	-
Net cash from investing activities	**(1,891,400)**	**(2,150,000)**	**(2,000,000)**	**(1,800,000)**	**(1,500,000)**
Cash from Financing Activities					
Issuance of Long-Term Debt	1,307,600	1,300,000	1,200,000	1,050,000	650,000
Retirement/Repurchase of Long-Term Debt	(510,900)	-	-	-	-
Change in Short-Term Borrowings, Net	(78,100)	-	-	-	-
Issuance of Common Stock	43,700	-	-	-	-
Acquisition of Treasury Stock	(8,100)	-	-	-	-
Dividends Paid - Common Stock	(305,900)	(323,400)	(336,875)	(350,911)	(361,439)
Other	(3,200)	-	-	-	-
Net cash from financing activities	**445,100**	**976,600**	**863,125**	**699,089**	**288,561**
Net change in cash	**(9,500)**	**14,645**	**76,125**	**(14,583)**	**68,949**
Cash at beginning of period	**36,300**	**26,800**	**41,445**	**117,570**	**102,987**
Cash at end of period	**26,800**	**41,445**	**117,570**	**102,987**	**171,936**

Source: Company data, Morgan Stanley Research

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Morgan Stanley

Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 6,225	$ 19.85
Gas Transmission & Storage	7,597	24.22
Electric Utility	4,790	15.27
Utica	1,375	4.38
Value	$ 19,986	$ 63.73
Net Debt	(8,437)	(26.90)
Net Equity Value	$ 11,549	$ 36.83
Shares Outstanding (in m)		313.6

GAS DISTRIBUTION		
Forward EBITDA (2014E)	$	692
Forward multiple		9.0x
Enterprise value	$	6,225
GAS TRANSMISSION & STORAGE		
Forward EBITDA (2014E)	$	608
Forward multiple		12.5x
Enterprise value	$	7,597
ELECTRIC UTILITY		
Forward EBITDA (2014E)	$	532
Forward multiple		9.0x
Enterprise value	$	4,790
Estimated Utica 'Value' Credit		
Acres		125,000
$/acre	$	11,000
Enterprise value	$	1,375

Source: Company data, Morgan Stanley Research.

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Valuation Methodology & Risks

Assets in an MLP have typically traded at a premium to C-Corps. MLPs have traded at higher valuations than would similar assets in a corporate structure due to: 1) their tax efficiency (no federal taxes) and 2) the premium investors tend to place on yield. These two factors have typically produced: 3) a lower cost of capital, which can facilitate a potentially faster growth rate.

Interest rates are not the driver. Although MLPs have benefited from declining interest rates, so have other asset classes. We believe that gains in MLP stocks are a function of their ability to grow cash flows, not just their current yield.

The key value proposition is total return (growing cash flow yield + stock price appreciation). We find a statistically insignificant correlation between bond and MLP prices. Several periods of rate increases (1994, 1999, 2004) are correlated with poor performance, but there is little day-to-day link.

Distribution discount models (DDM) and implied yield targets. We use a 10-year distribution discount model to arrive at our price targets along with our implied yield target for each individual MLP as we view long-term cash flow stability and growth as the true measure of an MLP stock's value.

Yield spread. Despite historical day-to-day insignificance, we think this is worth looking at as a check on valuation. Overall, yields tend to revert to their mean, and even if we have modest yield compression, significant share price upside is possible.

Multiples provide valuation check. While we generally think it is difficult to target an EV (enterprise value) / EBITDA or P / DCF (distributable cash flow) multiple for an MLP stock, we think it certainly provides a gauge as to the stock's valuation. Currently, MLP multiples are near their historical average over time and we believe this provides another metric of valuation support along with looking at the high yield spreads and distribution growth.

Relative (historical) valuation measures support MLPs. The primary argument against improving valuation is weak relative performance in a rising interest rate environment. While we believe that the relationship to Treasury yields will become less relevant over time, using traditional dividend yield analysis, and the MLP index dividend yield spread to Treasury MLPs appear undervalued. Valuation supports MLPs relative to peers. Pipeline MLPs offer organic growth in a rising petroleum demand environment that requires infrastructure development. When we compare MLPs to comparable income asset classes — utilities and REITs — the valuation disconnect is unwarranted, in our opinion, as the pipeline MLPs offer twice the implied return of REITs and utilities.

Distribution growth is predicated on energy fundamentals. The United States is short on critical energy infrastructure, much of which has scarcity/franchise value, in our view, and this should drive a number of expansion projects for MLPs over the next five years. This scarcity is apparent, given the age of most US energy infrastructure assets (many were constructed during or shortly after World War II), combined with approximately 1.5–2.0% demand growth for oil, natural gas, and refined products, along with changing sources of supply for natural gas — deepwater Gulf of Mexico, the US Rockies, and liquefied natural gas (LNG) versus more traditional, conventional sources of supply.

Access to capital markets is of particular importance in this space. Given that MLPs pay out a majority of their free cash flow to unitholders each quarter, growth is funded largely through ongoing debt and equity capital raises. To the extent MLPs are unable to raise financing on favorable terms, organic capital spending budgets and third party acquisitions will likely be delayed or forgone. A prolonged period of limited capital market access could place downward pressure on unit prices if investors are concerned that distribution growth could be limited for a significant amount of time.

Investment concerns. The risks to our thesis include economic growth and demand, alternative energy programs, legislative items including tax reform and easing of product restrictions for natural gas and refined products, as well as a return to Treasury yield valuation and infrastructure reliability. Increased institutional ownership would likely create a revaluation of the sector, as new money would flood the current market. Our analysis is based on the current capital markets and economic outlook, with our Overweight names likely to outperform with or without institutional equity.

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Glossary of MLP Terms

Cash Available (distributable cash flow or "DCF"): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements.

Cash Distributed (distributions): Quarterly dividend payments made to limited partner (LP) and general partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Yield or Distribution Yield: Yield or distribution yield as referenced in this report are defined as most recent distribution declared, annualized, and then divided by the current market price. It may consist of short-term capital gains, long-term capital gains, and/or return of capital.

General Partner (GP): Corporate sponsor, management team, or financial investor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

Incentive Distribution Rights (IDRs): Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in many cases upwards of 50% of incremental cash payouts).

Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated by the partnership through a quarterly distribution. LPs typically cannot participate in making decisions regarding the operation of the MLP unless they secure a definitive majority (e.g., 66%, but it can vary) in a proxy vote.

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate.

Publicly Traded Partnership (PTP): a master limited partnership (MLP) or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are roughly 75 publicly traded partnerships and the majority is involved in energy-related activities. Energy related PTP's comprise approximately 85% of total PTP market cap, with REITs making up the majority of the 15% balance.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include 1) interest 2) dividends 3) real property rents 4) gains from the sale or other disposition of real estate 5) income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource 6) Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 7) Income and gains from commodities, if buying and selling commodities is the PTP's principal activity 8) Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1014**	**34%**	**311**	**38%**	**31%**
Equal-weight/Hold	**1315**	**44%**	**392**	**48%**	**30%**
Not-Rated/Hold	**101**	**3%**	**26**	**3%**	**26%**
Underweight/Sell	**543**	**18%**	**96**	**12%**	**18%**
Total	**2,973**		**825**		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Stock Price, Price Target and Rating History (See Rating Definitions)

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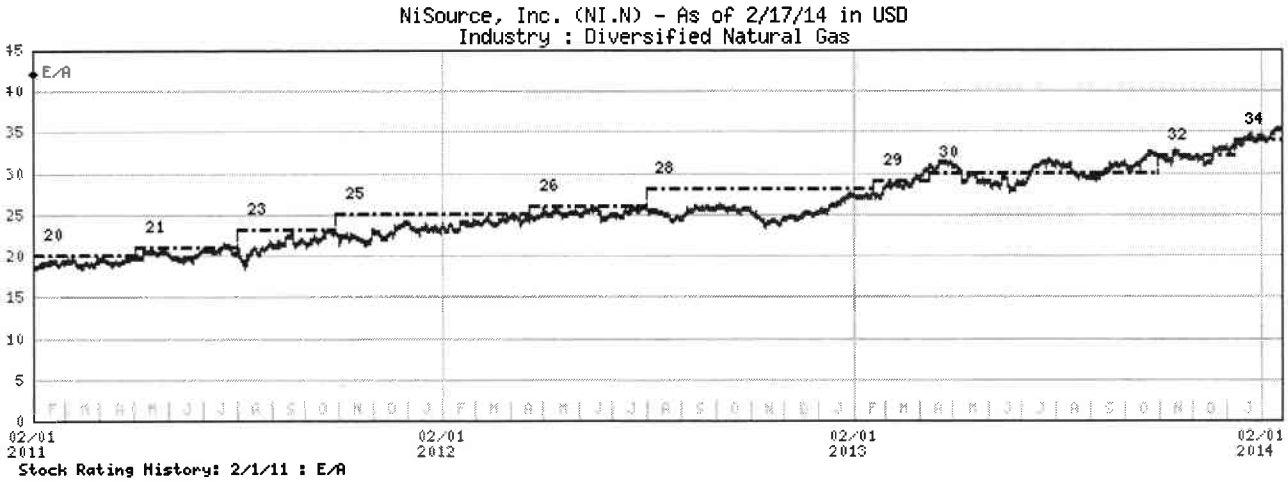

Stock Rating History: 2/1/11 : E/A

Price Target History: 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30; 10/31/13 : 32; 1/8/14 : 34

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -•- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ··· Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (02/14/2014)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	$24.05
Cheniere Energy Inc. (LNG.A)	O (01/07/2014)	$46.9
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$33.98
National Fuel Gas Co (NFG.N)	E (01/10/2012)	$75.43
NiSource, Inc. (NI.N)	E (01/06/2011)	$35.17
Oneok Inc. (OKE.N)	O (07/25/2013)	$59.96
Questar Corp. (STR.N)	E (02/11/2013)	$23.96
SemGroup Corp (SEMG.N)	O (04/10/2013)	$61.8
Spectra Energy Corp. (SE.N)	E (01/08/2014)	$37.05
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$40.83

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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rghuler@nisource.com Randy Huler 02/18/14 09:25:32 PM Nisource Corporate Services Co.

MORNINGSTAR®

NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.17 USD	27.00 USD	18.90 USD	36.45 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Posts Solid 2013 Results, Initiates In-Line 2014 Guidance, Makes Positive MLP Comments

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 18 Feb 2014
Estimates as of 11 Sep 2013
Pricing data through 17 Feb 2014
Rating updated as of 14 Feb 2014

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 18 Feb 2014

NiSource NI reported 2013 operating earnings per share of $1.58 versus $1.46 in 2012. The strong results were $0.03 higher than our estimate and $0.02 above the consensus estimate of $1.56. All three operating segments posted solid results. In addition, NiSource initiated 2014 operating earnings guidance of $1.61-$1.71 per share, in line with the consensus estimate.

Management talked more positively about the chances of restructuring Columbia Pipeline Group into a master limited partnership. In recent discussions with management, low credit ratings and potential tax leakage were the main impediments to forming an MLP. The improving credit profile driven by recent regulatory decisions and legislation and management's comments that recent tax work may reduce the potential tax leakage increase the likelihood that an MLP could be announced before year-end. The formation of an MLP would probably eliminate the need for an equity issuance in 2015. Based on our increased confidence in the formation of an MLP, we are likely to modestly increase our fair value estimate. Our narrow moat and stable moat trend rating are unchanged.

NiSource currently trades at a significant premium to our fair value estimate and its peers. We suspect the premium valuation is due in part to recent rumors that Dominion Resources D is looking to acquire NiSource. We think this acquisition is unlikely. In our opinion, mergers are heavily influenced by personal issues. Our takeaways from our November 2013 meeting with management included the observation of a relatively young and engaged CEO who is doing a solid job of running NiSource. Bob Skaggs did not impress us as a person interested in retirement at this time. Thus, we believe investors should not pay a premium valuation that assumes NiSource is a potential acquisition target.

Vital Statistics

Market Cap (USD Mil)	11,019
52-Week High (USD)	35.17
52-Week Low (USD)	26.71
52-Week Total Return %	34.4
YTD Total Return %	7.7
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	8.8
5-Yr Forward EPS CAGR %	6.6
Price/Fair Value	1.30

Valuation Summary and Forecasts

Fiscal Year:	2011	2012	*2013(E)*	*2014(E)*
Price/Earnings	17.6	17.0	*22.7*	*21.4*
EV/EBITDA	10.1	10.0	*11.3*	*10.2*
EV/EBIT	16.1	15.7	*17.4*	*15.6*
Free Cash Flow Yield %	-3.1	-3.0	*-3.2*	*-2.2*
Dividend Yield %	3.8	3.5	*2.9*	*3.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	*2013(E)*	*2014(E)*
Revenue	6,019	5,061	*5,536*	*6,246*
Revenue YoY %	-6.3	-15.9	*9.4*	*12.8*
EBIT	907	1,007	*1,117*	*1,243*
EBIT YoY %	-0.1	11.0	*11.0*	*11.3*
Net Income, Adjusted	389	437	*498*	*531*
Net Income YoY %	14.1	12.4	*14.0*	*6.5*
Diluted EPS	1.35	1.46	*1.55*	*1.64*
Diluted EPS YoY %	10.8	7.9	*6.4*	*6.0*
Free Cash Flow	16	71	*-140*	*20*
Free Cash Flow YoY %	-88.9	339.3	*-298.1*	*-114.6*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource distributes natural gas to more than 3.3 million customers with more than 58,000 miles of pipelines in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource also owns 15,000 miles of natural gas transmission pipeline, operates one of the nation's largest underground natural gas storage systems, and provides unregulated midstream services in the growing Marcellus and Utica shale production area. NiSource's electric utility generates, transmits, and distributes electricity in northern Indiana.

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35.17 USD	27.00 USD	18.90 USD	36.45 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2010	2011	2012	Forecast 2013	Forecast 2014	5-Year Proj. CAGR
Revenue	*-8.7*	-3.4	-6.3	-15.9	*9.4*	*12.8*	*8.8*
EBIT	*7.7*	12.8	-0.1	11.0	*11.0*	*11.3*	*8.7*
EBITDA	*4.0*	7.9	-4.0	8.5	*9.9*	*10.2*	*7.9*
Net Income	*14.0*	15.6	14.1	12.4	*14.0*	*6.5*	*9.3*
Diluted EPS	*10.8*	13.8	10.8	7.9	*6.4*	*6.0*	*6.6*
Earnings Before Interest, after Tax	*6.4*	4.7	10.4	4.1	*0.0*	*2.7*	*3.8*
Free Cash Flow	*-63.8*	-90.2	-88.9	339.3	*-298.1*	*-114.6*	*38.5*

Profitability	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Operating Margin %	*16.4*	14.1	15.1	19.9	*20.2*	*19.9*	*19.9*
EBITDA Margin %	*26.2*	23.4	24.0	31.0	*31.1*	*30.4*	*30.3*
Net Margin %	*6.8*	5.3	6.5	8.6	*9.0*	*8.5*	*8.7*
Free Cash Flow Margin %	*1.3*	2.3	0.3	1.4	*-2.5*	*0.3*	*1.5*
ROIC %	*7.4*	7.2	7.6	7.5	*7.0*	*6.8*	*6.9*
Adjusted ROIC %	*10.4*	10.3	10.6	10.2	*9.3*	*8.9*	*8.9*
Return on Assets %	*1.6*	1.5	1.5	2.0	*2.2*	*2.2*	*2.3*
Return on Equity %	*6.6*	6.0	6.0	7.9	*8.8*	*9.0*	*9.2*

Leverage	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Debt/Capital	*0.60*	0.60	0.61	0.59	*0.61*	*0.61*	*0.60*
Total Debt/EBITDA	*5.18*	4.88	5.50	5.17	*5.16*	*5.00*	*4.84*
EBITDA/Interest Expense	*3.81*	3.84	3.84	3.75	*4.26*	*4.13*	*4.29*

Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.40	1.00	—	—
Price/Earnings	17.6	17.0	*22.7*	*21.4*
EV/EBITDA	10.1	10.0	*11.3*	*10.2*
EV/EBIT	16.1	15.7	*17.4*	*15.6*
Free Cash Flow Yield %	-3.1	-3.0	*-3.2*	*-2.2*
Dividend Yield %	3.8	3.5	*2.9*	*3.0*

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	34.9
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	87.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	414	2.6	1.28
Present Value Stage II	1,129	7.0	3.50
Present Value Stage III	14,614	90.5	45.37
Total Firm Value	**16,156**	**100.0**	**50.16**
Cash and Equivalents	118	—	0.37
Debt	-8,103	—	-25.16
Preferred Stock	—	—	—
Other Adjustments	35	—	0.11
Equity Value	**8,206**	**—**	**25.48**
Projected Diluted Shares	322		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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NiSource Inc NI (NYSE) | ★★

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35.17 USD	27.00 USD	18.90 USD	36.45 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2010	2011	2012	*Forecast* 2013	*Forecast* 2014
Revenue	**6,422**	**6,019**	**5,061**	***5,536***	***6,246***
Cost of Goods Sold	2,974	2,556	1,542	*1,773*	*2,166*
Gross Profit	**3,448**	**3,463**	**3,520**	***3,762***	***4,080***
Selling, General & Administrative Expenses	1,656	1,723	1,663	*1,753*	*1,885*
Other Operating Expense (Income)	287	295	288	*281*	*289*
Other Operating Expense (Income)	—	—	—	*5*	*5*
Depreciation & Amortization (if reported separately)	596	538	562	*607*	*657*
Operating Income (ex charges)	**908**	**907**	**1,007**	***1,117***	***1,243***
Restructuring & Other Cash Charges	2	17	-4	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	-15	-15	-32	*-32*	*-33*
Operating Income (incl charges)	**921**	**905**	**1,043**	***1,149***	***1,276***
Interest Expense	392	377	418	*405*	*460*
Interest Income	-93	-61	2	*15*	—
Pre-Tax Income	**436**	**467**	**626**	***759***	***816***
Income Tax Expense	142	163	216	*261*	*286*
Other After-Tax Cash Gains (Losses)	-3	-5	6	—	—
Other After-Tax Non-Cash Gains (Losses)	0	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**292**	**299**	**416**	***498***	***531***
Weighted Average Diluted Shares Outstanding	280	289	300	*322*	*323*
Diluted Earnings Per Share	**1.04**	**1.03**	**1.39**	***1.55***	***1.64***
Adjusted Net Income	341	389	437	*498*	*531*
Diluted Earnings Per Share (Adjusted)	**1.22**	**1.35**	**1.46**	***1.55***	***1.64***
Dividends Per Common Share	0.92	0.92	0.94	*0.98*	*1.02*
EBITDA	**1,518**	**1,443**	**1,605**	***1,756***	***1,933***
Adjusted EBITDA	**1,505**	**1,446**	**1,569**	***1,724***	***1,900***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2010	2011	2012	Forecast 2013	Forecast 2014
Cash and Equivalents	212	172	83	*198*	*220*
Investments	—	—	—	—	—
Accounts Receivable	1,079	855	907	*834*	*941*
Inventory	428	566	496	*437*	*534*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	730	655	866	*875*	*900*
Current Assets	**2,449**	**2,248**	**2,352**	***2,345***	***2,596***
Net Property Plant, and Equipment	11,097	11,800	12,916	*14,296*	*15,331*
Goodwill	3,677	3,677	3,677	*3,677*	*3,677*
Other Intangibles	309	298	287	*287*	*287*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,407	2,685	2,613	*2,700*	*2,800*
Long-Term Non-Operating Assets	—	—	—	*32*	*65*
Total Assets	**19,939**	**20,708**	**21,845**	***23,337***	***24,756***
Accounts Payable	582	435	539	*620*	*757*
Short-Term Debt	1,417	1,687	1,284	*1,100*	*1,500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,651	1,525	1,479	*1,500*	*1,600*
Current Liabilities	**3,649**	**3,646**	**3,302**	***3,220***	***3,857***
Long-Term Debt	5,936	6,267	6,819	*7,800*	*8,000*
Deferred Tax Liabilities (Long-Term)	2,210	2,542	2,953	*3,250*	*3,500*
Other Long-Term Operating Liabilities	3,220	3,256	3,216	*3,300*	*3,400*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**15,016**	**15,711**	**16,290**	***17,570***	***18,757***
Preferred Stock	—	—	—	—	—
Common Stock	4,923	3	3	*3*	*3*
Additional Paid-in Capital	—	4,168	4,598	*4,633*	*4,668*
Retained Earnings (Deficit)	—	917	1,060	*1,243*	*1,444*
(Treasury Stock)	—	-31	-41	*-41*	*-41*
Other Equity	—	-60	-66	*-71*	*-76*
Shareholder's Equity	**4,923**	**4,997**	**5,554**	***5,767***	***5,998***
Minority Interest	—	—	—	—	—
Total Equity	**4,923**	**4,997**	**5,554**	***5,767***	***5,998***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2010	2011	2012	Forecast 2013	Forecast 2014
Net Income	283	299	416	*498*	*531*
Depreciation	597	538	562	*607*	*657*
Amortization	—	—	—	—	—
Stock-Based Compensation	31	39	45	*35*	*38*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	194	178	305	*297*	*250*
Other Non-Cash Adjustments	72	217	25	*-32*	*-33*
(Increase) Decrease in Accounts Receivable	-244	220	-51	*73*	*-107*
(Increase) Decrease in Inventory	103	-142	62	*58*	*-97*
Change in Other Short-Term Assets	-291	-274	-157	*-9*	*-25*
Increase (Decrease) in Accounts Payable	38	-155	57	*81*	*137*
Change in Other Short-Term Liabilities	—	—	—	*21*	*100*
Cash From Operations	**783**	**920**	**1,264**	***1,630***	***1,450***
(Capital Expenditures)	-804	-1,125	-1,499	*-1,987*	*-1,691*
Net (Acquisitions), Asset Sales, and Disposals	1	9	26	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-140	-34	51	*-4*	—
Cash From Investing	**-944**	**-1,149**	**-1,422**	***-1,991***	***-1,691***
Common Stock Issuance (or Repurchase)	13	21	374	*35*	*35*
Common Stock (Dividends)	-256	-258	-273	*-316*	*-330*
Short-Term Debt Issuance (or Retirement)	1,280	-23	-582	*-184*	*400*
Long-Term Debt Issuance (or Retirement)	-826	541	656	*981*	*200*
Other Financing Cash Flows	—	—	—	*-35*	*-38*
Cash From Financing	**211**	**281**	**175**	***481***	***268***
Exchange Rates, Discontinued Ops, etc. (net)	-57	-50	8	*-5*	*-5*
Net Change in Cash	**-8**	**2**	**25**	***115***	***22***

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BARCLAYS

Equity Research
Power & Utilities | North America Utilities
19 February 2014

NiSource, Inc.
Getting Closer to an MLP

Solid 2013 results: NI reported 2013 full-year adjusted EPS of $1.58, vs. our and consensus estimates of $1.57. For 4Q, adjusted EPS was $0.47. Management provided 2014 guidance of $1.61-1.71 per share and a capex estimate of $2.15 billion; consistent with our view that the company can achieve above the high end of its previous multi-year capex guidance of $1.5-1.8 billion per year. We believe this should in turn drive multi-year EPS growth towards the high end of the company's 5-7% guidance.

NIPSCO Electric 7-Year TDSIC tracker approved: On Feb. 17, the Indiana Utility Regulatory Commission (IURC) approved NIPSCO's 7-year electric T&D tracker filing, which would allow timely recovery of 80% of qualifying T&D capex under a tracker. A general rate case filing would be required to recover the remaining 20%, although we do not expect a filing until sometime in the latter half of the 7-year program.

Columbia Pipeline Group updates: NI announced it had entered into binding, preceding agreements for the Cameron Access Project, a $300+ million project connecting NI's Columbia Gulf Transmission system to the Cameron LNG terminal which received DOE export approval last week. The company also recently completed open seasons for Leach XPress and Rayne XPress, projects which would further link shale production to NI's Columbia Gas and Columbia Gulf pipeline systems.

MLP announcement is likely: During the call, management confirmed prior comments that the company may have potential workarounds to tax leakage and credit rating obstacles to the MLP, and that an MLP remains in consideration with a decision announcement expected in 3Q. While this is not new in and of itself, we believe the affirmation that the MLP appears on track was received positively by investors, with a view that an MLP announcement is incrementally likelier after the call.

Raising PT to $36: Our new PT reflects an MLP scenario for NI, as we perceive an increasing likelihood that NI will announce an MLP. Our previous $34 PT was a weighted average of an MLP and non-MLP scenario.

NI: Quarterly and Annual EPS (USD)

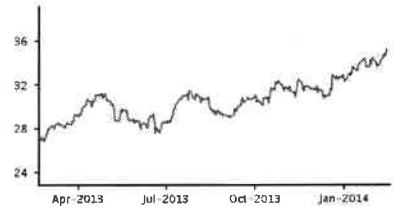
	2013	2014			2015			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2014	2015
Q1	0.69A	N/A	N/A	0.76E	N/A	N/A	0.74E	N/A	N/A
Q2	0.23A	N/A	N/A	0.25E	N/A	N/A	0.27E	N/A	N/A
Q3	0.18A	N/A	N/A	0.17E	N/A	N/A	0.22E	N/A	N/A
Q4	0.47A	N/A	N/A	0.49E	N/A	N/A	0.54E	N/A	N/A
Year	1.58A	1.66E	1.66E	1.66E	N/A	1.83E	1.78E	5%	10%
P/E	22.3		21.2			19.3			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 36.00 raised 6% from USD 34.00
Price (18-Feb-2014)	USD 35.30
Potential Upside/Downside	+2%
Tickers	NI
Market Cap (USD mn)	11059
Shares Outstanding (mn)	313.29
Free Float (%)	99.52
52 Wk Avg Daily Volume (mn)	2.1
Dividend Yield (%)	2.8
Return on Equity TTM (%)	8.46
Current BVPS (USD)	18.21

Source: Thomson Reuters

Price Performance — Exchange-NYSE
52 Week range — USD 36.82-26.81



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North America Utilities
Daniel Ford, CFA
1.212.526.0836
daniel.x.ford@barclays.com
BCI, New York

William Zhang
1.212.526.6203
william.zhang@barclays.com
BCI, New York

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North America Utilities — Industry View: NEUTRAL

NiSource, Inc (NI)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2013A	2014E	2015E	2016E	CAGR
Revenue	5,657	6,092	6,277	6,458	4.5%
EBITDA (adj)	1,701	1,925	2,084	2,242	9.6%
EBIT (adj)	1,143	1,306	1,427	1,546	10.6%
Pre-tax income (adj)	753	806	892	991	9.6%
Net income (adj)	494	524	580	644	9.3%
EPS (adj) ($)	1.58	1.66	1.83	2.03	8.7%
Diluted shares (mn)	313.6	315.0	316.4	317.6	0.4%
DPS ($)	1.00	1.08	1.12	1.16	5.1%

Margin and return data					Average
EBITDA (adj) margin (%)	30.1	31.6	33.2	34.7	32.4
EBIT (adj) margin (%)	20.2	21.4	22.7	23.9	22.1
Pre-tax (adj) margin (%)	13.3	13.2	14.2	15.3	14.0
Net (adj) margin (%)	8.7	8.6	9.2	10.0	9.1
ROIC (%)	8.2	8.7	8.9	9.1	8.7
ROA (%)	2.2	2.2	2.3	2.4	2.2
ROE (%)	8.3	8.4	8.9	9.5	8.8

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	14,047	15,827	17,239	18,613	9.8%
Total net assets	22,654	24,294	25,692	27,064	6.1%
Capital employed	14,022	15,003	16,001	16,972	6.6%
Shareholders' equity	5,887	6,217	6,493	6,813	5.0%
Net debt/(funds)	8,109	8,649	9,419	10,105	7.6%
Cash flow from operations	1,437	1,721	1,604	1,708	5.9%
Capital expenditure	-1,880	-2,081	-2,070	-2,070	N/A
Free cash flow	-679	-974	-872	-770	N/A
Pre-dividend FCF	-374	-634	-518	-401	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	22.3	21.2	19.3	17.4	20.0
EV/EBITDA (adj) (x)	11.3	10.2	9.8	9.4	10.2
EV/EBIT (adj) (x)	16.8	15.1	14.4	13.7	15.0
P/BV (x)	1.9	1.8	1.7	1.6	1.8
Dividend yield (%)	2.8	3.1	3.2	3.3	3.1
Total debt/capital (%)	58.0	58.6	59.4	59.9	59.0
Net debt/EBITDA (adj) (x)	4.8	4.5	4.5	4.5	4.6

Selected operating metrics					Average
Payout ratio (%)	63.3	65.0	61.1	57.2	61.6
Interest cover (x)	2.8	2.6	2.7	2.8	2.7
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Price (18-Feb-2014)	USD 35.30
Price Target	USD 36.00

Why Overweight? We rate NI as an Overweight because of the attractive risk/reward profile from NI's well-defined rate base growth strategy which we see as relatively low-risk. Moreover, we believe additional value can be captured in NI's potential for an MLP, a scenario to which we assign a 75% probability weighting in our valuation.

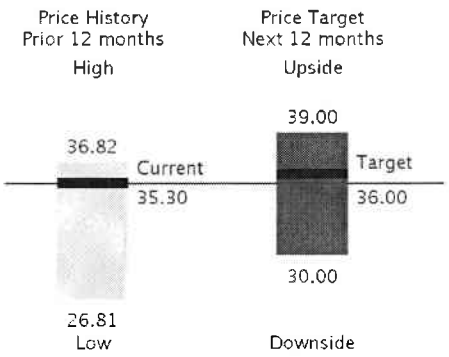
Upside case USD 39.00

Our upside case assumes the Columbia Pipeline Group is converted to an MLP with a 3.2% target yield.

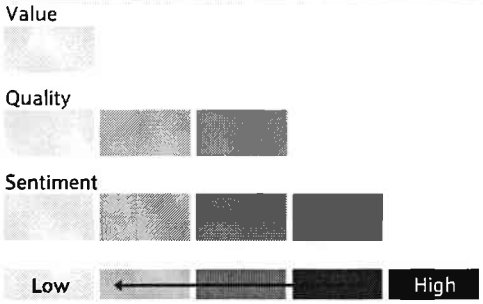
Downside case USD 30.00

Our downside case assumes NI does not execute a midstream MLP, and we instead assign a 9.5x 2015E EBITDA to 2015E midstream earnings in our valuation.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research
Note: FY End Dec

MLP Scenario Valuation

We believe that an MLP scenario would be conservatively worth $36/share for NI. In our view, the company is likely to include only around $70-75 million in EBITDA in the MLP initially and drop in the remaining assets over time. Our valuation assumes a 3.78% target yield (based on an average of comparable MLPs with high-teens distribution growth and similar assets) and a 1.1x coverage ratio; and excludes $300 million in modernization spending from maintenance capex.

FIGURE 1
NiSource MLP Scenario Valuation

NIPSCO Electric	
2015E EBIT	303.6
Interest Expense	79.7
Tax rate	35%
Net Income	145.5
EPS	$0.46
Value per share	$7.57

Gas Distribution	
2015E EBIT	527.9
Interest Expense	142.1
Tax rate	35%
Net Income	250.8
EPS	$0.80
Value per share	$14.00

Utica Leases	
Value per share	$0.50

Parent	
2015E EBIT	(20)
Tax rate	35%
Net Income	(13)
EPS	($0.04)
Value per share	($0.68)

Electric Utility Multiple	
Regulated Group Multiple	14.9x
Premium	10%
Electric Utility Multiple	16.4x

Gas Utility Multiple	
Regulated Group Multiple	14.9x
Premium	18%
Gas Utility Multiple	17.6x

Pipeline Group	
2015E EBITDA	690.3
Interest Expense	313.0
Maintenance Capex	180.0
Distributable Cash Flow	197.3
Coverage Ratio	1.1x
Distribution	179.3
Distribution per share	$0.57
Target Yield	3.79%
Value per share (MLP)	$15.02

Valuation	
NIPSCO Electric	$7.57
Gas Distribution	$14.00
Utica Leases	$0.50
Parent	($0.68)
Pipeline Group (MLP)	$15.02
Total	**$36.42**

Source: Company filings, Barclays estimates.

Our previous PT of $34 was a probability-weighted average of MLP and non-MLP scenarios. We are also raising our 2015 EPS estimate to $1.83 from $1.77 since an MLP would replace what would otherwise be a roughly $400 million block equity issuance in 2H15. Our previous $1.77 estimate included dilution from this issuance.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 18-Feb-2014, USD 35.30), Overweight/Neutral, A/C/D/J/K/L/M/O

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Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	Integrys Energy Group Inc. (TEG)
ITC Holdings (ITC)	National Grid Plc (NGG)	NiSource, Inc. (NI)
Northeast Utilities (NU)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
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Sempra Energy (SRE)	Southern Co. (SO)	TECO Energy (TE)
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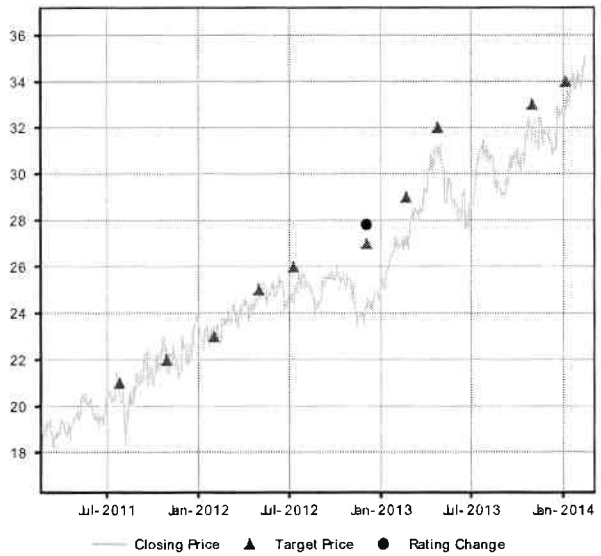
NiSource, Inc. (NI)

USD 35.30 (18-Feb-2014)

Stock Rating
OVERWEIGHT

Industry View
NEUTRAL

Rating and Price Target Chart - USD (as of 18-Feb-2014) Currency=USD



Date	Closing Price	Rating	Adjusted Price Target
06-Jan-2014	32.95		34.00
31-Oct-2013	31.52		33.00
24-Apr-2013	31.14		32.00
20-Feb-2013	27.04		29.00
03-Dec-2012	24.34	Overweight	27.00
09-Jul-2012	24.41		26.00
01-May-2012	25.33		25.00
01-Feb-2012	23.45		23.00
28-Oct-2011	22.52		22.00
26-Jul-2011	20.85		21.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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CREDIT SUISSE

19 February 2014
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**NEUTRAL***
Price (18 Feb 14, US$)	35.30
Target price (US$)	(from 35.00) 38.00[1]
52-week price range	35.30 - 26.90
Market cap. (US$ m)	11,059.31
Enterprise value (US$ m)	20,820.00

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Paul Jacob
713 890 1596
paul.jacob@credit-suisse.com

Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

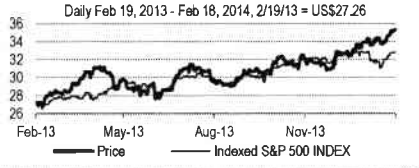
Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

INCREASE TARGET PRICE

In-line Qtr; Rising Visibility for MLP; Raising TP to $38

- **MLP option looks more secure:** Judging by the sentiment expressed on the call, we believe an MLP option is becoming more probable. Cash from an MLP would be used to shield required equity capital funding of ~$400 that we otherwise expect in 2015. We envision ~10-15% of the Columbia Pipeline assets initially in the MLP with future drops on a ratable basis to provide capital for NI's long-term capex program. For background, NI has ~$30B of capital expansions in sight, with $2.15B planned for this year (up from $2.05B last year). The final decision for an MLP should be mid-year.
- **LNG export project secured, Marcellus/Utica reverse flow project under review:** NI announced a project on CPG serving the Cameron LNG export facility and a new project to reverse flow on the Columbia Gulf system that is currently under review. The latter could be a material project if secured.
- **LT earnings and dividend growth reaffirmed:** Management reaffirmed its long-term earnings growth of 5-7% and dividend growth of 3-5% and is targeting earnings of $1.61-$1.71 per share this year, up from $1.58 in '13.
- **Raising target price to $38:** Our $38 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment, a 12.5 times EV/EBITDA multiple on the assets that qualify for MLP treatment (which we model as ~11.5% of the CGP assets), and 1.5 turns lower for the remainder of the CGP assets. Together with NTM dividend of $1.03, this translates to a total return of approximately 4-16% with a mid-point of ~10%, supportive of a Neutral rating on the shares.

Share price performance



On 02/18/14 the S&P 500 INDEX closed at 1840.76

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.69	0.23	0.18	0.47
2014E	0.73	0.26	0.14	0.55
2015E	0.75	0.27	0.12	0.63

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	1.57	1.68	1.77	1.87
Prev. EPS (US$)	—	—	—	1.93
P/E (x)	22.6	21.0	19.9	18.9
P/E rel. (%)	128.3	126.5	131.8	138.6
Revenue (US$ m)	5,657.3	5,941.2	6,470.9	6,902.9
EBITDA (US$ m)	1,720.7	1,899.5	2,088.0	2,271.0
OCFPS (US$)	4.58	4.67	4.98	4.00
P/OCF (x)	7.2	7.6	7.1	8.8
EV/EBITDA (current)	11.5	10.5	9.5	8.7
Net debt (US$ m)	8,807	9,761	10,104	10,767
ROIC (%)	5.07	5.27	5.42	5.42

Number of shares (m)	313.29	IC (current, US$ m)	14,693.80
BV/share (Next Qtr., US$)	19.6	EV/IC (x)	1.3
Net debt (Next Qtr., US$ m)	8,949.2	Dividend (current, US$)	1.0
Net debt/tot cap (Next Qtr., %)	147.9	Dividend yield (%)	0.71

Source: Company data, Credit Suisse estimates

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 639 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 458,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI also holds substantial acreage.

NI also has an inventory of project opportunities:

- Over $10 billion in its regulated Gas Distribution segment,
- $4.2-$6.4 billion of electric operations infrastructure,
- $8-$10.5 billion in its Columbia Pipeline Group. There is $3-$4B spread across 8 different upgrade and expansion projects as well as a $4-$5B opportunity for a pipeline modernization program approved by the FERC for cost recovery (Exhibit 1). The CPG group also has $1B of midstream projects spread across 6 different opportunities and a couple of production opportunities in the Utica where it is in a JV to develop 120,000 acres in the Utica.

Importantly, we believe NI has the liquidity ($1.6B available), balance sheet, and opportunity set in place to maintain an annual cap ex program of $1.8-$2.3B.

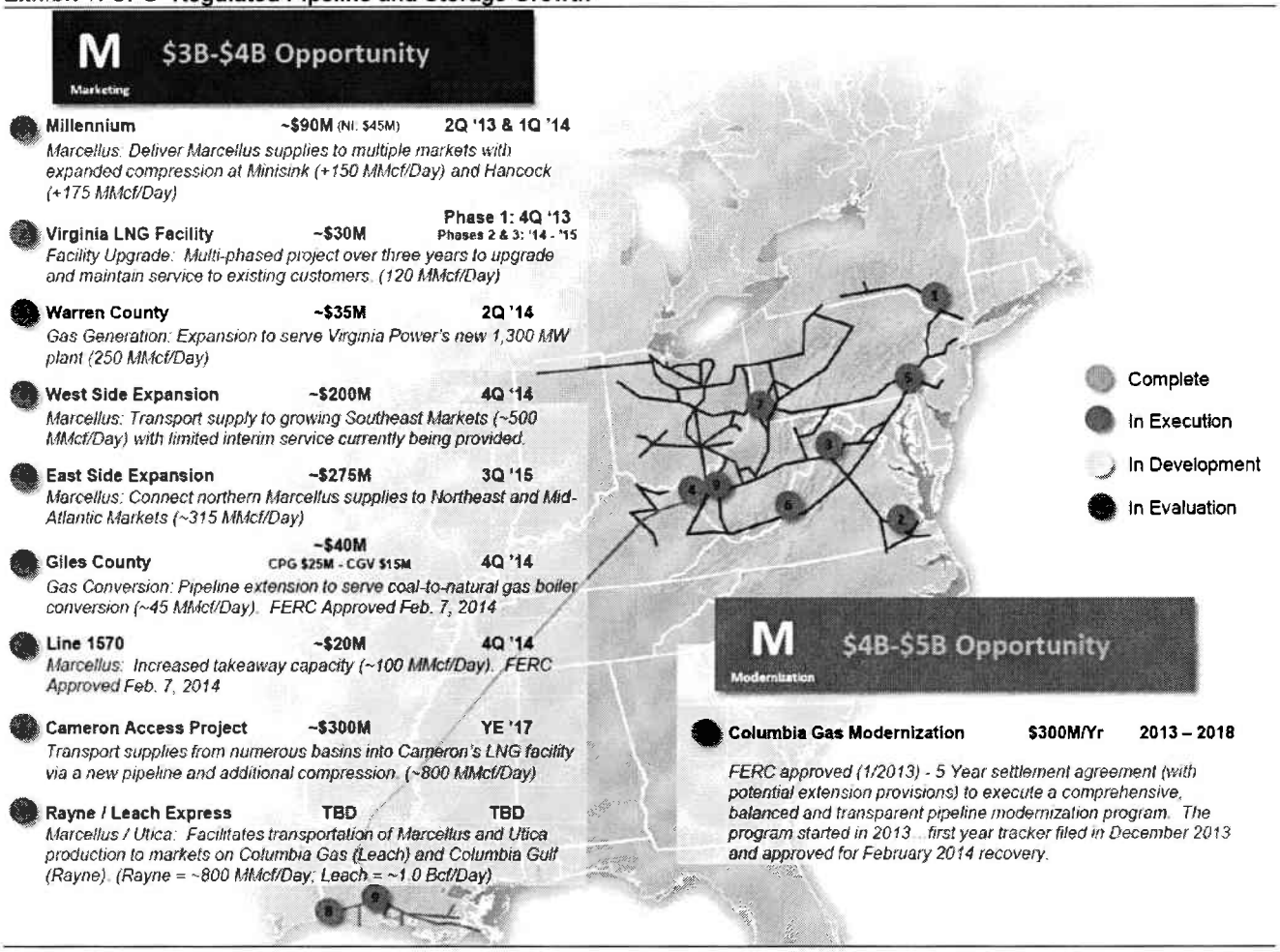
Outlook: Holding Our Forecast

- **4Q13 Results largely in-line:** NI reported 4Q EPU of $0.47 and segment EBITDA of $486 million, which was largely in-line with our $0.48 and $491 million estimates. Strength in the Gas Distribution segment offset lower segment earnings on NIPSCO and GT&S (Exhibit 3).
- **Rayne/Leach Express Project:** This newly announced project would move Marcellus and Utica gas to the Gulf Coast in what could be material for NiSource (Exhibit 1). We expect shipper interest to be strong given what we've seen with similar projects by some of NiSource's competitors in the region. While no estimates have been provided, we believe cap ex is likely to be in the $0.5 to $1.0 billion range if it proceeds and we would anticipate 12-15% ROIC on the project.
- **LNG export project secured:** NI announced a project on CPG serving the Cameron LNG export facility. Capex associated with the project is expected to be ~$300mm and the project will add ~800 MMcf/d of capacity by the end of 2017. We expect the project at 6-8x EBITDA, contributing ~$35-50mm of annual EBITDA when complete.
- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit of ~$1.6B at the end of 4Q13.

- **Cap Ex Forecast of ~$30b over the long term**: NI has a total inventory of ~$30b (equivalent to $1.8-$2.3B/year) in infrastructure focused investment opportunities over the next 15-20 years. With the earnings report, NI issued 2014 capex guidance at $2.15B, with a significant driver being increased investment in tracked infrastructure replacement and modernization programs and the remainder dedicated to growth on the Columbia Pipeline system.

- **MLP option seems more likely than not:** From the tone of the call, we believe that the MLP option is highly likely at this stage. We model 11.5% of the Columbia Pipeline assets in the initial MLP with dropdowns over time to provide visible growth. Our bias for a dropdown model reflects the relatively low equity capital needs of NI in 2015 (~$400 mm according to our model) coupled with the low-tax basis associated with the assets.

Exhibit 1: **CPG Regulated Pipeline and Storage Growth**



Source: Company data, Credit Suisse estimates

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Estimate Changes

We are holding our 2014 and 2015 full year EPS estimates at $1.68/share and $1.77/share. However, we are revising our segments slightly to reflect ~7-9% y/y EBIT growth on the Gas Distribution and NIPSCO Electric segments, while lowering our outlook for GT&S as we believe that our prior estimates were too robust given the backlog.

Exhibit 2: Maintaining 2014 and 2015 EPS outlook, slight rebalancing to segment EBITDA

	Old estimates				New estimates									
	4Q13E	2013E	2014E	2015E	3Q13A	4Q13A	2013A	2014E	2015E	3Q13A	4Q13A	2013A	2014E	2015E
Segment EBITDA														
Gas Distribution	201	636	700	758	51	216	648	707	773	0.0%	7.2%	1.9%	1.0%	2.1%
NIPSCO Electric	127	525	533	565	151	112	510	537	575	0.0%	-12.1%	-2.9%	0.8%	1.9%
Gas Transmission & Storage	161	561	684	753	125	148	548	633	717	0.0%	-7.9%	-2.2%	-7.5%	-4.9%
Other	1	5	(1)	(1)	1	10	16	23	23	NM	NM	NM	NM	NM
Total EBITDA (recurring)	**491**	**1,727**	**1,916**	**2,075**	**328**	**486**	**1,722**	**1,899**	**2,088**	**0.0%**	**-0.9%**	**-0.3%**	**-0.9%**	**0.6%**
Segment EBIT														
Gas Distribution	149	433	478	517	(0)	164	447	486	529	0.0%	10.3%	3.0%	1.6%	2.3%
NIPSCO Electric	61	268	263	284	91	51	266	288	314	0.0%	-16.4%	-0.8%	9.3%	10.7%
Gas Transmission & Storage	131	450	552	602	99	120	441	506	567	0.0%	-8.4%	-1.9%	-8.3%	-5.7%
Other	(2)	(6)	(13)	(13)	(5)	4	(10)	10	9	0.0%	-333.2%	67.8%	-179.6%	-168.1%
Total EBIT (recurring)	**340**	**1,145**	**1,281**	**1,390**	**184**	**340**	**1,143**	**1,290**	**1,419**	**0.0%**	**0.1%**	**-0.1%**	**0.7%**	**2.1%**
Interest Expense	108	412	461	514	104	111	415	476	549	0.0%	2.6%	0.7%	3.1%	7.0%
Other Expenses	0	(22)	0	0	(5)	(2)	(24)	0	0	0.0%	NM	9.5%	NM	NM
Taxes	81	260	291	315	28	83	262	285	309	0.0%	2.1%	0.9%	-2.1%	-2.1%
Recurring Net Income	**151**	**495**	**529**	**561**	**57**	**149**	**491**	**529**	**561**	**0.0%**	**-1.4%**	**-0.9%**	**0.1%**	**0.1%**
Diluted Wtd Avg shares outstanding	313	313	315	316	313	313	314	315	317	0.0%	0.0%	0.3%	0.0%	0.0%
Recurring EPS - Diluted	**$0.48**	**$1.58**	**$1.68**	**$1.77**	**$0.18**	**$0.47**	**$1.57**	**$1.68**	**$1.77**	**0.0%**	**-1.4%**	**-1.2%**	**0.0%**	**0.0%**
Dividend per share	**$0.25**	**$0.99**	**$1.03**	**$1.07**	**$0.25**	**$0.25**	**$0.99**	**$1.03**	**$1.07**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Financing & Credit Metrics														
Total Debt / Total Cap	59.6%	59.6%	60.3%	58.7%	59.7%	60.0%	60.0%	61.4%	59.8%	0.0%	0.7%	0.7%	1.9%	1.9%
Net Debt / Total Cap	59.6%	59.6%	60.3%	58.7%	59.7%	59.9%	59.9%	61.4%	59.8%	0.0%	0.6%	0.6%	1.9%	1.9%
Net Debt / Equity	147.3%	147.3%	151.6%	141.9%	148.0%	149.6%	149.6%	158.9%	148.6%	0.0%	1.5%	1.5%	4.8%	4.7%
Book Value Per Share	$18.45	$18.49	$19.19	$20.88	$18.23	$18.78	$18.77	$19.52	$21.49	0.0%	1.8%	1.5%	1.7%	2.9%
Net Debt / TTM EBITDA	4.9x	4.9x	4.8x	4.5x	5.0x	5.1x	5.1x	5.1x	4.8x	0.0%	3.7%	3.8%	7.6%	7.1%

Source: Company data, Credit Suisse estimates

Exhibit 3: **4Q Higher Gas Distribution offset weaker NIPSCO and GT&S EBIT**

Earnings Variance	4Q13 Actual	4Q13 CS Estimate	Diff.	Diff. (%)	4Q12 Actual
Segment EBITDA					
Gas Distribution	216	201	15	7%	182
NIPSCO Electric	112	127	(15)	-12%	115
Gas Transmission & Storage	148	161	(13)	-8%	154
Other	10	1	9	804%	4
Total EBITDA (recurring)	**486**	**491**	**(5)**	**-1%**	**455**
Segment EBIT					
Gas Distribution	164	149	15	10%	134
NIPSCO Electric	51	61	(10)	-16%	52
Gas Transmission & Storage	120	131	(11)	-8%	129
Other	4	(2)	6	-333%	(1)
Total EBIT (recurring)	**340**	**340**	**0**	**0%**	**313**
Interest Expense	111	108	3	3%	104
Other Expenses	(2)	0	(2)	NM	4
Taxes	83	81	2	2%	69
Recurring Net Income	**149**	151	**(2)**	**-1%**	**136**
Diluted Wtd Avg shares outstanding	313	313	0	0%	310
Recurring EPS - Diluted	**$0.47**	**$0.48**	**($0.01)**	**(1%)**	**$0.44**
Dividend per share	**$0.25**	**$0.25**	**$0.00**	**0%**	**$0.24**

Source: Credit Suisse estimates

Valuation

- We are raising our target price by $3 to $38 after refining our sum of the parts analysis to reflect what we think will be an initial 11.5% of the Columbia Pipeline assets in an MLP spinoff. We expect the MLP option to be announced in mid-2014 with a 9-12 timeframe for completion of the spinoff.
- Our $38 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment, a 12.5 times EV/EBITDA multiple on the assets that qualify for MLP treatment (which we model as ~11.5% of the Columbia Pipeline assets), and 1.5 turns lower for the remainder of the Columbia Pipeline assets – based on our proprietary valuation of a generic MLP with IDRs vs. similar assets within a C-Corp.
- Together with NTM dividend of $1.03, our target price translates to a total return of approximately 5-15% with a mid-point of ~10%, which is near the mid-point of our median total return expectations for midstream MLPs.

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Exhibit 4: Sum of the Parts Valuation (Normal)

NTM - MLP Valuation Multiple for Transmission and Storage

	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple Low	Multiple Base	Multiple High	Enterprise Value / Equity Value Low	Enterprise Value / Equity Value Base	Enterprise Value / Equity Value High
Electric Services	314.5	261.0	210.1	P/E	18.0x	19.5x	21.0x	3,781.4	4,096.5	4,411.6
Natural Gas Utilities	528.8	244.4	773.3	EV/EBITDA	10.0x	10.0x	10.0x	7,732.6	7,732.6	7,732.6
TG&S (88.5% of business)	447.9	111.9	559.8	EV/EBITDA	10.5x	11.0x	11.5x	5,878.0	6,157.9	6,437.8
TG&S (11.5% dropped into MLP)	58.2	14.5	72.7	EV/EBITDA	12.0x	12.50x	13.00x	872.9	909.3	945.7
Total Enterprise / Equity Value								**18,264.9**	18,896.3	**19,527.7**
Cash & Equivalents								34.8	34.8	34.8
Short-term Debt								542.1	542.1	542.1
Long-term Debt								7,593.2	7,593.2	7,593.2
Less Net Debt								8,100.5	8,100.5	8,100.5
Less Net Debt attributable to NIPSCO (~$1.1 billion)								7,000.5	7,000.5	7,000.5
Total Equity Value								11,264.4	11,895.8	12,527.2
Shares Outstanding								313	313	313
Per Share								**$35.97**	**$37.98**	**$40.00**
Current Share Price (Jan 27, 2014)								$35.45	$35.45	$35.45
Return								**4%**	10%	**16%**
Dividend per share (Est.)								**$1.03**	$1.03	**$1.03**
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*7%*	*13%*	*19%*
2015E EPS								$1.77	$1.77	$1.77
Implied P/E								**20.3x**	**21.4x**	**22.6x**
Implied Price Target								$36.00	$38.00	$40.00

Source: Credit Suisse estimates

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Risks

The main risk is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be significant downside to the current valuation and as such the shares could underperform.

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and $1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Commodity price risk is very low and under the current regulatory regime commodity costs are recovered in utility rates.

A key risk in our view is valuation –NI, and for that matter its peers, have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. The shares yield 3.0% and the company is guiding to 3-5% dividend growth giving 7% annual return potential all else being equal. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues but is moderating these purchases over the coming year. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

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Exhibit 5: NiSource Financial Summary

NiSource Inc. (NYSE: NI)
Abbreviated Financial Statements

Credit Suisse - Master Limited Partnerships and Natural Gas
John Edwards, CFA, 713-890-1594
Paul Jacob, 713-890-1596

Year ending December 31
($ millions, except per share data)

Abbreviated Income Statement	2012A	2013A	1Q14E	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E
Segment EBITDA													
Gas Distribution	639.9	648.0	279.7	118.6	60.2	248.7	707.2	283.6	133.1	66.9	289.6	773.3	838.3
NIPSCO Electric	487.3	509.9	134.9	125.5	158.7	118.0	537.0	144.3	134.6	169.1	127.4	575.5	615.6
Gas Transmission & Storage	497.0	548.3	198.2	144.7	118.0	171.6	632.6	228.2	163.9	131.1	193.4	716.6	794.4
Other	21.7	15.6	2.0	3.7	3.6	13.4	22.7	2.0	3.7	3.6	13.4	22.7	22.7
Total EBITDA (recurring)	**1,645.9**	**1,721.8**	**614.8**	**392.5**	**340.6**	**551.6**	**1,899.5**	**658.2**	**435.4**	**370.7**	**623.7**	**2,088.0**	**2,271.0**
Segment EBIT													
Gas Distribution	449.1	446.6	226.5	64.0	4.1	191.1	485.8	224.7	72.7	5.1	226.4	528.8	571.0
NIPSCO Electric	237.6	265.5	73.8	63.7	96.0	54.5	288.1	80.2	69.8	103.5	61.0	314.5	343.2
Gas Transmission & Storage	397.7	441.4	168.8	113.8	85.7	137.8	506.1	193.0	127.3	93.1	153.9	567.3	622.2
Other	(13.0)	(10.1)	(1.0)	0.5	0.4	10.0	10.0	(1.4)	0.2	0.1	9.9	8.9	8.3
Total EBIT (recurring)	**1,071.4**	**1,143.4**	**468.2**	**242.0**	**186.3**	**393.5**	**1,290.0**	**496.5**	**270.0**	**201.8**	**451.2**	**1,419.4**	**1,544.7**
Interest Expense	418.3	414.8	113.7	115.6	120.3	126.3	475.9	129.7	137.6	141.7	140.5	549.4	614.5
Other Expenses	(2.4)	(24.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Taxes	**655.5**	**752.8**	**354.5**	**126.5**	**66.0**	**267.1**	**814.0**	**366.8**	**132.5**	**60.1**	**310.7**	**870.0**	**930.2**
Taxes	228.3	261.9	124.1	44.3	23.1	93.5	284.9	130.2	47.0	21.3	110.3	308.9	334.9
Recurring Net Income	**427.2**	**490.9**	**230.4**	**82.2**	**42.9**	**173.6**	**529.1**	**236.6**	**85.4**	**38.8**	**200.4**	**561.2**	**595.3**
Recurring EPS													
Basic	$1.46	$1.57	$0.73	$0.26	$0.14	$0.55	$1.68	$0.75	$0.27	$0.12	$0.63	$1.77	$1.87
Diluted	$1.43	$1.57	$0.73	$0.26	$0.14	$0.55	$1.68	$0.75	$0.27	$0.12	$0.63	$1.77	$1.87
YoY %Change	*13.2%*	*7.4%*		*1.65*			*7.0%*					*5.4%*	*5.4%*
Weighted Average Shares Outstanding													
Basic	291.9	312.4	313.9	314.4	314.9	315.3	314.6	315.8	316.3	316.8	317.3	316.6	318.5
Diluted	299.7	313.6	313.9	314.4	314.9	315.3	314.6	315.8	316.3	316.8	317.3	316.6	318.5
Dividend/Share	$0.95	$0.99	$0.25	$0.26	$0.26	$0.26	$1.03	$0.26	$0.27	$0.27	$0.27	$1.07	$1.11
Payout Ratio	*63.9%*	*62.3%*					*61.2%*					*60.4%*	*59.4%*
Abbreviated Balance Sheet													
Cash and Equivalents	36.3	26.8	26.8	26.8	26.8	26.8	26.8	26.8	26.8	26.8	26.8	26.8	26.8
Restricted Cash	46.8	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Accounts Receivables	907.3	1,005.8	1,117.3	738.0	610.5	874.3	874.3	1,183.5	691.6	578.6	860.6	860.6	937.9
Inventories	326.6	354.6	46.4	204.6	432.8	196.2	196.2	50.0	256.5	470.1	179.9	179.9	197.9
Other Current Assets	1,035.4	764.0	727.8	731.3	731.0	788.7	788.7	727.8	731.3	729.1	830.4	830.4	900.9
Current Assets	**2,352.4**	**2,159.2**	**1,926.4**	**1,708.7**	**1,809.1**	**1,894.0**	**1,894.0**	**1,996.1**	**1,714.2**	**1,812.6**	**1,905.8**	**1,905.8**	**2,071.6**
Net PP&E	12,655.9	14,047.2	14,438.1	14,825.1	15,208.3	15,587.7	15,587.7	15,931.0	16,270.6	16,606.7	16,939.1	16,939.1	18,232.8
Other Assets	6,836.4	6,447.5	6,447.5	6,447.5	6,447.5	6,447.5	6,447.5	6,447.5	6,447.5	6,447.5	6,447.5	6,447.5	6,447.5
Total Assets	**21,844.7**	**22,653.9**	**22,812.0**	**22,981.3**	**23,464.9**	**23,929.2**	**23,929.2**	**24,374.6**	**24,432.4**	**24,866.8**	**25,292.4**	**25,292.4**	**26,751.9**
Accounts Payable	538.9	619.0	550.6	404.8	381.8	666.3	666.3	433.3	249.0	301.3	822.4	822.4	896.3
Current Portion of LT Debt	507.2	542.1	542.1	542.1	542.1	542.1	542.1	542.1	542.1	542.1	542.1	542.1	542.1
Other Short Term Borrowings	776.9	698.7	840.7	1,207.5	1,677.0	1,655.7	1,655.7	2,250.5	2,561.3	2,072.1	1,599.0	1,599.0	1,862.4
Other Current Liabilities	1,478.6	1,318.6	1,238.7	1,174.1	1,237.7	1,338.1	1,338.1	1,254.6	1,173.4	1,291.5	1,541.9	1,541.9	1,584.9
Current Liabilities	**3,301.6**	**3,178.4**	**3,172.0**	**3,328.4**	**3,838.5**	**4,202.2**	**4,202.2**	**4,480.6**	**4,525.8**	**4,207.0**	**4,505.4**	**4,505.4**	**4,885.6**
Long Term Debt	6,819.1	7,593.2	7,593.2	7,593.2	7,593.2	7,589.7	7,589.7	7,589.7	7,589.7	7,989.7	7,989.7	7,989.7	8,389.7
Other Liabilities	6,169.7	5,995.7	5,995.7	5,995.7	5,995.7	5,995.7	5,995.7	5,995.7	5,995.7	5,995.7	5,995.7	5,995.7	5,995.7
Total Liabilities	**16,290.4**	**16,767.3**	**16,760.9**	**16,917.3**	**17,427.4**	**17,787.6**	**17,787.6**	**18,066.0**	**18,111.2**	**18,192.4**	**18,490.8**	**18,490.8**	**19,271.0**
Shareholders Equity	5,554.3	5,886.6	6,051.0	6,064.0	6,037.5	6,141.7	6,141.7	6,308.6	6,321.2	6,674.4	6,801.6	6,801.6	7,480.9
Total Liabilities and Equity	**21,844.7**	**22,653.9**	**22,812.0**	**22,981.3**	**23,464.9**	**23,929.2**	**23,929.2**	**24,374.6**	**24,432.4**	**24,866.8**	**25,292.4**	**25,292.4**	**26,751.9**
Total Capital Expenditures	**1,396.0**	**2,000.0**	**537.5**	**537.5**	**537.5**	**537.5**	**2,150.0**	**505.0**	**505.0**	**505.0**	**505.0**	**2,020.0**	**2,020.0**
Financial Metrics													
Total Debt / Total Cap	59.3%	60.0%	59.7%	60.6%	61.9%	61.4%	61.4%	62.2%	62.8%	61.4%	59.8%	59.8%	59.1%
Net Debt / Total Cap	59.2%	59.9%	59.7%	60.6%	61.8%	61.4%	61.4%	62.1%	62.8%	61.3%	59.8%	59.8%	59.0%
Net Debt / Equity	145.2%	149.6%	147.9%	153.6%	162.1%	158.9%	158.9%	164.1%	168.7%	158.5%	148.6%	148.6%	143.9%
Book Value Per Share	$18.53	$18.77	$19.28	$19.29	$19.18	$19.48	$19.52	$19.97	$19.98	$21.07	$21.44	$21.49	$23.49
Net Debt / TTM EBITDA	4.9x	5.1x	5.1x	5.1x	5.3x	5.1x	5.1x	5.3x	5.4x	5.2x	4.8x	4.8x	4.7x

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 18-Feb-2014)*

NiSource Inc. (NI.N, $35.3, NEUTRAL, TP $38.0)

Disclosure Appendix

Important Global Disclosures

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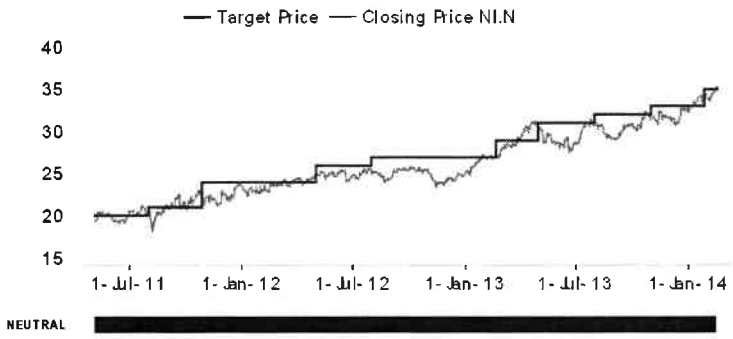
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
06-May-11	19.44	20.00	N
16-Jun-11	19.30		*
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	
01-Aug-13	31.11	32.00	
01-Nov-13	31.72	33.00	
28-Jan-14	34.18	35.00	



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Method: We derive our 12-month price target of $38 for NiSource via a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment and our belief that NiSource will proceed with an MLP spinoff of ~11.5% of its assets in the Columbia Pipeline segment. We value the MLP assets at 12.5x EV/EBITDA and the non-MLP assets 1.5 turns lower based on our proprietary analysis of a generic MLP (w/ IDRs) versus similar assets within a C-Corp.

Risk: The main risk is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

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NiSource, Inc. (BUY)

NI - Quick Alert: 4Q13 Earnings Results Slightly Ahead of Views

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

KEY INVESTMENT POINTS

February 14, 2014 Close: $35.17
4Q13 KBCM EPS Estimate: $0.46 (Consensus: $0.46)
2013 KBCM EPS Estimate: $1.55 (Consensus: $1.56)
2014 KBCM EPS Estimate: $1.65 (Consensus: $1.66)

4Q13 and FY13 Actual Results (vs. 4Q12 and FY12):

- 4Q13 ongoing EPS $0.47 vs. $0.44; 4Q13 GAAP EPS $0.49 vs. $0.42.
- FY13 ongoing EPS $1.58 vs. $1.46; FY13 GAAP EPS $1.57 vs. $1.41.
- NI excludes the impact of weather variations from normal in its ongoing earnings. The 4Q results were approximately $0.02 better before this normalization. Full- year weather impact was essentially neutral compared to normal.
- 4Q results were slightly ahead of our estimate of $0.46 and consensus of $0.46 per share.

Guidance: Initiated 2014 ongoing weather- normalized guidance of $1.61- $1.71 per share. Reiterated long- term growth target of 5- 7%.

4Q Highlights:

- NiSource Gas Distribution operating earnings were $164.2 million vs. $133.6 million. Net revenues rose $37.9 million, driven by higher volumes and new rates in Ohio and Pennsylvania. Expenses rose on employee costs and higher depreciation related to higher plant in service.
- Columbia Pipeline Group reported operating earnings of $120.4 million vs. $128.8 million. Revenues were up slightly on new projects and minerals royalties. Expenses rose $13.1 million on employee costs, depreciation and higher outside service costs.
- Electric operations operating earnings were $51.3 million vs. $51.6 million. Revenues rose $11.3 million on higher environmental recovery and increased margins on sales to industrial and commercial customers, increased industrial and commercial margins and recognition of emission allowances. Expenses rose $11.6 million on MISO fees, employee costs and higher tree trimming expense. Sales volumes rose 5.6%.
- NI outlined $2 billion of 2014 capital expenditures consistent with its growth initiative.

Initial Take: We expect a neutral to positive response to a solid quarter, guidance in line with views and execution around capital programs.

9:00 a.m. ET Conference Call #: (877)- 280- 4962 ID#: 40385072
We will be focused on:

- Color on pace of development activity in the Utica/Marcellus.
- Drilling updates on adjacent acreage.
- Management thoughts around MLP structures.

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NiSource, Inc. - NI

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NiSource, Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource, Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

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As of the date of this report, we make a market in NiSource, Inc..

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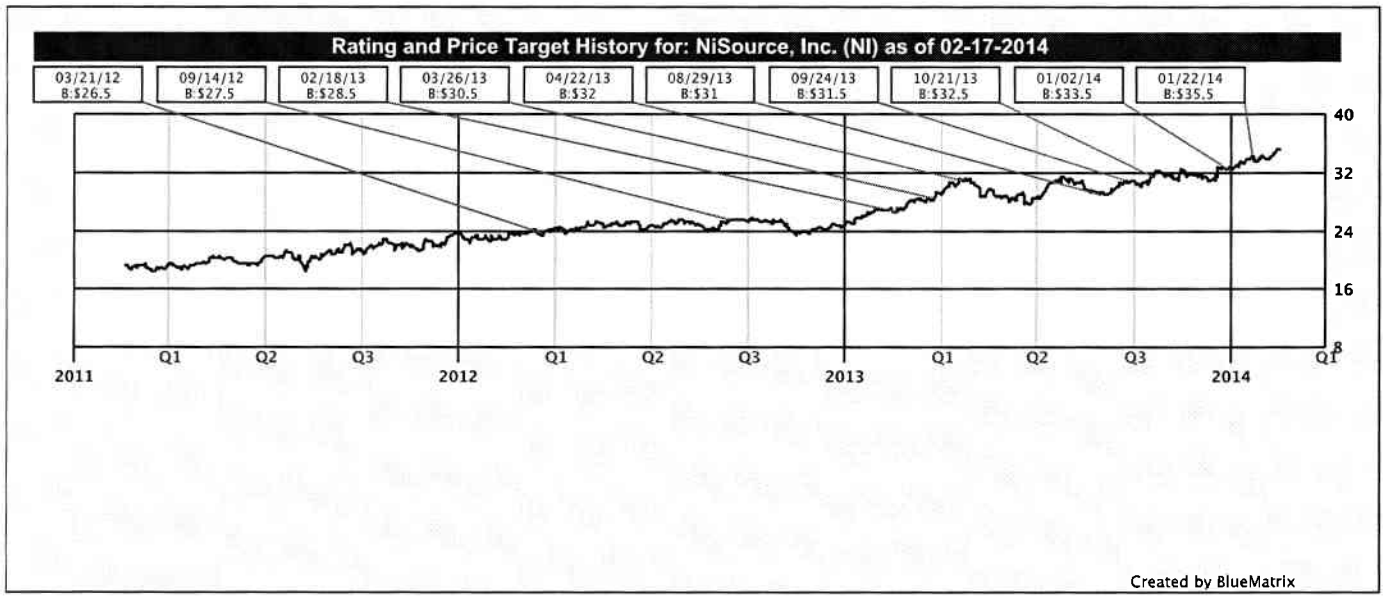
Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	244	45.10	57	23.36	BUY [BUY]	36	50.70	20	55.56
HOLD [HOLD]	285	52.68	65	22.81	HOLD [HOLD]	35	49.30	17	48.57
SELL [UND]	12	2.22	4	33.33	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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NiSource, Inc. (BUY)

NI - Quick Alert: Pipeline Explosion, Initial Thoughts

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

KEY INVESTMENT POINTS

Late last night there was an explosion on one of NiSource, Inc.'s (NI- NYSE) three large interstate pipelines that run between the Gulf and markets to the north. Our discussion with NI has indicated that the explosion has not meaningfully disrupted commercial operations.

There were two injuries related to the explosion and fire, both of which have been treated and released.

At this time, NI is unsure how long repairs will take. In our view, repairs are likely to take a few days to clean up the site, cut out damaged portions and weld in a new section of pipeline. We expect activity related to cause determination and heightened inspection will be minimally disruptive.

We expect the event to generate headlines around pipeline safety, heightened inspection and potential fines and/or penalties. We expect that these issues will be manageable.

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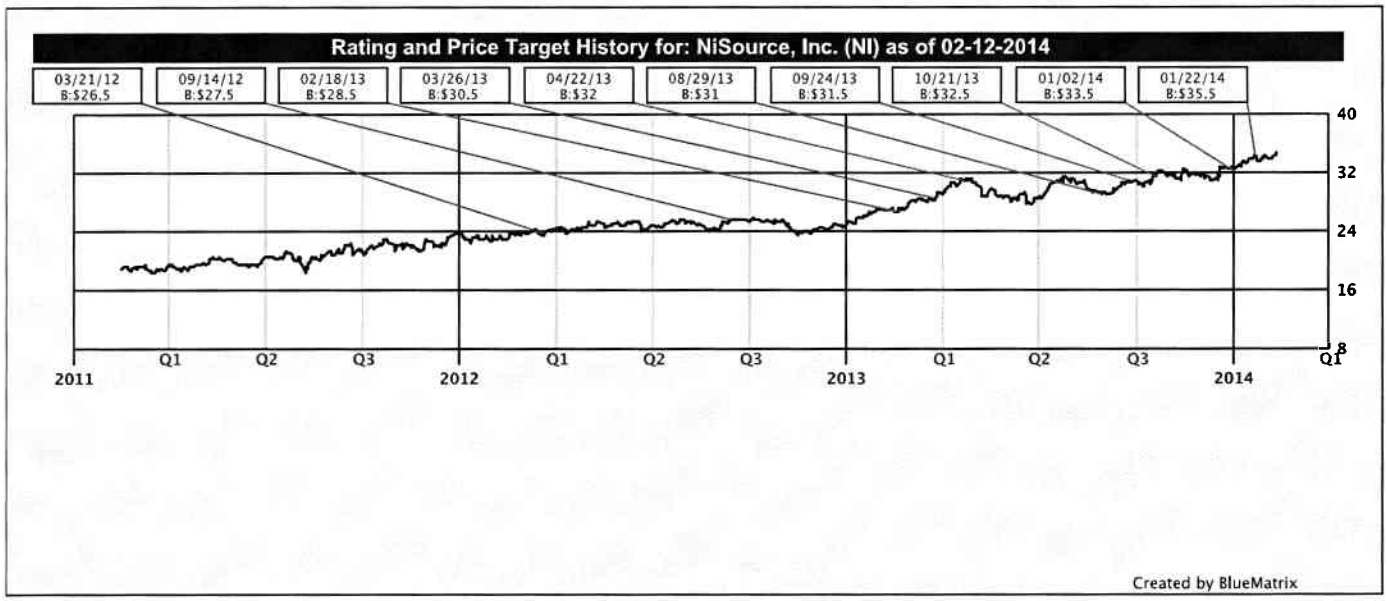

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28 January 2014
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**NEUTRAL***
Price (27 Jan 14, US$)	33.67
Target price (US$)	(from 33.00) 35.00†
52-week price range	34.32 - 26.76
Market cap. (US$ m)	10,548.64
Enterprise value (US$ m)	19,065.05

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
†Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Paul Jacobs
713 890 1596
paul.jacob@credit-suisse.com

Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

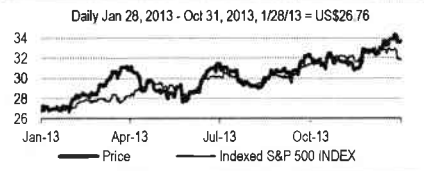
Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

INCREASE TARGET PRICE

Raising TP to $35 on Growing Likelihood of MLP Announce. Holding EPS growth at 5-7%.

- **Raising TP, though Maintain Neutral:** Our TP increases by $2 to $35 after adding upside for the growing likelihood of NI announcing the formation of an MLP from its gas transmission and midstream assets. There is a possibility but much lower probability that another entity acquires NI's transmission and midstream or acquires NI in whole.
- **Valuation to $35.** Our $35 TP is based on a 17-20x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment and a 75% probability of an extra 2 turns on the 2014E EV/EBITDA multiple of the assets that qualify for MLP treatment – i.e., the transmission and storage business. Together with NTM dividend of $1.03, this translates to a total return potential of approximately 0-22% with a mid-point of ~11%, which is near the mid-point of our median total return expectations for midstream MLPs.
- **Risks to our call:** The main risk is that NI's valuation is continuing to rise in expectation of it forming an MLP. If it chooses to not carry out this option or announces that it has no intention of forming an MLP, there could be considerable downside to the current valuation and as such the shares could underperform.

Share price performance



On 10/31/13 the S&P 500 INDEX closed at 1781.56

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.73	0.23	-0.10	0.44
2013E	0.69	0.23	0.18	0.48
2014E	0.73	0.26	0.20	0.49

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US$)	1.43	1.58	1.68	1.77
Prev. EPS (US$)	—	—	1.67	1.76
P/E (x)	23.6	21.2	20.0	19.0
P/E rel. (%)	134.4	128.1	132.6	139.4
Revenue (US$ m)	5,070.0	5,606.6	5,873.0	6,258.7
EBITDA (US$ m)	1,633.3	1,726.9	1,915.8	2,075.0
OCFPS (US$)	4.26	5.03	4.48	4.83
P/OCF (x)	5.8	6.7	7.5	7.0
EV/EBITDA (current)	11.6	11.0	9.9	9.1
Net debt (US$ m)	8,067	8,516	9,150	9,379
ROIC (%)	5.13	5.25	5.44	5.56

Number of shares (m)	313.29	IC (current, US$ m)	13,621.20
BV/share (Next Qtr., US$)	18.8	EV/IC (x)	1.3
Net debt (Next Qtr., US$ m)	8,516.4	Dividend (current, US$)	0.99
Net debt/tot cap (Next Qtr., %)	147.3	Dividend yield (%)	0.74

Source: Company data, Credit Suisse estimates.

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uqureishi@nisource.com Umair Qureishi 01/28/14 02:57:05 PM Nisource Corporate Services Co.

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 639 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 458,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI also holds substantial acreage.

NI also has an inventory of project opportunities:

- Over $10 billion in its regulated Gas Distribution segment,
- $4.2-$6.4 billion of electric operations infrastructure,
- $8-$10.5 billion in its Columbia Pipeline Group. There is $3-$4B spread across 8 different upgrade and expansion projects as well as a $4-$5B opportunity for a pipeline modernization program approved by the FERC for cost recovery (Exhibit 1). The CPG group also has $1B of midstream projects spread across 6 different opportunities and a couple of production opportunities in the Utica where it is in a JV to develop 120,000 acres in the Utica (Exhibit 2).

Importantly, we believe NI has the liquidity ($1.4B available on a $2B 5 year credit facility as of 3Q:13), balance sheet, and opportunity set in place to maintain an annual cap ex program of $1.5-1.8B (closer to ~$2B in 2013).

Key Reasons why an MLP is Likely

- **MLP option an increasing likelihood:** Management still views an MLP as a viable option to help finance growth of its mid-stream business as well as provide an opportunity to support the development of the company more broadly. Based on comments on its last few quarters of conference calls and our recent discussions with the company, we now believe, that given NI's need for approximately $350mm of equity in mid-2015, the cheapest way to obtain such equity is to form an MLP using a fraction of the assets in the Columbia Pipeline Group which we expect to generate ~$575mm in 2013 and nearly $700mm of EBITDA in 2014 rising to over $850mm of EBITDA by 2016. The cash flow generation capability of these assets in addition to the ~$10B of investment opportunity means that NI could drop a small fraction of those assets to an MLP to meet its equity needs in 2015. Moreover, with an MLP, NI could maintain control of the assets through the GP/LP structure of an MLP, and could view the MLP as a continuous source of equity to support future growth at both the MLP and NI as a whole by periodically dropping down pieces of its gas transmission/mid-stream assets to the MLP. Moreover, the type of assets in CPG are the kinds favored by MLP investors – that is, mid-stream assets in growing asset basin with minimal commodity risk.

- **So if an MLP is so great why hasn't NI formed one already?** We believe there are a few reasons for this. One, was a lack of need. Management had already engaged in a forward sale of equity back in 2010 such equity to be delivered in 2012. Second, we

uquraishi@nisource.com Umair Quaishi 01/28/14 02:57:05 PM Nisource Corporate Services Co.

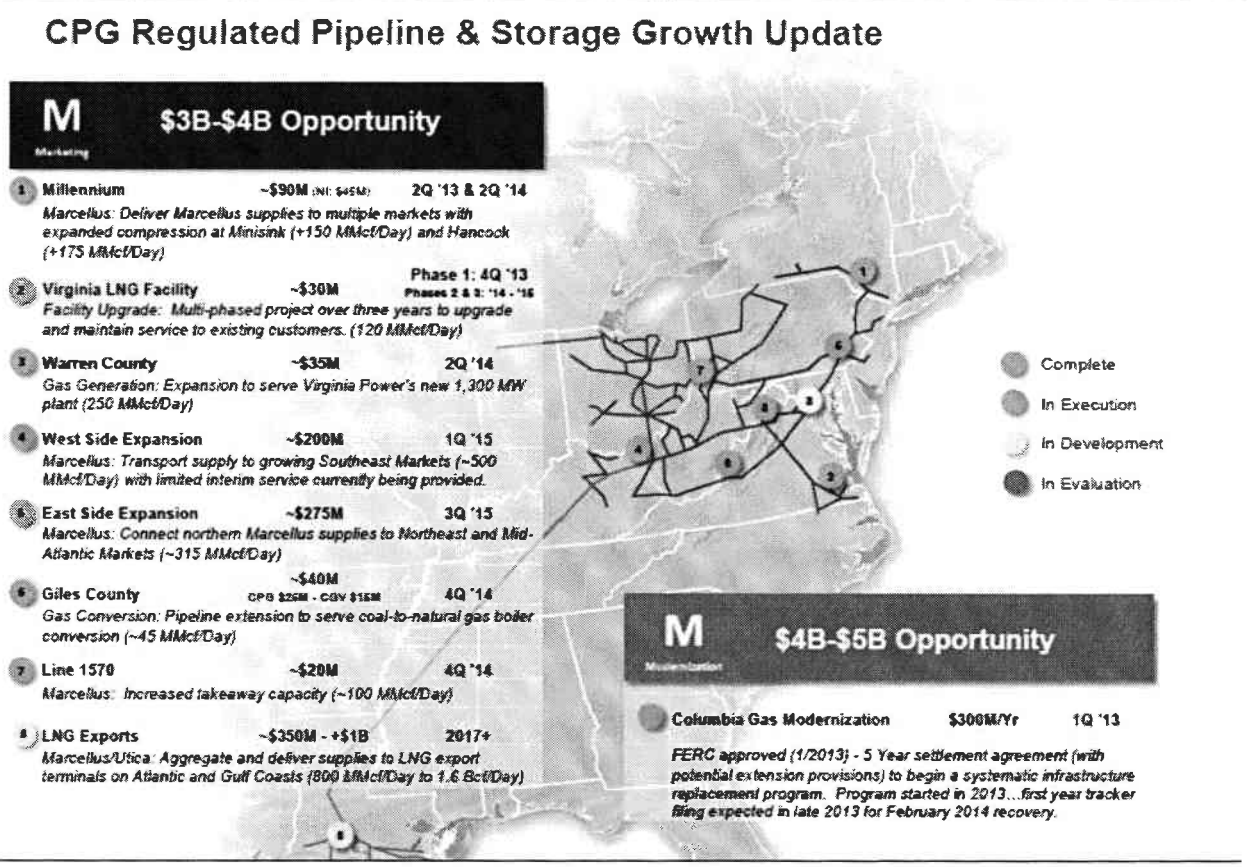
believe management wanted to be in position where there was clear growth visibility to the assets that qualified for an MLP. As part of this, management has worked to put in place the FERC approved Columbia Gas Modernization program which was approved in FERC in January of last year. With the approval of this program, there is locked in a $4-$5billion opportunity with such capital to be spent in $300mm/year increments for the next 15 years. In addition, with the rapid growth in gas production in the Marcellus and Utica, there has been an expanding opportunity set in the 2014-2017 time frame which has been coming on more recently. Consequently, with greater growth, reduced risk to recovery of investment in that growth with the FERC approval, we believe management now feels more comfortable to the sustainability. Third, given the current outlook and growth, NI can drop down just a fraction of the EBITDA of the segment and still meet its projected equity needs in 2015. With such a small drop down, its investment grade credit rating is not under threat.

- **2 Turns Higher Valuation:** We expect that the Transmission and Storage assets could be worth 2 turns higher on an EV/EBITDA basis as an MLP. Currently natural gas pipeline MLPs are trading at ~14x EV/EBITDA trailing and 10-12x forward EV/EBITDA with the average currently at 11.5-12x. While we believe that the assets deserve a premium given their ideal location in the Northeast connecting to the Gulf Coast via the Columbia Gas Transmission, we discount the multiple to ~11.5-12x or the average forward to account for the 75% probability of a spinoff occurring. Applying our NTM expected EBITDA from the NGT&S assets we derive an EV range of $7 to $9 billion or a $1.1B-$1.5B premium compared to not forming an MLP.

- **Potential For Acquisition:** We believe there is a possibility that other suitors may buy NiSource in order to acquire the transmission, storage, and other mid-stream assets. Late in 2013/very early in 2014, Dominion (D) was raised as a potential suitor given its recent announcement of its decision to from an MLP. There has been speculation in the press that other large growth-seeking MLP players such as Energy Transfer or even Kinder Morgan would be interested in NiSource for the purposes of having access to the $575mm and growing EBITDA that the CPG produces. While we believe that the likelihood for outright purchase to occur is much lower than the MLP spinoff case, such rumors combined with the large downside to the value of the equity if NI does not pursue the MLP opportunity, reinforces the expectation that management should pursue an MLP.

uqureishi@nisource.com Umair Qureishi 01/28/14 02:57:05 PM Nisource Corporate Services Co.

Exhibit 1: CPG Regulated Pipeline and Storage Map and Growth Opportunities



Source: Company data, Credit Suisse estimates

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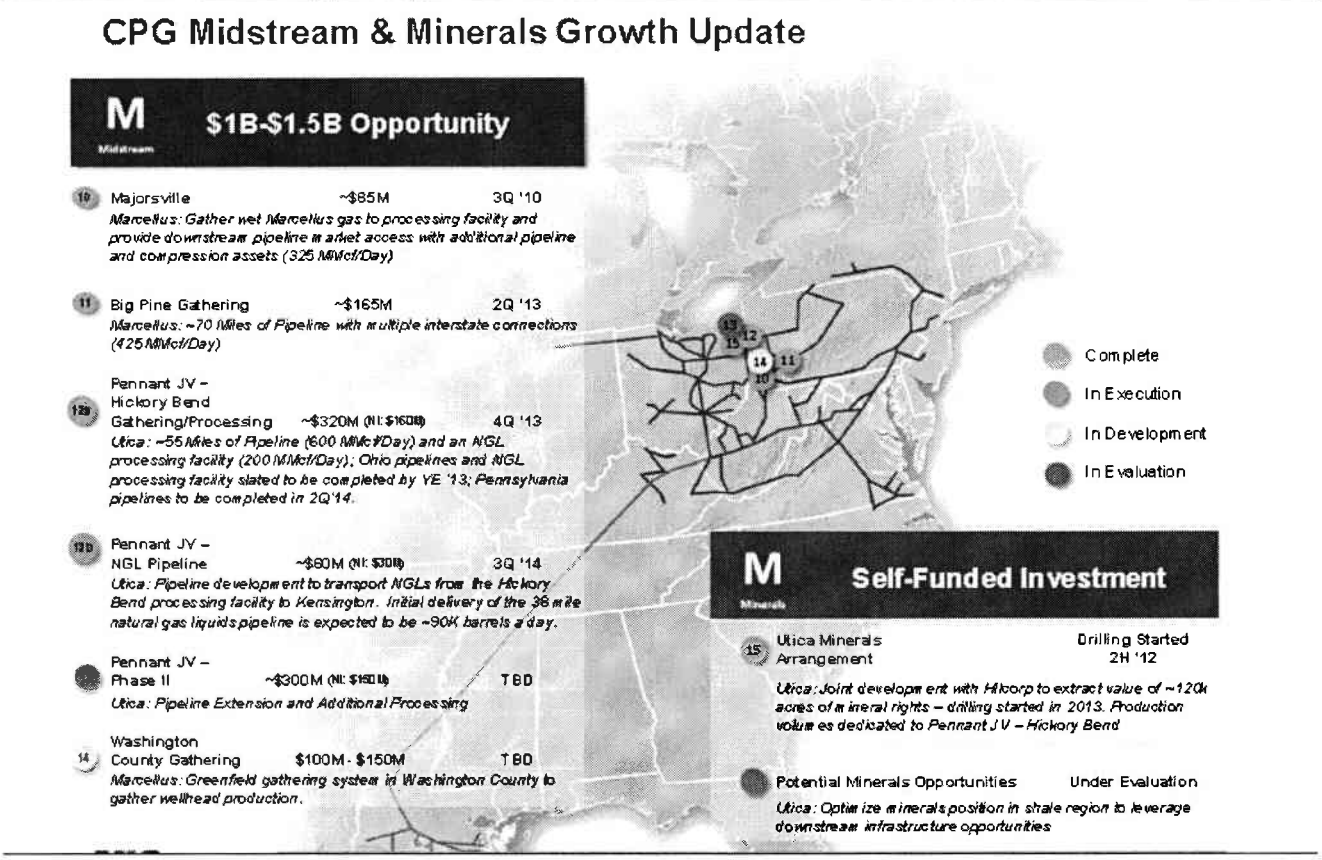
Exhibit 2: **CPG Midstream Opportunity Set**



Source: Company data, Credit Suisse estimates

Estimate Changes

We are holding our full year estimates at $1.58/share or $0.48/share for 4Q:13 However, we are revising our segments – reducing the Gas Transmission and Storage by ~$14mm, to $131mm and raising our estimate on the Gas Distribution segment by ~$15mm, to $149mm. The changes reflect Pennant gathering and processing coming a little later in 4Q in Transmission and Gas Distribution rate case impacts being a little better than what we were previously thinking. Our outlook for 2014 and 2015 increases by $0.01/share, to $1.68/share and $1.77/share, for 2014 and 2015, respectively. Our growth forecast remains within the 5-7% growth guidance provided.

uqureshi@nisource.com Umair Qureshi 01/28/14 02:57:05 PM Nisource Corporate Services Co.

Exhibit 3: Changes to the Gas Distr and Gas Trans Segments and Adding Approx. $0.01/share to 2014-2015E EPS

	Old estimates				New estimates									
	4Q13E	2013E	2014E	2015E	3Q13A	4Q13E	2013E	2014E	2015E	3Q13A	4Q13E	2013E	2014E	2015E
Segment EBITDA														
Gas Distribution	186	621	684	741	51	201	636	700	758	0.0%	8.1%	2.4%	2.3%	2.3%
NIPSCO Electric	127	525	533	565	151	127	525	533	565	0.0%	0.0%	0.0%	0.0%	0.0%
Gas Transmission & Storage	175	575	696	767	125	161	561	684	753	0.0%	-7.9%	-2.4%	-1.7%	-1.8%
Other	1	5	(1)	(1)	1	1	5	(1)	(1)	NM	NM	NM	NM	NM
Total EBITDA (recurring)	**489**	**1,725**	**1,912**	**2,072**	**328**	**491**	**1,727**	**1,916**	**2,075**	**0.0%**	**0.3%**	**0.1%**	**0.2%**	**0.2%**
Segment EBIT														
Gas Distribution	134	418	462	500	(0)	149	433	478	517	0.0%	11.3%	3.6%	3.4%	3.4%
NIPSCO Electric	61	268	263	284	91	61	268	263	284	0.0%	0.0%	0.0%	0.0%	0.0%
Gas Transmission & Storage	145	464	564	615	99	131	450	552	602	0.0%	-9.5%	-3.0%	-2.1%	-2.2%
Other	(2)	(6)	(13)	(13)	(5)	(2)	(6)	(13)	(13)	0.0%	0.0%	0.0%	0.0%	0.0%
Total EBIT (recurring)	**339**	**1,144**	**1,277**	**1,386**	**184**	**340**	**1,145**	**1,281**	**1,390**	**0.0%**	**0.4%**	**0.1%**	**0.3%**	**0.3%**
Interest Expense	108	412	461	514	104	108	412	461	514	0.0%	0.0%	0.0%	0.0%	0.0%
Other Expenses	0	(22)	0	0	(5)	0	(22)	0	0	0.0%	NM	0.0%	NM	NM
Taxes	81	259	290	314	28	81	260	291	315	0.0%	0.5%	0.2%	0.5%	0.4%
Recurring Net Income	**150**	**494**	**526**	**558**	**57**	**151**	**495**	**529**	**561**	**0.0%**	**0.5%**	**0.2%**	**0.5%**	**0.4%**
Diluted Wtd Avg shares outstanding	313	313	315	316	313	313	313	315	316	0.0%	0.0%	0.0%	0.0%	0.0%
Recurring EPS - Diluted	**$0.48**	**$1.58**	**$1.67**	**$1.76**	**$0.18**	**$0.48**	**$1.58**	**$1.68**	**$1.77**	**0.0%**	**0.5%**	**0.2%**	**0.5%**	**0.4%**
Dividend per share	**$0.25**	**$0.99**	**$1.03**	**$1.07**	**$0.25**	**$0.25**	**$0.99**	**$1.03**	**$1.07**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Financing & Credit Metrics														
Total Debt / Total Cap	59.6%	59.6%	60.3%	58.8%	59.7%	59.6%	59.6%	60.3%	58.7%	0.0%	0.0%	0.0%	0.0%	-0.1%
Net Debt / Total Cap	59.6%	59.6%	60.3%	58.7%	59.7%	59.6%	59.6%	60.3%	58.7%	0.0%	0.0%	0.0%	0.0%	-0.1%
Net Debt / Equity	147.3%	147.3%	151.8%	142.2%	148.0%	147.3%	147.3%	151.6%	141.9%	0.0%	0.0%	0.0%	-0.1%	-0.2%
Book Value Per Share	$18.45	$18.49	$19.18	$20.86	$18.23	$18.45	$18.49	$19.19	$20.88	0.0%	0.0%	0.0%	0.1%	0.1%
Net Debt / TTM EBITDA	4.9x	4.9x	4.8x	4.5x	5.0x	4.9x	4.9x	4.8x	4.5x	0.0%	0.0%	0.0%	-0.2%	-0.3%

Source: Company data, Credit Suisse estimates

Valuation

We are raising our target price by $2 to $35. Our $35 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment and a 75% probability of an extra 3 turns on the 2014E EV/EBITDA multiple of the assets that qualify for MLP treatment – i.e., the transmission and storage business. Together with NTM dividend of $1.03, this translates to a total return of approximately 0-22% with a mid-point of ~11%, which is near the mid-point of our median total return expectations for midstream MLPs.

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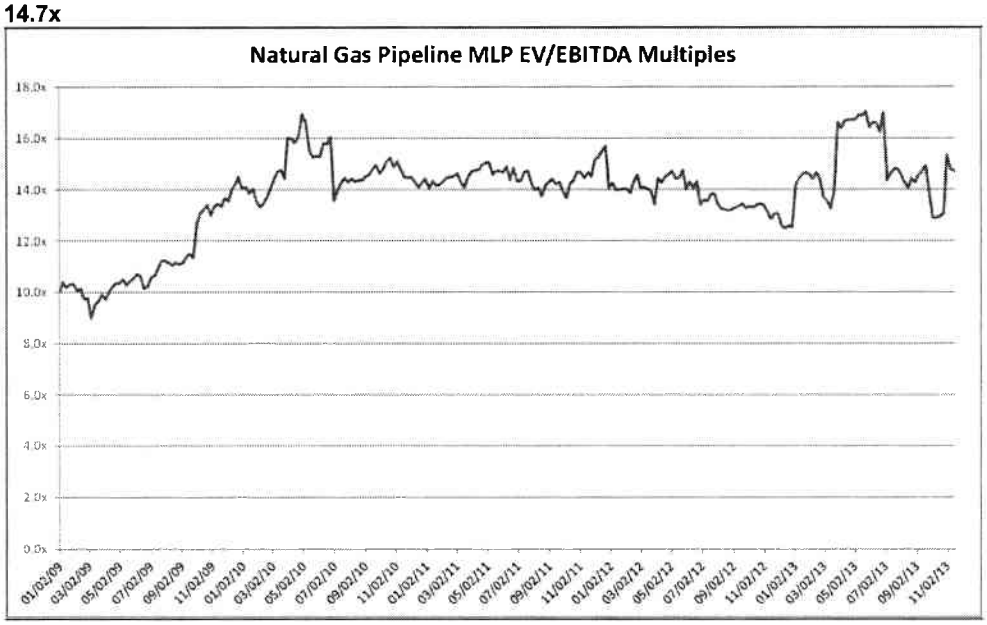
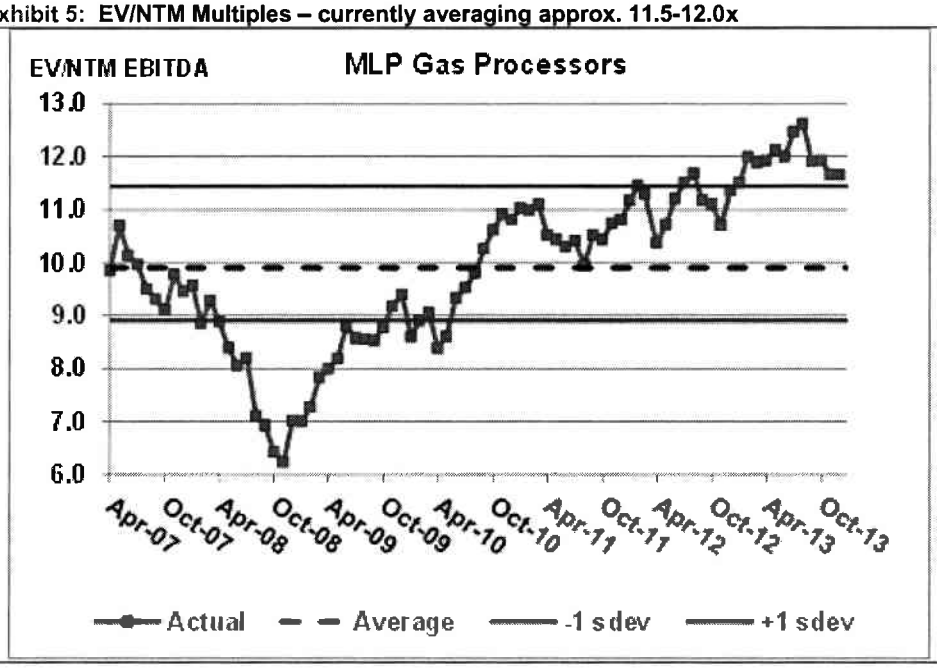
Exhibit 4: MLP EV/EBITDA trailing multiples around 14x since late 2009 – Currently at 14.7x



Source: Company data, Credit Suisse estimates

Exhibit 5: EV/NTM Multiples – currently averaging approx. 11.5-12.0x



Source: Company data, Credit Suisse estimates

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Exhibit 6: **Sum of the Parts Valuation (Normal)**

NTM - Next Twelve Months Valuation

	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple Low	Base	High	Enterprise Value / Equity Value Low	Base	High
Electric Services	263.5	269.2	189.8	P/E	18.0x	19.5x	21.0x	3,415.6	3,700.2	3,984.8
Natural Gas Utilities	517.1	240.5	757.5	EV/EBITDA	10.0x	10.0x	10.0x	7,575.3	7,575.3	7,575.3
Transmission and Storage	552.0	131.7	683.7	EV/EBITDA	9.0x	10.0x	11.0x	6,153.4	6,837.2	7,520.9
Total Enterprise / Equity Value								**17,144.3**	**18,112.7**	**19,081.0**
Cash & Equivalents								33.2	33.2	33.2
Short-term Debt								1,362.0	1,362.0	1,362.0
Long-term Debt								7,089.1	7,089.1	7,089.1
Less Net Debt								8,417.9	8,417.9	8,417.9
Total Equity Value								**8,726.4**	**9,694.8**	**10,663.1**
Shares Outstanding								313	313	313
Per Share								**$27.86**	**$30.95**	**$34.05**
Current Share Price (Jan 27, 2014)								$33.67	$33.67	$33.67
Return								(14%)	(5%)	4%
Dividend per share (Est.)								$1.03	$1.03	$1.03
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*(11%)*	*(2%)*	*7%*
2015E EPS								$1.77	$1.77	$1.77
Implied P/E								**15.7x**	**17.5x**	**19.2x**
									$31.00	
									$31.00	
							Implied P/E		**17.5x**	

Source: Credit Suisse estimates

However, when accounting for the possible MLP spinoff, our SOTP valuation yields a $35 implied price at the midpoint, suggesting that the MLP concept could continue to support a premium valuation over the coming months.

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Exhibit 7: SOTP Valuation Accounting for MLP Spinoff roughly $35/unit

NTM - MLP Valuation Multiple for Transmission and Storage

	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple Low	Multiple Base	Multiple High	Enterprise Value / Equity Value Low	Enterprise Value / Equity Value Base	Enterprise Value / Equity Value High
Electric Services	263.5	269.2	189.8	P/E	18.0x	19.5x	21.0x	3,415.6	3,700.2	3,984.8
Natural Gas Utilities	517.1	240.5	757.5	EV/EBITDA	10.0x	10.0x	10.0x	7,575.3	7,575.3	7,575.3
Transmission and Storage	552.0	131.7	683.7	EV/EBITDA	10.7x	12.00x	13.4x	7,281.6	8,204.6	9,127.6
Total Enterprise / Equity Value								**18,272.4**	**19,480.1**	**20,687.7**
Cash & Equivalents								33.2	33.2	33.2
Short-term Debt								1,362.0	1,362.0	1,362.0
Long-term Debt								7,089.1	7,089.1	7,089.1
Less Net Debt								8,417.9	8,417.9	8,417.9
Total Equity Value								9,854.5	11,062.2	12,269.8
Shares Outstanding								313	313	313
Per Share								**$31.46**	**$35.32**	**$39.18**
Current Share Price (Jan 27, 2014)								$33.67	$33.67	$33.67
Return								(3%)	8%	19%
Dividend per share (Est.)								$1.03	$1.03	$1.03
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*(0%)*	*11%*	*22%*
2015E EPS								$1.77	$1.77	$1.77
Implied P/E								**17.8x**	**19.9x**	**22.1x**
									$35.00	
									$35.00	
							Implied P/E		19.8x	

Source: Credit Suisse estimates

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Risks

The main risk is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of having enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and $1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Of the ~$2B in cap ex for 2013, $520mm is for age and condition and the remaining portion is for growth and tracker investments which effectively have support from NI's from the state regulatory authorities in which it operates.

Commodity price risk is very low and under the current regulatory regime is recovered in utility rates.

The main risk in our view is valuation – as explained above NI and for that matter its peers have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. Consequently NI's shares are up ~27% YTD with no meaningful change in earnings outlook. The shares yield 3.0% and the company is guiding to 3-5% dividend growth giving 7% annual return potential all else being equal. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues but is moderating these purchases over the coming year. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

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Exhibit 8: Financial Summary

NiSource Inc. (NYSE: NI)
Abbreviated Financial Statements

Year ending December 31
($ millions, except per share data)

Credit Suisse - Master Limited Partnerships and Natural Gas
John Edwards, CFA, 713-890-1594
Paul Jacob, 713-890-1596

Abbreviated Income Statement	1Q12	2Q12	3Q12	4Q12A	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Segment EBITDA																	
Gas Distribution	290.9	102.6	64.1	182.3	639.9	281.8	101.9	50.6	201.4	635.7	290.4	108.9	82.5	218.2	700.1	757.5	820.8
NIPSCO Electric	109.4	121.4	141.4	115.1	487.3	128.1	119.0	151.1	126.9	525.1	123.1	121.0	153.4	135.2	532.7	564.7	600.6
Gas Transmission & Storage	171.6	124.6	46.9	153.9	497.0	159.0	115.3	125.4	161.2	560.9	203.5	163.1	145.2	172.0	683.7	753.4	851.7
Other	7.3	1.5	(46.9)	(0.2)	(38.3)	2.5	0.4	1.1	1.1	5.1	1.1	4.3	(7.3)	1.2	(0.7)	(0.6)	(0.6)
Total EBITDA (recurring)	579.2	350.1	205.5	451.1	1,585.9	571.4	336.6	328.2	490.5	1,726.7	618.1	397.3	373.8	526.6	1,915.8	2,075.0	2,272.5
Segment EBIT																	
Gas Distribution	244.8	54.6	16.1	133.6	449.1	233.3	51.8	(0.5)	148.8	433.4	236.6	54.0	26.5	161.0	478.2	517.1	561.8
NIPSCO Electric	48.5	59.8	77.7	51.6	237.6	64.9	58.6	90.5	61.3	267.6	56.9	54.0	85.7	66.8	263.5	284.1	308.5
Gas Transmission & Storage	136.6	91.6	38.8	128.8	397.7	133.3	88.8	98.7	131.4	449.8	172.5	130.7	111.6	137.2	552.0	601.6	680.0
Other	1.9	(3.9)	(50.6)	(1.1)	(13.0)	(3.6)	(5.7)	(5.0)	(1.8)	(16.0)	(1.8)	1.4	(10.2)	(1.8)	(12.5)	(13.0)	(13.6)
Total EBIT (recurring)	433.8	202.1	81.9	312.9	1,071.4	427.9	193.5	183.7	339.8	1,144.9	464.2	240.2	213.6	383.2	1,281.1	1,389.8	1,536.7
Interest Expense	103.3	103.2	107.9	103.9	418.3	98.6	102.0	103.7	107.8	412.1	109.8	113.3	116.9	121.4	461.4	513.6	575.0
Other Expenses	(1.0)	(2.8)	(2.2)	3.6	(2.4)	(4.1)	(13.3)	(4.7)	0.0	(22.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Taxes	331.5	101.7	(23.7)	205.4	655.5	333.4	104.8	84.7	232.0	754.9	354.3	126.9	96.7	241.8	819.7	876.2	961.7
Taxes	118.0	35.1	5.8	69.4	228.3	118.1	32.7	27.6	81.2	259.6	125.8	45.1	34.3	85.8	291.0	315.4	346.2
Recurring Net Income	213.5	66.6	(29.5)	136.0	427.2	215.3	72.1	57.1	150.8	495.3	228.5	81.9	62.4	155.9	528.7	560.8	615.5
Recurring EPS																	
Basic	$0.75	$0.23	($0.10)	$0.44	$1.46	$0.69	$0.23	$0.18	$0.48	$1.58	$0.73	$0.26	$0.20	$0.48	$1.68	$1.77	$1.93
Diluted	$0.73	$0.23	($0.10)	$0.44	$1.43	$0.69	$0.23	$0.18	$0.48	$1.58	$0.73	$0.26	$0.20	$0.48	$1.68	$1.77	$1.93
YoY %Change					*13.2%*		*1.26*			*8.3%*		*1.65*			*6.0%*	*5.4%*	*9.1%*
							21.42										
Weighted Average Shares Outstanding																	
Basic	282.9	284.4	290.3	309.9	291.9	311.1	312.2	312.8	313.3	312.3	313.8	314.3	314.7	315.2	314.5	316.4	318.4
Diluted	293.1	295.8	300.0	309.9	299.7	311.1	313.2	312.8	313.3	312.6	313.8	314.3	314.7	315.2	314.5	316.4	318.4
Dividend/Share	$0.23	$0.24	$0.24	$0.24	$0.95	$0.24	$0.25	$0.25	$0.25	$0.99	$0.25	$0.26	$0.26	$0.26	$1.03	$1.07	$1.11
Payout Ratio					*63.9%*					*61.8%*					*61.3%*	*60.4%*	*57.4%*
Abbreviated Balance Sheet																	
Cash and Equivalents	38.5	52.8	12.3	36.3	36.3	101.4	44.5	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Restricted Cash	149.7	85.0	65.1	46.8	46.8	23.1	29.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3
Accounts Receivables	730.3	554.0	526.2	907.3	907.3	1,070.3	716.5	591.0	902.7	902.7	1,034.8	761.1	675.9	828.4	828.4	785.8	836.8
Inventories	181.1	252.9	385.2	326.6	326.6	70.3	266.0	454.8	302.2	302.2	45.4	194.5	419.0	185.9	185.9	165.5	177.2
Other Current Assets	870.7	806.9	849.9	1,035.4	1,035.4	766.7	651.3	666.5	647.6	647.6	661.6	665.1	665.9	647.6	647.6	647.6	647.6
Current Assets	1,970.3	1,751.6	1,838.7	2,352.4	2,352.4	2,031.8	1,707.8	1,745.5	1,885.7	1,885.7	1,775.0	1,653.9	1,794.0	1,695.1	1,695.1	1,632.1	1,694.8
Net PP&E	11,765.2	12,005.8	12,347.0	12,655.9	12,655.9	12,834.7	13,176.3	13,611.1	14,010.3	14,010.3	14,298.9	14,584.3	14,866.5	15,145.6	15,145.6	16,230.3	17,264.5
Other Assets	6,710.4	6,652.0	6,852.9	6,836.4	6,836.4	6,769.9	6,737.7	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5	6,727.5
Total Assets	20,445.9	20,409.4	20,838.6	21,844.7	21,844.7	21,636.4	21,621.6	22,084.1	22,623.5	22,623.5	22,801.4	22,965.7	23,388.1	23,568.2	23,568.2	24,590.0	25,686.8
Accounts Payable	380.7	292.1	300.1	538.9	538.9	527.4	393.0	369.6	589.1	589.1	509.9	417.5	422.7	625.4	625.4	750.9	799.6
Current Portion of LT Debt	750.8	766.9	823.3	507.2	507.2	89.3	70.7	541.2	541.2	541.2	541.2	541.2	541.2	541.2	541.2	541.2	541.2
Other Short Term Borrowings	1,264.2	327.6	225.3	776.9	776.9	1,131.2	377.7	820.8	401.0	401.0	668.8	951.0	1,298.0	1,038.2	1,038.2	966.8	1,674.6
Other Current Liabilities	1,322.7	1,275.7	1,378.4	1,478.6	1,478.6	1,226.5	1,226.6	1,274.0	1,434.4	1,434.4	1,261.0	1,222.9	1,300.1	1,454.2	1,454.2	1,549.7	1,578.0
Current Liabilities	3,718.4	2,662.3	2,727.1	3,301.6	3,301.6	2,974.4	2,068.0	3,005.6	2,965.7	2,965.7	2,980.9	3,132.6	3,561.9	3,659.1	3,659.1	3,808.6	4,593.4
Long Term Debt	5,834.4	6,806.9	6,819.7	6,819.1	6,819.1	6,803.9	7,616.7	7,089.1	7,589.1	7,589.1	7,589.1	7,589.1	7,589.1	7,585.6	7,585.6	7,885.6	7,885.6
Other Liabilities	5,812.6	5,834.9	5,881.0	6,169.7	6,169.7	6,167.4	6,234.2	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5	6,288.5
Total Liabilities	15,365.4	15,304.1	15,427.8	16,290.4	16,290.4	15,945.7	15,918.9	16,383.2	16,843.3	16,843.3	16,858.5	17,010.2	17,439.5	17,533.2	17,533.2	17,982.7	18,767.5
Shareholders Equity	5,080.5	5,105.3	5,410.8	5,554.3	5,554.3	5,690.7	5,702.7	5,700.9	5,780.3	5,780.3	5,942.9	5,955.5	5,948.6	6,035.1	6,035.1	6,607.2	6,919.3
Total Liabilities and Equity	20,445.9	20,409.4	20,838.6	21,844.7	21,844.7	21,636.4	21,621.6	22,084.1	22,623.5	22,623.5	22,801.4	22,965.7	23,388.1	23,568.2	23,568.2	24,590.0	25,686.8
Total Capital Expenditures	349.0	349.0	349.0	349.0	1,396.0	500.0	500.0	500.0	500.0	2,000.0	442.5	442.5	442.5	442.5	1,770.0	1,770.0	1,770.0
Financial Metrics																	
Total Debt / Total Cap	60.7%	60.7%	59.3%	59.3%	59.3%	58.5%	58.6%	59.7%	59.6%	59.6%	59.7%	60.4%	61.3%	60.3%	60.3%	58.7%	59.3%
Net Debt / Total Cap	60.6%	60.6%	59.2%	59.2%	59.2%	58.2%	58.4%	59.7%	59.6%	59.6%	59.6%	60.4%	61.3%	60.3%	60.3%	58.7%	59.3%
Net Debt / Equity	153.7%	153.7%	145.2%	145.2%	145.2%	139.2%	140.6%	148.0%	147.3%	147.3%	147.8%	152.2%	158.2%	151.6%	151.6%	141.9%	145.8%
Book Value Per Share	$17.33	$17.26	$18.04	$17.92	$18.53	$18.29	$18.21	$18.23	$18.45	$18.49	$18.94	$18.95	$18.90	$19.14	$19.19	$20.88	$21.73
Net Debt / TTM EBITDA	5.1x	5.0x	5.2x	5.1x	4.9x	5.0x	5.1x	5.0x	4.9x	4.9x	5.0x	4.9x	5.0x	4.8x	4.8x	4.5x	4.4x

Source: Credit Suisse estimates

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Companies Mentioned *(Price as of 27-Jan-2014)*

Dominion Resources (D.N, $66.42)
Kinder Morgan Energy Partners, LP (KMP.N, $81.58)
NiSource Inc. (NI.N, $33.67, NEUTRAL, TP $35.0)

Disclosure Appendix

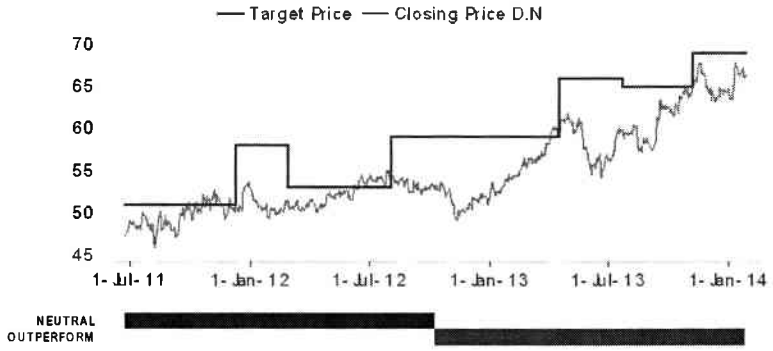
Important Global Disclosures

John Edwards, CFA and Bhavesh Lodaya, each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Dominion Resources (D.N)

D.N Date	Closing Price (US$)	Target Price (US$)	Rating
24-Jun-11	47.25	51.00	N
09-Dec-11	50.77	58.00	
28-Feb-12	51.25	53.00	
02-Aug-12	53.81	59.00	
10-Oct-12	53.22	59.00	O
17-Apr-13	59.33	66.00	
23-Jul-13	59.86	65.00	
06-Nov-13	66.03	69.00	

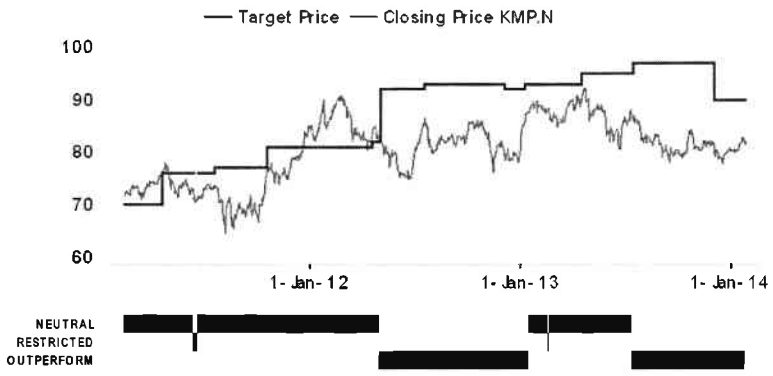
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Kinder Morgan Energy Partners, LP (KMP.N)

KMP.N Date	Closing Price (US$)	Target Price (US$)	Rating
14-Feb-11	71.88	70.00	N
21-Apr-11	76.04	76.00	
14-Jun-11	71.12		R
21-Jun-11	71.36	76.00	N
21-Jul-11	73.22	77.00	
20-Oct-11	76.54	81.00	
19-Apr-12	84.16	82.00	
02-May-12	82.49	92.00	O*
19-Jul-12	86.47	93.00	
05-Dec-12	78.58	92.00	
09-Jan-13	86.30	93.00	
17-Jan-13	88.13	93.00	N
20-Feb-13	88.20		R
22-Feb-13	86.55		N
27-Feb-13	87.14	93.00	
18-Apr-13	90.04	95.00	
16-Jul-13	86.11	97.00	O
04-Dec-13	80.12	90.00	

** Asterisk signifies initiation or assumption of coverage.*



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3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
06-Feb-11	18.40	19.00	N
06-May-11	19.44	20.00	
16-Jun-11	19.30		*
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	
01-Aug-13	31.11	32.00	
01-Nov-13	31.72	33.00	

** Asterisk signifies initiation or assumption of coverage.*

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	43%	(54% banking clients)
Neutral/Hold*	41%	(48% banking clients)
Underperform/Sell*	14%	(43% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: We derive our 12-month price target of $35 for NiSource via a 17-20x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment and a 75% probability of an extra 2 turns on the 2014E EV/EBITDA multiple of the assets that qualify for MLP treatment - i.e., the transmission and storage business.

Risk: The main risk is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

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See the Companies Mentioned section for full company names

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Credit Suisse has received investment banking related compensation from the subject company (NI.N, KMP.N) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (NI.N, KMP.N, D.N) within the next 3 months.

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30 April 2014

NiSource, Inc.
Outlining Midstream Growth Potential; Raising PT to $38

Solid 1Q beat; raising PT to $38: NI reported 1Q adjusted EPS of $0.82 excluding a positive weather impact, and ahead of our and consensus estimates of $0.80 and $0.79, respectively. Compared to 1Q13 EPS of $0.69, y/y earnings increased as a result of gas utility rider and rate increases in Ohio and Pennsylvania, environmental rate trackers, and gathering & processing projects placed in service after 1Q last year. We raise our PT from $36 to $38 due to sector multiple expansion, and raise our 2014/2015 EPS estimates from $1.66/$1.83 to $1.70/$1.84.

We estimate ~$190M EBITDA for Rayne/Leach; $180M for WB Express: We discuss our estimates based on parameters provided in the open seasons further in the note. NI stated the company is finalizing precedent agreements for the Rayne and Leach Express projects, with an update in 3Q. Additionally, NI announced it had completed an open season for WB Express, which would move Appalachian shale gas both east and west along Columbia Gas Transmission's WB line. The company believes WB Express is likely to move forward based on the non-binding open season, and it is expected to be in service by the end of 2018.

NIPSCO 7-Year Gas Infrastructure Program approved: Earlier this afternoon, the Indiana Utility Regulatory Commission approved NIPSCO Gas' 7-year gas infrastructure program, largely in its original form. The program, which is similar to the electric infrastructure program approved in February, allows NIPSCO Gas to invest $713M of capital over a 7-year period with semi-annual rate increases for recovery of investment.

MLP announcement likely in September: NI suggested that an Analyst Day could be held in 3Q to announce the decision on an MLP. We believe the MLP would allow NI to raise its 5-7% EPS growth guidance, which we believe is conservative given the MLP's cheaper cost of capital coupled with rate base growth in excess of 10%.

NI: Quarterly and Annual EPS (USD)

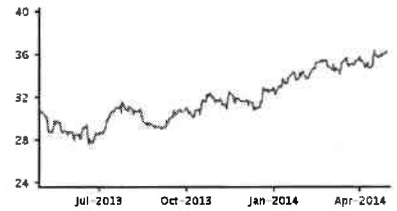
	2013		2014			2015		Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2014	2015
Q1	0.69A	N/A	0.82A	0.79E	N/A	N/A	0.87E	19%	N/A
Q2	0.23A	N/A	N/A	0.25E	N/A	N/A	0.26E	N/A	N/A
Q3	0.18A	N/A	N/A	0.15E	N/A	N/A	0.11E	N/A	N/A
Q4	0.47A	N/A	N/A	0.51E	N/A	N/A	0.53E	N/A	N/A
Year	1.58A	1.66E	1.70E	1.67E	1.83E	1.84E	1.79E	8%	8%
P/E	23.0		21.3			19.7			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 38.00 raised 6% from USD 36.00
Price (29-Apr-2014)	USD 36.29
Potential Upside/Downside	+5%
Tickers	NI
Market Cap (USD mn)	11423
Shares Outstanding (mn)	314.76
Free Float (%)	99.54
52 Wk Avg Daily Volume (mn)	2.0
Dividend Yield (%)	2.8
Return on Equity TTM (%)	8.58
Current BVPS (USD)	18.77

Source: Thomson Reuters

Price Performance Exchange-NYSE
52 Week range USD 36.82-27.11



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North America Utilities
Daniel Ford, CFA
1.212.526.0836
daniel.x.ford@barclays.com
BCI, New York

William Zhang
1.212.526.6203
william.zhang@barclays.com
BCI, New York

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

North America Utilities — Industry View: NEUTRAL

NiSource, Inc (NI)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2013A	2014E	2015E	2016E	CAGR
Revenue	5,657	6,112	6,329	6,592	5.2%
EBITDA (adj)	1,701	1,938	2,117	2,343	11.3%
EBIT (adj)	1,143	1,319	1,458	1,643	12.8%
Pre-tax income (adj)	753	825	896	1,039	11.4%
Net income (adj)	494	536	582	676	11.0%
EPS (adj) ($)	1.58	1.70	1.84	2.13	10.4%
Diluted shares (mn)	313.6	315.0	316.4	317.6	0.4%
DPS ($)	1.00	1.08	1.12	1.16	5.1%

Margin and return data					Average
EBITDA (adj) margin (%)	30.1	31.7	33.4	35.5	32.7
EBIT (adj) margin (%)	20.2	21.6	23.0	24.9	22.4
Pre-tax (adj) margin (%)	13.3	13.5	14.2	15.8	14.2
Net (adj) margin (%)	8.7	8.8	9.2	10.2	9.2
ROIC (%)	8.2	8.5	8.6	9.1	8.6
ROA (%)	2.2	2.2	2.2	2.5	2.3
ROE (%)	8.3	8.7	9.1	10.0	9.0

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	14,047	15,897	17,477	19,066	10.7%
Total net assets	22,654	24,373	26,084	27,515	6.7%
Capital employed	14,022	15,535	17,047	18,077	8.8%
Shareholders' equity	5,887	6,133	6,411	6,763	4.7%
Net debt/(funds)	8,109	9,261	10,402	11,286	11.7%
Cash flow from operations	1,437	1,279	1,403	1,729	6.4%
Capital expenditure	-1,880	-2,150	-2,239	-2,289	N/A
Free cash flow	-679	-1,040	-1,026	-936	N/A
Pre-dividend FCF	-374	-699	-671	-568	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	23.0	21.3	19.7	17.1	20.3
EV/EBITDA (adj) (x)	11.5	10.7	10.3	9.7	10.5
EV/EBIT (adj) (x)	17.1	15.6	14.9	13.8	15.4
P/BV (x)	1.9	1.9	1.8	1.7	1.8
Dividend yield (%)	2.8	3.0	3.1	3.2	3.0
Total debt/capital (%)	58.0	60.5	62.4	62.6	60.9
Net debt/EBITDA (adj) (x)	4.8	4.8	4.9	4.8	4.8

Selected operating metrics					Average
Payout ratio (%)	63.3	63.4	60.9	54.5	60.5
Interest cover (x)	2.8	2.7	2.6	2.7	2.7
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Price (29-Apr-2014)	**USD 36.29**
Price Target	**USD 38.00**

Why Overweight? We rate NI as Overweight because of the attractive risk/reward profile from NI's well-defined rate base growth strategy which we see as relatively low-risk. Moreover, we believe additional value can be captured in NI's potential for an MLP. We see meaningful growth opportunities for midstream, which should drive a high growth dropdown strategy.

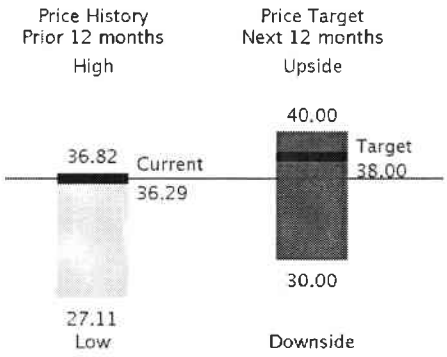
Upside case — **USD 40.00**

Our upside case assumes the Columbia Pipeline Group is converted to an MLP with a 3.2% target yield.

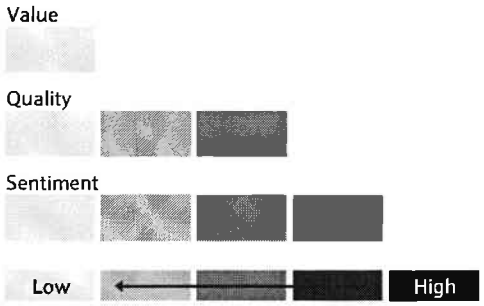
Downside case — **USD 30.00**

Our downside case assumes NI does not execute a midstream MLP, and we instead assign a 9.5x 2015E EBITDA to 2015E midstream earnings in our valuation.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research
Note: FY End Dec

Midstream Project Estimates

Below we provide our estimates for the EBITDA potential for Columbia Pipeline Group's Rayne/Leach Express and WB Express projects. The estimates are based on rates and capacity figures suggested in the respective non-binding open seasons. We assume a 65% EBITDA margin on the projects.

The WB Express would add capacity along Columbia Gas Transmission's WB line, moving gas to delivery points both to the east and to the west. Capacity to eastern delivery points, including Loudoun, VA, the Cover Point Pipeline, and Transco Z5, should be around 0.5-1.2 bcf/day. Western delivery points include Broad Run, WV leading to Tennessee Gas Pipeline, Leach, and TCO Pool, and have a capacity of 0.4-0.8 bcf/day. We assume a midpoint of these capacity estimates in our analysis below.

FIGURE 1
Columbia Pipeline Group Midstream Project Estimates

	Leach Express	Rayne Express	WB Express-East	WB Express-West
Potential In-Service Date	4Q 2017	4Q 2017	4Q 2018	4Q 2018
Rate ($/Dth)	$0.45	$0.16	$0.65	$0.35
Pipeline Capacity (mmcf/day)	1,500	800	850	600
Annual Revenue ($MM)	$246	$47	$202	$77
EBITDA Margin	65%	65%	65%	65%
Incremental EBITDA	**$160**	**$30**	**$131**	**$50**

Source: Company documents, Barclays Research

Valuation

Our new $38 price target is based on a sum of the parts with an MLP scenario. We value the regulated utility segments using a 17.4x 2015 EPS multiple, which is a 10% quality premium to the group average. We assume a 3.6% target yield and $700 million in 2015 EBITDA for the midstream operations.

Our previous $36 price target was also a sum of the parts with an MLP scenario. We had valued the regulated utility segments using a 15.7x 2015 EPS multiple, which is a 10% quality premium to the group average. We assumed a 3.9% target yield and $700 million in 2015 EBITDA for the midstream operations.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 29-Apr-2014, USD 36.29), Overweight/Neutral, A/C/D/J/K/L/M/O

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CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	Integrys Energy Group Inc. (TEG)
ITC Holdings (ITC)	National Grid Plc (NGG)	NiSource, Inc. (NI)
Northeast Utilities (NU)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	PPL Corporation (PPL)	SCANA Corp. (SCG)
Sempra Energy (SRE)	Southern Co. (SO)	TECO Energy (TE)
Westar Energy (WR)	Wisconsin Energy (WEC)	Xcel Energy (XEL)

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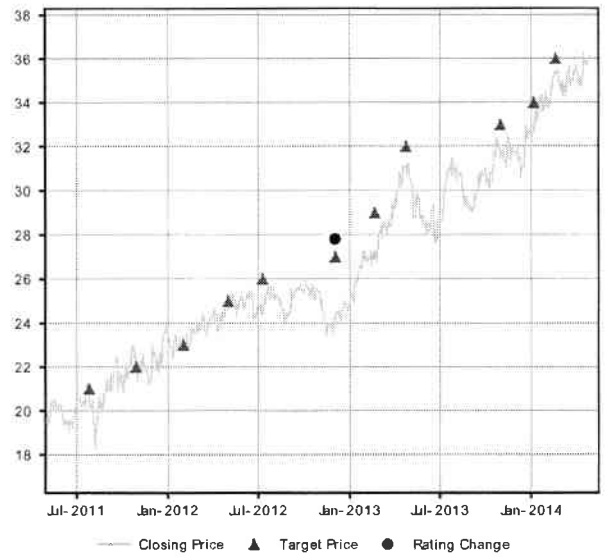
NiSource, Inc. (NI)

USD 36.29 (29-Apr-2014)

Stock Rating	Industry View
OVERWEIGHT	**NEUTRAL**

Rating and Price Target Chart - USD (as of 29-Apr-2014) — Currency=USD



Date	Closing Price	Rating	Adjusted Price Target
19-Feb-2014	35.40		36.00
06-Jan-2014	32.95		34.00
31-Oct-2013	31.52		33.00
24-Apr-2013	31.14		32.00
20-Feb-2013	27.04		29.00
03-Dec-2012	24.34	Overweight	27.00
09-Jul-2012	24.41		26.00
01-May-2012	25.33		25.00
01-Feb-2012	23.45		23.00
28-Oct-2011	22.52		22.00
26-Jul-2011	20.85		21.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

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NiSource

(NI-NYSE)

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

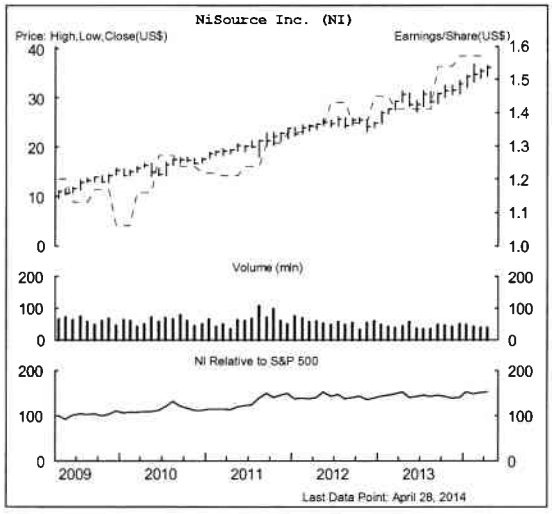
May 1, 2014

Carl Kirst, CFA **713-546-9756**
BMO Capital Markets Corp.
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan, CFA
BMO Capital Markets Corp.
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com / leah.jordan@bmo.com

1Q14 Beat on Solid Operations

Price (30-Apr)	$36.32	**52-Week High**	$36.82
Target Price	$36.00↑	**52-Week Low**	$27.11



(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	$1.44	$1.57	$1.69↑	$1.77
P/E			21.5x	20.5x
CFPS	$4.31	$4.37	$4.45↑	$4.25↑
P/CFPS			8.2x	8.5x
Rev. ($mm)	$5,091	$5,657	$6,273	$6,480
EV ($mm)	$14,955	$16,838	$16,838	$16,838
EBITDA ($mm)	$1,615	$1,745	$1,920	$2,037
EV/EBITDA	9.3x	9.6x	8.8x	8.3x

Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2012A	$0.73	$0.23	$0.05	$0.44
2013A	$0.69	$0.23	$0.18	$0.47
2014E	$0.82a	$0.23	$0.16↑	$0.48↓

Dividend	$1.00	**Yield**	2.8%
Book Value	$18.21	**Price/Book**	2.0x
Shares O/S (mm)	313.3	**Mkt. Cap (mm)**	$11,379
Float O/S (mm)	310.8	**Float Cap (mm)**	$11,289
Wkly Vol (000s)	9,852	**Wkly $ Vol (mm)**	$312.8
Net Debt ($mm)	$6,740	**Next Rep. Date**	na

Notes: All values in US$
Major Shareholders:
First Call Mean Estimates: NISOURCE INC (US$) 2014E: $1.67; 2015E: $1.79

Event

NI reported 1Q14 clean EPS of $0.82, above our consensus-aligned estimate of $0.79. Operationally, the quarter was solid with electric on target and $0.02 beats in both pipes and LDC. The remainder of the delta was a net penny miss from corp/other, interest, and taxes. Most notably, discussions continue with potential customers for the proposed Leach and Rayne pipeline projects that aim to transport Marcellus/Utica gas to the Gulf Coast, and we now expect firm contracts (and project detail) by the next earnings call (July/August). Despite limited information given competitive negotiations, we estimate Leach and Rayne to represent ~$1.5 billion of combined investment, providing ~$2/share of NPV assuming 50/50 debt/equity and 7.0x EBITDA deployment (analogous to a 12% ROE at the pipeline). NI also recently concluded a successful non-binding open season for WB Express, which would provide over 1 Bcf/d of takeaway capacity for Marcellus gas. Although nascent stage for what would be a 2019 pipeline, we estimate this project could nonetheless be another ~$1 billion of investment potential, and look for more detail by year-end. Moreover, these three projects—Leach, Rayne, and WMB Express—could in turn represent significant future earnings and growth potential for a hypothetical infrastructure MLP, of which a decision on formation is still expected in the 3Q of this year (and which is broadly expected).

Impact & Analysis

Owing to the 1Q beat, we are increasing our 2014 estimate by $0.03 to $1.69. We now reside at the top-end of the reaffirmed guidance range of $1.61-$1.71, which we anticipate to increase later this year. Our 2015 estimate is unchanged at $1.77, although secularly we think the targeted 5%-7% EPS CAGR has been largely de-risked.

Valuation & Recommendation

We maintain our Market Perform stock rating, although we're raising our price target to $36, reflecting the $2/share NPV add from Leach and Rayne, which we're now building in given the very high odds of securing. We also note another $1/share of potential from the WB Express, but whose inclusion is premature at this early stage.

Changes	Annual EPS	Annual CFPS	Quarterly EPS	Target
	2014E $1.66 to $1.69	2014E $3.94 to $4.45	Q3/14E $0.15 to $0.16	$34.00 to $36.00
		2015E $4.14 to $4.25	Q4/14E $0.49 to $0.48	

1Q14 at a Glance

NI reported 1Q14 adjusted EPS of $0.82, above our consensus-aligned estimate of $0.79. Primary deltas to our estimate along with business segment summaries are detailed below:

+$0.02 Pipes. EBIT of $159 million was higher than our $151 million estimate primarily due to a benefit related to the reformation of leases for the minerals arrangement with Hilcorp, which was inclusive in the original deal structure but not realized until this quarter. Of note, total throughput of 589 MMDth increased 10% y/y, mainly due to colder weather increasing natural gas demand. Included in results was a $17.5mm gain ($0.04 of EPS) from the reformation/sale of leases to Hilcorp, which while operational is very lumpy in nature, and is not expected to recur in 1Q15.

+$0.02 LDC. Adjusted EBIT of $280 million (net of weather) was higher than our $269 million estimate primarily due a greater net sales tariff. Of note, total volumes of 398 MMDth increased 10% y/y, mainly due to colder weather.

Electric on target. Adjusted EBIT of $74 million (net of weather) was in line with our estimate. Of note, total volumes of 4,748 GW hours increased 14% y/y, mainly from higher usage by industrial and wholesale customers.

-$0.01 Corp/Other. Adjusted EBIT of -$4 million (net of loss on asset sale) was lower than our $1 million estimate primarily due to greater operating expenses.

+$0.01 Interest. Interest expense of $109 million was lower than our $112 million.

-$0.01 Taxes. The effective tax rate of 38% was higher than our 35% estimate.

Major Project Update

Leach Express & Rayne Express

With an estimated capacity of 1 Bcf/d to 1.5 Bcf/d, the proposed Leach Express project aims to transport Marcellus/Utica gas southward, namely to the Leach and TCO Pool delivery points. We estimate Leach Express to cost approximately $1.1-$1.2 billion (at the midpoint) due to the size and scope of the project. Specifically, Leach Express would involve looping and new building in addition to incremental compression.

With an estimated capacity of ~0.6 Bcf/d, the proposed Rayne Express project aims to backhaul the remaining capacity of the Columbia Gulf Pipeline, transporting gas south to the Gulf Coast from the Leach receipt point. Recognizing it is smaller in size and scope (e.g., additional compression only) compared to Leach Express, we estimate Rayne Express to cost about $350-$400 million.

Notably, NI received strong customer interest from its non-binding open seasons for both the Leach and Rayne pipeline projects, and currently, NI remains in discussion with potential customers. We note firm contracts, and subsequently more detail, are likely in 3Q14.

On a combined basis, we estimate Rayne & Leach to represent approximately $1.5 billion of total investment and over $200 million of annual EBITDA (assuming 7.0x deployment), which provides ~$2/share of NPV.

WB Express

NI recently concluded a successful non-binding open season for its proposed WB Express project, which would provide over 1 Bcf/d of takeaway capacity for Marcellus gas to access both eastern and western markets. Although it is still early in the process, this project could be another ~$1 billion of investment given its size/scope (similar to Leach Express), which suggests over $1/share of additional upside. We look for more detail by year-end.

Exhibit 1: NiSource Valuation

NiSource Inc.

Sum-of-the-Parts Valuation Analysis

	2015E	Valuation Multiple		Notes:
HYPOTHETICAL NI MLP				Assumes NI files with SEC in 3Q14 for pipeline MLP, putting IPO possibly 2Q15
General Partner Interest / GP Distribution			$1	
Multiple (unlevered, pre-tax free cash)			30.0x	
GP Enterprise Value			$21	
NI MLP units (million units)			10	
NI MLP Share Price			$20.00	
NI MLP Market Value			$200	
Capital Gains Potential on LP units			—	
NI MLP Enterprise Value net to NI			$200	
Total NI MLP Enterprise Value			**$221**	
NI Parent Level				
EBITDA by Segment				
Gas Distribution	$768	10.0x	$7,683	- 1x turn higher given $700mm 7-yr pipe modernization prgm
Gas Pipelines	$681			Consolidated Pipeline EBITDA
Excluding MLP consolidated EBITDA	($100)			Adjusts out $100mm ebitda for MLP
Net Gas Pipelines	$581	11.0x	$6,390	1x turn higher given $4B 10-yr pipe modernization prgm (see tab);
Electric	$569	9.0x	$5,117	- 1x turn higher given $3-4B L-T t&d modernization prgm (see tab)
Other	$80	5.0x	$401	
Enterprise Value of Parent Level Assets	**$2,579**	7.6x	**$19,591**	
Enterprise Value of NI			**$19,813**	
Net NI Debt (YE 2014)			($9,953)	
			$1,000	Assumes $1B from MLP capital proceeds (debt/equity) go to pay down NI parent level debt
Preferred & Minority Interests			—	
Pension/OPEB Underfunded Obligation	($1,088)	25%	($272)	- est underfunded at YE12; risk adjusted at 25% (rest assumes recovery in rates)

	Gross	Risked	Net	Value		
Utica Acreage - Central/West	175,000	0%	0	$5,000	—	- Management indicates 150-200k potentially prospective with geotechnical variability on size of oil window (full acreage position is 300k)

Net Equity Value	$10,588
Diluted Shares Outstanding	316
$/sh	$33.50
Rayne/Leach	$2.01
$/sh	$35.51
Average Target Price (rounded):	**$36.00**
Valuation Summary:	
Current Price	$36.32
Current Dividend	$1.00
Appreciation Potential	-0.9%
Current Yield	2.8%
Total Return Potential	**1.9%**

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E
Operating Revenues:											
Gas Distribution	$3,303	$3,096	$2,918	$1,960	$2,226	$1,215	$605	$409	$901	$3,130	$3,526
Pipelines & Storage	1,241	1,261	1,355	1,462	1,643	579	289	300	340	1,508	1,367
Electric	1,213	1,375	1,428	1,508	1,563	450	396	425	400	1,671	1,716
Other	542	603	319	161	224	77	(19)	(29)	(65)	(36)	(128)
Revenues	6,299	6,335	6,019	5,091	5,657	2,321	1,272	1,105	1,576	6,273	6,480
Operating Expenses:											
Cost of Sales	2,978	2,898	2,556	1,549	1,816	1,061	378	228	478	2,145	2,175
Operation & Maintenance	1,650	1,654	1,723	1,674	1,874	501	464	479	519	1,964	2,017
DD&A	589	596	538	564	577	149	152	154	154	609	645
Loss (gain) on asset sales	16	1	17	(4)	(18)	(16)	0	0	0	(16)	0
Taxes and Other	283	287	295	289	301	101	66	60	82	310	307
Total Operating Expenses	5,516	5,436	5,129	4,072	4,550	1,797	1,059	921	1,234	5,012	5,143
Operating Income	783	899	890	1,020	1,108	524	212	184	341	1,261	1,337
Other:											
Equity in Earnings	16	15	15	32	36	10	12	12	12	45	60
Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Other	(6)	4	(61)	(1)	24	5	0	0	1	6	(4)
Total Other Income	10	19	(47)	31	60	14	12	12	13	51	56
Reported EBIT	**$793**	**$918**	**$844**	**$1,051**	**$1,168**	**$538**	**$224**	**$195**	**$354**	**$1,312**	**$1,392**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$1,615**	**$1,745**	**$687**	**$376**	**$349**	**$508**	**$1,920**	**$2,037**
EBIT Composition											
Gas Distribution	328	324	393	403	445	302	56	3	168	530	542
Pipelines & Storage	389	377	360	398	441	159	103	100	127	490	543
Electric	117	233	210	251	266	79	65	92	58	294	314
Corporate & Other	(40)	(16)	(119)	(2)	15	(1)	(1)	(1)	0	(2)	(6)
Total EBIT	**$793**	**$918**	**$844**	**$1,051**	**$1,168**	**$538**	**$224**	**$195**	**$354**	**$1,312**	**$1,392**
Interest Expense	399	392	377	416	415	109	112	119	120	459	517
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	416	415	109	112	119	120	459	517
Income Before Taxes	394	526	467	635	753	429	113	77	234	852	875
Income Taxes											
Current	(214)	118	(15)	(86)	(26)	14	10	7	20	51	153
Deferred	378	55	178	305	287	149	30	20	61	260	153
Total Income Taxes	165	173	163	219	262	163	39	27	82	311	306
Effective Inc. Tax Rate (%)	42%	33%	35%	34%	35%	38%	35%	35%	35%	36%	35%
Net Income From Continuing Operations	229	353	304	416	491	266	73	50	152	541	569
Discontinued Operations, net	(12)	(0)	(5)	0	6	(0)	0	0	0	(0)	0
Change in Accounting	(0)	(58)	0	0	35	0	0	0	0	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$416**	**$532**	**$266**	**$73**	**$50**	**$152**	**$541**	**$569**
Adjustments to Core											
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(17)	(3)	8	0	0	0	8	0
Total Adjustments	(49)	11	(74)	(17)	(3)	8	0	0	0	8	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$433**	**$494**	**$258**	**$73**	**$50**	**$152**	**$533**	**$569**
Shares Outstanding (mm)											
Avg. Diluted Shares Out	276	280	289	300	314	315	316	316	317	316	322
Avg. Basic Shares Out	275	278	280	292	312	314	315	315	316	315	321
Period-end basic Shares Out	276	279	282	311	314	315	315	316	316	316	328
Earnings Per Share (Diluted)											
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$1.39**	**$1.70**	**$0.84**	**$0.23**	**$0.16**	**$0.48**	**$1.71**	**$1.77**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$1.44**	**$1.57**	**$0.82**	**$0.23**	**$0.16**	**$0.48**	**$1.69**	**$1.77**
EPS Growth (core)	-19.4%	21.0%	7.4%	10.0%	9.3%	18.9%	0.5%	-13.2%	1.0%	7.1%	4.8%
Dividends											
Cash per share	$0.92	$0.92	$0.92	$0.94	$0.98	$0.25	$0.25	$0.26	$0.26	$1.02	$1.06
Div Growth	0.0%	0.0%	0.0%	2.2%	4.3%	4.2%	4.2%	4.0%	4.0%	4.1%	3.9%
Payout Ratio (%)	116.6%	87.5%	88.7%	67.9%	57.8%					59.6%	59.9%

Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E
Operating Activities											
GAAP Net Income from Cont. Ops	218	292	299	416	532	266	73	50	152	541	569
DD&A	589	596	538	562	577	149	152	154	154	609	645
Deferred income tax benefit	378	200	178	305	287	149	30	20	61	260	153
Deferred Revenues	4	(20)	3	(8)	(7)	2	0	0	0	2	0
Amortization of premium on debt	13	10	9	10	9	2	0	0	0	2	0
Less Gain or Loss on assets	(4)	(0)	0	(4)	(18)	(16)	0	0	0	(16)	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	4	(4)	(2)	0	0	0	(2)	0
Other non-cash income items	36	112	139	11	(6)	11	0	0	0	11	0
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$1,295**	**$1,372**	**$561**	**$255**	**$224**	**$368**	**$1,407**	**$1,366**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$4.31**	**$4.37**	**$1.78**	**$0.81**	**$0.71**	**$1.16**	**$4.45**	**$4.25**
Working Capital:											
Accounts and notes receivable	259	(244)	318	(181)	31	(264)				(264)	0
Inventory	129	103	(142)	62	(9)	274				274	0
Less Change of Price Risk Management Activities	0	0	0	0	0	0				0	0
Accounts payable	(192)	38	(155)	57	68	127				127	0
Customer deposit, net	25	(25)	(5)	(44)	(7)	(23)				(23)	0
Other assets	83	(206)	(201)	144	21	(276)				(276)	0
Other Liabilities	382	(86)	(78)	(68)	(49)	(4)				(4)	0
Changes in Working Capital	686	(420)	(262)	(30)	55	(167)	0	0	0	(167)	0
Discontinued Operations	(255)	(57)	(50)	11	10	(0)	0	0	0	(0)	0
Cash Flow From Operations	1,651	720	870	1,276	1,437	394	255	224	368	1,240	1,366
Investing Activities											
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(1,499)	(1,880)	(386)	(538)	(538)	(689)	(2,150)	(1,675)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	26	18	5	0	0	0	5	0
Other	109	(140)	(34)	51	(148)	(27)	0	0	0	(27)	0
Cash Used in Investing	(662)	(944)	(1,149)	(1,422)	(2,010)	(408)	(538)	(538)	(689)	(2,172)	(1,675)
Discontinued Operations	8	0	0	(3)	119	0	0	0	0	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(1,425)	(1,891)	(408)	(538)	(538)	(689)	(2,172)	(1,675)
Financing Activities											
Sale of Common Stock	26	14	24	384	44	9	12	12	12	45	398
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	988	1,308	0	0	1,000	0	1,000	1,230
Redemption of Common Stock	(3)	(2)	(3)	(10)	(8)	(10)	0	0	0	(10)	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(332)	(511)	(9)	0	(500)	0	(509)	(230)
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(582)	(78)	114	350	0	250	714	(700)
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Dividends	(253)	(256)	(258)	(273)	(306)	(79)	(74)	(77)	(77)	(306)	(320)
Other	0	0	(62)	0	(3)	0	0	0	0	0	0
Cash From (For) Financing	(1,000)	216	281	175	445	25	288	435	185	933	378
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	175	445	25	288	435	185	933	378
Change in Cash	($4)	($7)	$2	$25	($9)	$11	$5	$121	($136)	$1	$69
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$36	$27	$38	$43	$164	$27	$28
Cash & Temp. Inv. End of Yr.	$16	$9	$12	$37	$27	$38	$43	$164	$28	$28	$98

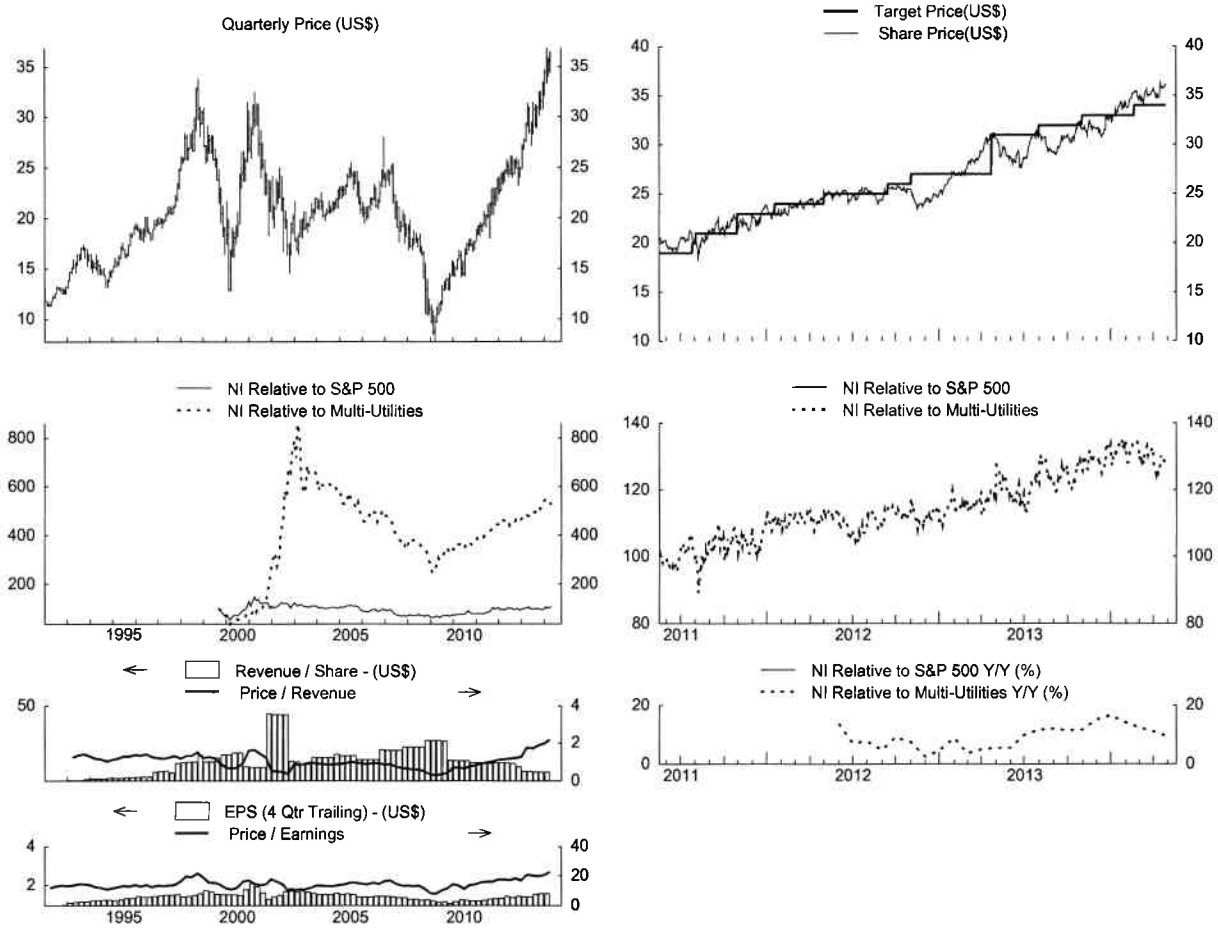
Source: BMO Capital Markets estimates, company data.

Exhibit 4: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E
Assets:											
Cash & Equivalent	16	9	12	36	27	38	43	164	28	28	98
Restricted Cash	175	203	161	47	8	11	11	11	11	11	11
Receivables	848	1,121	951	1,114	1,105	1,471	1,471	1,471	1,471	1,471	1,471
Allowance for Uncollectable Acts.	(40)	(41)	(31)	(24)	(24)	(35)	(35)	(35)	(35)	(35)	(35)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	40	136	21	45	46	114	114	114	114	114	114
Inventories	385	428	566	496	500	226	226	226	226	226	226
ST Assets Price Risk Management	173	160	137	92	23	14	14	14	14	14	14
Regulatory Assets	238	152	170	163	143	159	159	159	159	159	159
Other Current Assets	387	283	262	384	331	231	231	231	231	231	231
Total Current Assets	2,224	2,449	2,248	2,352	2,159	2,230	2,235	2,357	2,220	2,220	2,290
Plant & Equipment (Gross)	19,038	19,590	20,470	21,902	23,622	24,016	24,554	25,091	25,780	25,780	27,455
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,986)	(9,257)	(9,359)	(9,510)	(9,664)	(9,818)	(9,818)	(10,463)
Plant & Equipment, Net	10,684	11,097	11,800	12,916	14,365	14,658	15,043	15,427	15,962	15,962	16,992
Investments	295	349	356	438	578	610	610	610	610	610	610
LT Assets Price Risk Management	238	240	189	56	1	0	0	0	0	0	0
Regulatory Assets	1,644	1,650	1,978	2,024	1,522	1,495	1,495	1,495	1,495	1,495	1,495
Goodwill	3,677	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Intangible Assets	320	309	298	287	276	273	273	273	273	273	273
Other Long Term Assets (& flywheel)	53	168	162	94	87	85	175	175	175	175	175
Total Assets	19,134	19,939	20,708	21,845	22,654	23,017	23,498	24,003	24,401	24,401	25,501
Liabilities & Equity:											
Short Term Debt	800	1,417	1,687	1,284	1,240	1,343	1,693	1,693	1,943	1,943	1,243
Accounts Payables	502	582	435	539	805	793	793	793	793	793	793
ST Liabilities Price Risk Management	190	174	168	95	1	0	0	0	0	0	0
Regulatory Liabilities	44	93	112	172	60	79	79	79	79	79	79
Other	1,575	1,384	1,245	1,212	1,071	1,126	1,126	1,126	1,126	1,126	1,126
Total Current Liab	3,111	3,649	3,646	3,302	3,178	3,341	3,691	3,691	3,941	3,941	3,241
Long Term Debt	5,988	5,936	6,267	6,819	7,593	7,639	7,639	8,139	8,139	8,139	9,139
LT Liabilities Price Risk Management	170	182	139	20	0	0	0	0	0	0	0
Accumulated Deferred Taxes	2,018	2,243	2,571	2,953	3,278	3,412	3,442	3,462	3,523	3,523	3,676
Regulatory Liabilities	1,559	1,596	1,664	1,593	1,670	1,678	1,678	1,678	1,678	1,678	1,678
Other Liabilities	1,572	1,409	1,424	1,603	1,048	1,026	1,026	1,026	1,026	1,026	1,026
Total Liabilities	14,418	15,016	15,711	16,290	16,767	17,095	17,475	17,995	18,306	18,306	18,759
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,554	5,887	6,012	6,023	6,008	6,095	6,095	6,742
Other	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	21,845	22,653	23,107	23,498	24,003	24,401	24,401	25,501

Source: BMO Capital Markets estimates, company data.

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
2009	1.06	14.9	7.3	0.92	11.8	5.8	87	17.6	0.9	0.4	6
2010	1.22	14.7	11.6	0.92	6.5	5.1	75	17.7	1.0	0.8	7
2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.9	1.3	0.9	7
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	18.8	1.4	1.2	8
2013	1.57	21.3	15.3	1.00	4.2	3.0	64	17.5	1.9	1.4	9
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.57	22.6		1.00	2.8		64	18.2	2.0		9
Growth(%):											
5 Year:	5.5			1.7				1.1			
10 Year:	0.1			0.8				0.8			
20 Year:	1.3			1.7				4.0			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q4/2013.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (April 28, 2014): $36.11
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation
Methodology: Our target price for NI is based on a sum-of-the parts valuation. We individually value each one of NI's business segments using a target EV/EBITDA multiple approach. Our target multiple for each segment is derived from analyzing historical multiple trading ranges, peer multiples, and adjusting for any expectation of future changes in investor sentiment, which would lead to multiple expansion/contraction. We next add together the segment valuations to reach an operating enterprise value, which is then adjusted for net debt, off-balance sheet items, operating leases, pension costs, and any other non-operating obligations. After adjustments, we then have our net equity value, which is divided by fully diluted shares outstanding to arrive at our target price.
Risks: Risks to our 12-month price target for NI include: 1) Conservation - conservation and bad debt expense from high commodity prices could impact earnings more than the base level we have accounted for; 2) Weather; 3) Interest rates; 4) Regulatory risk - rulings counter to assumptions and guidance could negatively impact our valuations going forward.

Distribution of Ratings (March 31, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.5%	60.7%	40.8%	53.6%	53.6%
Hold	Market Perform	52.8%	10.8%	38.2%	52.8%	43.8%	40.8%
Sell	Underperform	5.2%	3.2%	1.1%	6.3%	2.7%	5.6%

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30 April 2014
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**NEUTRAL***
Price (30 Apr 14, US$)	36.32
Target price (US$)	(from 39.00) 40.00[1]
52-week price range	36.32 - 27.62
Market cap. (US$ m)	11,432.03
Enterprise value (US$ m)	21,262.54

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

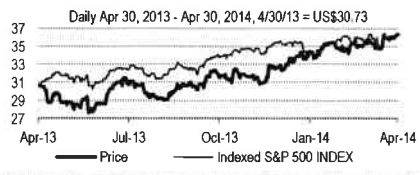
Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

EARNINGS

Weather-induced Beat; TP Up by $1, to $40; MLP Info a 3Q Event; Maintain Neutral

- **Raising Our Estimates above Guidance on the Beat:** Management reaffirmed its $1.61-1.71 EPS guidance for 2014. We expect 2014 EPS of $1.72. NI has put into motion a $2.15B capital expenditure plan for 2014 with a growing inventory of midstream projects.
- **Large Cap Ex Inventory Getting Larger**: The Rayne and Leach projects taking gas from North to South have advanced from the "evaluation" stage to "in development" stage and we believe is close to the "in execution stage". NI also added the WB express project to the "in evaluation". We figure another 10%+ will be added to the already sizable $25B+ inventory of growth projects over the next decade.
- **1Q14 Results Beat:** NI reported 1Q14 EPU of $0.82 and segment EBITDA of $658 million, ahead of our $0.79 and $643million estimate. Gas Distribution segment performed better than expectations as a result of higher volumes due to 19% cooler weather than normal. Dividend of $0.25/share was in line with our estimate.
- **Valuation-Raising by $1, to $40, Maintain Neutral:** Our $40 TP is based on 18-21x 2015E EPS on the electric utility business, 10x 2015E EBITDA multiple on the natural gas utilities segment, and 12.5x EBITDA multiple on the assets that qualify for MLP treatment (11.5% of the CGP assets) and 1.5 turns lower for the remainder of the CGP assets. Together with NTM dividend of $1.03, this translates to a total return of approximately 10-20%, supportive of a Neutral rating on the shares.

Share price performance



On 04/30/14 the S&P 500 INDEX closed at 1883.95

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.69	0.23	0.18	0.47
2014E	0.82	0.24	0.12	0.52
2015E	0.90	0.25	0.10	0.60

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	1.57	1.72	1.85	2.02
Prev. EPS (US$)	—	1.68	1.78	1.87
P/E (x)	23.2	21.1	19.7	18.0
P/E rel. (%)	135.1	132.8	137.8	140.2
Revenue (US$ m)	5,657.3	6,313.2	6,799.9	7,467.1
EBITDA (US$ m)	1,720.7	1,921.3	2,128.0	2,346.1
OCFPS (US$)	4.58	4.23	5.03	4.12
P/OCF (x)	7.2	8.6	7.2	8.8
EV/EBITDA (current)	11.8	10.5	9.5	8.6
Net debt (US$ m)	8,807	9,831	10,162	10,795
ROIC (%)	5.07	5.29	5.57	5.68

Number of shares (m)	314.76	IC (current, US$ m)	14,693.80
BV/share (Next Qtr., US$)	19.4	EV/IC (x)	1.4
Net debt (Next Qtr., US$ m)	8,943.5	Dividend (current, US$)	1.0
Net debt/tot cap (Next Qtr., %)	148.8	Dividend yield (%)	0.69

Source: Company data, Credit Suisse estimates.

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.4 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 642 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 460,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI also holds substantial acreage.

NI also has an inventory of project opportunities:

- Over $10 billion in its regulated Gas Distribution segment,
- $4.2-$6.4 billion of electric operations infrastructure,
- $8-$10.5 billion in its Columbia Pipeline Group. There is $3-$4B spread across eight different upgrade and expansion projects as well as a $4-$5B opportunity for a pipeline modernization program approved by the FERC for cost. It also is developing transport of gas from the Marcellus and Utica on Columbia Gas (1.5Bcfd and known as Leach Express), Columbia Gulf (800mmcf/d known as Rayne), and an East/West project for 1.0bcf/d known as WB express on Columbia Gas. The CPG group also has $1-$1.5B of midstream projects spread across 6 different opportunities and a couple of production opportunities in the Utica where it is in a JV to develop 120,000 acres in the Utica.

Importantly, we believe NI has the liquidity, balance sheet, and opportunity set in place to maintain an annual cap ex program of ~$2B ($2.15B estimated for 2014).

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1Q14 Earnings Update

Exhibit 1: **Quarterly Earnings Variance**

Earnings Variance	1Q14 Actual	1Q14 CS Estimate	Diff.	Diff. (%)	1Q13 Actual	Comments
Segment EBITDA						
Gas Distribution	332	315	17	6%	282	Higher volumes due to extreme cold weather
NIPSCO Electric	135	135	(0)	0%	128	
Gas Transmission & Storage	189	191	(2)	-1%	159	
Other	2	2	0	12%	3	
Total EBITDA (recurring)	**658**	**643**	**15**	**2%**	**571**	
Segment EBIT						
Gas Distribution	280	262	18	7%	233	
NIPSCO Electric	74	74	0	0%	65	
Gas Transmission & Storage	159	162	(3)	-2%	133	
Other	(4)	(1)	(3)	NM	(4)	
Total EBIT (recurring)	**509**	**496**	**13**	**3%**	**428**	
Interest Expense	109	114	(5)	-4%	99	
Other Expenses	(5)	0	(5)	NM	(4)	
Taxes	146	134	12	9%	118	
Recurring Net Income	**258**	249	**10**	**4%**	**215**	
Diluted Wtd Avg shares outstanding	314	314	0	0%	311	
Recurring EPS - Diluted	**$0.82**	**$0.79**	**$0.03**	**4%**	**$0.69**	
Dividend per share	**$0.25**	**$0.25**	**$0.00**	**0%**	**$0.24**	
Operational Metrics						
Gas Distribution						
Total Volumes (MDth)	**398**	**363**	**35**	**10%**	**363**	Weather 19% cooler than normal
Total Customers	**3,384,943**	**3,402,483**	**(17,540)**	**-1%**	**3,362,428**	
Electric Operations						
Residential	402,676	401,559	1,117	0%	401,559	
Commercial	54,378	54,084	294	1%	54,084	
Industrial	2,370	2,373	(3)	0%	2,373	
Other electric service	729	725	4	1%	725	
Total Heating customers (000s)	**460,153**	**458,741**	**1,412**	**0%**	**458,741**	
Sales (Gigawatt Hours)						
Residential	896	881	15	2%	864	
Commercial	936	935	0	0%	921	
Industrial	2,607	2,351	256	11%	2,320	
Wholesale and other	345	96	249	258%	95	
Total	**4,784**	**4,264**	**520**	**12%**	**4,199**	
Columbia Pipeline Group Operations						
Columbia Transmission	460	458	2	0%	436	
Columbia Gulf Mainline	185	200	(15)	-7%	190	
Intrasegment eliminations	(62)	(94)	32	-34%	(94)	
Crossroads Gas Pipeline	6	5	1	13%	5	
Total Throughput (MMDth)	**589**	**568**	**20**	**4%**	**537**	

Source: Company data, Credit Suisse estimates

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Segment Update

Columbia Pipeline Group (CPG)

- **1Q14 Performance:** Operating earnings up 19% y/y at $159mm and total throughput of 589 MMDth was up 10% y/y.
- **CapEx:** NI expects to spend ~$800mm on CPG capital projects in 2014. These include the 50:50 JV with Harvest pipeline for the Pennant Midstream, LLC NGL pipeline to come online in 3Q14, Washington County Gathering project, Cameron Access Project (the LNG facility received DOE export approval in Feb 2014) and other pipeline upgrade and modernization projects.
- **2.5 Bcf/d of Open Seasons Completed:** NI completed successful open seasons on the Rayne Xpress and Leach Xpress projects that will together provide 1.5 Bcf/d of transportation capacity and the WB Xpress project with 1 Bcf/d of transportation capacity. Rayne and Leach have advanced from in evaluation to in development and are close to being in execution. The open season concluded on January 10 and received very strong interest. Tariffs range from $0.35/MMBtu to $0.55/MMBtu depending on access and exit points on Leach and on Rayne tariffs are running up to $0.30/MMBtu. $1.0B to $1.5B. WB express is a new project from Ky/WV to Maryland and is in the evaluation stage. NI conducted a non-binding open season with very encouraging results. We believe this proposed project is likely to advance to the "in-development" stage.

NIPSCO

- **1Q14 Performance:** Operating earnings up 14% y/y at $74mm primarily driven by higher wholesale sales (up 265% y/y) while total heating customers remained flat.
- **CapEx:** In 2014, NI expects to spend ~$450mm on NIPSCO capital projects, which include ~$400-500mm to be spent on new transmission lines. Over the next decade NI plans to invest over $6b on NIPSCO's infrastructure investment programs.

Gas Distribution

- **1Q14 Performance:** 19% cooler than normal weather propelled volumes up by 10% y/y to 398 MMDth, resulting in operating earnings of $280mm, up 20% y/y. Gross profit (net revenue) per customer was up 12% y/y.
- **CapEx:** In 2014, NI expects to spend ~$815mm on gas distribution capital projects, which includes a $700mm investment on the NIPSCO natural gas system focused on system modernization and system extensions to rural customers. The modernization which was part of SB560 in Indiana just received approval.

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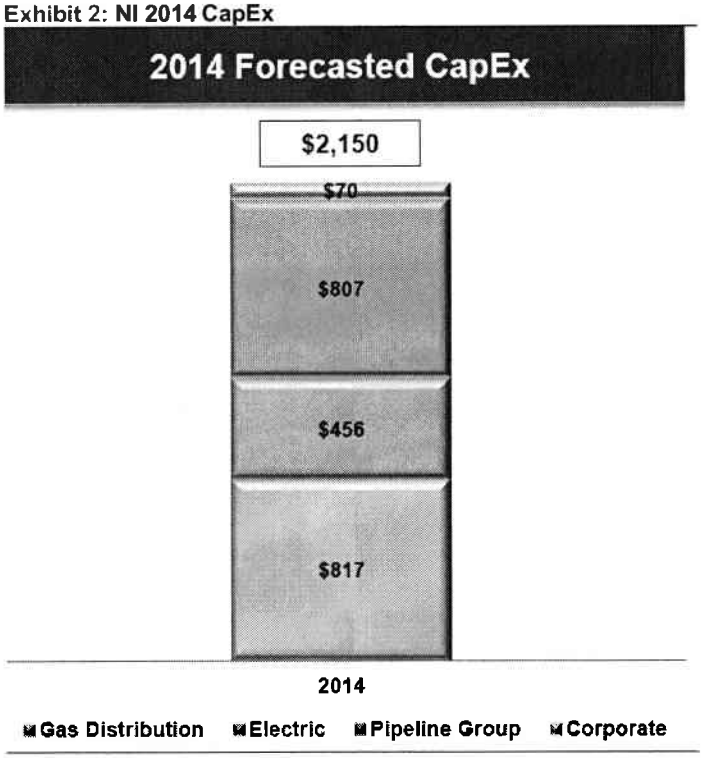
Exhibit 2: NI 2014 CapEx



Source: Company data, Credit Suisse estimates

Additional Color

- **NiSource MLP:** Management has stated that it's considering an Investor Day in 3Q14 to discuss capital needs and the likely formation of an MLP. We model 11.5% of the Columbia Pipeline assets in the initial MLP with dropdowns over time to provide visible growth. Our bias for a dropdown model reflects the relatively low equity capital needs of NI in 2015 (~$400 mm according to our model) coupled with the low-tax basis associated with the assets.
- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit of ~$1.7B at the end of 1Q14.

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Estimate Changes

We raised our estimate for 2014 by $0.04/share on the beat, to an above-guidance estimate of $1.72/share vs. $1.61-$1.71/share guidance. Our overall outlook is moving higher to a 7-9% growth rate, ~200bp above the current guidance of 5-7%. We have held our dividend estimate in 2014 at $1.03/share but raised our dividend growth rate by ~125-150, to approximately 5-5.5% for the 2015-2017 time frame.

Exhibit 3: NiSource 2014- 2016 Estimate Changes

Quarterly Variance

Earnings Variance	Old estimates							New estimates						
	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Segment EBITDA														
Gas Distribution	315	116	60	223	713	782	849	332	118	60	250	760	882	1,011
NIPSCO Electric	135	125	159	118	537	575	616	135	123	155	108	519	546	565
Gas Transmission & Storage	191	145	118	172	625	708	785	189	142	118	172	620	676	747
Other	2	4	4	13	23	23	23	2	4	4	13	23	24	24
Total EBITDA (recurring)	643	390	340	526	1,899	2,088	2,272	658	387	336	541	1,921	2,128	2,346
Segment EBIT														
Gas Distribution	262	61	4	166	492	537	581	280	63	4	192	539	638	743
NIPSCO Electric	74	64	96	55	288	314	343	74	61	92	43	270	285	292
Gas Transmission & Storage	162	114	86	138	499	559	613	159	111	86	138	493	526	574
Other	(1)	1	0	10	10	9	8	(4)	1	0	10	11	10	10
Total EBIT (recurring)	496	239	186	368	1,289	1,420	1,546	509	236	182	383	1,313	1,459	1,620
Interest Expense	114	115	120	126	475	548	613	109	116	121	127	473	552	615
Other Expenses	0	0	0	0	0	0	0	(5)	0	0	0	(5)	0	0
Taxes	134	43	23	85	285	309	336	146	44	22	92	304	322	362
Recurring Net Income	249	80	43	157	529	562	597	258	77	39	163	541	586	643
Diluted Wtd Avg shares outstanding	314	314	315	315	315	317	319	314	315	315	316	315	317	319
Recurring EPS - Diluted	$0.79	$0.26	$0.14	$0.50	$1.68	$1.78	$1.87	$0.82	$0.24	$0.12	$0.52	$1.72	$1.85	$2.02
												9.7%	7.6%	9.1%
Dividend per share	$0.25	$0.26	$0.26	$0.26	$1.03	$1.07	$1.11	$0.25	$0.26	$0.26	$0.26	$1.03	$1.09	$1.15
Operational Metrics														
Gas Distribution														
Total Volumes (MDth)	363	194	168	287	1,011	1,011	1,011	398	194	168	287	1,046	1,056	1,067
Total Customers	3,402,483	3,405,885	3,409,291	3,412,701	3,412,701	3,426,372	3,440,098	3,384,943	3,388,328	3,391,716	3,395,108	3,395,108	3,408,709	3,422,364
Electric Operations														
Residential	401,559	401,162	401,174	402,638	402,638	402,638	402,638	402,676	401,162	401,174	402,638	402,638	402,638	402,638
Commercial	54,084	54,189	54,267	54,452	54,452	54,452	54,452	54,378	54,189	54,267	54,452	54,452	54,452	54,452
Industrial	2,373	2,376	2,371	2,374	2,374	2,374	2,374	2,370	2,376	2,371	2,374	2,374	2,374	2,374
Other electric service	725	734	734	730	730	730	730	729	734	734	730	730	730	730
Total Heating customers (000s)	458,741	458,461	458,546	460,194	460,194	460,194	460,194	460,153	458,461	458,546	460,194	460,194	460,194	460,194
Sales (Gigawatt Hours)														
Residential	881	784	1,021	827	3,514	3,566	3,620	896	784	1,021	827	3,528	3,581	3,635
Commercial	935	957	1,082	966	3,940	3,980	4,019	936	957	1,082	966	3,941	3,980	4,020
Industrial	2,351	2,287	2,369	2,459	9,466	9,560	9,656	2,607	2,287	2,369	2,459	9,722	9,819	9,917
Wholesale and other	96	532	143	47	818	830	842	345	532	143	47	1,067	1,083	1,099
Total	4,264	4,560	4,614	4,299	17,737	17,936	18,138	4,784	4,560	4,614	4,299	18,258	18,463	18,671
Columbia Pipeline Group Operations														
Columbia Transmission	458	216	174	367	1,215	1,361	1,497	460	216	174	367	1,217	1,363	1,500
Columbia Gulf Mainline	200	178	141	156	675	716	751	185	178	141	156	660	700	735
Intrasegment eliminations	(94)	(81)	(37)	(28)	(239)	(239)	(239)	(62)	(81)	(37)	(28)	(207)	(207)	(207)
Crossroads Gas Pipeline	5	3	4	5	17	17	17	6	3	4	5	18	18	18
Total Throughput (MMDth)	568	316	283	501	1,668	1,855	2,027	589	316	283	501	1,688	1,874	2,045
Financing & Credit Metrics														
Total Debt / Total Cap	59.6%	60.5%	61.8%	61.4%	61.4%	59.8%	59.0%	59.9%	61.0%	62.3%	61.9%	61.9%	60.2%	59.2%
Net Debt / Total Cap	59.6%	60.5%	61.7%	61.4%	61.4%	59.8%	59.0%	59.8%	60.9%	62.2%	61.8%	61.8%	60.1%	59.1%
Net Debt / Equity	147.4%	152.9%	161.4%	158.9%	158.9%	148.7%	143.8%	148.8%	155.5%	164.4%	161.9%	161.9%	150.5%	144.6%
Book Value Per Share	$19.34	$19.34	$19.23	$19.48	$19.52	$21.49	$23.49	$19.13	$19.12	$18.98	$19.24	$19.28	$21.31	$23.42
Net Debt / TTM EBITDA	5.0x	5.0x	5.3x	5.1x	5.1x	4.8x	4.7x	4.9x	5.0x	5.3x	5.1x	5.1x	4.8x	4.6x

Source: Company data, Credit Suisse estimates

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Valuation

- We are raising our target price by $1 to $40. Our sum of the parts analysis reflects what we think will be an initial 11.5% of the Columbia Pipeline assets in an MLP spinoff. We expect the MLP option to be announced in mid-2014 with a 6-9 month timeframe for completion of the spin-off.
- Our $40 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment, a 12.5x NTM EBITDA multiple on the assets that qualify for MLP treatment (which we model as ~11.5% of the Columbia Pipeline assets), and 1.5 turns lower for the remainder of the Columbia Pipeline assets – based on our valuation of a generic MLP with IDRs vs. similar assets within a C-Corp.
- Together with NTM dividend of $1.03, our target price translates to a total return of approximately 10-20% with a mid-point of ~15%, in line with our median total return for midstream MLPs.

Exhibit 4: NiSource Sum of the Parts Valuation

	2015 EBIT	D&A	2015 EBITDA / NI	Metric	Multiple Low	Multiple Base	Multiple High	Enterprise Value / Equity Value Low	Enterprise Value / Equity Value Base	Enterprise Value / Equity Value High
Electric Services	285.2	261.0	190.5	P/E	18.0x	19.5x	21.0x	3,428.7	3,714.4	4,000.1
Natural Gas Utilities	637.5	244.4	881.9	EV/EBITDA	10.0x	10.0x	10.0x	8,819.3	8,819.3	8,819.3
TG&S (88.5% of business)	433.6	117.0	550.5	EV/EBITDA	10.5x	11.0x	11.5x	5,780.8	6,056.0	6,331.3
TG&S (11.5% dropped into MLP)	56.3	15.2	71.5	EV/EBITDA	12.0x	12.50x	13.00x	858.5	894.3	930.0
Total Enterprise / Equity Value								**18,887.2**	**19,484.0**	**20,080.8**
Cash & Equivalents								48.9	48.9	48.9
Short-term Debt								530.5	530.5	530.5
Long-term Debt								7,638.5	7,638.5	7,638.5
Less Net Debt								8,120.1	8,120.1	8,120.1
Less Net Debt attributable to NIPSCO (~$1.1 billion)								7,020.1	7,020.1	7,020.1
Total Equity Value								**11,867.1**	**12,463.9**	**13,060.7**
Shares Outstanding								314	314	314
Per Share								**$37.77**	**$39.67**	**$41.57**
Current Share Price								$36.29	$36.29	$36.29
Return								7%	12%	17%
Dividend per share (Est.)								$1.03	$1.03	$1.03
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*10%*	*15%*	*20%*
2015E EPS								$1.85	$1.85	$1.85
Implied P/E								**20.4x**	**21.5x**	**22.5x**
Implied Price Target								$38.00	$40.00	$42.00
							Implied P/E		21.6x	

Source: Company data, Credit Suisse estimates

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Risks

The main risk is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of having enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and $1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Commodity price risk is very low and under the current regulatory regime is recovered in utility rates.

The main risk in our view is valuation – as explained above NI and for that matter its peers have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. Consequently NI's shares are up ~9% YTD with no meaningful change in earnings outlook. The shares yield 2.8% and the company is guiding to 3-5% dividend growth. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues but is moderating these purchases over the coming year. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

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Companies Mentioned *(Price as of 30-Apr-2014)*

NiSource Inc. (NI.N, $36.32, NEUTRAL, TP $40.0)

Disclosure Appendix

Important Global Disclosures

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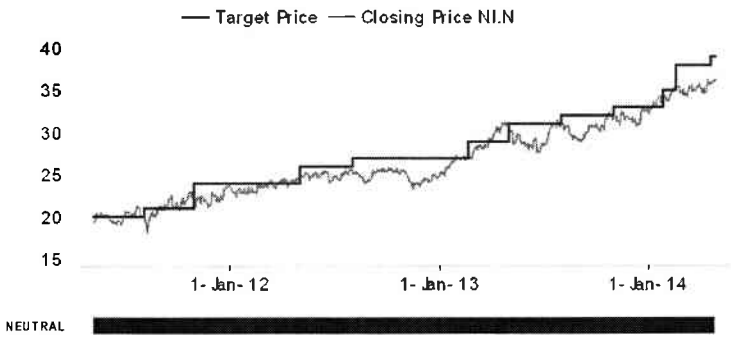
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
06-May-11	19.44	20.00	N
16-Jun-11	19.30		*
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	
01-Aug-13	31.11	32.00	
01-Nov-13	31.72	33.00	
28-Jan-14	34.18	35.00	
19-Feb-14	35.40	38.00	
21-Apr-14	35.71	39.00	



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

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**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

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Restricted	3%	

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: Our $40 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment, a 12.5x NTM EBITDA multiple on the assets that qualify for MLP treatment (which we model as ~11.5% of the Columbia Pipeline assets), and 1.5 turns lower for the remainder of the Columbia Pipeline assets - based on our valuation of a generic MLP with IDRs vs. similar assets within a C-Corp. Together with NTM dividend of $1.03, our target price translates to a total return of approximately 10-20% with a mid-point of ~15%, in line with our median total return for midstream MLPs.

Risk: The main risk to our $40 TP is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

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See the Companies Mentioned section for full company names

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rghuler@nisource.com Randy Huler 05/01/14 06:48:11 PM Nisource Corporate Services Co.

HILLIARD LYONS

Electric Utilities
Analyst: David Burks
502.588.8648 / DBurks@hilliard.com
Institutional Sales Desk: Tim Rexing
502.585.8509 / TRexing@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
May 1, 2014

COMPANY UPDATE / ESTIMATE CHANGE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports higher first quarter earnings and reaffirms 2014 earnings guidance

Key Metrics

NI - NYSE (Price as of 4/29/14)		$36.32
Price Target		NA
52-Week Range		$36.82 - $27.11
Shares Outstanding (mm)		314.2
Market Cap. ($mm)		$11,402
3-Mo. Average Daily Volume		2,024,000
Institutional Ownership		81.0%
Debt/Total Capital (12/31)		60.0%
ROE (ttm)		8.5%
Book Value/Share		$18.42
Price/Book Value		1.90x
Indicated Dividend / Yield	$1.00	2.8%
Dividend Cycle		Feb., May, Aug., Nov.

EPS FY 12/31

	2013	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q		--		–	–
2Q		--		–	–
3Q		--		–	–
4Q		--		–	–
Year	$1.58	$1.67	$1.70		$1.82
P/E	23.0x		21.4x		20.0x
Payout	63%		59%		55%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2013	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q		--		–	–
2Q		--		–	–
3Q		--		–	–
4Q		--		–	–
Year	$5,659		$6,300	–	$6,750

Company Description: *Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.*

Investment Highlights

- **NiSource reported first quarter net operating earnings of $0.82 per share versus $0.69 per share earned in the first quarter of 2013 and slightly above expectations.** All of the company's segments, including Columbia pipeline, electric operations and gas distribution operations posted positive earnings comparisons in the first quarter. Pipeline operations revenues rose due to higher demand as well as increased commodity margin revenue from growth projects. Electric operations results were helped by an increase in off-system sales, higher environmental investment cost recovery and increased industrial sales. NI's gas business was boosted by both higher rates and increased residential and commercial usage.
- **Management reaffirmed 2014 earnings guidance of $1.61 to $1.71 per share.** The outlook is expected to be driven by a record $2.2 billion in capital investments this year. We are raising our 2014 EPS estimate to $1.70. NI also reaffirmed its goal of generating 5% to 7% long-term annual earnings growth. In addition, NI expects to grow its dividend by 3% to 5% annually.
- **The company continues to explore the possibility of a master limited partnership (MLP) for its gas transmission and midstream assets.** Management said that an announcement could come in September.
- **Our rating on NiSource is Neutral as we believe the stock is fairly valued.** However, we think NI has a positive fundamental outlook. We feel the company's ambitious capital spending plans for the next few years augure well for rising earnings and dividends. We would maintain positions in the stock.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

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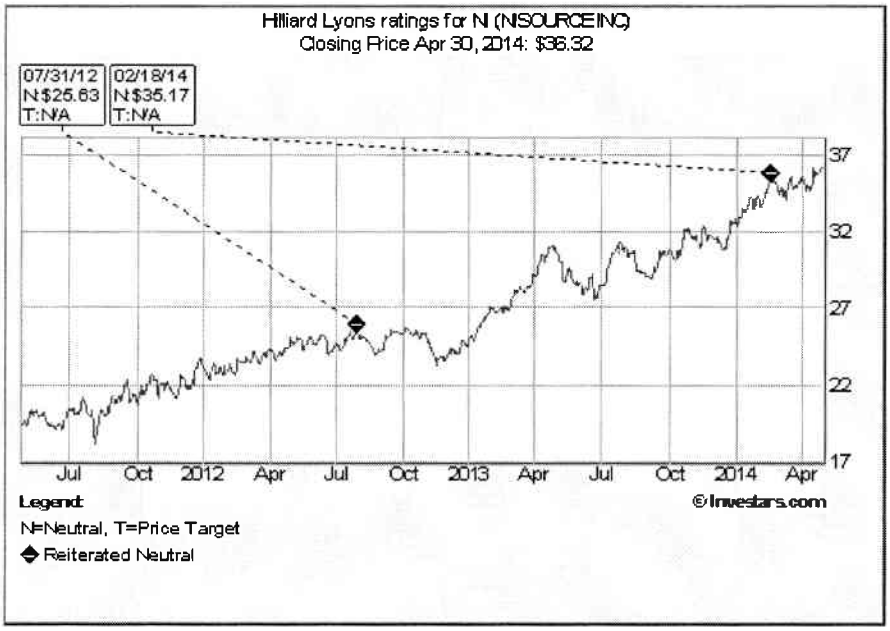
Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	46	37%	13%	87%
Hold/Neutral	70	56%	13%	87%
Sell	7	6%	0%	100%
Restricted	1	1%	100%	0%

As of 1 April 2014

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

April 30, 2014

Jefferies

NiSource Inc. (NI)

1Q Results In-Line

HOLD
Price target $34.00
Price $36.29

EQUITY RESEARCH AMERICAS

Key Takeaway

NI reported 1Q14 recurring diluted EPS of $0.79 (excluding $17.5mm in CPG asset sale gains), in-line with our $0.79 forecast & the Street's $0.79 consensus estimate. Mgmt also affirmed its 2014 non-GAAP EPS guidance of $1.61-$1.71 and its $2.15B capital budget for the year.

Columbia Pipeline Group: CPG's $141mm operating income (excluding asset sale gains) fell shy of our $150mm expectation, driven primarily by higher than anticipated O&M expenses. Mgmt announced the completion of a successful non-binding open season for its WB XPress project, a new ~1 Bcf/d transportation project expected to move Marcellus production on Columbia Gas. The project has an estimated in-service date of 4Q18, and we await the call for further details. No additional update was provided on the Rayne-Leach Express project in the release, but we also look for further clarity during this morning's call.

Gas Distribution: The gas utilities posted 1Q operating income of $280mm, ahead of our $265mm forecast, on the back of record volumes. Mgmt reiterated that it remains on track to invest ~$815mm in Distribution system modernization & replacement during 2014 and it continues to expect a decision soon on the pending NIPSCO Gas seven-year, $700mm investment plan. Separately, on March 21st, Columbia Gas of PA filed a rate case seeking a continuation of its modernization program & a $54mm annual revenue increase.

Electric: NIPSCO reported 1Q operating income of $74mm, surpassing our $70mm estimate by ~6%, largely due to below-forecast O&M and depreciation costs. Mgmt noted that its Schahfer FGD project remains on track for YE14 completion while the FDG facility at Michigan City is on schedule for YE15 in-service.

Guidance: Mgmt affirmed its 2014 non-GAAP EPS guidance of $1.61-$1.71 & its ~ $2.15B capital budget. It also noted that 1Q results are squarely in-line with its projected performance on the year.

Dividend Increase Anticipated: NI declared a 25¢ per share dividend on March 25th, payable May 20th, and last raised its dividend in May 2013. We expect another increase within the next few weeks. Specifically, we anticipate a ~4% boost, to a new quarterly run-rate of 26¢ ($1.04 annualized), to be announced on/about May 15th.

Dial-in for the Call: Today @ 9:00am ET. Dial-in: 877.415.3181; Passcode: 69357454

NI 1Q14 Results Review:

Operating Income by Division	Actual 1Q14A	JEF Estimate 1Q14E		Year-over-Year 1Q13A	
Gas Distribution	$280.1	$265.2	5.6%	$233.3	20.1%
Columbia Pipeline Group	$141.4	$150.0	-5.7%	$133.3	6.1%
Electric Operations	$74.2	$69.8	6.3%	$64.9	14.3%
Corporate, Other, and Eliminations	($4.1)	$0.2	NA	($3.6)	-13.9%
Total Operating Income	**$491.6**	**$485.1**	**1.3%**	**$427.9**	**14.9%**
Depreciation	($148.7)	($151.1)	-1.6%	($143.5)	3.6%
Other Income / (Expenses)	$4.5	$6.1	-25.6%	$4.1	9.8%
Interest Expense	($109.1)	($107.9)	1.2%	($98.6)	10.6%
Income Tax Benefit (Expense)	($139.3)	($134.6)	3.5%	($118.0)	18.0%
Recurring Net Income	**$247.7**	**$248.8**	**-0.4%**	**$215.4**	**15.0%**
Avg Diluted Shares Outstanding	315.1	315.2	0.0%	312.1	1.0%
Earnings Per Diluted Share	**$0.79**	**$0.79**	**-0.4%**	**$0.69**	**13.9%**
Capital Expenditures	**$386**	**$392**	**-1.4%**	**$369**	**4.6%**

Source: Jefferies, co. data. Note: Recurring EPS figures exclude impact of non-normal weather and asset sale gains/losses and utilize avg diluted share count during the period.

Christopher Sighinolfi, CFA *
Equity Analyst
(212) 707-6420 csighino@jefferies.com
Christopher Tillett *
Equity Associate
(212) 284-4697 ctillett@jefferies.com
Corey Goldman *
Equity Associate
(212) 284-3411 cgoldma1@jefferies.com
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Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Gas Transmission and Storage, and Electric. The Gas Distribution operations provide 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 segment offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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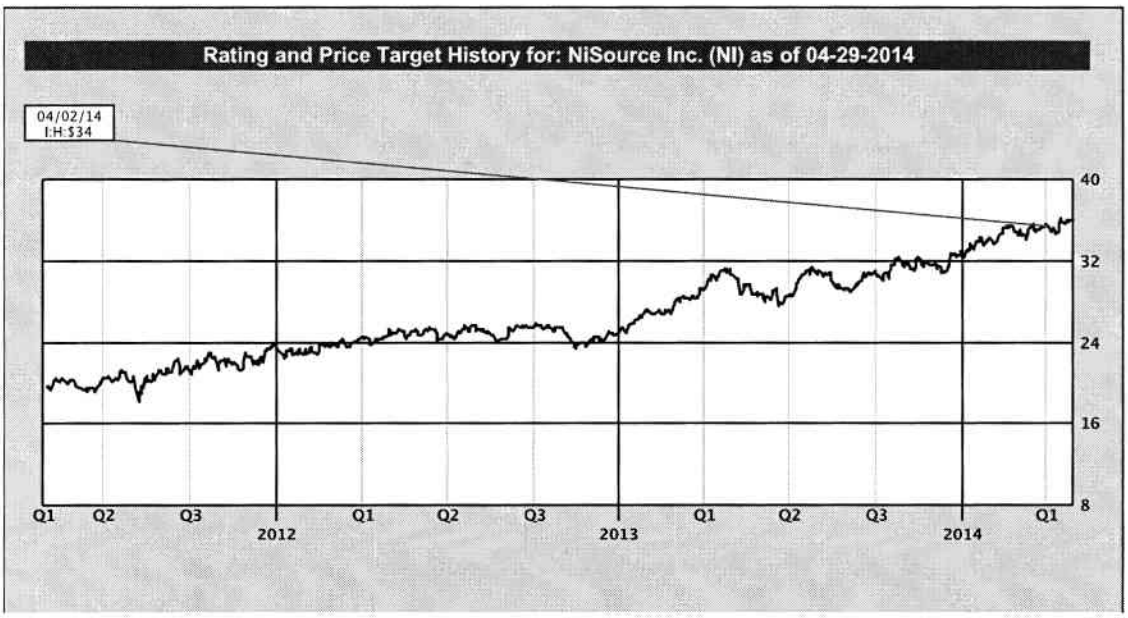

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
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HOLD	775	42.42%	134	17.29%
UNDERPERFORM	148	8.10%	5	3.38%

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

NiSource, Inc. (BUY)

NI - Quick Alert: 1Q14 Solid Results, New CPG Project

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

KEY INVESTMENT POINTS

April 29, 2014 Close: $36.29
1Q14 KBCM EPS Estimate: $0.79 (Consensus: $0.80)
2014 KBCM EPS Estimate: $1.70 (Consensus: $1.68)

1Q14 Actual Results (vs. 1Q13):

- Ongoing EPS $0.82 vs. $0.69; GAAP EPS $0.85 vs. $0.69. Ni excludes weather benefits or headwinds from ongoing EPS. We estimate weather was a $0.05 per share benefit.
- Results were above our $0.79 estimate and the $0.80 consensus view.
- Relative to our estimate, all segments did slightly better than forecast, particularly the pipeline group.

Guidance: Reiterated 2014 ongoing weather- normalized guidance of $1.61- $1.71 per share.

1Q Highlights:

- Columbia Pipeline Group (formerly Gas Transmission and Storage) results improved (operating earnings of $158.9 million vs. $133.3 million) on $19.7 million higher net revenues due to margin on growth projects that have come on line and increased mineral rights. Expenses fell $3.2 million as mineral rights gains were partly offset by SG&A, depreciation and property tax increases.
- Gas Distribution operating earnings were $280.1 million vs. $233.3 million. Net revenues rose $54.1 million on new Pennsylvania and Ohio rates, increased usage and higher off- system sales. Expenses rose $7.3 million on higher administrative costs, depreciation and other taxes.
- Electric operations earnings were up (operating earnings of $74.2 million vs. $64.9 million) on higher off- system sales, environmental recovery and improved industrial margins. Expenses rose $8.7 million on employee and administrative costs.
- Corporate and Other operating losses fell $4.1 million vs. a $3.6 million loss.
- NI discussed that a new pipeline project (WB Express) completed a successful non- binding open season. This follows similar results at Leach and Rayne, which NI is now bringing to advanced discussions to firm commitments.This pipeline would move over 1 bcf of Marcellus production.

Initial Take: We expect a positive take on solid results, continued execution and incremental announcements.

9:00 a.m. ET Conference Call #: (877) 415- 3181 ID#: 69357454
We will be focused on:

- Latest MLP thoughts.
- Thoughts on growth rate.
- Incremental infrastructure investment opportunities.
- Pipeline modernization project updates.

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NiSource, Inc. - NI

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As of the date of this report, we make a market in NiSource, Inc..

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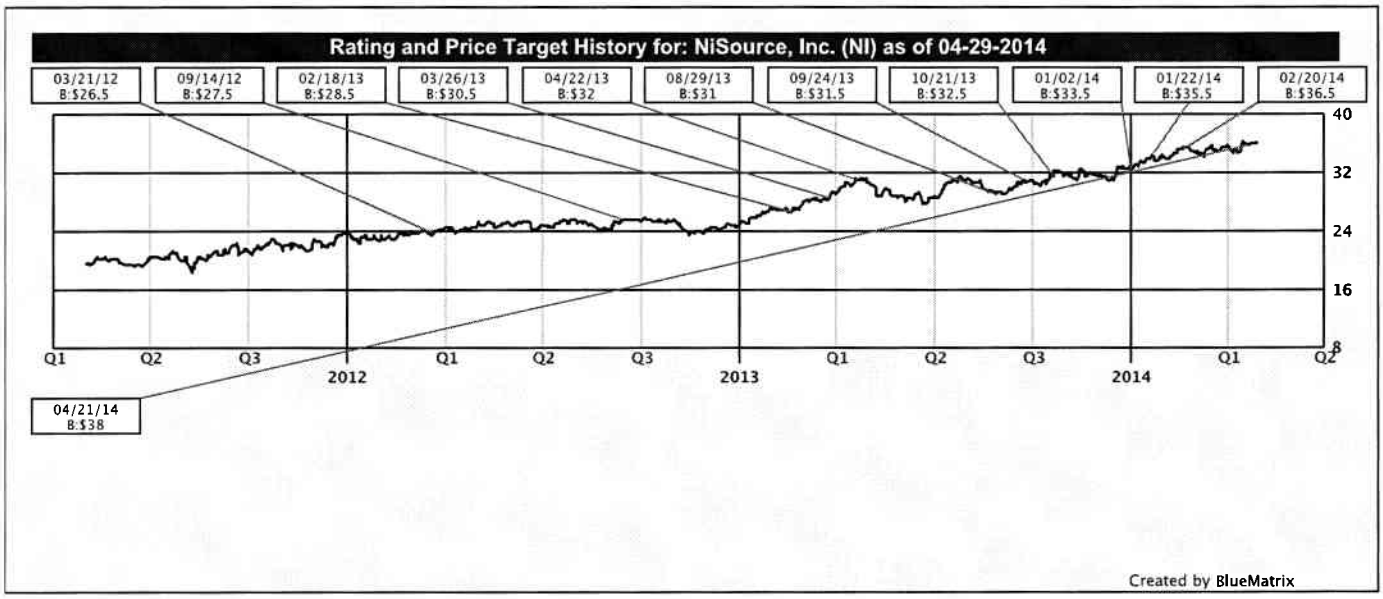
Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	247	44.91	51	20.65	BUY [BUY]	35	49.30	19	54.29
HOLD [HOLD]	292	53.09	59	20.21	HOLD [HOLD]	36	50.70	17	47.22
SELL [UND]	11	2.00	4	36.36	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Stephen J. Maresca, CFA
Stephen.Maresca@morganstanley.com
+1 212 761 8343

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6365

Brian Lasky
Brian.Lasky@morganstanley.com

Shaan Sheikh, CFA
Shaan.Sheikh@morganstanley.com

Matthew Giacobbe
Matthew.Giacobbe@morganstanley.com

April 30, 2014

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Growing Opportunity Set

NI reported a modest EPS beat driven by a stronger top line, but reiterated 2014 EPS guidance of $1.61 – 1.71 and long-term EPS growth of 5 – 7%. We maintain our E/w rating, but have raised our PT to $40, from $36 to account for increased MLP credit.

1Q14 results: NI reported EPS of $0.82 vs. MS / Consensus of $0.80/$0.80. NI reported strong results across the board as they continue to capitalize on their well-positioned infrastructure asset base and improved utility profile. The company continues to make progress on the Rayne/Leach Express project (expect an update by the end of 3Q) and more recently had a successful non-binding open season for WB Express (expect an update by year end). With large project opportunities emerging (5-10bn of capex within the Columbia Segment) and equity needs in 2015, we expect the company to pursue an MLP (timing of a decision still expected in 3Q). On a preliminary basis, our SOTP including the MLP gets us to ~$43/shr. Our new $40 price target assumes a 5-10% discount to our SOTP and implies 22x our 2015 EPS estimate. We see NI as an attractive lower risk stock with a strong regulatory backdrop (de-risked utility profile with a visible rate base and recovery strategy), attractive Marcellus/Utica footprint, and improved project outlook (much of which is part of modernization programs). We expect this to drive 7.6% EPS growth in 2014e and 7.4% in 2015e (high end of guidance) with 4.2% div growth each year. However, shares have begun to price in the MLP (NI shares +10% YTD vs. S&P500 +2%), so we await further clarity before revisiting given valuation levels.

Segment results. *Electric EBIT* came in at $74.2mm vs. $64.9mm y/y due to higher off-system sales, environmental investment cost recovery, and industrial margins. *Gas Distribution EBIT* increased to $280.1mm from $233.3mm due to increases in regulatory and service programs, higher residential and commercial usage, and an increase in off-system sales. *Columbia Pipeline Group EBIT* increased to $158.9mm from $133.3mm y/y due to higher demand and commodity margin and increased mineral rights royalty revenue.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	**$40.00**
Shr price, close (Apr 29, 2014)	$36.29
Mkt cap, curr (mm)	$11,402
52-Week Range	$36.82-27.11

Fiscal Year ending	12/13	12/14e	12/15e	12/16e
ModelWare EPS ($)	**1.57**	**1.69**	**1.82**	**1.92**
Prior ModelWare EPS ($)	**-**	**1.68**	**1.78**	**1.91**
P/E	**20.9**	**21.4**	**20.0**	**18.9**
Consensus EPS ($)§	**1.55**	**1.67**	**1.79**	**1.93**
Div yld (%)	3.0	2.8	3.0	3.1
Div per shr ($)	0.99	1.03	1.07	1.12
EBITDA ($mm)	1,705	1,837	2,006	2,178
EV/EBITDA	11.4	11.6	11.2	10.9
Shrs out, diluted, avg (mm)	314	314	314	314

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

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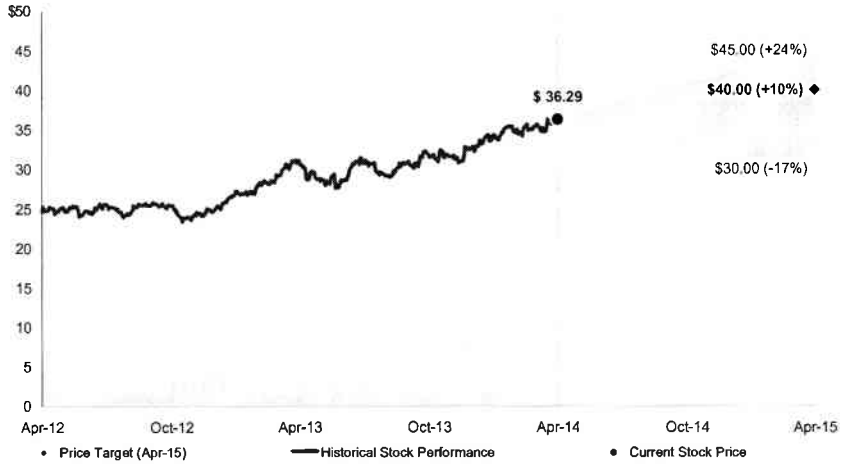
NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: Thomson Reuters; Morgan Stanley Research

Price Target $40	Derived from our Sum of the Parts asset valuation assuming a modest 5-10% discount.
Bull Case $45	**Increasing Marcellus/Utica market share and utilities outperform; more projects, MLP creation.** NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case $40	**Executing on Marcellus opportunities with a steady recovery and execution in utility segments.** NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover. NI moves down creates an MLP in 3Q.
Bear Case $30	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist or worsen, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions and the stock to re-rate lower given weaker growth profile. NI does not pursue an MLP.

Sum-of-the-Parts (SOTP) Breakdown

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 6,838	$ 21.76
Gas Transmission & Storage	15,508	49.36
Electric Utility	3,865	12.30
Utica Leases	350	1.11
Value	$ 26,561	$ 84.54
Net Debt	(13,058)	(41.56)
Net Equity Value	$ 13,503	$ 42.98
Shares Outstanding (in m)		314.2

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments.
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- See upside in an MLP scenario, but need to see follow through before revising due to valuation.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 4 – 5% annual growth to go along with 5 – 7% EPS growth potential over multiple years.

Potential Catalysts

- MLP formation adds to value of NI and offers further upside on projects and acquisitions.
- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Unfavorable outcomes in the northeast due to legislation, slower drilling, more competition.

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April 30, 2014
NiSource, Inc.

Exhibit 1
NI: Earnings Results and Preview
(amounts in 000s, except per unit)

	Actual 1Q13	Actual 1Q14	A / A % chg	MS 1Q14E	A / E % chg	MS 2Q14E
Operating Revenues						
Gas Distribution	891,500	1,193,300	33.9%	1,207,306	-1.2%	564,009
Gas Transportation and Storage	468,500	578,500	23.5%	338,564	70.9%	294,167
Electric	377,100	445,300	18.1%	392,396	13.5%	397,834
Other	44,200	77,000		-		-
Total operating revenues	**1,781,300**	**2,294,100**	28.8%	**1,938,266**	18.4%	**1,256,011**
Operating Expenses						
Cost of Sales	675,900	1,061,300	57.0%	673,428	57.6%	364,894
Operation and maintenance	454,400	501,200	10.3%	536,396	-6.6%	451,440
Depreciation and amortization	143,500	148,700	3.6%	151,206	-1.7%	147,840
Other taxes	86,700	83,600	-3.6%	97,700	-14.4%	70,644
Total operating expenses	**1,360,500**	**1,794,800**	31.9%	**1,458,731**	23.0%	**1,034,818**
Equity Earnings (Loss) in Uncon. Affiliates	**7,100**	**9,800**	38.0%	**8,000**	22.5%	**9,849**
EBIT	**427,900**	**509,100**	19.0%	**487,535**	4.4%	**231,041**
EBITDA	**571,400**	**657,800**	15.1%	**638,741**	3.0%	**378,881**
Interest expense, net	(98,600)	(109,100)	10.6%	(105,858)	3.1%	(109,100)
Other income	4,100	4,500		9,400		4,500
Total other income and expenses	**(94,500)**	**(104,600)**	10.7%	**(96,458)**	8.4%	**(104,600)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**333,400**	**404,500**	21.3%	**391,078**	3.4%	**126,441**
Income tax (provision)	118,100	146,100	23.7%	138,925	5.2%	41,621
Net Income (Operating)	**215,300**	**258,400**	20.0%	**252,153**	2.5%	**84,821**
Average # of Shares Outstanding	312,100	314,200	0.7%	313,600	0.2%	314,200
Net Income per Share (Operating)	**$ 0.69**	**$ 0.82**		**$ 0.80**		**$ 0.27**
Net Income per Share (GAAP)	**$ 0.69**	**$ 0.85**		**$ 0.80**		**$ 0.27**
Segment Data						
Gas Distribution (MMDth)						
Residential	132.0	156.5	18.6%	136.0	15.1%	35.8
Commercial	75.3	90.1	19.7%	77.6	16.2%	27.8
Industrial	133.3	136.8	2.6%	137.3	-0.4%	116.8
Off System	21.7	14.3	-34.1%	22.1	-35.4%	17.5
Other	0.2	0.2		-		0.2
Gas Transmission & Storage (MMDth)						
Columbia Transmission	435.8	459.5	5.4%	461.9	-0.5%	206.4
Columbia Gulf	190.2	184.9	-2.8%	201.6	-8.3%	169.8
Crossroads Gas Pipeline	5.0	5.7	14.0%	5.2	10.7%	3.4
Intrasegment eliminations	(93.9)	(61.6)	-34.4%	(122.1)	-49.5%	(101.8)
Electric Operations (Gigawatt Hours)						
Residential	864.1	896.2	3.7%	890.0	0.7%	792.2
Commercial	921.2	935.5	1.6%	939.6	-0.4%	961.5
Industrial	2,319.6	2,607.1	12.4%	2,331.2	11.8%	2,267.6
Wholesale	61.3	311.8	408.6%	61.6	406.1%	497.2
Other	33.2	33.4	0.6%	33.9	-1.4%	27.5

NI confirmed 2014 EPS guidance of $1.61-$1.71

Source: Company data, Morgan Stanley Research

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April 30, 2014
NiSource, Inc.

Exhibit 2
NI Income Statement
Income Statement

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
Net Revenues					
Gas Distribution	2,225,300	3,111,662	3,561,680	3,850,204	4,162,112
Gas Transportation and Storage	1,646,400	1,497,587	1,477,919	1,722,316	1,931,136
Electric	1,563,200	1,672,464	1,750,678	1,824,919	1,884,782
Other	224,400	77,000	-	-	-
Total Net Revenues	**5,659,300**	**6,358,713**	**6,790,277**	**7,397,439**	**7,978,031**
Operating Costs					
Cost of Sales	1,815,500	2,337,795	2,343,771	2,557,942	2,715,698
Operation and maintenance	1,873,900	1,935,981	2,161,874	2,367,097	2,572,542
Depreciation and amortization	577,300	594,369	629,960	665,076	704,402
Other taxes	300,600	287,191	318,947	335,981	365,484
Total Operating Costs	**4,567,300**	**5,155,336**	**5,454,552**	**5,926,096**	**6,358,126**
Equity Earnings (Loss) in Uncon. Affiliates	**35,900**	**39,495**	**40,491**	**41,513**	**42,560**
EBIT	**1,127,900**	**1,242,872**	**1,376,216**	**1,512,855**	**1,662,465**
EBITDA	**1,705,200**	**1,837,241**	**2,006,175**	**2,177,932**	**2,366,867**
Other income					
Interest expense, net	(414,800)	(440,903)	(517,991)	(605,868)	(702,407)
Other income	42,600	18,000	18,000	18,000	18,000
Inc. from continuing operations bef inc. taxes	**755,700**	**819,969**	**876,225**	**924,988**	**978,058**
Income tax (provision)	261,800	287,699	304,797	321,773	340,415
Operating Net income (Loss)	**493,900**	**532,270**	**571,428**	**603,215**	**637,643**
Net Income per Share (Operating)	**$1.57**	**$1.69**	**$1.82**	**$1.92**	**$2.03**
Net Income per Share (GAAP)	**$1.56**	**$1.72**	**$1.82**	**$1.92**	**$2.03**
Weighted Avg Diluted Units Outstanding	313,600	314,200	314,200	314,200	314,200
Dividends per share	0.99	1.03	1.07	1.12	1.16

Source: Company data, Morgan Stanley Research

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April 30, 2014
NiSource, Inc.

Exhibit 3

NI Operating Data

Operating Data

	2013	2014E	2015E	2016E	2017E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	272.3	301.0	289.7	298.4	307.3
Commercial	172.9	190.6	189.1	194.8	200.7
Industrial	494.5	508.8	524.1	539.8	556.0
Off System	70.4	60.6	61.8	63.0	64.3
Other	0.4	0.8	0.8	0.8	0.8
Total Sales and Transports	**1,010.5**	**1,061.8**	**1,065.5**	**1,096.8**	**1,129.1**
Weather Adjustment	(3.4)	(66.1)	(4.0)	(4.0)	(4.0)
Sales and Transport Vols — Excluding Weather	**1,007.1**	**995.7**	**1,061.5**	**1,092.8**	**1,125.1**
y/y change	*2.6%*	*-1.1%*	*6.6%*	*3.0%*	*3.0%*
Sales Price ($ / Dth)	$3.03	$3.48	$3.36	$3.52	$3.70
y/y change	*8.9%*	*14.6%*	*-3.5%*	*5.0%*	*5.0%*
COGS Price ($ / Dth)	$1.41	$1.79	$1.64	$1.76	$1.83
y/y change	*18.1%*	*26.9%*	*-8.4%*	*7.2%*	*3.9%*
Gross Margin ($ / Dth)	$1.62	$1.69	$1.72	$1.77	$1.87
y/y change	*1.9%*	*3.9%*	*1.7%*	*2.9%*	*6.1%*
COLUMBIA PIPELINE GROUP					
Throughput (MMDth):					
Columbia Transmission	1,124.6	1,182.7	1,241.9	1,297.8	1,362.6
Columbia Gulf	643.0	637.7	669.6	699.7	734.7
Crossroads Gas Pipeline	16.9	18.0	18.9	19.8	20.8
Total throughput	**1,784.5**	**1,838.4**	**1,930.3**	**2,017.3**	**2,118.1**
Intrasegment eliminations	(239.4)	(311.2)	(328.6)	(318.4)	(351.2)
Total third-party throughput	**1,545.1**	**1,527.2**	**1,601.7**	**1,698.9**	**1,767.0**
y/y change	*-2.4%*	*-1.2%*	*4.9%*	*6.1%*	*4.0%*
Tariff ($ / Dth)	$0.50	$0.50	$0.53	$0.56	$0.57
y/y change	*10.0%*	*-0.2%*	*5.7%*	*5.0%*	*2.8%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,444.7	3,554.2	3,660.8	3,770.7	3,846.1
Commercial	3,881.9	3,955.4	4,034.5	4,115.2	4,156.4
Industrial	9,339.7	9,662.3	9,855.5	10,052.7	10,153.2
Wholesale	669.7	923.2	941.7	960.5	979.8
Other	132.0	134.2	136.9	139.6	142.4
Total sales	**17,468.0**	**18,229.4**	**18,629.5**	**19,038.7**	**19,277.8**
Weather Adjustment	(2.4)	(70.0)	-	-	-
Total sales volumes — Adj. for weather impacts	**17,465.6**	**18,159.4**	**18,629.5**	**19,038.7**	**19,277.8**
y/y change	*3.6%*	*4.0%*	*2.6%*	*2.2%*	*1.3%*
Revenue ($ / Gigawatt hour)	$89.59	$92.12	$93.97	$95.85	$97.77
y/y change	*0.5%*	*2.8%*	*2.0%*	*2.0%*	*2.0%*
COGS ($ / Gigawatt hour)	$31.07	$33.00	$32.44	$33.54	$34.34
y/y change	*5.0%*	*6.2%*	*-1.7%*	*3.4%*	*2.4%*
Gross Margin ($ / Gigawatt hour)	$58.53	$59.12	$61.53	$62.31	$63.43
y/y change	*-1.8%*	*1.0%*	*4.1%*	*1.3%*	*1.8%*

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

April 30, 2014
NiSource, Inc.

Exhibit 4

NI Balance Sheet

Balance Sheet

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
ASSETS					
Cash and cash equivalents	26,800	87,187	132,889	83,273	259,008
Restricted cash	8,000	10,900	10,900	10,900	10,900
Accounts receivable	1,005,800	931,051	968,142	1,145,088	1,186,853
Income tax receivable	5,100	4,100	4,100	4,100	4,100
Gas inventory	354,600	57,738	60,744	198,985	117,321
Regulatory assets	142,800	159,100	159,100	159,100	159,100
Other	330,600	321,100	321,100	321,100	321,100
Total Current Assets	**2,159,200**	**1,988,975**	**2,074,774**	**2,340,346**	**2,476,183**
Net Property, Plant and Equipment	**14,365,100**	**15,370,931**	**16,740,971**	**18,075,894**	**19,371,493**
Unconsolidated affiliates	373,700	407,100	407,100	407,100	407,100
Other investments	204,000	203,100	203,100	203,100	203,100
Price risk management assets	500	-	-	-	-
Regulatory assets	1,522,200	1,494,900	1,494,900	1,494,900	1,494,900
Goodwill	3,666,200	3,666,200	3,666,200	3,666,200	3,666,200
Intangible assets	275,700	272,900	272,900	272,900	272,900
Deferred charges, Postretiremen, other	87,300	85,300	85,300	85,300	85,300
TOTAL ASSETS	**22,653,900**	**23,489,406**	**24,945,245**	**26,545,740**	**27,977,176**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	542,100	530,500	530,500	530,500	530,500
Short-term borrowings	698,700	859,275	859,275	859,275	859,275
Accounts payable	619,000	421,330	443,261	592,124	551,563
Dividends payable	-	78,700	78,700	78,700	78,700
Customer deposits and credits	262,600	239,400	239,400	239,400	239,400
Taxes accrued	254,800	278,600	278,600	278,600	278,600
Interest accrued	136,400	75,300	75,300	75,300	75,300
Price risk management liabilities	1,400	-	-	-	-
Exchange gas payable	186,400	143,100	143,100	143,100	143,100
Deferred revenue	18,500	7,900	7,900	7,900	7,900
Regulatory liabilities	60,200	79,100	79,100	79,100	79,100
Acc liab for post-retirement / -employment benefits	6,200	6,200	6,200	6,200	6,200
Other accruals	327,600	323,800	323,800	323,800	323,800
Total Current Liabilities	**3,178,400**	**3,094,505**	**3,116,436**	**3,265,300**	**3,224,739**
Long-term debt, excl amounts due within one year	7,593,200	8,238,500	9,438,500	10,638,500	11,838,500
Price risk management liabilities	300	-	-	-	-
Deferred income taxes	3,277,800	3,392,300	3,392,300	3,392,300	3,392,300
Deferred inc. taxes, credits, other	129,900	142,000	142,000	142,000	142,000
Acc liability for post-retirement/-employment benefits	527,500	508,100	508,100	508,100	508,100
Regulatory liabilities and other removal costs	1,669,800	1,677,600	1,677,600	1,677,600	1,677,600
Asset retirement obligations	174,400	176,500	176,500	176,500	176,500
Other noncurrent liabilities	216,000	219,400	219,400	219,400	219,400
Total Other Liabilities and Deferred Credits	**13,588,900**	**14,354,400**	**15,554,400**	**16,754,400**	**17,954,400**
Common stock	3,200	3,200	3,200	3,200	3,200
Additional paid-in capital	4,690,100	4,715,600	4,715,600	4,715,600	4,715,600
Retained earnings	1,285,500	1,422,801	1,656,709	1,908,341	2,180,337
Treasury stock	(43,600)	(42,500)	(42,500)	(42,500)	(42,500)
Accumulated other comprehensive loss	(48,600)	(58,600)	(58,600)	(58,600)	(58,600)
Total Common Stockholders' Equity	**5,886,600**	**6,040,501**	**6,274,409**	**6,526,041**	**6,798,037**
TOTAL CAPITALIZATION & LIABILITIES	**22,653,900**	**23,489,406**	**24,945,245**	**26,545,740**	**27,977,176**

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

April 30, 2014
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
Cash from Operating Activities					
Net Income	532,100	540,070	571,428	603,215	637,643
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,400	-	-	-	-
Depreciation and Amortization	577,300	594,369	629,960	665,076	704,402
Net Changes in Price Risk Mgmt A / L	2,600	800	-	-	-
Deferred: Inc. Tax/Credits; Revenues	280,200	150,700	-	-	-
Stock Compensation Expense	50,700	13,900	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(17,500)	(15,700)	-	-	-
Income from Unconsolidated Affiliates	(35,700)	(9,600)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	(41,200)	200	-	-	-
AFUDC Equity	(18,500)	(4,000)	-	-	-
Dist. of Earnings Received from Equity Investee	32,100	7,600	-	-	-
Other	10,000	-	-	-	-
Changes in Assets and Liabilities:	**55,300**	**(79,559)**	**(18,166)**	**(166,323)**	**(663)**
Net cash from operating activities	**1,436,800**	**1,198,780**	**1,183,222**	**1,101,967**	**1,341,381**
Cash from Investing Activities					
Capital Expenditures	(1,879,900)	(1,545,200)	(2,000,000)	(2,000,000)	(2,000,000)
Insurance Recoveries	6,400	-	-	-	-
Proceeds from Disposition of Assets	18,000	5,300	-	-	-
Restricted Cash Deposits (Borrowings)	38,700	(2,900)	-	-	-
Contributions to Equity Investments	(125,400)	(31,000)	-	-	-
Other Investing Activities	50,800	7,000	-	-	-
Net cash from investing activities	**(1,891,400)**	**(1,566,800)**	**(2,000,000)**	**(2,000,000)**	**(2,000,000)**
Cash from Financing Activities					
Issuance of Long-Term Debt	1,307,600	590,900	1,200,000	1,200,000	1,200,000
Retirement/Repurchase of Long-Term Debt	(510,900)	-	-	-	-
Change in Short-Term Borrowings, Net	(78,100)	160,575	-	-	-
Issuance of Common Stock	43,700	8,900	-	-	-
Acquisition of Treasury Stock	(8,100)	(10,000)	-	-	-
Dividends Paid - Common Stock	(305,900)	(321,969)	(337,520)	(351,583)	(365,646)
Other	(3,200)	-	-	-	-
Net cash from financing activities	**445,100**	**428,406**	**862,480**	**848,417**	**834,354**
Net change in cash	**(9,500)**	**60,387**	**45,702**	**(49,615)**	**175,735**
Cash at beginning of period	**36,300**	**26,800**	**87,187**	**132,889**	**83,273**
Cash at end of period	**26,800**	**87,187**	**132,889**	**83,273**	**259,008**

Source: Company data, Morgan Stanley Research

Morgan Stanley

Exhibit 6

NI Sum of the Parts Valuation

NiSource, Inc.

NI

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 6,838	$ 21.76
Gas Transmission & Storage	15,508	49.36
Electric Utility	3,865	12.30
Utica Leases	350	1.11
Value	$ 26,561	$ 84.54
Net Debt	(13,058)	(41.56)
Net Equity Value	$ 13,503	$ 42.98
Shares Outstanding (in m)		314.2

GAS DISTRIBUTION	
Forward EBIT (2015E)	$530
Interest	$159
Tax Rate	35%
Net Income	$242
Forward multiple	17.9x
Equity value	**$4,323**
Debt	$2,515
Enterprise value	**$6,838**

GAS TRANSMISSION & STORAGE (on a PV basis)	
MLP Drop-down Proceeds	$8,973
MLP GP Valuation	4,100
MLP LP Value	2,436
Enterprise value	**$15,508**

ELECTRIC UTILITY	
Forward EBIT (2015E)	$316
Interest	$81
Tax Rate	35%
Net Income	$154
Forward multiple	16.8x
Equity value	**$2,580**
Debt	$1,286
Enterprise value	**$3,865**

Estimated Utica "Value" Credit	
Acres	175,000
$/acre	$2,000
Enterprise value	**$350**

Source: Company Data, Morgan Stanley Research

Valuation Methodology & Risks

Assets in an MLP have typically traded at a premium to C-Corps. MLPs have traded at higher valuations than would similar assets in a corporate structure due to: 1) their tax efficiency (no federal taxes) and 2) the premium investors tend to place on yield. These two factors have typically produced: 3) a lower cost of capital, which can facilitate a potentially faster growth rate.

Interest rates are not the driver. Although MLPs have benefited from declining interest rates, so have other asset classes. We believe that gains in MLP stocks are a function of their ability to grow cash flows, not just their current yield.

The key value proposition is total return (growing cash flow yield + stock price appreciation). We find a statistically insignificant correlation between bond and MLP prices. Several periods of rate increases (1994, 1999, 2004) are correlated with poor performance, but there is little day-to-day link.

Distribution discount models (DDM) and implied yield targets. We use a 10-year distribution discount model to arrive at our price targets along with our implied yield target for each individual MLP as we view long-term cash flow stability and growth as the true measure of an MLP stock's value.

Yield spread. Despite historical day-to-day insignificance, we think this is worth looking at as a check on valuation. Overall, yields tend to revert to their mean, and even if we have modest yield compression, significant share price upside is possible.

Multiples provide valuation check. While we generally think it is difficult to target an EV (enterprise value) / EBITDA or P / DCF (distributable cash flow) multiple for an MLP stock, we think it certainly provides a gauge as to the stock's valuation. Currently, MLP multiples are near their historical average over time and we believe this provides another metric of valuation support along with looking at the high yield spreads and distribution growth.

Relative (historical) valuation measures support MLPs. The primary argument against improving valuation is weak relative performance in a rising interest rate environment. While we believe that the relationship to Treasury yields will become less relevant over time, using traditional dividend yield analysis, and the MLP index dividend yield spread to Treasury MLPs appear undervalued. Valuation supports MLPs relative to peers. Pipeline MLPs offer organic growth in a rising petroleum demand environment that requires infrastructure development. When we compare MLPs to comparable income asset classes — utilities and REITs — the valuation disconnect is unwarranted, in our opinion, as the pipeline MLPs offer twice the implied return of REITs and utilities.

Distribution growth is predicated on energy fundamentals. The United States is short on critical energy infrastructure, much of which has scarcity/franchise value, in our view, and this should drive a number of expansion projects for MLPs over the next five years. This scarcity is apparent, given the age of most US energy infrastructure assets (many were constructed during or shortly after World War II), combined with approximately 1.5–2.0% demand growth for oil, natural gas, and refined products, along with changing sources of supply for natural gas — deepwater Gulf of Mexico, the US Rockies, and liquefied natural gas (LNG) versus more traditional, conventional sources of supply.

Access to capital markets is of particular importance in this space. Given that MLPs pay out a majority of their free cash flow to unitholders each quarter, growth is funded largely through ongoing debt and equity capital raises. To the extent MLPs are unable to raise financing on favorable terms, organic capital spending budgets and third party acquisitions will likely be delayed or forgone. A prolonged period of limited capital market access could place downward pressure on unit prices if investors are concerned that distribution growth could be limited for a significant amount of time.

Investment concerns. The risks to our thesis include economic growth and demand, alternative energy programs, legislative items including tax reform and easing of product restrictions for natural gas and refined products, as well as a return to Treasury yield valuation and infrastructure reliability. Increased institutional ownership would likely create a revaluation of the sector, as new money would flood the current market. Our analysis is based on the current capital markets and economic outlook, with our Overweight names likely to outperform with or without institutional equity.

Glossary of MLP Terms

Cash Available (distributable cash flow or "DCF"): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements.

Cash Distributed (distributions): Quarterly dividend payments made to limited partner (LP) and general partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Yield or Distribution Yield: Yield or distribution yield as referenced in this report are defined as most recent distribution declared, annualized, and then divided by the current market price. It may consist of short-term capital gains, long-term capital gains, and/or return of capital.

General Partner (GP): Corporate sponsor, management team, or financial investor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

Incentive Distribution Rights (IDRs): Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in many cases upwards of 50% of incremental cash payouts).

Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated by the partnership through a quarterly distribution. LPs typically cannot participate in making decisions regarding the operation of the MLP unless they secure a definitive majority (e.g., 66%, but it can vary) in a proxy vote.

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate.

Publicly Traded Partnership (PTP): a master limited partnership (MLP) or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are roughly 75 publicly traded partnerships and the majority is involved in energy-related activities. Energy related PTP's comprise approximately 85% of total PTP market cap, with REITs making up the majority of the 15% balance.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include 1) interest 2) dividends 3) real property rents 4) gains from the sale or other disposition of real estate 5) income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource 6) Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 7) Income and gains from commodities, if buying and selling commodities is the PTP's principal activity 8) Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).

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MORGAN STANLEY RESEARCH

April 30, 2014
NiSource, Inc.

MORGAN STANLEY ModelWare

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(as of March 31, 2014)

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MORGAN STANLEY RESEARCH

April 30, 2014
NiSource, Inc.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1035**	**35%**	**354**	**38%**	**34%**
Equal-weight/Hold	**1286**	**43%**	**446**	**48%**	**35%**
Not-Rated/Hold	**99**	**3%**	**24**	**3%**	**24%**
Underweight/Sell	**539**	**18%**	**105**	**11%**	**19%**
Total	**2,959**		**929**		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

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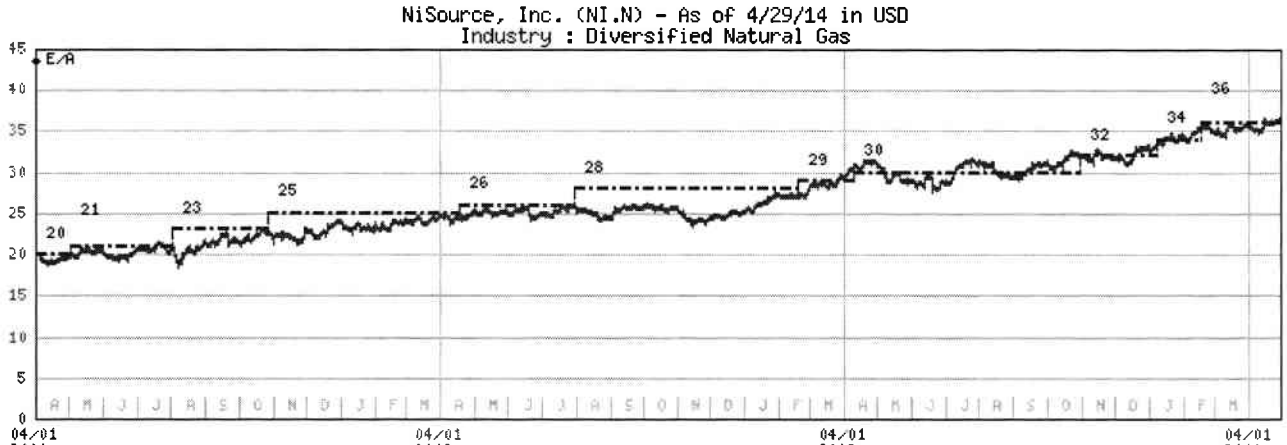
MORGAN STANLEY RESEARCH

April 30, 2014
NiSource, Inc.



Stock Rating History: 4/1/11 : E/A

Price Target History: 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30; 10/31/13 : 32; 1/8/14 : 34; 2/18/14 : 36

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -•- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ··· Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ★ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
Tel: +81 (0) 3 6836 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (04/29/2014)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	$24.59
Cheniere Energy Inc. (LNG.A)	O (01/07/2014)	$55.95
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$35.51
National Fuel Gas Co (NFG.N)	E (01/10/2012)	$73.06
NiSource, Inc. (NI.N)	E (01/06/2011)	$36.29
Oneok Inc. (OKE.N)	O (07/25/2013)	$62.8
Questar Corp. (STR.N)	E (02/11/2013)	$23.41
SemGroup Corp (SEMG.N)	O (04/10/2013)	$64.59
Spectra Energy Corp. (SE.N)	E (01/08/2014)	$39.57
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$42.2

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* Historical prices are not split adjusted.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.29 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Reports Strong First-Quarter Results

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 30 Apr 2014
Estimates as of 21 Mar 2014
Pricing data through 29 Apr 2014
Rating updated as of 29 Apr 2014

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 30 Apr 2014

NiSource reported 2014 first-quarter operating EPS of $0.82 versus $0.69 in the same period last year. All three operating segments posted strong results in the recently ended quarter. NiSource reaffirmed its 2014 operating earnings guidance of $1.61-$1.71 per share. We will likely increase our 2014 EPS estimate of $1.65 due to the very good first-quarter results. We are reaffirming our fair value estimate of $30 per share. Our narrow moat and stable moat trend rating are unchanged.

NiSource management indicated that its 2014 capital spending plan of $2.15 billion was on track. The only material project news was that the additional long-term gathering agreements were now in place that would allow NiSource to begin building the gathering and compression facilities for the Washington County Gathering Project in western Pennsylvania. In addition, positive comments were made about the probability of the Rayne/Leach Express pipelines in Louisiana moving forward before the end of the year.

Vital Statistics

Market Cap (USD Mil)	11,395
52-Week High (USD)	36.82
52-Week Low (USD)	27.11
52-Week Total Return %	19.7
YTD Total Return %	11.9
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	6.8
5-Yr Forward EPS CAGR %	6.9
Price/Fair Value	1.21

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	17.0	20.8	*22.0*	*20.4*
EV/EBITDA	9.9	11.2	*10.8*	*9.9*
EV/EBIT	15.2	17.0	*15.9*	*14.6*
Free Cash Flow Yield %	-3.0	-4.4	*-5.0*	*-4.6*
Dividend Yield %	3.5	3.0	*2.9*	*3.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	5,061	5,657	*6,123*	*6,524*
Revenue YoY %	-15.9	11.8	*8.2*	*6.6*
EBIT	1,039	1,126	*1,269*	*1,388*
EBIT YoY %	12.7	8.4	*12.7*	*9.4*
Net Income, Adjusted	437	494	*526*	*572*
Net Income YoY %	12.4	13.0	*6.5*	*8.8*
Diluted EPS	1.46	1.58	*1.65*	*1.78*
Diluted EPS YoY %	7.9	8.3	*4.6*	*8.1*
Free Cash Flow	71	-379	*-157*	*-390*
Free Cash Flow YoY %	339.3	-637.2	*-58.5*	*148.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource also owns 15,000 miles of natural gas transmission pipeline, operates one of the nation's largest underground natural gas storage systems, and provides unregulated midstream services in the growing Marcellus and Utica shale production area. NiSource's electric utility generates, transmits, and distributes electricity in northern Indiana.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.29 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	Forecast 2015	5-Year Proj. CAGR
Revenue	-4.1	-6.3	-15.9	11.8	8.2	6.6	6.8
EBIT	6.8	-0.2	12.7	8.4	12.7	9.4	9.8
EBITDA	3.9	-4.0	9.6	6.4	9.9	9.3	8.9
Net Income	13.2	14.1	12.4	13.0	6.5	8.8	9.0
Diluted EPS	9.0	10.8	7.9	8.3	4.6	8.1	6.9
Earnings Before Interest, after Tax	4.4	10.4	4.1	-1.0	16.8	4.7	8.0
Free Cash Flow	-237.7	-88.9	339.3	-637.2	-58.5	148.0	—

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5 Year Proj. Avg
Operating Margin %	18.6	15.3	20.5	19.9	20.7	21.3	21.9
EBITDA Margin %	28.7	24.3	31.6	30.1	30.6	31.4	32.0
Net Margin %	7.9	6.5	8.6	8.7	8.6	8.8	9.1
Free Cash Flow Margin %	-1.7	0.3	1.4	-6.7	-2.6	-6.0	-2.9
ROIC %	7.3	7.6	7.5	6.9	7.4	7.2	7.2
Adjusted ROIC %	10.0	10.6	10.2	9.1	9.7	9.2	9.0
Return on Assets %	1.9	1.5	2.0	2.4	2.2	2.2	2.3
Return on Equity %	7.7	6.0	7.9	9.3	8.8	9.2	9.4

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	0.60	0.61	0.59	0.60	0.61	0.63	0.62
Total Debt/EBITDA	5.23	5.45	5.06	5.19	5.21	5.26	5.10
EBITDA/Interest Expense	3.94	3.88	3.83	4.11	4.03	3.99	4.07

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.00	1.22	—	—
Price/Earnings	17.0	20.8	22.0	20.4
EV/EBITDA	9.9	11.2	10.8	9.9
EV/EBIT	15.2	17.0	15.9	14.6
Free Cash Flow Yield %	-3.0	-4.4	-5.0	-4.6
Dividend Yield %	3.5	3.0	2.9	3.0

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	87.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-816	-4.5	-2.55
Present Value Stage II	1,359	7.5	4.25
Present Value Stage III	17,611	97.0	55.12
Total Firm Value	**18,155**	**100.0**	**56.82**
Cash and Equivalents	70	—	0.22
Debt	-8,834	—	-27.65
Preferred Stock	—	—	—
Other Adjustments	35	—	0.11
Equity Value	**9,425**	**—**	**29.50**
Projected Diluted Shares	320		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.29 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2011	2012	2013	*Forecast* 2014	*Forecast* 2015
Revenue	**6,019**	**5,061**	**5,657**	***6,123***	***6,524***
Cost of Goods Sold	2,556	1,542	1,816	*2,023*	*2,109*
Gross Profit	**3,463**	**3,520**	**3,842**	***4,100***	***4,415***
Selling, General & Administrative Expenses	1,723	1,663	1,874	*1,976*	*2,111*
Other Operating Expense (Income)	295	288	301	*297*	*307*
Other Operating Expense (Income)	-15	-32	-36	*-45*	*-49*
Depreciation & Amortization (if reported separately)	538	562	577	*603*	*658*
Operating Income (ex charges)	**922**	**1,039**	**1,126**	***1,269***	***1,388***
Restructuring & Other Cash Charges	17	-4	-18	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**905**	**1,043**	**1,143**	***1,269***	***1,388***
Interest Expense	377	418	415	*465*	*513*
Interest Income	-61	2	24	*5*	*5*
Pre-Tax Income	**467**	**626**	**753**	***809***	***880***
Income Tax Expense	163	216	262	*283*	*308*
Other After-Tax Cash Gains (Losses)	-5	6	6	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	35	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**299**	**416**	**532**	***526***	***572***
Weighted Average Diluted Shares Outstanding	289	300	314	*319*	*321*
Diluted Earnings Per Share	**1.03**	**1.39**	**1.70**	***1.65***	***1.78***
Adjusted Net Income	389	437	494	*526*	*572*
Diluted Earnings Per Share (Adjusted)	**1.35**	**1.46**	**1.58**	***1.65***	***1.78***
Dividends Per Common Share	0.92	0.94	0.98	*1.02*	*1.06*
EBITDA	**1,443**	**1,605**	**1,721**	***1,872***	***2,046***
Adjusted EBITDA	**1,460**	**1,601**	**1,703**	***1,872***	***2,046***

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.29 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Cash and Equivalents	172	83	35	*199*	*168*
Investments	—	—	—	—	—
Accounts Receivable	855	907	1,006	*1,090*	*1,162*
Inventory	566	496	500	*554*	*578*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	655	866	618	*750*	*750*
Current Assets	**2,248**	**2,352**	**2,159**	***2,594***	***2,658***
Net Property Plant, and Equipment	11,800	12,916	14,365	*15,843*	*17,259*
Goodwill	3,677	3,677	3,666	*3,666*	*3,666*
Other Intangibles	298	287	276	*276*	*276*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,685	2,613	2,188	*2,561*	*2,689*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**20,708**	**21,845**	**22,654**	***24,940***	***26,548***
Accounts Payable	435	539	619	*690*	*719*
Short-Term Debt	1,687	1,284	1,241	*1,250*	*1,250*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,525	1,479	1,319	*1,500*	*1,500*
Current Liabilities	**3,646**	**3,302**	**3,178**	***3,440***	***3,469***
Long-Term Debt	6,267	6,819	7,593	*8,500*	*9,500*
Deferred Tax Liabilities (Long-Term)	2,542	2,953	3,278	*3,632*	*3,963*
Other Long-Term Operating Liabilities	3,256	3,216	2,718	*3,252*	*3,236*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**15,711**	**16,290**	**16,767**	***18,823***	***20,169***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,168	4,598	4,690	*4,725*	*4,760*
Retained Earnings (Deficit)	917	1,060	1,286	*1,486*	*1,717*
(Treasury Stock)	-31	-41	-49	*-49*	*-49*
Other Equity	-60	-66	-44	*-49*	*-54*
Shareholder's Equity	**4,997**	**5,554**	**5,887**	***6,117***	***6,379***
Minority Interest	—	—	—	—	—
Total Equity	**4,997**	**5,554**	**5,887**	***6,117***	***6,379***

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.29 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2011	2012	2013	Forecast 2014	Forecast 2015
Net Income	299	416	532	*526*	*572*
Depreciation	538	562	577	*603*	*658*
Amortization	—	—	—	—	—
Stock-Based Compensation	39	45	51	*49*	*53*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	178	305	287	*354*	*332*
Other Non-Cash Adjustments	217	25	-65	—	—
(Increase) Decrease in Accounts Receivable	220	-51	-95	*-85*	*-72*
(Increase) Decrease in Inventory	-142	62	-9	*-54*	*-24*
Change in Other Short-Term Assets	-274	-157	81	*-132*	—
Increase (Decrease) in Accounts Payable	-155	57	68	*71*	*29*
Change in Other Short-Term Liabilities	—	—	—	*181*	—
Cash From Operations	**920**	**1,264**	**1,427**	***1,514***	***1,549***
(Capital Expenditures)	-1,125	-1,499	-1,880	*-2,081*	*-2,074*
Net (Acquisitions), Asset Sales, and Disposals	9	26	18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-34	51	-148	*160*	*-143*
Cash From Investing	**-1,149**	**-1,422**	**-2,010**	***-1,921***	***-2,216***
Common Stock Issuance (or Repurchase)	21	374	36	*35*	*35*
Common Stock (Dividends)	-258	-273	-306	*-326*	*-341*
Short-Term Debt Issuance (or Retirement)	-23	-582	-78	*9*	—
Long-Term Debt Issuance (or Retirement)	541	656	794	*907*	*1,000*
Other Financing Cash Flows	—	—	—	*-49*	*-53*
Cash From Financing	**281**	**175**	**445**	***576***	***642***
Exchange Rates, Discontinued Ops, etc. (net)	-50	8	129	*-5*	*-5*
Net Change in Cash	**2**	**25**	**-10**	***164***	***-31***

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NiSource Inc NI (NYSE) | ★★

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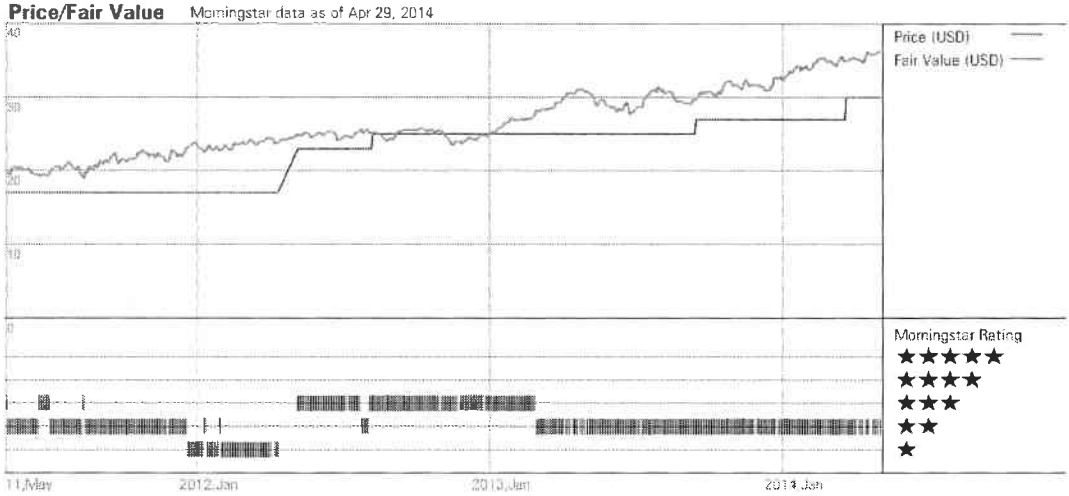
36.29 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Price/Fair Value Morningstar data as of Apr 29, 2014



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COMPANY NOTE

Initiating Coverage

USA | Energy | Natural Gas

April 2, 2014

Jefferies

NiSource Inc. (NI)

Pricing-In Perfection: Initiate at Hold

HOLD
Price target $34.00
Price $35.72

EQUITY RESEARCH AMERICAS

Key Takeaway

NI has a prime midstream footprint in one of the nation's most productive basins with access to markets from the Gulf Coast to New England. It compliments this with a gas distribution presence across the Midwest and Mid-Atlantic and an electric utility in northern Indiana. NI offers a secure, regulated, long-term growth profile, but shares are largely reflective of future prospects at current levels. We are initiating with a Hold & $34 price target.

Premium midstream footprint. NI's midstream segment, Columbia Pipeline Group (CPG), owns and operates several major pipeline systems that traverse the Northeast production basins and serve 16 different states. CPG also owns and operates the Columbia Gulf Transmission system, a 3,400 mile pipeline that connects Marcellus and Utica production to markets on the Gulf Coast. CPG has announced ~$1.6B in ongoing or planned growth projects through 2017, which we believe will help NiSource generate growing returns over the next several years.

Modernization Programs. NI has a large and unique opportunity across its regulated businesses to pursue various pipeline modernization & infrastructure replacement programs. NI has a ~$300mm/yr modernization program at CPG, a ~$500mm/yr replacement program at its gas LDCs, and a 7-year, $1.1B modernization program at its electric utility. Each of these programs have the potential to earn up to their respective jurisdictional returns and represent a large growth opportunity for NI over the next decade.

Potential for an NI MLP. NI mgmt has indicated a $400-$500 million equity need in mid-2015 given its targeted capital spending plans and the company's existing leverage characteristics. With a host of MLP-suitable assets within its portfolio & significant long-dated infrastructure investment opportunities, mgmt may consider the creation of a midstream MLP to fill the NI equity need and fund future expansions. We believe the MLP option is highly likely and makes sense given NI's collection of businesses, their growth inventory, and the robust valuations currently ascribed to midstream MLP assets.

Valuation/Risks

Our $34 NI price target is derived via a combination of Discounted Cash Flow (DCF), Sum-of-the-Parts (SOTP), and target yield approaches. Deviations in our assumptions regarding rate case outcomes, interest rates, and capital costs could alter our cash flow assumptions. Similarly, project execution and regulatory treatment could impact our outlook.

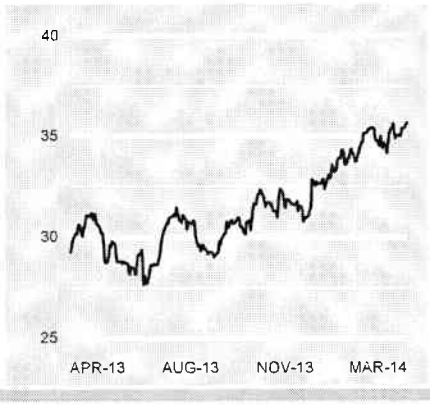
Financial Summary	
Net Debt (MM):	$8,807.2
Net Debt/Capital:	59.9%
Dividend Yield:	2.8%

Market Data	
52 Week Range:	$36.82 - $27.11
Total Entprs. Value (MM):	$20,051.9
Market Cap. (MM):	$11,244.7
Shares Out. (MM):	314.8
Float (MM):	311.4
Avg. Daily Vol.:	2,071,929

Christopher Sighinolfi, CFA *
Equity Analyst
(212) 707-6420 csighino@jefferies.com
Christopher Tillett *
Equity Associate
(212) 284-4697 ctillett@jefferies.com
Corey Goldman *
Equity Associate
(212) 284-3411 cgoldma1@jefferies.com
* Jefferies LLC

USD	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	2016E
Cons. EPS	--	--	--	1.68	--	1.78	--	1.91
DPS	--	0.98	--	1.02	--	1.07	--	1.13
EBITDA (MM)	--	1,729.4	--	1,866.3	--	2,085.4	--	2,229.3
EPS								
Mar	--	0.69	--	0.71	--	--	--	--
Jun	--	0.23	--	0.23	--	--	--	--
Sep	--	0.16	--	0.17	--	--	--	--
Dec	--	0.46	--	0.55	--	--	--	--
FY Dec	--	1.54	--	1.67	--	1.88	--	1.97

Price Performance



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NI

Initiating Coverage

April 2, 2014

NiSource, Inc. (NI)

Hold: $34 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Infrastructure modernization programs to generate steady growth & returns across all segments over the next decade
- Multiple growth projects in midstream segment add to overall Utica/Marcellus takeaway capacity; projects are delivered on time and on budget
- High potential for midstream MLP creation, though economics not part of formal model
- 2015 EPS: $1.88; 2Q15 dividend: $0.26/share; Target Price $34

Upside Scenario

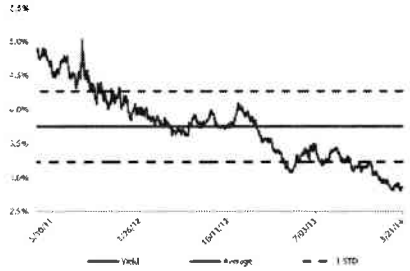
- Midstream growth projects come online ahead of schedule, under budget, and with above-forecast initial utilization rates, booting return characteristics
- Population growth in LDC service territories trends above our forecasts
- More favorable regulatory outcomes
- Extreme winter (cold) and summer (hot) weather patterns create conditions for added cash flow generation
- 2015 EPS: $1.95; 2Q15 dividend: $0.27/share; Target Price: $38

Downside Scenario

- Expansion projects presently in execution incur cost overruns & implementation delays, crimping returns
- Adverse rate case outcomes and an inability to earn authorized ROE levels
- Mild weather, limiting opportunities to generate surplus cash flow
- Rising interest rates crimp cost of capital, & target yield expectations.
- 2015 EPS: $1.75; 2Q15 dividend: $0.25/share; Target Price: $28

Long Term Analysis

Historical Dividend Yield



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

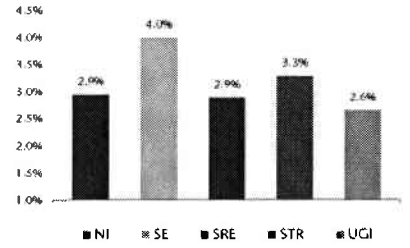
LT Earnings CAGR	**7.0%**
5-Year Dividend CAGR	**5.5%**
Earnings Payout Ratio	**~55-60%**
Terminal Cash Flow Growth Rate	**2.0%**

Other Considerations

While we have not formally modeled a NiSource MLP into our assumptions, we believe it is highly likely and expect an announcement in 3Q14. We would expect the MLP to house ~$100mm in initial annual EBITDA, with later growth coming from dropdowns, modernization programs, and organic expansion projects.

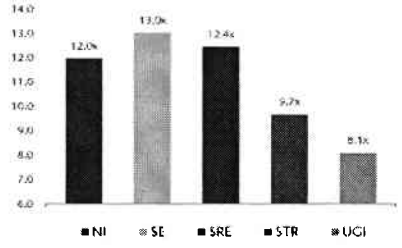
Peer Group

2Q15 Dividend Yield



Source: FactSet, Jefferies estimates

Group EV / 2014E EBITDA



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
NI	**Hold**	**$34**
SE	Hold	$35
SRE	NC	NC
STR	Hold	$24
UGI	Hold	$43

Catalysts

- Announcement of formation of an MLP
- Project in-service announcements and the repopulation of expansion growth backlog
- Periodic regulatory decisions; extension of midstream modernization programs to 10+ years
- Dividend raises (we anticipate increases in paid dividends will occur in 3Q each year)

Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Gas Transmission and Storage, and Electric. The Gas Distribution operations provide 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 segment offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Please see important disclosure information on pages 17 - 22 of this report.

Jefferies

Executive Summary

We are initiating coverage of NiSource, Inc. (NI) with a Hold rating and a $34 price target. NI has a prime midstream footprint in one of the nation's most productive basins with access to markets from the Gulf Coast to New England. It compliments this with gas distribution operations across the Midwest and Mid-Atlantic and an electric LDC in northern Indiana. NiSource is in the beginning stages of large infrastructure modernization programs across its businesses, which we believe will continue to spur growth for years to come, however we feel these opportunities are well understood and priced-in at current levels. Our investment thesis includes these key points:

Premium midstream footprint. NiSource's midstream segment, Columbia Pipeline Group (CPG), owns and operates several major pipeline systems that traverse the Northeast production basins and serve 16 states and the District of Columbia. CPG also owns and operates the Columbia Gulf Transmission system, a 3,400 mile pipeline that connects Marcellus and Utica production to markets on the Gulf Coast. NI has announced ~$1.6B in ongoing or planned growth projects at this business through 2017, which we believe will help NiSource generate growing returns over the next several years.

Huge backlog of modernization programs. NiSource has a large and unique opportunity across its regulated businesses in the form of various pipeline modernization and infrastructure replacement programs. In January 2013, NiSource and FERC agreed to a 5-year settlement on a $300mm/yr systematic infrastructure replacement program on the Columbia Gas Transmission system. Infrastructure replacement programs also exist at each of the gas LDC's and total more than ~$500mm/yr, while NI's electric utility has a 7-year, $1.1B modernization program. Each of these programs have the potential to earn up to their respective jurisdictional returns and represent a large growth opportunity for NI over the next decade.

MLP potential already reflected in share price. NiSource management has been fairly public about the need for a $400-$500 million equity raise in mid-2015 given the level of capital spending expected over the next several years. With a host of MLP-suitable assets in the portfolio and significant long-term infrastructure investment opportunities, management may consider the creation of an MLP to fill the equity need and fund future expansions. We feel the MLP option is highly likely and would make sense within NiSource's collection of businesses, but our analysis indicates the market has already priced this possibility into NI's share price.

Valuation

Our $34 NI price target is derived via a combination of Discounted Cash Flow (DCF), Sum-of-the-Parts (SOTP), and target yield approaches. With heavy midstream investment, large modernization programs, and buildout of the electric utility, we are forecasting EPS & dividend CAGRs of ~7.0% and ~5.5%, respectively, through 2018. At current levels, we feel shares are fairly valued and are initiating coverage with a Hold.

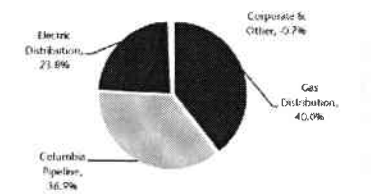
Risks

Deviations in our assumptions regarding rate case outcomes, interest rates, and capital costs could alter our cash flow assumptions. Similarly, project execution and regulatory treatment could impact our outlook.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Company Background & Asset Profile

Chart 1: F14E EBIT Composition

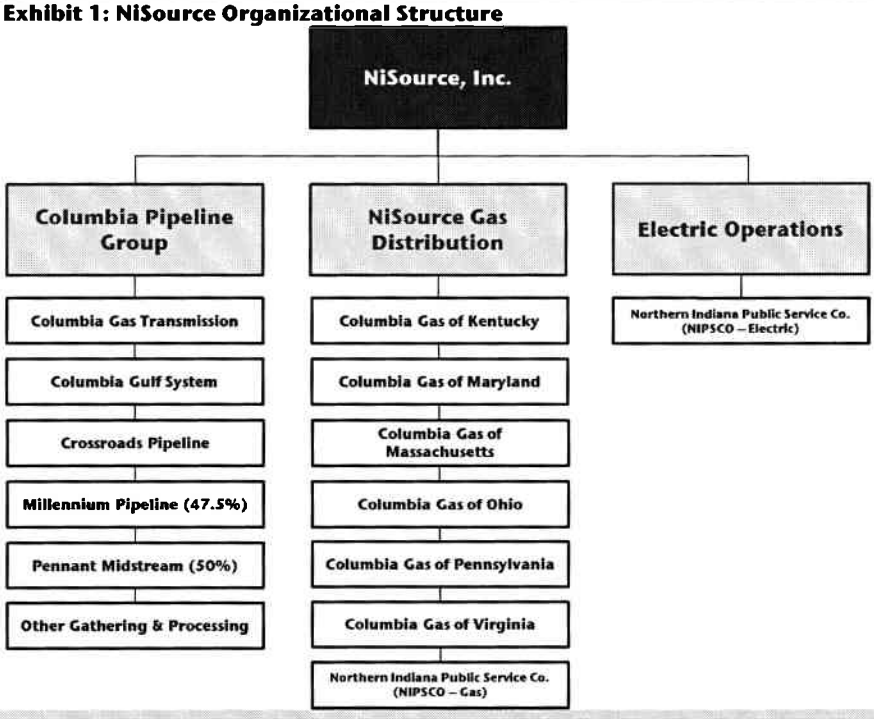


Source: Jefferies estimates

NiSource, Inc. (NYSE: NI) is an energy holding company whose subsidiaries consist of regulated energy providers serving the Midwest and Mid-Atlantic regions as well as a natural gas midstream operator with a large pipeline footprint across the Marcellus and Utica shales. Organized under the name NIPSCO Industries, Inc. in 1987, NiSource changed its name in 1999 and now serves some of the nation's most dynamic energy markets with services in natural gas transmission, storage, and distribution as well as electricity generation, transmission, and distribution. NiSource serves over 3.8 million customers in the eastern United States.

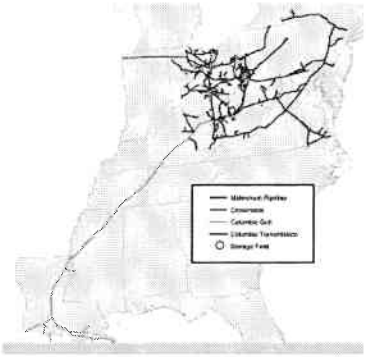
NiSource reports results in three segments: Columbia Pipeline Group, NiSource Gas Distribution, and NiSource Electric Operations. The company's headquarters are in Merrillville, IN.

Exhibit 1: NiSource Organizational Structure



Source: NI, Jefferies

Exhibit 2: CPG



Source: NiSource

Segment Overview

Columbia Pipeline Group

The Columbia Pipeline Group (CPG) segment transports and delivers large volumes of natural gas to LDCs and other industries across 16 states and the District of Columbia. CPG owns and operates nearly 15,000 miles of pipeline as well as one of the nation's largest underground storage facilities at a capacity of ~650 Bcf. CPG's three principal subsidiaries (Columbia Gas Transmission, Columbia Gulf System, and Crossroads Pipeline) own and operate interstate pipelines across the eastern seaboard from Texas to New York.

Columbia Gas Transmission moves an average of 3 Bcf/d of natural gas through 12,000 miles of pipelines and 92 compressor stations in 10 states.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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The system also includes 37 storage fields with 650 Bcf of total storage capacity. Columbia Gas Transmission's customers include LDCs, power generation facilities, energy marketers, and other industrial and commercial end users.

Columbia Gulf Transmission is an interstate pipeline system with roughly 3,400 miles of pipeline and 11 compressor stations. Columbia Gulf is connected to nearly every major pipeline system on the Gulf Coast, providing significant access to a variety of natural gas markets.

Crossroads Pipeline is a 200-mile interstate pipeline across Ohio and Indiana with interconnects to Natural Gas Pipeline Company of America, Trunkline Gas Company, Vector Pipeline, and Panhandle Eastern which allow for service to supply areas in the Mid-Continent, Rocky Mountains, Gulf Coast, Permian Basin and Canada.

The company also participates in a number of storage and transmission JVs across the Marcellus. Hardy Storage Company is a joint venture between CPG and Piedmont Natural Gas with a working storage capacity of 12 Bcf in West Virginia. Millennium Pipeline, a venture with National Grid and DTE Energy, is a 182-mile pipeline across New York State delivering 0.53 Bcf/d to Northeast markets.

Growth Projects & Modernization Program

Pipeline Modernization – In January 2013, NiSource and FERC agreed to a 5-year settlement on a systematic infrastructure replacement program on the Columbia Gas Transmission system. The capital spending for the program is expected to be ~$300mm/yr and began in 2013. During the 4Q13 earnings call, management noted that recovery on 2013 spending will begin on Feb. 1, 2014 and that investors can expect an additional $300mm/yr till 2018. Management has also noted that there is potential to expand this program, which generates a steady, regulated return on NiSource's pipeline system.

Pennant Midstream – The Pennant Midstream project is a joint venture with Harvest Pipeline Company (an affiliate of Hilcorp Energy) to build an NGL pipeline as well as gathering & processing facilities in the Utica shale region of East Ohio. The NGL pipeline will connect the Hickory Bend processing facility to the UEO Kensington facility at a capacity of 90,000 Bbl/d. Projected in-service on this pipe is the third quarter of 2014.

The gathering & processing assets will have capacity for 600 MMcf/d of gathering and 200 MMcf/d of processing. These assets began providing service in December of 2013, and given similar assets in the region, we expect the facilities to ramp slowly to full service. Management has also indicated there is room for expansion on these assets, and the total project costs are expected to reach $370mm, $185mm of which will be paid by Nisource.

Cameron Access – Once completed, Cameron Access will connect NiSource's Columbia Gulf pipeline to Sempra's Cameron LNG terminal on the Gulf Coast. This facility received DOE approval for LNG exports in February 2014, and NiSource expects its pipeline to be operational by the end of 2017. The project is expected to be able to transport 800 MMcf/d of gas from numerous supply basins to the export terminal and should cost ~$300mm; management announced on the most recent earnings call that CPG has already entered into binding precedent agreements for this project.

West Side Expansion – The West Side Expansion project is a ~$200mm investment expected to bring an additional 500MMcf/d of capacity on NiSource's Columbia Gas Transmission system to transport Marcellus gas to markets on the Gulf Coast. The anticipated full in-service date on this project is 4Q'14.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

East Side Expansion – The East Side Expansion project is a ~$275mm investment to provide an additional ~315MMcf/d of capacity on NiSource's Columbia Gas Transmission system to move northern Marcellus supplies to Northeast and Mid-Atlantic markets. Management expects this project to be fully in-service by the second half of 2015.

Rayne-Leach Express – The Leach Express and Rayne Express projects will connect shale production to markets along the Columbia Gas (Leach) and Columbia Gulf (Rayne) systems, and are expected to provide a combined 1.8 Bcf/d of incremental capacity. NiSource completed a successful non-binding open season for these projects and is currently in talks to find anchor shippers on the new capacity. Given the lack of transport capacity out of the Utica/Marcellus region, we expect that the open season on this project resulted in capacity oversold by ~3x-4x. Rayne-Leach, along with the West Side Expansion, will ultimately render the Columbia Gulf pipeline bidirectional, and given the ~125-mile greenfield expansion necessary to complete the project, we're anticipating an early-2018 completion and in-service date for the expanded capacity.

Valuation

We calculate a ~$6.5B enterprise value for the Columbia Pipeline Group based on an 11.0x multiple on our 2015 EBITDA estimate of $589mm. We base our multiple off the 16.8x EV/EBITDA average of ACMP, MWE, and SEP then apply a ~35% statutory corporate tax rate to arrive at ~11.0x.

What About a NiSource MLP?

NiSource management has been fairly public about their need for a $400-$500 million equity raise in mid-2015 given the level of capital spending they expect over the next several years. With a host of MLP-suitable assets in the portfolio, management continues to field questions about supplanting the equity raise with the formation of an MLP. On the 4Q13 earnings call, when an analyst asked about the potential for an MLP at NI's pipeline business, CEO Bob Skaggs responded:

> *"We still consider the MLP vehicle to be very viable for NiSource. It's a viable approach, a viable option. We continue to closely study it, closely work the consideration among the management team, but also the board ... We continue to indicate to you and others to expect a decision circa third quarter of 2014. And I'd just make the observation, not coincidentally that's about 9 months to 12 months in advance of when we believe we'll need equity or an equity alternative in 2015."*

"We continue to indicate to you and others to expect a decision circa third quarter of 2014."

We feel the MLP option is highly likely and would make sense within NiSource's collection of businesses for a number of reasons.

We calculate an MLP to be worth ~$3-$5/sh to NI's SOP value after adjusting for the EBITDA that would presumably be dropped from NI to a partnership; however, our SOP remains unchanged in aggregate at ~$30/share. We think this implies the market is already attributing an MLP to the stock today.

- **Valuation & Equity need** - MLPs are currently trading at premium EV/EBITDA multiples – we estimate NI's implied 2015 EV/EBITDA at ~10.3x, whereas the average among diversified non-MLP companies under our coverage is showing ~8.5x EV/2015e EBITDA. More importantly, at current multiples, NI could presumably raise the stated equity need on much less expensive turns by going the MLP route. We calculate an MLP to be worth ~$3-$5/sh to NI's SOP value after adjusting for the EBITDA that would presumably be dropped from NI to a partnership; however, our SOP remains unchanged in aggregate at ~$30/share. We think this implies the market is already attributing an MLP to the stock today.
- **External Financing, Internal Control** – We assume that, were NiSource to form an MLP, they would retain the General Partner (GP) interest in the partnership. Since it is the responsibility of the GP to oversee operations at the MLP and make managerial decisions for the entire partnership, NiSource would retain absolute control over its pipeline assets while financing their growth via a

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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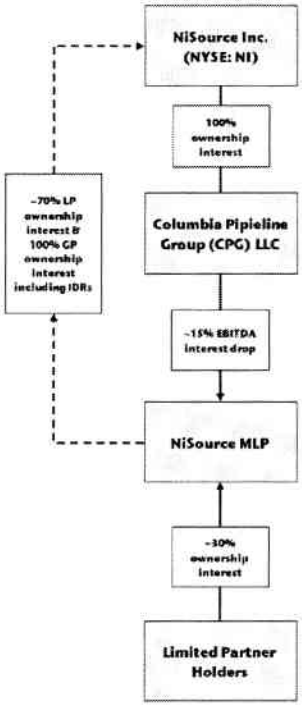
third party. For more information on the structure and economics of MLPs, please see our Trends With Benefits MLP Primer.

Exhibit 3: NI MLP Valuation

Incremental MLP Value to NiSource
Assumed MLP Multiple when Trading
16.5x
Total MLP Market Cap
$1,813.9
2015 NI Ownership
69.6%
Net Market Cap to NiSource
$1,263.1
LP Ownership Value (70%) per Share
$4.01
GP Interest per Share (20x 2018)
$0.31
NiSource SOP Valuation less MLP
$25.66
NiSource with MLP
$29.98
Upside from Current Levels
(16.1%)

Source: Jefferies estimates

Exhibit 4: Potential MLP Structure



Source: Jefferies estimates

- **Growth** – NiSource has provided a clear line of sight to the growth backlog at its midstream business. In addition to the ~$600mm in announced growth projects, NiSource's 5-year, $300mm/yr modernization program is a one-of-a-kind opportunity that allows NI to earn a regulated return on its sizable investment. Management has indicated it is happy with this arrangement and would like to extend the agreement beyond the five year period; should the program be extended, it could provide a direct path for continued EBITDA and distribution growth at a potential MLP. NI is also in the process of building gathering & processing capacity in the Marcellus through its JV with Hilcorp. We believe additional processing trains could be announced in the future, further extending the growth backlog.

- **Retain Upside Economics** – as the pipeline assets grow and perform, and MLP distributions rise through the GP Incentive Distribution Rights (IDR) structure, NiSource would receive incrementally more cash flow from those assets over time. This structure allows NI to retain much of the benefit of the long-dated upside potential without having to finance growth entirely on its own. In our analysis, we assume GP cash flows can grow as fast as ~200%/yr from 2016-2018.

- **Assets** – CPG's large pipeline network criscrosses two large, low-cost producing basins in the Marcellus and Utica. They also own one of four major natural gas pipelines connecting the northeast to the Gulf Coast in the Columbia Gulf System (the others being Spectra's Texas Eastern Pipeline, Williams' Transco Pipeline, and Kinder Morgan's Tennessee Pipeline). With a direct link to Gulf Coast demand and export facilities and relatively few inexpensive alternatives, the Columbia Gulf System is in a position to benefit substantially from growing northeast production.

How Might a NiSource MLP be structured?

Given the estimated $400-$500mm equity need and our assumption that a high-class MLP such as this would price with a ~14.5x EV/EBITDA multiple, we forecast NI would need to float just ~$33mm in initial public EBITDA for an MLP ($33mm x 14.5 = $480mm). In order to reduce confusion on multiple asset drop-downs and varying degrees of ownership interests, we believe NiSource could foreseeably consolidate its pipeline ownership interests into a single LLC entity, then drop the necessary EBITDA into an MLP. We believe it would make sense to drop CPG into a potential MLP on a percentage-of-assets basis over time rather than drop specific assets in a piecemeal fashion. The only real assets residing within the MLP would then be the ownership interests in this pipeline LLC. It is our belief that NI would only need to drop ~15% of the total CPG 2015E EBITDA into the MLP while retaining ~70% of the limited partner unit float in order to offset any potential tax leakage that may occur (see Exhibit 4).

NiSource Gas Distribution

NiSource Gas Distribution (NGD) provides supplies of domestic natural gas to more than 3.3 million residential, commercial, and industrial customers through 60,000 miles of pipeline and related facilities. NiSource owns various subsidiaries which operate independently within each state: Columbia Gas of Kentucky, Columbia Gas of Maryland, Columbia Gas of Massachusetts (formerly Bay State Gas Co.), Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Virginia, and NIPSCO (Northern Indiana Public Service Co.). NIPSCO is an Indiana utility and provides both natural gas and

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com
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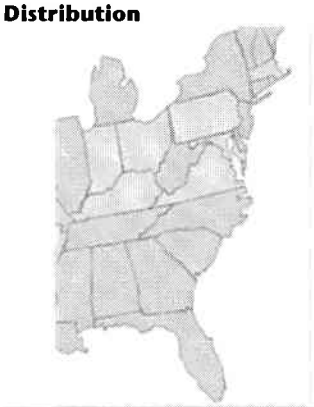
Exhibit 5: NiSource Gas Distribution



Source: NI reports

electricity distribution services to the northern part of the state. NiSource's Gas Distribution segment is collectively one of the largest distributors in the United States with ~3.3 million customers across seven states. As of the end of 2013, nearly 3.1 million of NGD's 3.3 million customers were residential rate payers, though this group compromises only ~30% of total volume. Industrial users comprise only ~8,000 of NGD's customers but represent nearly 50% of total gas volumes sold. Commercial customers comprise the remaining ~200,000 customers and ~20% of sales.

Modernization Programs & Rate Cases

NGD has a remarkable platform for sustainable earnings growth through its varied infrastructure replacement programs across its seven jurisdictions.

- **Kentucky (~$200mm rate base)** – Columbia Gas of Kentucky has a long term infrastructure replacement program of $10-$15 million per year that is tracked with annual tracker filings; the authorized ROE for Columbia Gas of Kentucky is ~10.5%.
- **Maryland (~$60mm rate base)** – Columbia Gas of Maryland has a long term infrastructure replacement program of $5-$10mm per year that is recovered via rate case filings with make-whole filings for up to three subsequent years from the initial filing. Columbia Gas of Maryland's authorized ROE is 9.6%.
- **Massachusetts (~$500mm rate base) –** Columbia Gas of Massachusetts (formerly Bay State Gas Co.) has a long term infrastructure replacement program of $20-$25mm per year that is tracked with annual filings. Columbia Gas of Massachusetts just had a rate case approved in late February that allows for a rate increase of $19.3mm and an authorized ROE of 9.55%. This case will be effective as of 1Q'14.
- **Ohio (~$1.4B rate base) –** Columbia Gas of Ohio has a long term infrastructure replacement program of $150-$200 million per year that is tracked with annual tracker filings. The program has a 5-year renewal period which occurs again in the Spring of 2018. Columbia Gas of Ohio's authorized ROE is 10.4%.
- **Pennsylvania (~$900mm rate base)** – Columbia Gas of Pennsylvania has a long term infrastructure replacement program of $100-$150 million per year that is recovered via forward test year rate case filings and/or periodic tracker filings. This program was initially approved in the Fall of 2012 and implemented in July of 2013 with a forward-twelve-month test year. We estimate Columbia Gas of Pennsylvania's allowed ROE to be ~11.25%.
- **Indiana (~$725mm gas rate base)** – Northern Indiana Public Supply Co.'s (NIPSCO) gas division has an estimated $725mm rate base with a seven-year infrastructure replacement program of ~$100mm/yr that is pending approval. The plan is expected to be approved and implemented during 2014 and will focus on upgrading the system as well as extending service to rural customers. We estimate NIPSCO's allowed ROE to be ~10.2%.

Valuation

We calculate a ~$6.6B value for NGD by ascribing an 8.75x multiple to 2015 estimated EBITDA of $755mm. We calculate the average gas LDC EV/EBITDA multiple at 8.5x, but have ascribed a slight premium to the average due to NiSource's large and varied service

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@i

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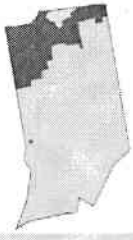
territory, large infrastructure modernization programs, and generally favorable regulatory climates.

NiSource Electric Operations

Exhibit 6: NiSource Electric



Source: NiSource

The NiSource Electric Operations segment houses the electricity business of NIPSCO and serves 455,000 customers across 20 counties in Northern Indiana. The segment's overall operations include power generation, transmission, and local distribution which are part of the Midcontinent Independent System Operator (MISO) transmission organization in the Midwestern portion of the United States. The supply assets incorporate traditional and renewable generation equipment, including natural gas, hydroelectric, wind, and coal generated supplies with a total system generation capability of 3,300 MW. Residential customers represent ~88% of NIPSCO's total electric customers, but account for only ~20% of total GWh volumes. Industrial customers comprise <1% of the customer base, but are responsible for 55% of volumes. Commercial customers represent 12% of total customers but 20% of total usage. Wholesale users comprise the remainder of both the customer base and transportation volumes.

Modernization Program

Similar to NIPSCO's gas distribution business, the electric operations also have a sizeable, long term infrastructure modernization program. The 7-year, $1.1B capital investment program was approved in mid-February and will begin in the middle part of this year. 80% of the spending in this program is tracked, while the remaining 20% will be recovered via a rate increase to be settled in a rate case that must be filed within the seven-year period. We expect NiSource to earn a ~12% return on this program.

System Upgrades & Transmission Projects

NIPSCO is also undertaking several upgrade projects on its electric plants, including 3 flue gas desulfurization (FGD) facilities for $250mm each (one was completed at the end of 2013) and other environmental upgrades for $50-$60mm each. These programs all have an environmental cost recovery mechanism (ECRM), meaning they are 100% tracked and begin earning a return during construction. The electric upgrade projects present a ~$1B capital expenditure opportunity over the next five years.

NiSource is also building two electric transmission substations in Indiana that are FERC-approved projects. NiSource's total investment in these projects is expected to range from $400-$500mm, on which the company is authorized to earn up to ~12%.

Valuation

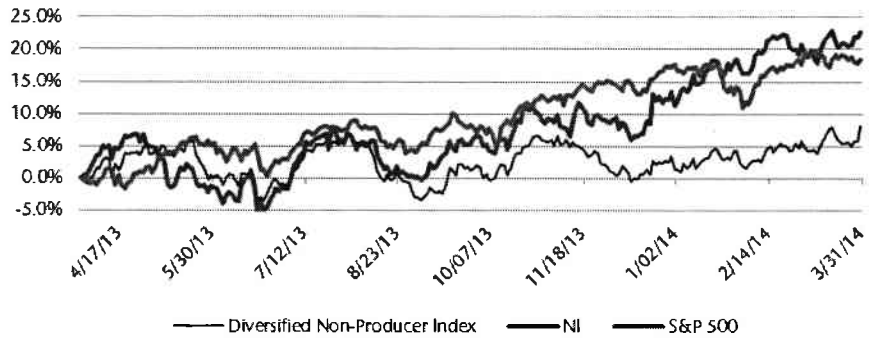
We calculate a ~$4.8B value for Electric Operations by ascribing an 8.5x multiple to 2015 estimated EBITDA of $566mm. We calculate the average LDC EV/EBITDA multiple at 8.5x and have ascribed this value to NI's Electric Operations segment.

TTM Performance Leaves Shares Fairly Valued

NI shares have outperformed the S&P 500 and sizably outperformed a market cap-weighted index of diversified peers over the last twelve months as investors have digested the impact of NI's myriad infrastructure modernization programs and pipeline growth projects. We expect that management's talk of possibly forming an MLP has also helped to generate valuation uplift for the company.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Chart 2: TTM NI Performance vs. Peer Index and S&P 500

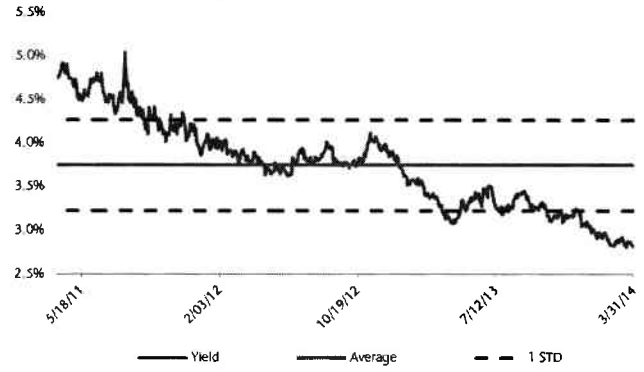


Source: Factset

Note: Peer index includes: ATO, CNP, GAS, NJR, NWN, PNY, SJI, STR, SWX, UGI, WGL

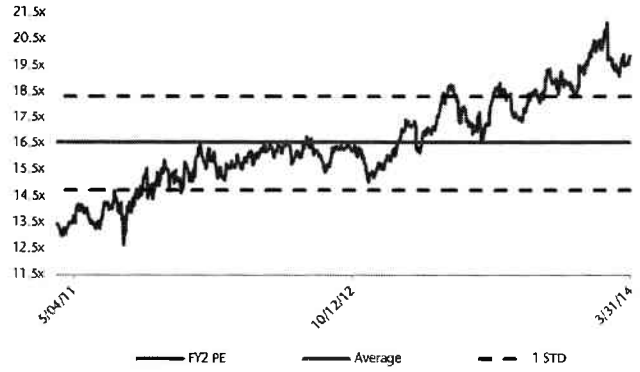
Following its ~25% run over the last year, NI shares now trade with a dividend yield and forward two-year P/E ratio (based on consensus F14 EPS expectations) that are more than one standard deviation away from their respective three-year averages. We believe these metrics indicate a balanced risk/reward profile and support our valuation outlook.

Chart 3: 3-Year NI Dividend Yield



Source: Factset

Chart 4: 3-Year NI FY2 PE Ratio



Source: Factset

Premium P/E Multiple

NiSource's multi-billion dollar infrastructure replacement and modernization programs across its regulated distribution and pipeline businesses have allowed NiSource to build an attractive platform with steady and foreseeable returns well into the future. In addition, Columbia Pipeline Group's pile of MLP-eligible assets has generated significant interest from investors seeking to play the formation of a potential yield vehicle.

NI's regulated modernization programs are attractive features for investors seeking steady, growing, and low-risk returns.

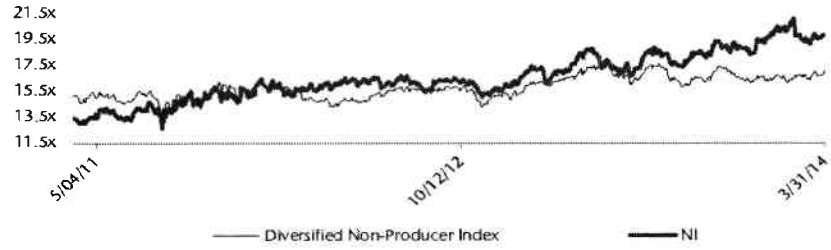
Though the creation of an MLP could add to NiSource's overall enterprise value, we note that the size and universality of NI's regulated modernization programs are attractive features for investors seeking steady, growing, and low-risk returns, and we feel that NI's premium P/E multiple is justified at current levels.

NiSource's FY2 P/E multiple has traded with a slight premium to its peer group over the last three years, averaging ~0.7x greater than peers in that timeframe. However, over the last 2 years NI's FY2 P/E multiple has led its peers by ~1.4x, and with a FY2 P/E ratio that is currently ~3.0x above the group average, we see NI as fully valued. As these modernization programs are renewed, lengthened, and expanded, we believe NI's

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

multiple is likely to remain slightly ahead of its peers, particularly as management contemplates the MLP yield vehicle.

Chart 5: 3-Year NI FY2 P/E Multiple vs. Peers



Source: Factset

Valuation Analysis

Our $34 NI price target is derived via a combination of Sum-of-the-Parts (SOTP), Discounted Cash Flow (DCF), and target yield approaches. We have also done a Dividend Discount Model (DDM) analysis for NI shares, but do not incorporate the outcome into our price target. The exhibit below outlines the chief assumptions supporting these valuation methodologies.

Exhibit 7: Valuation Assumptions

WACC Calculations	
Risk Free Rate	3.75%
Beta	0.55
Equity Risk Premium	5.0%
Cost of Equity	6.5%
Cost of New Debt	6.0%
Tax Rate	34.9%
WACC	5.4%

Terminal WACC Calculations	
Risk Free Rate	4.75%
Adjusted Beta	0.70
Equity Risk Premium	5.0%
Terminal Cost of Equity	8.25%
Terminal Cost of New Debt	6.5%
Terminal WACC	6.5%
Terminal Cash Flow Growth Rate	2.0%
Terminal Dividend Growth Rate	4.0%

Capital Structure	
Current Stock Price	$35.72
Total Debt	$8,834
Market Cap	$11,216
Debt/Cap	44.1%
Equity/Cap	55.9%
Target Yield	3.0%

Source: Bloomberg, Factset, Jefferies estimates

Sum-of-the-Parts

Our Sum-of-the-Parts analysis aggregates stand-alone valuations for NI's collection of businesses by ascribing multiples to 2015E EBITDA for each of the company's segments.

Exhibit 8: Sum-of-the-Parts Valuation

Sum-of-the-Parts Valuation			
Operating Segment	**2015E EBITDA**	**Multiple**	**Implied EV**
Gas Distribution	$755	8.75x	$6,606
Columbia Pipeline Group	$589	11.00x	$6,478
Electric Distribution	$566	8.50x	$4,811
Corporate & Other	$16	5.00x	$81
		Enterprise Value	$17,975
		(Net Debt)	($8,807)
		(Pension & Operating Lease Obligations)	($256)
		Plus Inventory	$375
		Implied Market Cap	$9,288
		Shares Outstanding	314.8
		Implied 12-Month Price Target	**$29.50**

Source: Jefferies estimates

Note: We ascribe a 0.25x premium to the gas utility peer group multiple given the large service territory, modernization programs, and generally favorable regulatory climate. The multiple ascribed

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

to CPG represents a tax-effected average multiple of ACMP, MWE, & SEP – three MLPs with significant transportation and gathering & processing assets in the Marcellus. We assume 75% of current natural gas inventory can be monetized quickly, mitigating the impact of working capital fluctuations throughout the year.

Cash Flow

We have included a consolidated Discounted Cash Flow analysis into our valuation. The DCF analysis assumes capital expenditures in the terminal year to be equal to depreciation plus $525 million, which represents ~200 bps/yr of terminal cash flow growth including inflation. The analysis yields a $37 share price.

Exhibit 9: DCF Valuation Analysis

Discounted Cash Flow	2014E	2015E	2016E	2017E	2018E
EBIT	$1,271.0	$1,458.4	$1,580.6	$1,673.0	$1,843.9
(Cash Taxes on EBIT)	($63.6)	($109.4)	($134.4)	($175.7)	($230.5)
NOPAT	$1,207.5	$1,349.0	$1,446.3	$1,497.4	$1,613.4
D&A	$595.2	$627.0	$648.7	$663.9	$706.3
(Capex)	($2,000.0)	($2,000.0)	($2,000.0)	($2,000.0)	($1,231.3)
(Changes in NWC)	($0.9)	($2.8)	($0.0)	$1.3	$0.6
Free Cash Flow to the Firm	($198.2)	($26.7)	$95.0	$162.6	$1,089.0
Terminal Value					$24,801.5
PV of Cash Flows	($188.1)	($24.1)	$81.2	$131.9	$19,945.1
Implied Enterprise Value	$19,946.0				
(Net Debt)	($8,807)				
(Pension & Operating Lease Obligations)	($256)				
Plus Inventory	$375				
Implied Equity Value	$11,258				
Shares Outstanding	$314.8				
Implied 12-Month Price Target	**$37.10**				

Source: Jefferies estimates

Note: We assume 75% percent of current natural gas inventory can be monetized quickly, mitigating the impact of working capital fluctuations throughout the year. Terminal year capex spending is equal to estimated depreciation plus ~$500mm in modernization programs.

Target Yield Analysis

A target yield approach builds a forward-year equity value based on the anticipated dividend run-rate in one year's time. We expect NI to lift its dividend once before year-end 2014 (in May) to a rate of $0.26/quarter, resulting in an annualized run rate of $1.04/share. Over the last four years (a period which avoids the '08-'09 market trough), NI carried an average dividend yield of 4.2%. Given the recent emphasis on modernization programs that generate regulated returns, we have capitalized the 1Q15 dividend rate at 3% in our target yield analysis. The outcome implies a $35 share price.

Exhibit 10: Target Yield Analysis

Target Yield Analysis	
Projected 1Q15 Distribution	$0.26
Historic 3-year Average Yield	3.74%
Target Yield	3.00%
Implied Price Target	**$34.70**

Source: Jefferies estimates

Dividend Discount Model

We do not formally incorporate a DDM into our valuation approach but feature it as our representation of minimum equity value. The DDM captures only the value of total anticipated cash payments to shareholders and ignores the potential for asset value upside. The analysis yields a $29 price.

Exhibit 11: DDM Valuation Analysis

Dividend Discount Model	2014E	2015E	2016E	2017E	2018E
Earnings Per Share	$1.67	$1.88	$1.97	$2.02	$2.21
Dividend per Share	$1.02	$1.07	$1.13	$1.20	$1.28
Implied Payout Ratio	61%	57%	57%	60%	58%
Terminal Value					$31.32
PV of Dividends	$0.96	$0.94	$0.94	$0.93	$23.80
PV of Dividends per Share	$27.57				
Implied 12-Month Price Target	**$28.60**				

Source: Jefferies estimates

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Management Biographies

- **Bob Skaggs**, President & Chief Executive Officer. Mr. Skaggs has been serving as President of NiSource, Inc. since October 2004 and as CEO since July of 2005. Prior to his current roles, Mr. Skaggs served as Executive Vice President for Regulated Revenue where he oversaw regulatory strategies and external relations across the company's energy distribution markets and interstate pipeline systems. Mr. Skaggs began his career with the company when he joined the legal team at Columbia Gas Transmission in 1981. He is the director of the American Gas Association's Board of Directors and is a member of the American Bar Association.

- **Steve Smith,** Executive Vice President and Chief Financial Officer. Mr. Smith currently serves as the CFO of NiSource, Inc. and has over 20 years of experience in the industry, having previously held senior positions at American Electric Power Co. and the Columbia Energy Group. From 2003 to 2007 Mr. Smith was Senior Vice President and Treasurer at AEP, and prior to that role he leadership positions at Columbia Energy and NiSource Corporate Services where he oversaw the integration of corporate functions following the NiSource and Columbia Energy merger. Smith earned his M.B.A. from the University of Chicago and a B.S. in Petroleum Engineering from the Colorado School of Mines.

- **Glen Kettering**, Senior Vice President, Corporate Affairs. Mr. Kettering is Senior Vice President for Corporate Affairs at NiSource, Inc. and has held the position since March 2006. Kettering joined the legal team at Columbia Gas Transmission in 1979 and has served in a variety of roles since, including President of Columbia Gas Transmission and Columbia Gulf Transmission. Kettering holds a B.B.A. and a J.D. from West Virginia University.

- **Joseph Hamrock**, Executive Vice President & Group CEO. Mr. Hamrock serves as Executive Vice President and CEO of the Gas Distribution segment, including the gas LDCs in Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. Mr. Hamrock joined NiSource in 2012 after holding several senior positions with American Electric Power. Hamrock holds a bachelor's degree from Youngstown State University and a M.B.A. from the Massachusetts Institute of Technology.

- **Jim Stanley,** Executive Vice President & Group CEO. Mr. Stanley is an Executive Vice President and the CEO of NIPSCO. Mr. Stanley joined NiSource after holding several senior positions with Duke Energy's U.S. electric business. Mr. Stanley has over 35 years of experience in the energy industry, having previously worked for PSI Energy, Cinergy, and Duke Energy. Mr. Stanley has a B.Acy. from Ball State University.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Exhibit 12: NI Consolidated Statement of Income ($MM)

Consolidated Income Statement	2008	2009	2010	2011	1Q	2Q	3Q	4Q	2012	1Q	2Q	3Q	4Q	2013	2014E	2015E	2016E	2017E	2018E
Revenues	$8,873.6	$6,147.2	$5,817.9	$5,795.7	$1,700.2	$1,038.1	$961.9	$1,399.7	$5,099.9	$1,781.3	$1,202.4	$1,083.0	$1,592.6	$5,659.3	$5,955.6	$6,456.1	$6,798.6	$7,073.6	$7,571.3
(Cost of Sales)	($5,632.4)	($2,805.4)	($2,379.2)	($2,334.1)	($633.0)	($236.4)	($229.3)	($426.5)	($1,525.2)	($675.9)	($349.3)	($243.2)	($547.1)	($1,815.5)	($1,914.9)	($1,999.2)	($2,078.0)	($2,162.7)	($2,253.3)
Net Revenue	$3,241.2	$3,341.8	$3,438.7	$3,461.6	$1,067.2	$801.7	$732.6	$973.2	$3,574.7	$1,105.4	$853.1	$839.8	$1,045.5	$3,843.8	$4,040.7	$4,456.9	$4,720.7	$4,910.8	$5,317.9
(Operating & Maintenance Expenses)	($1,460.9)	($1,607.6)	($1,655.7)	($1,688.1)	($406.7)	($393.5)	($422.4)	($452.0)	($1,674.6)	($454.4)	($452.3)	($468.9)	($498.3)	($1,873.9)	($1,918.2)	($2,090.8)	($2,201.9)	($2,276.6)	($2,444.5)
(Depreciation & Amortization)	($567.2)	($589.4)	($596.3)	($542.8)	($146.1)	($148.0)	($125.9)	($143.9)	($563.9)	($143.5)	($143.4)	($144.5)	($145.9)	($577.3)	($595.2)	($627.0)	($648.7)	($663.9)	($706.3)
(Other Taxes)	($307.5)	($281.6)	($284.4)	($293.3)	($86.6)	($66.6)	($62.2)	($72.4)	($287.8)	($86.7)	($70.7)	($64.3)	($78.9)	($300.6)	($320.5)	($349.9)	($368.2)	($385.4)	($413.7)
(Gain on Sale of Assets)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
OPERATING INCOME BY DIVISION																			
Gas Distribution	$327.3	$329.3	$342.9	$438.7	$246.5	$54.6	$15.5	$133.6	$450.2	$233.3	$51.8	($0.5)	$164.2	$448.8	$499.0	$538.8	$577.0	$615.6	$654.8
Columbia Pipeline	$376.7	$408.8	$377.2	$360.4	$138.6	$91.6	$38.8	$128.8	$397.8	$133.3	$88.8	$87.6	$113.1	$422.8	$460.2	$588.9	$654.1	$688.3	$789.7
Electric Operations	$220.2	$162.4	$218.3	$195.1	$48.5	$59.8	$77.7	$51.6	$237.6	$64.9	$58.6	$90.5	$51.3	$265.3	$297.7	$318.3	$337.5	$357.6	$388.2
Corporate & Eliminations	($6.3)	($21.3)	($21.2)	($42.2)	$1.9	($3.9)	($1.9)	($1.1)	($5.0)	($3.6)	($4.5)	($5.0)	$4.1	($9.0)	($8.2)	($9.2)	($9.3)	($9.8)	($10.2)
Total Recurring Operating Income	**$905.6**	**$863.2**	**$902.3**	**$952.0**	**$435.5**	**$202.1**	**$130.1**	**$312.9**	**$1,080.6**	**$427.9**	**$194.7**	**$172.6**	**$332.7**	**$1,127.9**	**$1,248.7**	**$1,436.8**	**$1,559.3**	**$1,651.7**	**$1,822.6**
Other Income / (Loss)	$0.9	($1.6)	$3.8	($7.3)	$1.0	$2.8	$2.2	($3.6)	$2.4	$4.1	$13.3	$4.7	$2.1	$24.2	$22.3	$21.5	$21.3	$21.3	$21.3
Interest Expense - Net	($375.3)	($399.2)	($392.2)	($376.8)	($103.3)	($103.2)	($107.9)	($103.9)	($418.3)	($98.6)	($102.0)	($103.7)	($110.5)	($414.8)	($467.2)	($521.2)	($567.9)	($626.2)	($689.1)
Pretax Income	$531.2	$462.4	$513.9	$567.9	$333.2	$101.7	$24.4	$205.4	$664.7	$333.4	$106.0	$73.6	$224.3	$737.3	$803.8	$937.2	$1,012.7	$1,046.9	$1,154.8
(Provision)/Benefit for Income Taxes	($197.3)	($191.1)	($190.0)	($201.8)	($118.1)	($34.6)	($8.4)	($69.4)	($230.5)	($118.0)	($33.1)	($23.4)	($80.2)	($254.7)	($277.0)	($328.0)	($359.5)	($376.9)	($415.7)
Effective Tax Rate	*37.1%*	*41.3%*	*37.0%*	*35.5%*	*35.5%*	*34.0%*	*34.2%*	*33.8%*	*34.7%*	*35.4%*	*31.3%*	*31.7%*	*35.8%*	*34.5%*	*34.5%*	*35.0%*	*35.5%*	*36.0%*	*36.0%*
Net Income (from Continuing Operations)	$333.9	$271.3	$323.9	$366.1	$215.1	$67.1	$16.0	$136.0	$434.2	$215.4	$72.9	$50.2	$144.1	$482.6	$526.8	$609.2	$653.2	$670.0	$739.0
Recurring Diluted EPS	**$1.21**	**$0.98**	**$1.16**	**$1.27**	$0.73	$0.23	$0.05	$0.44	**$1.45**	$0.69	$0.23	$0.16	$0.46	**$1.54**	**$1.67**	**$1.88**	**$1.97**	**$2.02**	**$2.21**
Average # of diluted shares outstanding	275.5	275.8	280.1	288.5	293.1	295.8	300.0	311.3	300.4	312.1	313.2	313.8	314.8	313.6	315.7	323.2	331.0	332.5	334.1
Average # of basic shares outstanding	274.0	275.1	277.8	280.4	282.9	284.4	290.3	309.9	291.9	311.1	312.2	312.8	313.4	312.4	314.3	321.8	329.6	331.1	332.7
Dividends per Share	**$0.92**	**$0.92**	**$0.92**	**$0.92**	$0.230	$0.230	$0.240	$0.240	**$0.94**	$0.240	$0.240	$0.250	$0.250	**$0.98**	**$1.02**	**$1.07**	**$1.13**	**$1.20**	**$1.28**
Payout Ratio	**76%**	**94%**	**80%**	**73%**	31%	101%	449%	55%	**65%**	35%	103%	156%	55%	**64%**	**61%**	**57%**	**57%**	**60%**	**58%**
GAAP Revenue	$8,876.4	$6,126.3	$5,826.8	$5,797.5	$1,661.3	$1,044.0	$969.1	$1,392.9	$5,067.3	$1,782.5	$1,201.6	$1,076.8	$1,596.7	$5,657.6					
GAAP Operating Expense	($2,330.7)	($2,521.9)	($2,539.6)	($2,565.2)	($638.2)	($608.9)	($611.3)	($667.8)	($2,526.2)	($685.8)	($667.0)	($679.0)	($723.1)	($2,754.9)					
Asset Sale Adjustments	($7.6)	($15.7)	($1.9)	($17.0)	$1.6	$1.4	$0.7	($0.1)	$3.6	$0.2	$0.2	$11.3	$7.3	$19.0					
GAAP Operating Margin	$3,244.0	$3,320.9	$3,447.6	$3,463.4	$1,028.3	$807.6	$739.8	$966.4	$3,542.1	$1,106.6	$852.3	$833.6	$1,049.6	$3,842.1					
Equity Earnings from Unconsolidated Affiliates	$12.3	$16.0	$14.9	$14.6	$7.7	$8.5	$8.0	$8.0	$32.2	$7.1	$8.0	$10.5	$10.3	$35.9					
GAAP Op Income	$905.7	$783.3	$906.1	$827.1	$399.4	$208.6	$137.2	$306.5	$1,051.7	$428.1	$193.5	$176.4	$344.1	$1,142.1					
Tax Effects & Other Adjusting Items	$21.0	$15.2	$47.8	$36.3	$0.0	($2.6)	($2.6)	$2.4	($2.8)	($0.1)	$0.5	($0.3)	$0.2	$0.3					
GAAP Net Income	$355.0	$206.6	$278.8	$277.5	$179.0	$71.0	$20.5	$132.0	$402.5	$215.5	$72.2	$53.7	$155.7	$497.1					
GAAP Basic EPS from Continuing Ops	$1.30	$0.75	$1.01	$0.99	$0.63	$0.25	$0.07	$0.43	$1.38	$0.69	$0.23	$0.17	$0.50	$1.59					

Source: NI reports, Jefferies estimates

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Please see important disclosure information on pages 17 - 22 of this report.

Exhibit 13: NI Consolidated Balance Sheet ($MM)

Consolidated Balance Sheet ($MM)	2008	2009	2010	2011	2012	1Q	2Q	3Q	4Q	2013	1QE	2QE	3QE	4QE	2014E	2015E	2016E	2017E	2018E
Cash & equivalents	21	16	9	12	36	101	45	15	27	27	25	23	24	28	28	29	60	62	64
Accounts receivable	1,143	809	1,079	855	907	1,070	717	591	1,006	1,006	1,131	769	626	1,077	1,077	1,150	1,207	1,260	1,348
Inventory	711	457	428	566	496	241	420	595	500	500	251	449	636	534	534	548	568	593	617
Other current assets	1,537	942	932	816	913	619	527	545	626	626	626	626	626	626	626	626	626	626	626
Total current assets	**3,411**	**2,224**	**2,449**	**2,248**	**2,352**	**2,032**	**1,708**	**1,746**	**2,159**	**2,159**	**2,033**	**1,867**	**1,913**	**2,266**	**2,266**	**2,353**	**2,461**	**2,540**	**2,656**
Tangible fixed assets	**10,388**	**10,684**	**11,097**	**11,800**	**12,916**	**13,119**	**13,474**	**13,912**	**14,365**	**14,365**	**14,608**	**14,909**	**15,293**	**15,770**	**15,770**	**17,143**	**18,494**	**19,830**	**21,124**
Goodwill	3,677	3,667	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Other intangible fixed assets	341	339	476	460	381	378	369	367	363	363	363	363	363	363	363	363	363	363	363
Investment in affiliates	251	295	201	205	243	261	279	328	374	374	391	406	451	504	504	634	764	895	1,025
Other investments	1,965	2,063	2,038	2,318	2,275	2,181	2,125	2,065	1,727	1,727	1,727	1,727	1,727	1,727	1,727	1,727	1,727	1,727	1,727
Non-Current Assets	**6,233**	**6,364**	**6,393**	**6,660**	**6,576**	**6,486**	**6,440**	**6,426**	**6,130**	**6,130**	**6,147**	**6,162**	**6,207**	**6,260**	**6,260**	**6,390**	**6,520**	**6,651**	**6,781**
Total assets	**20,032**	**19,272**	**19,939**	**20,708**	**21,845**	**21,636**	**21,622**	**22,084**	**22,654**	**22,654**	**22,788**	**22,939**	**23,413**	**24,295**	**24,295**	**25,886**	**27,475**	**29,021**	**30,561**
Trade payables and other ST liabilities	2,951	2,311	2,233	1,960	2,018	1,754	1,620	1,644	1,938	1,938	1,841	1,736	1,767	2,042	2,042	2,125	2,203	2,281	2,395
Short term debt	1,633	800	1,417	1,687	1,284	1,221	448	1,362	1,241	1,241	1,237	1,271	1,330	1,389	1,389	1,458	1,585	1,707	1,817
Total current liabilities	**4,583**	**3,111**	**3,649**	**3,646**	**3,302**	**2,974**	**2,068**	**3,006**	**3,178**	**3,178**	**3,078**	**3,007**	**3,097**	**3,431**	**3,431**	**3,583**	**3,788**	**3,989**	**4,212**
Long term debt	5,944	5,988	5,936	6,267	6,819	6,804	7,617	7,089	7,593	7,593	7,560	7,764	8,126	8,485	8,485	8,907	9,683	10,431	11,100
Debt deemed provisions (e.g. pensions)	1,365	1,288	1,178	1,100	1,268	1,232	1,187	1,179	702	702	702	702	702	702	702	702	702	702	702
Deferred taxes (Revenue)	1,679	2,139	2,312	2,650	3,062	3,092	3,178	3,250	3,408	3,408	3,509	3,539	3,562	3,645	3,645	3,902	4,176	4,443	4,714
Other long term liabilities	1,733	1,892	1,939	2,048	1,840	1,843	1,869	1,860	1,886	1,886	1,894	1,880	1,889	1,890	1,890	1,884	1,884	1,880	1,878
Total liabilities	**15,303**	**14,418**	**15,016**	**15,711**	**16,290**	**15,946**	**15,919**	**16,383**	**16,767**	**16,767**	**16,743**	**16,892**	**17,375**	**18,153**	**18,153**	**18,978**	**20,232**	**21,444**	**22,606**
Common equity	4,729	4,854	4,923	4,997	5,554	5,691	5,703	5,701	5,887	5,887	6,045	6,048	6,037	6,143	6,143	6,908	7,244	7,576	7,955
Preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	**4,729**	**4,854**	**4,923**	**4,997**	**5,554**	**5,691**	**5,703**	**5,701**	**5,887**	**5,887**	**6,045**	**6,048**	**6,037**	**6,143**	**6,143**	**6,908**	**7,244**	**7,576**	**7,955**
Total liabilities and equity	**20,032**	**19,272**	**19,939**	**20,708**	**21,845**	**21,636**	**21,622**	**22,084**	**22,654**	**22,654**	**22,788**	**22,939**	**23,413**	**24,295**	**24,295**	**25,886**	**27,475**	**29,021**	**30,561**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Balance Sheet Assumptions	2008	2009	2010	2011	2012	1Q	2Q	3Q	4Q	2013	1QE	2QE	3QE	4QE	2014E	2015E	2016E	2017E	2018E
Accounts receivable (as % of EBIT)	126%	94%	119%	90%	84%	248%	344%	333%	300%	87%	249%	345%	314%	273%	85%	79%	76%	75%	73%
Inventory (as % of operating expenses)	49%	28%	26%	34%	30%	53%	93%	127%	100%	27%	54%	96%	129%	109%	28%	26%	26%	26%	25%
Trade payable & other S.T. liabilities (as % of opg. Exp.)	202%	144%	135%	116%	120%	386%	358%	351%	389%	103%	395%	369%	359%	417%	106%	102%	100%	100%	98%
Working Capital	439.6	(104.1)	207.0	277.0	299	176.5	43.5	87.0	194.8	195	167.5	107.8	121.6	195.7	196	198	198	197	197
Changes in Working Capital	**(499.0)**	**685.8**	**(419.8)**	**(262.2)**	**(30.3)**	(48.1)	169.6	(43.0)	(23.2)	**55.3**	27.3	59.7	(13.8)	(74.1)	**(0.9)**	**(2.8)**	**(0.0)**	**1.3**	**0.6**
Average Collection Period	**47**	**48**	**68**	**54**	**65**	54	54	50	58	**65**	55	55	50	59	**66**	**65**	**65**	**65**	**65**
Inventory Days	**46**	**59**	**66**	**89**	**119**	32	109	222	83	**101**	32	110	225	85	**102**	**100**	**100**	**100**	**100**
Average Payable Period	**192**	**301**	**343**	**306**	**484**	234	422	622	326	**390**	235	425	625	325	**389**	**388**	**388**	**385**	**388**

Cash	21	16	9	12	36	101	45	15	27	27	25	23	24	28	28	29	60	62	64
Total Debt	7,577	6,787	7,353	7,954	8,103	8,024	8,065	8,451	8,834	8,834	8,797	9,034	9,455	9,874	9,874	10,364	11,268	12,138	12,917
Total Net Debt	**7,556**	**6,771**	**7,344**	**7,942**	**8,067**	7,923	8,021	8,436	8,807	**8,807**	8,772	9,011	9,432	9,846	**9,846**	**10,335**	**11,208**	**12,077**	**12,852**
Preferred Securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	4,729	4,854	4,923	4,997	5,554	5,691	5,703	5,701	5,887	5,887	6,045	6,048	6,037	6,143	6,143	6,908	7,244	7,576	7,955
Net Debt/Capital	**61.5%**	**58.2%**	**59.9%**	**61.4%**	**59.2%**	58.2%	58.4%	59.7%	59.9%	**59.9%**	59.2%	59.8%	61.0%	61.6%	**61.6%**	**59.9%**	**60.7%**	**61.4%**	**61.8%**
	#REF!	-5%	3%	3%	-4%					1%					3%	-3%	1%	1%	1%
Invested capital	12,285	11,625	12,267	12,940	13,621	13,614	13,723	14,137	14,694	14,694	14,817	15,059	15,469	15,989	15,989	17,243	18,452	19,653	20,807
ROIC	2.7%	2.3%	2.6%	2.8%	3.2%	1.6%	0.5%	0.4%	1.0%	3%	1.5%	0.5%	0.4%	1.1%	3%	4%	4%	3%	4%
ROE	7.1%	5.6%	6.6%	7.3%	7.8%	3.8%	1.3%	0.9%	2.4%	8%	3.7%	1.2%	0.9%	2.8%	9%	9%	9%	9%	9%
EBITDA	1,474	1,451	1,502	1,488	1,647	576	351	322	481	1,729	603	371	349	544	1,866	2,085	2,229	2,337	2,550
Net Debt/EBITDA	**5.1x**	**4.7x**	**4.9x**	**5.3x**	**4.9x**	4.8x	4.9x	5.0x	5.1x	**5.1x**	5.0x	5.1x	5.2x	5.3x	**5.3x**	**5.0x**	**5.0x**	**5.2x**	**5.0x**

Source: NI reports, Jefferies estimates

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Please see important disclosure information on pages 17 - 22 of this report.

Jefferies

Exhibit 14: NI Consolidated Statement of Cash Flows ($MM)

Consolidated Statement of Cash Flows ($MM)	2008	2009	2010	2011	2012	1Q	2Q	3Q	4Q	2013	1QE	2QE	3QE	4QE	2014E	2015E	2016E	2017E	2018E
Operating activities																			
Net income	79	218	292	299	416	261	72	48	152	532	224	73	55	175	527	609	653	670	739
Depreciation, amortization & decommissioning	567	589	596	538	562	144	143	145	146	577	149	148	149	149	595	627	649	664	706
Deferred taxes	132	383	200	178	305	117	51	32	88	287	101	30	22	83	237	258	273	267	271
Net change in working capital	(499)	686	(420)	(262)	(30)	(48)	170	(43)	(23)	55	27	60	(14)	(74)	(1)	(3)	(0)	1	1
Other, including changes in provisions and other liabilities	680	(224)	51	117	23	(23)	10	3	(5)	(15)	8	(15)	9	1	4	(6)	(1)	(3)	(2)
Cash from operating activities	**960**	**1,651**	**720**	**870**	**1,276**	**449**	**445**	**184**	**358**	**1,437**	**509**	**297**	**222**	**334**	**1,362**	**1,486**	**1,574**	**1,599**	**1,715**
Investing activities																			
Capital expenditure - tangible fixed assets	(970)	(777)	(804)	(1,125)	(1,499)	(369)	(432)	(496)	(583)	(1,880)	(392)	(449)	(533)	(626)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Investment in affiliates	0	0	0	0	(20)	(17)	(16)	(44)	(48)	(125)	(17)	(16)	(44)	(53)	(130)	(130)	(130)	(130)	(130)
Net disposals/(acquisitions)	(282)	6	1	9	26	1	0	17	0	18	0	0	0	0	0	0	0	0	0
Other investment	(238)	117	(140)	(34)	68	140	(24)	(10)	(9)	96	0	0	0	0	0	0	0	0	0
Cash from investing activities	**(1,490)**	**(655)**	**(943)**	**(1,149)**	**(1,425)**	**(246)**	**(472)**	**(533)**	**(640)**	**(1,891)**	**(409)**	**(465)**	**(577)**	**(679)**	**(2,130)**	**(2,130)**	**(2,130)**	**(2,130)**	**(2,130)**
Financing activities																			
Inc./(dec.) in short term debt	103	(1,061)	1,280	(23)	(582)	354	(754)	443	(122)	(78)	(3)	33	59	59	148	69	127	122	110
Inc./(dec.) in long term debt	665	290	(728)	603	660	(427)	791	(54)	487	797	(33)	204	362	360	892	421	777	748	669
Inc./(dec.) in equity	1	24	13	24	374	17	7	12	8	44	13	8	16	12	50	500	55	60	65
Common stock dividends paid	(252)	(253)	(256)	(258)	(273)	(75)	(75)	(78)	(78)	(306)	(78)	(79)	(82)	(82)	(321)	(344)	(372)	(397)	(426)
Other cash from financing	0	0	(93)	(65)	(3)	(8)	(0)	(3)	(0)	(11)	0	0	0	0	0	0	0	0	0
Inc./(dec.) in preffered equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from financing activities	**516**	**(1,000)**	**216**	**281**	**175**	**(138)**	**(30)**	**320**	**294**	**445**	**(102)**	**166**	**356**	**349**	**770**	**646**	**586**	**533**	**418**
Cash flow increase/(decrease) in cash	(14)	(4)	(7)	2	25	65	(57)	(30)	12	(9)	(2)	(2)	1	4	1	1	30	2	3
Non-cash movements in cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**(14)**	**(4)**	**(7)**	**2**	**25**	**65**	**(57)**	**(30)**	**12**	**(9)**	**(2)**	**(2)**	**1**	**4**	**1**	**1**	**30**	**2**	**3**
Cash at the beginning of the year	**35**	**21**	**16**	**9**	**11**	**36**	**101**	**44**	**15**	**36**	**27**	**25**	**23**	**24**	**27**	**28**	**29**	**60**	**62**
Cash at the end of the year	**21**	**16**	**9**	**11**	**36**	**101**	**44**	**15**	**27**	**27**	**25**	**23**	**24**	**28**	**28**	**29**	**60**	**62**	**64**
Cash paid for income taxes	**61**	**34**	**69**	**9**	**8**	3	3	3	(0)	**8**	17	5	4	14	**40**	**70**	**86**	**110**	**144**
Cash Interest paid, net of amount capitalized	**376**	**383**	**393**	**369**	**387**	162	43	155	27	**387**	168	54	164	45	**431**	**471**	**497**	**539**	**581**
Accounting Free Cash Flow (CFO-CAPEX-Dividend)	(263)	620	(339)	(513)	(497)	5	(62)	(390)	(303)	(749)	39	(231)	(392)	(374)	(959)	(859)	(798)	(798)	(710)
Free Cash Flow (NI+D&A-WC-CAPEX-DIV)	(77)	(910)	249	(284)	(764)	8	(462)	(338)	(340)	(1132)	(125)	(367)	(397)	(309)	(1198)	(1105)	(1070)	(1065)	(981)

Source: NI reports, Jefferies estimates

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Please see important disclosure information on pages 17 - 22 of this report.

Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Gas Transmission and Storage, and Electric. The Gas Distribution operations provide 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 segment offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Risk which may impede the achievement of our Price Target

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Other Companies Mentioned in This Report

- Kinder Morgan, Inc. (KMI: $32.88, HOLD)
- Spectra Energy Corp. (SE: $37.69, HOLD)
- UGI Corporation (UGI: $45.35, HOLD)

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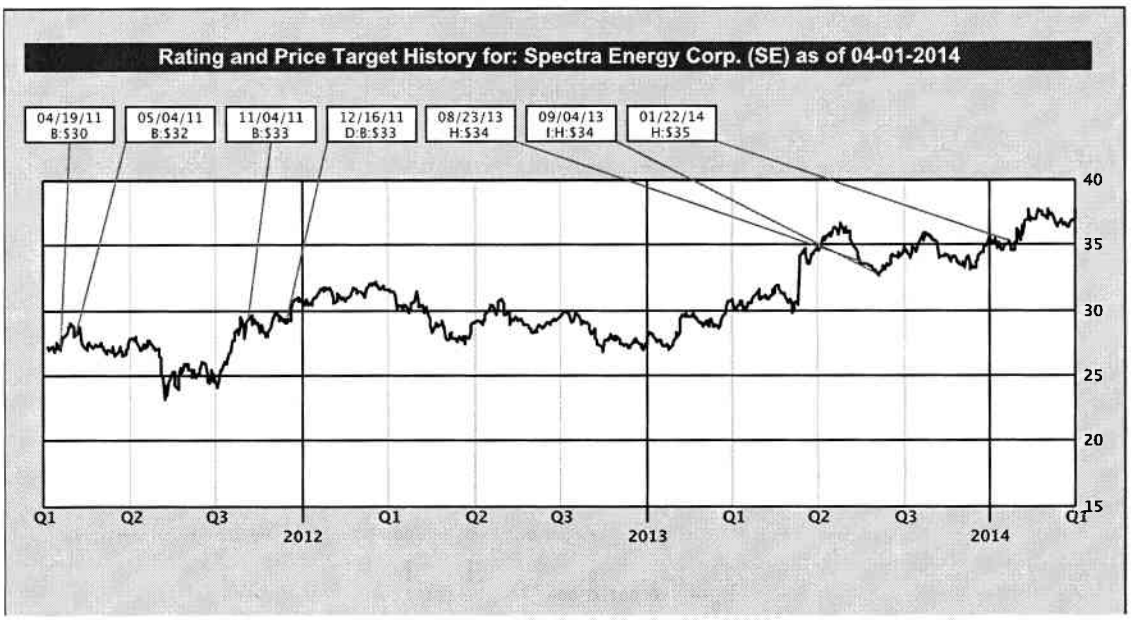

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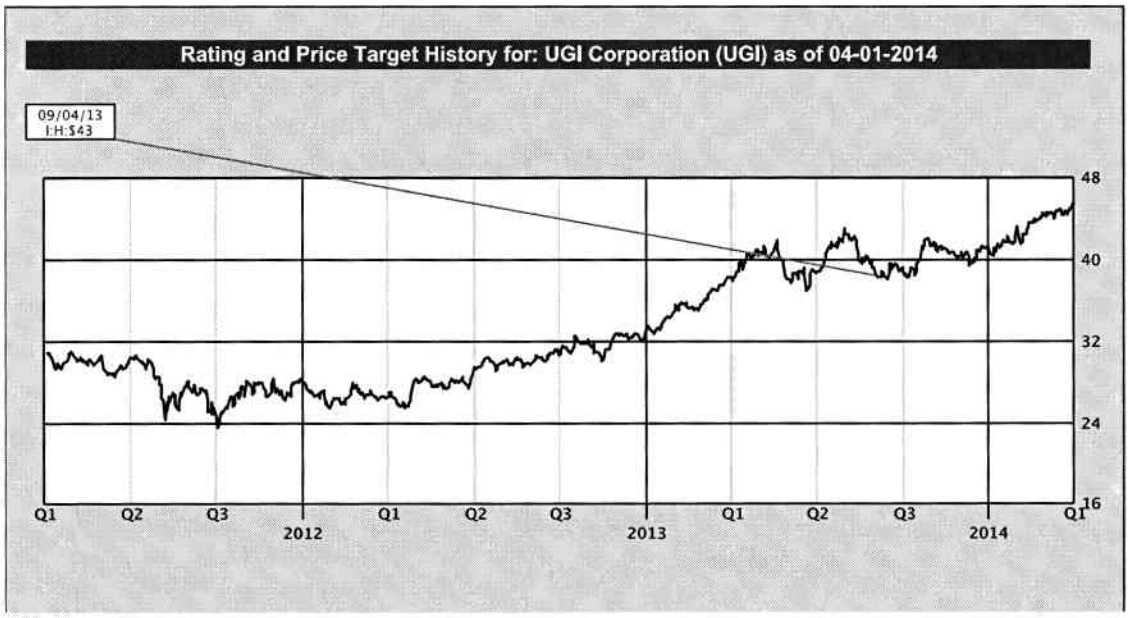

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	892	49.15%	227	25.45%
HOLD	771	42.48%	136	17.64%
UNDERPERFORM	152	8.37%	5	3.29%

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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CREDIT SUISSE

Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**NEUTRAL***
Price (21 Apr 14, US$)	35.71
Target price (US$)	(from 38.00) 39.00[1]
52-week price range	36.30 - 27.62
Market cap. (US$ m)	11,240.03
Enterprise value (US$ m)	20,996.25

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

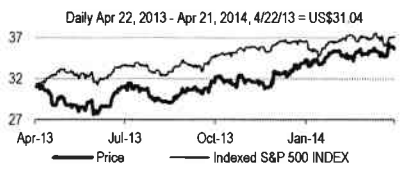
Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

INCREASE TARGET PRICE

Adjust Qtrly EPS Ahead of 1Q '14 Release. Hold '14E-'16E EPS F'cast Overall. Still Neutral.

- **Call this a Maintenance Note:** We are raising our Gas Distribution segment estimate by approx. $36mm, to $262mm while trimming our estimate for Gas Transmission and Storage by about $6mm, to $162mm. Overall EPS moves higher in 1Q, by $0.06/share to $0.79. Our estimate for 4Q EPS drops by $0.05/share, to $0.50. Overall 2014E EPS remains at $1.68, in line with the prior guidance of $1.61-$1.71 EPS. We have moved around the numbers seasonally for 2015 and 2016 as well while otherwise holding our outlook going forward. We have held our dividend outlook at approximately 4% growth.
- **Earnings Release and Call Scheduled for April 30:** We expect the standard update to growth projects and regulatory review, with the focus going to center on continuing expectations for formation of an MLP with its Pennant Midstream and Columbia Pipeline Group assets.
- **Valuation–Raising by $1, to $39, Maintain Neutral:** Our $39 TP is based on 18-21x 2015E EPS on the electric utility business, 10x 2015E EBITDA multiple on the natural gas utilities segment, and 12.5x EBITDA multiple on the assets that qualify for MLP treatment (11.5% of the CGP assets) and 1.5 turns lower for the remainder of the CGP assets. Together with NTM dividend of $1.04, this translates to a total return of approximately 6-18%, with a mid-point of approximately 12%, supportive of a neutral rating on the shares.

Share price performance



On 04/21/14 the S&P 500 INDEX closed at 1871.89

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.69	0.23	0.18	0.47
2014E	0.79	0.26	0.14	0.50
2015E	0.88	0.26	0.12	0.52

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	1.57	1.68	1.78	1.87
Prev. EPS (US$)	—	—	1.77	—
P/E (x)	22.8	21.2	20.1	19.0
P/E rel. (%)	133.1	134.2	141.3	148.4
Revenue (US$ m)	5,657.3	5,963.5	6,503.1	6,946.5
EBITDA (US$ m)	1,720.7	1,898.6	2,088.3	2,272.0
OCFPS (US$)	4.58	4.69	4.95	4.03
P/OCF (x)	7.2	7.6	7.2	8.9
EV/EBITDA (current)	11.7	10.6	9.6	8.8
Net debt (US$ m)	8,807	9,756	10,112	10,763
ROIC (%)	5.07	5.27	5.41	5.42

Number of shares (m)	314.76	IC (current, US$ m)	14,693.80
BV/share (Next Qtr., US$)	19.6	EV/IC (x)	1.3
Net debt (Next Qtr., US$ m)	8,943.6	Dividend (current, US$)	1.0
Net debt/tot cap (Next Qtr., %)	147.4	Dividend yield (%)	0.70

Source: Company data, Credit Suisse estimates.

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CREDIT SUISSE

Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.4 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 642 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 460,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI also holds substantial acreage.

NI also has an inventory of project opportunities:

- Over $10 billion in its regulated Gas Distribution segment,
- $4.2-$6.4 billion of electric operations infrastructure,
- $8-$10.5 billion in its Columbia Pipeline Group. There is $3-$4B spread across eight different upgrade and expansion projects as well as a $4-$5B opportunity for a pipeline modernization program approved by the FERC for cost. The CPG group also has $1B of midstream projects spread across 6 different opportunities and a couple of production opportunities in the Utica where it is in a JV to develop 120,000 acres in the Utica.

Importantly, we believe NI has the liquidity (no borrowing outstanding on its $2B revolving credit facility as of Dec. 31, 2013), balance sheet, and opportunity set in place to maintain an annual cap ex program of ~$2B ($2.15B estimated for 2014).

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Estimate Changes

Our overall outlook is in line with our previous forecast. We increased our Gas Distribution forecast offset by lower numbers on the Gas Transmission and Storage. Our overall EPS growth remains in the 5-7% range for 2014-2016 with dividend growth of approximately 4%.

Exhibit 1: NiSource 2014- 2016 Estimate Changes

	Old estimates							New estimates						
	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Segment EBITDA														
Gas Distribution	280	119	60	249	707	773	838	315	116	60	223	713	782	849
NIPSCO Electric	135	125	159	118	537	575	616	135	125	159	118	537	575	616
Gas Transmission & Storage	198	145	118	172	633	717	794	191	145	118	172	625	708	785
Other	2	4	4	13	23	23	23	2	4	4	13	23	23	23
Total EBITDA (recurring)	**615**	**392**	**341**	**552**	**1,899**	**2,088**	**2,271**	**643**	**390**	**340**	**526**	**1,899**	**2,088**	**2,272**
Segment EBIT														
Gas Distribution	227	64	4	191	486	529	571	262	61	4	166	492	537	581
NIPSCO Electric	74	64	96	55	288	314	343	74	64	96	55	288	314	343
Gas Transmission & Storage	169	114	86	138	506	567	622	162	114	86	138	499	559	613
Other	(1)	1	0	10	10	9	8	(1)	1	0	10	10	9	8
Total EBIT (recurring)	**468**	**242**	**186**	**393**	**1,290**	**1,419**	**1,545**	**496**	**239**	**186**	**368**	**1,289**	**1,420**	**1,546**
Interest Expense	114	116	120	126	476	549	615	114	115	120	126	475	548	613
Other Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxes	124	44	23	93	285	309	335	134	43	23	85	285	309	336
Recurring Net Income	**230**	**82**	**43**	**174**	**529**	**561**	**595**	**249**	**80**	**43**	**157**	**529**	**562**	**597**
Diluted Wtd Avg shares outstanding	314	314	315	315	315	317	319	314	314	315	315	315	317	319
Recurring EPS - Diluted	**$0.73**	**$0.26**	**$0.14**	**$0.55**	**$1.68**	**$1.77**	**$1.87**	**$0.79**	**$0.26**	**$0.14**	**$0.50**	**$1.68**	**$1.78**	**$1.87**
Dividend per share	**$0.25**	**$0.26**	**$0.26**	**$0.26**	**$1.03**	**$1.07**	**$1.11**	**$0.25**	**$0.26**	**$0.26**	**$0.26**	**$1.03**	**$1.07**	**$1.11**
Financing & Credit Metrics														
Total Debt / Total Cap	59.7%	60.6%	61.9%	61.4%	61.4%	59.8%	59.1%	59.6%	60.5%	61.8%	61.4%	61.4%	59.8%	59.0%
Net Debt / Total Cap	59.7%	60.6%	61.8%	61.4%	61.4%	59.8%	59.0%	59.6%	60.5%	61.7%	61.4%	61.4%	59.8%	59.0%
Net Debt / Equity	147.9%	153.6%	162.1%	158.9%	158.9%	148.6%	143.9%	147.4%	152.9%	161.4%	158.9%	158.9%	148.7%	143.8%
Book Value Per Share	$19.28	$19.29	$19.18	$19.48	$19.52	$21.49	$23.49	$19.34	$19.34	$19.23	$19.48	$19.52	$21.49	$23.49
Net Debt / TTM EBITDA	5.1x	5.1x	5.3x	5.1x	5.1x	4.8x	4.7x	5.0x	5.0x	5.3x	5.1x	5.1x	4.8x	4.7x

Source: Company data, Credit Suisse estimates

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Valuation

- We are raising our target price by $1 to $39. Our sum of the parts analysis reflects what we think will be an initial 11.5% of the Columbia Pipeline assets in an MLP spinoff. We expect the MLP option to be announced in mid-2014 with an approximate 6-9 month timeframe for completion of the IPO spin-off.
- Our $39 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment, a 12.5x NTM EBITDA multiple on the assets that qualify for MLP treatment (which we model as ~11.5% of the Columbia Pipeline assets), and 1.5 turns lower for the remainder of the Columbia Pipeline assets – based on our valuation of a generic MLP with IDRs vs. similar assets within a C-Corp.
- Together with NTM dividend of $1.04, our target price translates to a total return of approximately 6-18% with a mid-point of ~12%, which is near the mid-point of our median total return expectations for midstream MLPs.

Exhibit 2: NiSource Sum of the Parts Valuation

	2015		2015		Multiple			Enterprise Value / Equity Value		
	EBIT	D&A	EBITDA / NI	Metric	Low	Base	High	Low	Base	High
Electric Services	314.5	261.0	210.1	P/E	18.0x	19.5x	21.0x	3,781.4	4,096.5	4,411.6
Natural Gas Utilities	537.4	244.4	781.9	EV/EBITDA	10.0x	10.0x	10.0x	7,818.7	7,818.7	7,818.7
TG&S (88.5% of business)	461.9	117.0	578.9	EV/EBITDA	10.5x	11.0x	11.5x	6,078.3	6,367.7	6,657.2
TG&S (11.5% dropped into MLP)	60.0	15.2	75.2	EV/EBITDA	12.0x	12.50x	13.00x	902.7	940.3	977.9
Total Enterprise / Equity Value								**18,581.1**	**19,223.2**	**19,865.4**
Cash & Equivalents								34.8	34.8	34.8
Short-term Debt								542.1	542.1	542.1
Long-term Debt								7,593.2	7,593.2	7,593.2
Less Net Debt								8,100.5	8,100.5	8,100.5
Less Net Debt attributable to NIPSCO (~$1.1 billion)								7,000.5	7,000.5	7,000.5
Total Equity Value								11,580.6	12,222.7	12,864.9
Shares Outstanding								313	313	313
Per Share								**$36.97**	**$39.03**	**$41.08**
Current Share Price (Jan 27, 2014)								$35.61	$35.61	$35.61
Return								7%	12%	18%
Dividend per share (Est.)								$1.03	$1.03	$1.03
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*10%*	*15%*	*21%*
2015E EPS								$1.78	$1.78	$1.78
Implied P/E								**20.8x**	**22.0x**	**23.1x**
Implied Price Target								**$37.00**	**$39.00**	**$41.00**
							Implied P/E		22.0x	

Source: Company data, Credit Suisse estimates

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Risks

The main risk is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of having enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and $1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Commodity price risk is very low and under the current regulatory regime is recovered in utility rates.

The main risk in our view is valuation – as explained above NI and for that matter its peers have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. Consequently NI's shares are up ~9% YTD with no meaningful change in earnings outlook. The shares yield 2.8% and the company is guiding to 3-5% dividend growth. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues but is moderating these purchases over the coming year. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

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Companies Mentioned *(Price as of 21-Apr-2014)*

NiSource Inc. (NI.N, $35.71, NEUTRAL, TP $39.0)

Disclosure Appendix

Important Global Disclosures

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3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
06-May-11	19.44	20.00	N
16-Jun-11	19.30		*
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	
01-Aug-13	31.11	32.00	
01-Nov-13	31.72	33.00	
28-Jan-14	34.18	35.00	
19-Feb-14	35.40	38.00	

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: Our $39 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment, a 12.5x NTM EBITDA multiple on the assets that qualify for MLP treatment (which we model as ~11.5% of the Columbia Pipeline assets), and 1.5 turns lower for the remainder of the Columbia Pipeline assets - based on our valuation of a generic MLP with IDRs vs. similar assets within a C-Corp.

Risk: The main risk is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

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Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

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NiSource Inc NI (NYSE) ★★

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35.51 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Indiana legislation should accelerate investment and earnings.

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 21 Mar 2014
Estimates as of 21 Mar 2014
Pricing data as of 21 Mar 2014 10:49
Rating updated as of 21 Mar 2014 10:50

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 21 Mar 2014

During the past several years, NiSource's regulated electric and natural gas distribution businesses have received favorable regulatory decisions providing automatic rate tracker mechanisms for capital expenditures. As a result, NiSource significantly increased its investments and now plans to continue investing at this elevated level. With favorable regulation in place, we have a high level of confidence that NiSource will be able to produce steady and growing earnings.

We now expect NiSource's regulated natural gas distribution business to invest approximately $4.5 billion during the next five years, about $500 million more than we previously estimated. Regulated electric distribution system investments are now estimated to be almost $2.2 billion over the next five years, about 10% higher than our previous forecast. Recent Indiana legislation promoting infrastructure investment is one of the primary drivers in our higher investment forecast.

We expect the Columbia Pipeline Group, or CPG, to spend more than $4 billion during the next five years to expand its presence in the Marcellus and Utica shale gas regions. About $1.5 billion of the planned investment will be to modernize the Columbia Transmission Pipeline and is covered by automatic rate tracker mechanisms. Two unregulated joint ventures should also allow CPG to expand its presence in the shale regions. One JV is investing in gas-gathering and midstream facilities. Another JV is to develop the hydrocarbon potential in the Utica shale. Investment in the second JV will be accomplished by contributing existing mineral positions and cash flows from the projects.

These investment opportunities and favorable regulatory frameworks give us confidence that NiSource can increase EPS at an average annual rate near the upper end of management's target of 5%-7%. This target was set in 2012, before the Indiana legislation passed and the recent success of the CPG joint ventures. It would not surprise us if management bumped this target range at its next Investor Conference expected in the second half of 2014.

Vital Statistics

Market Cap (USD Mil)	10,958
52-Week High (USD)	36.82
52-Week Low (USD)	27.11
52-Week Total Return %	25.6
YTD Total Return %	6.9
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	6.8
5-Yr Forward EPS CAGR %	6.9
Price/Fair Value	1.29

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	17.0	20.8	*21.2*	*19.6*
EV/EBITDA	9.9	11.2	*10.6*	*9.7*
EV/EBIT	15.2	17.0	*15.6*	*14.2*
Free Cash Flow Yield %	-3.0	-4.4	*-5.2*	*-4.8*
Dividend Yield %	3.5	3.0	*3.0*	*3.1*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	5,061	5,657	*6,123*	*6,524*
Revenue YoY %	-15.9	11.8	*8.2*	*6.6*
EBIT	1,039	1,126	*1,269*	*1,388*
EBIT YoY %	12.7	8.4	*12.7*	*9.4*
Net Income, Adjusted	437	494	*526*	*572*
Net Income YoY %	12.4	13.0	*6.5*	*8.8*
Diluted EPS	1.46	1.58	*1.65*	*1.78*
Diluted EPS YoY %	7.9	8.3	*4.6*	*8.1*
Free Cash Flow	71	-379	*-157*	*-390*
Free Cash Flow YoY %	339.3	-637.2	*-58.5*	*148.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource also owns 15,000 miles of natural gas transmission pipeline, operates one of the nation's largest underground natural gas storage systems, and provides unregulated midstream services in the growing Marcellus and Utica shale production area. NiSource's electric utility generates, transmits, and distributes electricity in northern Indiana.

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Morningstar Analysis

Valuation, Growth and Profitability 21 Mar 2014

We are increasing our fair value estimate to $30 per share from $27 per share. The increase is due in large part to the increase in our five-year capital expenditure forecast. The stepped-up capital expenditure plan results in our five-year EPS CAGR estimate increasing to 6.9% from our previous estimate of 6.6%. Our annual EPS growth rate is now at the upper end of management's 5%-7% target. However, we note the target was set in 2012, prior to the release of the three-year capital expenditure plan for 2014-16 that was $800 million higher than the previous three-year plan. Our fair value estimate also benefited from time-value appreciation since our last update.

Our new fair value estimate is 18.2 times our 2014 EPS estimate, a premium to NiSource's diversified peers as of late March. We believe the premium is warranted given the favorable regulatory frameworks and the growth potential in the shale gas regions.

NiSource's infrastructure investment program at its electric utility is the primary driver of our 8.8% annual operating earnings growth estimate during the next five years. With the recent passage of SB 560 and Indiana Commission approval of the electric utility's seven-year modernization plan, we expect infrastructure improvements to accelerate. We expect the accelerated investment program to push earnings growth to the higher end of management's 7%-9% target.

NiSource's gas distribution utilities have ongoing modernization programs for replacing steel pipe with plastic. SB 560 and the modernization program in the six other states have rate tracker mechanisms allowing for timely recovery of these investments. We estimate the favorable regulatory frameworks will drive 8% average operating earnings growth at the gas distribution segment during the next five years, the mid-point of management's 7%-9% target.

We think the Columbia Pipeline modernization program and opportunities in shale-gas producing regions can support 11.6% average annual earnings growth during the next five years at CPG. Our annual operating earnings growth estimate is in the upper half of management's 10%-12% target. However, this target was announced in 2012 and before the joint venture with HilCorp announced several new midstream projects.

We use a 10% cost of equity and a 6.7% weighted average cost of capital in our discounted cash flow valuation.

Scenario Analysis

If we assume nonregulated investments at CPG from 2015 to 2018 are one-half of our assumption, our annual earnings growth forecast for CPG would decline almost 2 percentage points, to 9.7%, and our 2018 consolidated EPS forecast would decrease $0.11 per share, to $2.09 per share. The decline in earnings at CPG would reduce our fair value estimate by about $2 per share. If nonregulated investments are 50% more than our estimate, CPG's five-year operating earnings average annual growth rate increases to 13.3%, 2017 EPS increases by $0.11 per share, and our fair value estimate increases by $2 per share.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by $3 per share.

Economic Moat

We assign a narrow moat to NiSource, as most of its earnings are derived from regulated operations. NiSource's regulated utility businesses own difficult-to-replicate networks of electricity and natural gas transmission and distribution assets that provide essential utility services to customers. Electricity generation in Indiana is also regulated, and the rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and

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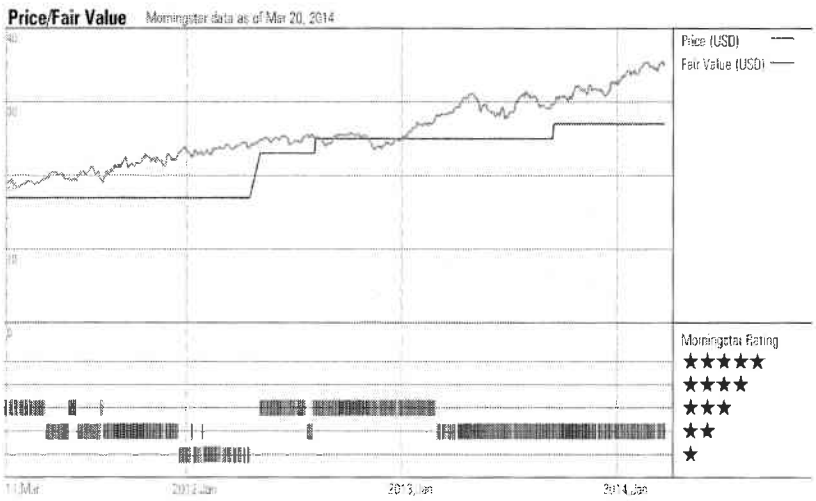

federal regulators set NiSource's utility rates.

For natural gas distribution service, regulators set distribution rates and also the commodity price for customers purchasing natural gas from NiSource. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

For the most part, regulators have recognized the need for NiSource's shareholders to earn an adequate return on their investment. In exchange for earning a fair return for its shareholders, NiSource's utilities are expected to provide safe and reliable service at the lowest possible costs. This implicit contract between the regulators and the utilities should, in the long run, allow NiSource to earn at least its cost of capital, which leads us to assign a narrow economic moat to its regulated operations.

Earnings from midstream businesses and mineral assets are a small share of consolidated earnings. Even though we expect these earnings to grow, we expect they likely will remain much smaller than NiSource's regulated operations. Unregulated midstream services are usually supported by multiyear contracts, and there are efficient-scale competitive advantages to the business. When NiSource builds a midstream gathering or processing facility it is usually sized or can be expanded to serve the entire market. Incremental benefits are usually too low to offer sufficient returns on invested capital for two competitors. This discourages but does not eliminate other entrants, providing some moatlike characteristics to the business.

Moat Trend

We believe NiSource's moat trend is stable. We do not foresee a long-term change to the firm's business as a monopoly provider of natural gas and electricity, nor do we see changes to its compact with regulators. The majority of operating earnings are from FERC-regulated natural gas transmission pipelines and state-regulated natural gas and electric utilities. FERC will not allow new competing pipelines without a clear need for the capacity. In addition, we think it is unlikely that the state regulatory frameworks will change. As with all regulated utilities, we believe regulatory caps on revenue and returns preclude NiSource from establishing a wide economic moat.

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Bulls Say/Bears Say

Bulls Say

- We expect NiSource to increase its dividend at an annual rate of approximately 3.5%-4%, a rate we believe is sustainable even with the increase in capital expenditures.
- NiSource has leases for up to 200,000 acres in the Utica shale-gas formation, a portion of which NiSource will contribute to the HilCorp JV, reducing the development cash needs and risk.
- FERC regulation tends to be less influenced by political agendas versus state regulatory bodies. This usually provides more constructive regulatory decisions and higher allowed returns on equity for natural gas transmission lines.

Bears Say

- Almost 50% of NiSource's electric sales are to industrial customers, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Low natural gas prices could reduce shale-gas drilling activity in the Marcellus region, reducing opportunities for new gas gathering and transportation projects.
- Although NiSource reports weather-normalized operating earnings, mild weather negatively affects GAAP earnings and cash flow.

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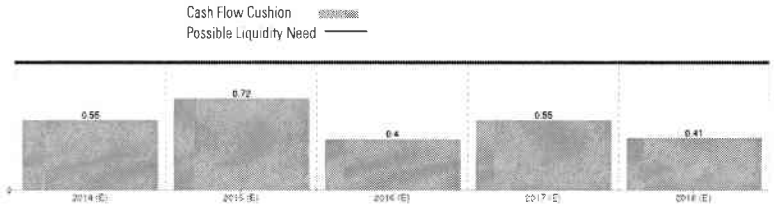
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	35	199	168	106	206
Adjusted Available Cash Flow	521	360	357	546	385
Total Cash Available before Debt Service	556	559	525	652	591
Principal Payments	-542	-266	-755	-598	-809
Interest Payments	-465	-513	-550	-588	-630
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-1,007	-779	-1,305	-1,186	-1,439

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	35	0.6
Sum of 5-Year Adjusted Free Cash Flow	2,168	38.0
Sum of Cash and 5-Year Cash Generation	2,203	38.6
Revolver Availability	1,500	26.3
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,703	64.8
Sum of 5-Year Cash Commitments	-5,715	—

Credit Rating Pillars–Peer Group Comparison

	NI	Sector	Universe
Business Risk	4	4.7	5.0
Cash Flow Cushion	9	7.7	6.1
Solvency Score	5	5.6	4.9
Distance to Default	4	4.2	3.9
Credit Rating	BBB	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health & Capital Structure

In 2013, NiSource stepped up its capital expenditures to almost $2 billion from less than $1 billion as recently as 2010. Management has said its capital expenditures could exceed $2 billion per year for 2014-2016 and could remain at this level beyond 2016 due to numerous investment opportunities. The majority of investment opportunities are infrastructure improvements or environmental projects with rate tracker mechanisms. These investments have a high level of certainty of recovery in rates and, in many cases, at preapproved returns. Therefore, the higher level of capital expenditures is not a concern.

NiSource plans to issue equity in the latter half of 2015 to solidify its balance sheet owing to the stepped-up capital expenditures. We assume it will issue $400 million of equity and it would not surprise us if management elected to raise the equity by a forward equity sale. In 2010, the company entered into a $340 million equity forward transaction that closed in September 2012.

Management has explored forming a master limited partnership of its natural gas transmission and midstream assets. However, tax leakage and maintaining investment-grade credit ratings could be a roadblock to this financial engineering. If management can overcome these hurdles and IPO an MLP, the company could avoid the 2015 equity issuance. This would allow the CPG segment to be a self-funding entity, eliminating about 35% of planned capital expenditures.

Assuming NiSource issues equity in 2015, its debt/capital ratio should remain in the low 60% range and EBIT/interest expense range near 2.8 times during the next five years. We are comfortable with both ratios in light of the favorable regulatory framework in most of its businesses. The majority of future regulated investments are covered by rate trackers or preapproved agreements that provide for automatic rate

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Credit Analysis

increases. These mechanisms provide transparent and predictable earnings and cash flow that support the relatively high leverage of the company.

NiSource increased its annual dividend by $0.04 per share in 2012 and 2013, bringing the dividend to $1.00 per share. These increases were the first in 10 years following a dividend cut in 2003 to strengthen its balance sheet following the Columbia Energy Group acquisition. NiSource expects to continue 3%-5% annual dividend growth, which we think is achievable considering our 6.9% annual EPS growth estimate during the next five years. We project a dividend payout ratio near 60% in 2014 and 2015, a level we believe is sustainable. If the company did move forward with an MLP and IPO, the reduction in capital expenditures and increase in cash flow would likely result in a recalibration of the common dividend to a higher level.

Enterprise Risk

Regulatory risk remains the key uncertainty, as the majority of operating earnings are from businesses that are state- or FERC-regulated. That said, NiSource's regulatory exposure is diversified due to operations in seven state jurisdictions and its federal-regulated transmission pipeline. FERC tends to be less influenced by political agendas compared to state regulatory bodies and has a more constructive regulatory framework. This usually provides more transparent and predictable regulatory decisions and higher allowed return on equity for its transmission operations. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utility investments by receiving pre-approval and favorable rate mechanisms. Its investments in nonregulated pipelines and other infrastructure in the CPG segment come with higher return potential but increased regulatory risk since they do not have monopoly status or pre-set returns. Another potential risk for NiSource's gas transmission and storage segment is depressed natural gas prices reducing drilling activity in the Marcellus and Utica shale-gas producing regions. We assume NiSource's infrastructure investments will produce strong earnings growth. A decline in drilling activity would likely lead to lower investment and earnings growth. In early 2011, NiSource reached a settlement agreement with the U.S. EPA that requires about $850 million of capital improvements to air pollution control systems at three coal-fired power plants. NiSource expects to complete the improvements by 2018. Although this provides some certainty that the plants will continue to operate, environmental rules could become stricter, requiring additional capital investment or added operating cost that may have uncertain cost recovery in regulated rates. This is a risk facing all power plants, especially coal-fired ones.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
ROBERT C. SKAGGS,JR	CEO/Director/President,Director	682,153	18 Feb 2014	—
STEPHEN P. SMITH	Executive VP/CFO	270,739	26 Feb 2014	22,845
CARRIE J. HIGHTMAN	Executive VP/Other Executive Officer	156,776	24 Feb 2014	14,125
W. LEE NUTTER	Director	123,074	14 May 2013	—
GLEN L. KETTERING	Senior VP, Divisional	110,470	20 Feb 2014	14,000
GLEN L. KETTERING	Senior VP, Divisional	110,470	20 Feb 2014	14,000
ROBERT D. CAMPBELL	Senior VP, Divisional	108,688	28 Feb 2014	7,000
EILEEN O'NEILL ODUM		97,086	24 Mar 2009	—
JOSEPH HAMROCK	CEO, Divisional/Executive VP	85,533	30 Jan 2014	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
T. Rowe Price Equity Income Fund	3.11	1.08	—	31 Dec 2013
Vanguard Mid-Cap Index Fund	1.59	0.35	39	28 Feb 2014
Vanguard Total Stock Mkt Idx	1.52	0.05	27	28 Feb 2014
JPMorgan Mid Cap Value Fund	1.19	0.90	-557	31 Jan 2014
Utilities Select Sector SPDR®	1.08	2.24	-171	20 Mar 2014
Concentrated Holders				
EIC Energy Utility Fund	0.04	5.14	—	31 Jan 2014
Reaves Utilities and Energy Infras Fund	0.03	5.06	—	31 Jan 2014
Tortoise MLP & Pipeline Fund	0.54	4.90	-249	30 Nov 2013
Tortoise Pipeline & Energy	0.17	4.31	534	30 Nov 2013
Fidelity VIP Utilities Portfolio	0.03	4.29	—	31 Jan 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Deutsche Asset Mgmt Invst Gesenschaft	2.58	0.96	8,106	31 Dec 2013
T. Rowe Price Associates, Inc.	7.85	0.19	2,748	31 Dec 2013
Pictet Asset Management SA	1.70	0.88	2,646	31 Dec 2013
Citadel Advisors Llc	0.41	0.05	900	31 Dec 2013
J.P. Morgan Investment Management Inc.	5.09	0.27	856	31 Dec 2013
Top 5 Sellers				
Deutsche Bank AG	0.78	0.10	-5,867	31 Dec 2013
Goldman Sachs Asset Management, L.P.	0.03	—	-3,547	31 Dec 2013
Cramer Rosenthal McGlynn, LLC	1.27	0.94	-2,014	31 Dec 2013
Reaves W H & Co Inc	0.43	1.47	-1,581	31 Dec 2013
Renaissance Technologies Corp	0.08	0.02	-873	31 Dec 2013

Management 12 Sep 2013

We assign NiSource a standard stewardship rating. We think management has done a good job managing state and federal regulatory relations. In addition, although one could argue it was luck that located NiSource's Columbia Pipeline in the middle of the Marcellus Shale Gas and at the edge of the Utica Shale regions, management has taken advantage of this opportunity and developed projects that appear to provide returns significantly above the company's cost of capital.

Robert Skaggs inherited a debt-heavy balance sheet and a shaky dividend when he became CEO in 2005. Since then, the company has deleveraged and begun increasing its dividend. In addition, management has reduced regulatory risk by achieving favorable settlement agreements or decisions for its Indiana electric utility and several of its gas distribution companies. In addition, under Skagg's watch the company recently received FERC approval for its long-term settlement agreement with customers that allows NiSource to modernize the Columbia Transmission Pipeline. The five-year $1.5 billion project is expected to provide returns above NiSource's cost of capital and we believe represents good stewardship of shareholder capital. The company also appears to have a disciplined capital approval process for its nonregulated investments.

In 2012, Skaggs earned total compensation of approximately $4.7 million. We believe this is a reasonable level of compensation considering NiSource's size and complexity. In addition, we think the significant portion of total compensation that is long-term and based on financial results and total shareholder return is aligned with shareholders' interests.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.51 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Analyst Notes

NiSource Posts Solid 2013 Results, Initiates In-Line 2014 Guidance, Makes Positive MLP Comments 18 Feb 2014

NiSource NI reported 2013 operating earnings per share of $1.58 versus $1.46 in 2012. The strong results were $0.03 higher than our estimate and $0.02 above the consensus estimate of $1.56. All three operating segments posted solid results. In addition, NiSource initiated 2014 operating earnings guidance of $1.61-$1.71 per share, in line with the consensus estimate.

Management talked more positively about the chances of restructuring Columbia Pipeline Group into a master limited partnership. In recent discussions with management, low credit ratings and potential tax leakage were the main impediments to forming an MLP. The improving credit profile driven by recent regulatory decisions and legislation and management's comments that recent tax work may reduce the potential tax leakage increase the likelihood that an MLP could be announced before year-end. The formation of an MLP would probably eliminate the need for an equity issuance in 2015. Based on our increased confidence in the formation of an MLP, we are likely to modestly increase our fair value estimate. Our narrow moat and stable moat trend rating are unchanged.

NiSource currently trades at a significant premium to our fair value estimate and its peers. We suspect the premium valuation is due in part to recent rumors that Dominion Resources D is looking to acquire NiSource. We think this acquisition is unlikely. In our opinion, mergers are heavily influenced by personal issues. Our takeaways from our November 2013 meeting with management included the observation of a relatively young and engaged CEO who is doing a solid job of running NiSource. Bob Skaggs did not impress us as a person interested in retirement at this time. Thus, we believe investors should not pay a premium valuation that assumes NiSource is a potential acquisition target.

NiSource's Capital Expenditure Plan Supports EPS Growth Target, but MLP Formation Downplayed 11 Nov 2013

We had the opportunity to meet with NiSource's senior management team at the 48th Edison Electric Institute Financial Conference in Orlando, Fla. Our main takeaway was that management has a doable long-term capital expenditure program and regulatory frameworks to allow NiSource to achieve a 6.5% average compounded annual EPS growth rate and increase its common dividend over 4% per year. This earnings growth rate is in line with the 5%-7% range management has targeted. We are reaffirming our narrow moat and stable moat trend ratings and our fair value estimate of $27 per share.

We expect capital expenditures to average about $2 billion per year during the next five years. The environmental control expenditures at NIPSCO's coal-fired plants have peaked and will now wind down as the seven-year, $1.7 billion investments for electric and natural gas distribution system improvements in Indiana ramp up. Since NiSource is the first Indiana utility to use new legislation that provides a rate tracker mechanism for recovery of these investments, management expects litigation. However, management believes the law will pass legal scrutiny and the only issues will be its administration. We agree with this assessment, but if it is wrong, consolidated capital expenditures and earnings will likely fall short of our estimates.

Overall, we thought the tone of the meeting was very good. In our opinion, the only negative was management's reiteration of its concern about the formation of a master limited partnership. Management believes the tax leakage will be too significant and the credit issues too complex to create an MLP with the firm's natural gas transmission pipelines and midstream assets at this time. After

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Analyst Notes

CenterPoint Energy and Dominion Resources announced plans to form an MLP, the shares of both benefited. We believe it could be a long time before NiSource heads down the MLP path.

NiSource Reports Solid 3Q Results; Indiana Modernization Plan on Track 01 Nov 2013

NiSource reported third-quarter operating earnings per share of $0.18 versus $0.04 in the same period last year. The improved results were primarily due to the fact that in 2012, Columbia Pipeline Group operations were negatively affected by the customer settlement related to the infrastructure modernization program. NiSource reiterated its 2013 operating earnings guidance of $1.50-$1.60 per share. Our estimate of $1.56 per share is unchanged. We are also reaffirming our narrow moat and stable moat trend ratings and our fair value estimate of $27 per share.

In line with Indiana legislation passed earlier this year, in early October NIPSCO filed its natural gas infrastructure modernization and expansion plan with the Indiana Utility Regulatory Commission. Management indicated the $700 million seven-year gas program and the previously filed $1 billion electric modernization program will begin by the middle of next year following approval by the IURC. These programs will ramp up as the environmental expenditures for NIPSCO's coal-fired power plants are nearing completion. Management believes this timing will result in steady capital expenditures during the next few years and additional equity will not be required until 2015. Management now believes the equity issuance will be in the second half of 2015. We assume a $400 million equity issuance.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	Forecast 2015	5-Year Proj. CAGR
Revenue	*-4.1*	-6.3	-15.9	11.8	*8.2*	*6.6*	*6.8*
EBIT	*6.8*	-0.2	12.7	8.4	*12.7*	*9.4*	*9.8*
EBITDA	*3.9*	-4.0	9.6	6.4	*9.9*	*9.3*	*8.9*
Net Income	*13.2*	14.1	12.4	13.0	*6.5*	*8.8*	*9.0*
Diluted EPS	*9.0*	10.8	7.9	8.3	*4.6*	*8.1*	*6.9*
Earnings Before Interest, after Tax	*4.4*	10.4	4.1	-1.0	*16.8*	*4.7*	*8.0*
Free Cash Flow	*-237.7*	-88.9	339.3	-637.2	*-58.5*	*148.0*	—

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5 Year Proj. Avg
Operating Margin %	*18.6*	15.3	20.5	19.9	*20.7*	*21.3*	*21.9*
EBITDA Margin %	*28.7*	24.3	31.6	30.1	*30.6*	*31.4*	*32.0*
Net Margin %	*7.9*	6.5	8.6	8.7	*8.6*	*8.8*	*9.1*
Free Cash Flow Margin %	*-1.7*	0.3	1.4	-6.7	*-2.6*	*-6.0*	*-2.9*
ROIC %	*7.3*	7.6	7.5	6.9	*7.4*	*7.2*	*7.2*
Adjusted ROIC %	*10.0*	10.6	10.2	9.1	*9.7*	*9.2*	*9.0*
Return on Assets %	*1.9*	1.5	2.0	2.4	*2.2*	*2.2*	*2.3*
Return on Equity %	*7.7*	6.0	7.9	9.3	*8.8*	*9.2*	*9.4*

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	*0.60*	0.61	0.59	0.60	*0.61*	*0.63*	*0.62*
Total Debt/EBITDA	*5.23*	5.45	5.06	5.19	*5.21*	*5.26*	*5.10*
EBITDA/Interest Expense	*3.94*	3.88	3.83	4.11	*4.03*	*3.99*	*4.07*

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.00	1.22	—	—
Price/Earnings	17.0	20.8	*21.2*	*19.6*
EV/EBITDA	9.9	11.2	*10.6*	*9.7*
EV/EBIT	15.2	17.0	*15.6*	*14.2*
Free Cash Flow Yield %	-3.0	-4.4	*-5.2*	*-4.8*
Dividend Yield %	3.5	3.0	*3.0*	*3.1*

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	87.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-816	-4.5	-2.55
Present Value Stage II	1,359	7.5	4.25
Present Value Stage III	17,611	97.0	55.12
Total Firm Value	**18,155**	**100.0**	**56.82**
Cash and Equivalents	70	—	0.22
Debt	-8,834	—	-27.65
Preferred Stock	—	—	—
Other Adjustments	35	—	0.11
Equity Value	**9,425**	—	**29.50**
Projected Diluted Shares	320		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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NiSource Inc NI (NYSE) ★★

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35.51 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2011	2012	2013	*Forecast* 2014	*Forecast* 2015
Revenue	**6,019**	**5,061**	**5,657**	***6,123***	***6,524***
Cost of Goods Sold	2,556	1,542	1,816	*2,023*	*2,109*
Gross Profit	**3,463**	**3,520**	**3,842**	***4,100***	***4,415***
Selling, General & Administrative Expenses	1,723	1,663	1,874	*1,976*	*2,111*
Other Operating Expense (Income)	295	288	301	*297*	*307*
Other Operating Expense (Income)	-15	-32	-36	*-45*	*-49*
Depreciation & Amortization (if reported separately)	538	562	577	*603*	*658*
Operating Income (ex charges)	**922**	**1,039**	**1,126**	***1,269***	***1,388***
Restructuring & Other Cash Charges	17	-4	-18	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**905**	**1,043**	**1,143**	***1,269***	***1,388***
Interest Expense	377	418	415	*465*	*513*
Interest Income	-61	2	24	*5*	*5*
Pre-Tax Income	**467**	**626**	**753**	***809***	***880***
Income Tax Expense	163	216	262	*283*	*308*
Other After-Tax Cash Gains (Losses)	-5	6	6	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	35	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**299**	**416**	**532**	***526***	***572***
Weighted Average Diluted Shares Outstanding	289	300	314	*319*	*321*
Diluted Earnings Per Share	**1.03**	**1.39**	**1.70**	***1.65***	***1.78***
Adjusted Net Income	389	437	494	*526*	*572*
Diluted Earnings Per Share (Adjusted)	**1.35**	**1.46**	**1.58**	***1.65***	***1.78***
Dividends Per Common Share	0.92	0.94	0.98	*1.02*	*1.06*
EBITDA	**1,443**	**1,605**	**1,721**	***1,872***	***2,046***
Adjusted EBITDA	**1,460**	**1,601**	**1,703**	***1,872***	***2,046***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Cash and Equivalents	172	83	35	*199*	*168*
Investments	—	—	—	—	—
Accounts Receivable	855	907	1,006	*1,090*	*1,162*
Inventory	566	496	500	*554*	*578*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	655	866	618	*750*	*750*
Current Assets	**2,248**	**2,352**	**2,159**	***2,594***	***2,658***
Net Property Plant, and Equipment	11,800	12,916	14,365	*15,843*	*17,259*
Goodwill	3,677	3,677	3,666	*3,666*	*3,666*
Other Intangibles	298	287	276	*276*	*276*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,685	2,613	2,188	*2,561*	*2,689*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**20,708**	**21,845**	**22,654**	***24,940***	***26,548***
Accounts Payable	435	539	619	*690*	*719*
Short-Term Debt	1,687	1,284	1,241	*1,250*	*1,250*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,525	1,479	1,319	*1,500*	*1,500*
Current Liabilities	**3,646**	**3,302**	**3,178**	***3,440***	***3,469***
Long-Term Debt	6,267	6,819	7,593	*8,500*	*9,500*
Deferred Tax Liabilities (Long-Term)	2,542	2,953	3,278	*3,632*	*3,963*
Other Long-Term Operating Liabilities	3,256	3,216	2,718	*3,252*	*3,236*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**15,711**	**16,290**	**16,767**	***18,823***	***20,169***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,168	4,598	4,690	*4,725*	*4,760*
Retained Earnings (Deficit)	917	1,060	1,286	*1,486*	*1,717*
(Treasury Stock)	-31	-41	-49	*-49*	*-49*
Other Equity	-60	-66	-44	*-49*	*-54*
Shareholder's Equity	**4,997**	**5,554**	**5,887**	***6,117***	***6,379***
Minority Interest	—	—	—	—	—
Total Equity	**4,997**	**5,554**	**5,887**	***6,117***	***6,379***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Net Income	299	416	532	*526*	*572*
Depreciation	538	562	577	*603*	*658*
Amortization	—	—	—	—	—
Stock-Based Compensation	39	45	51	*49*	*53*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	178	305	287	*354*	*332*
Other Non-Cash Adjustments	217	25	-65	—	—
(Increase) Decrease in Accounts Receivable	220	-51	-95	*-85*	*-72*
(Increase) Decrease in Inventory	-142	62	-9	*-54*	*-24*
Change in Other Short-Term Assets	-274	-157	81	*-132*	—
Increase (Decrease) in Accounts Payable	-155	57	68	*71*	*29*
Change in Other Short-Term Liabilities	—	—	—	*181*	—
Cash From Operations	**920**	**1,264**	**1,427**	***1,514***	***1,549***
(Capital Expenditures)	-1,125	-1,499	-1,880	*-2,081*	*-2,074*
Net (Acquisitions), Asset Sales, and Disposals	9	26	18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-34	51	-148	*160*	*-143*
Cash From Investing	**-1,149**	**-1,422**	**-2,010**	***-1,921***	***-2,216***
Common Stock Issuance (or Repurchase)	21	374	36	*35*	*35*
Common Stock (Dividends)	-258	-273	-306	*-326*	*-341*
Short-Term Debt Issuance (or Retirement)	-23	-582	-78	*9*	—
Long-Term Debt Issuance (or Retirement)	541	656	794	*907*	*1,000*
Other Financing Cash Flows	—	—	—	*-49*	*-53*
Cash From Financing	**281**	**175**	**445**	***576***	***642***
Exchange Rates, Discontinued Ops, etc. (net)	-50	8	129	*-5*	*-5*
Net Change in Cash	**2**	**25**	**-10**	***164***	***-31***

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Dominion Resources Inc D USA	1.16	—	19.9	19.1	—	11.1	10.5	—	NM	-34.4	—	3.2	3.0	—	2.7	2.6
Sempra Energy SRE USA	1.23	—	21.4	19.7	—	10.4	9.8	—	NM	93.7	—	2.0	1.9	—	2.2	2.1
CenterPoint Energy Inc CNP USA	0.99	19.8	18.7	18.2	9.4	9.4	9.5	15.0	21.7	18.3	2.3	2.2	2.1	1.3	1.2	1.2
SCANA Corp SCG USA	1.06	14.6	14.0	13.7	9.3	8.8	8.2	NM	NM	-13.0	1.5	1.3	1.2	1.6	1.5	1.5
Average		17.2	18.5	17.7	9.4	9.9	9.5	15.0	21.7	16.2	1.9	2.2	2.1	1.5	1.9	1.9
NiSource Inc NI US	**1.29**	**20.8**	**21.2**	**19.6**	**11.2**	**10.6**	**9.7**	**NM**	**NM**	**NM**	**1.8**	**1.8**	**1.7**	**1.8**	**1.8**	**1.7**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Dominion Resources Inc D USA	— USD	9.2	8.3	7.9	10.1	9.0	8.6	17.5	17.2	16.6	4.0	3.9	3.8	—	3.5	3.7
Sempra Energy SRE USA	— USD	6.8	5.6	5.8	7.4	6.1	6.3	9.7	10.1	10.5	2.8	2.9	3.0	—	2.8	2.9
CenterPoint Energy Inc CNP USA	— USD	6.6	6.6	6.6	7.5	7.5	7.4	11.8	11.9	11.8	2.3	2.4	2.5	3.5	3.7	3.9
SCANA Corp SCG USA	— USD	6.5	6.2	6.1	6.5	6.2	6.1	10.8	10.4	10.1	3.2	3.1	3.1	4.0	4.2	4.5
Average		7.3	6.7	6.6	7.9	7.2	7.1	12.5	12.4	12.3	3.1	3.1	3.1	3.8	3.6	3.8
NiSource Inc NI US	**22,654** USD	**6.9**	**7.4**	**7.2**	**9.1**	**9.7**	**9.2**	**9.3**	**8.8**	**9.2**	**2.4**	**2.2**	**2.2**	**3.0**	**3.0**	**3.1**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Dominion Resources Inc D USA	14,233 USD	8.7	5.5	5.3	136.0	4.1	3.8	9.3	5.5	3.9	-38.1	-59.5	-143.5	6.6	6.7	6.3
Sempra Energy SRE USA	10,560 USD	9.5	2.5	3.2	35.1	3.9	7.9	0.9	2.3	8.4	-133.0	-177.3	-316.5	5.0	4.0	4.0
CenterPoint Energy Inc CNP USA	8,005 USD	7.4	2.8	3.1	-24.8	1.3	1.3	-4.1	5.8	2.8	256.2	-42.4	7.7	2.5	4.8	4.6
SCANA Corp SCG USA	4,493 USD	7.6	3.2	3.9	13.4	5.5	8.2	8.1	3.9	2.6	421.4	126.8	-13.9	2.5	2.5	2.4
Average		8.3	3.5	3.9	39.9	3.7	5.3	3.6	4.4	4.4	126.6	-38.1	-116.6	4.2	4.5	4.3
NiSource Inc NI US	**5,657** USD	**11.8**	**8.2**	**6.6**	**8.4**	**12.7**	**9.4**	**8.3**	**4.6**	**8.1**	**-637.2**	**-58.5**	**148.0**	**4.3**	**4.1**	**3.9**

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.51 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Dominion Resources Inc D USA	1,931 USD	58.0	58.0	58.0	37.0	37.5	37.7	26.7	26.3	25.9	13.6	13.7	13.6	-0.7	-5.1	-7.5
Sempra Energy SRE USA	1,095 USD	62.4	63.8	64.9	30.1	31.6	32.7	19.9	20.1	21.0	10.4	10.4	10.9	-2.5	-4.8	2.3
CenterPoint Energy Inc CNP USA	517 USD	48.5	47.8	47.0	23.4	22.6	21.8	12.1	11.9	11.7	6.5	6.7	6.7	8.5	5.7	6.6
SCANA Corp SCG USA	477 USD	51.1	51.9	53.0	30.4	31.0	32.1	21.7	22.2	23.1	10.6	11.1	11.4	-10.5	-13.6	-11.2
Average		55.0	55.4	55.7	30.2	30.7	31.1	20.1	20.1	20.4	10.3	10.5	10.7	-1.3	-4.5	-2.5
NiSource Inc NI US	**494** USD	**67.9**	**67.0**	**67.7**	**30.1**	**30.6**	**31.4**	**19.9**	**20.7**	**21.3**	**8.7**	**8.6**	**8.8**	**-8.0**	**-9.3**	**-8.0**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Dominion Resources Inc D USA	22,400 USD	190.6	187.1	187.6	65.6	65.2	65.2	6.3	6.6	6.5	4.3	4.2	4.3	4.3	4.2	4.2
Sempra Energy SRE USA	13,360 USD	122.5	121.0	118.3	55.1	54.8	54.2	5.1	5.4	5.4	4.2	4.1	3.9	3.5	3.5	3.4
CenterPoint Energy Inc CNP USA	8,700 USD	193.3	176.0	162.2	65.9	63.8	61.9	4.2	4.4	4.4	4.6	4.5	4.3	5.0	4.8	4.7
SCANA Corp SCG USA	6,244 USD	134.3	131.5	133.2	57.3	56.8	57.1	4.4	4.2	4.0	4.6	4.8	4.9	3.4	3.2	3.2
Average		160.2	153.9	150.3	61.0	60.2	59.6	5.0	5.2	5.1	4.4	4.4	4.4	4.1	3.9	3.9
NiSource Inc NI US	**8,834** USD	**150.1**	**159.4**	**168.5**	**60.0**	**61.5**	**62.8**	**4.1**	**4.0**	**4.0**	**5.2**	**5.2**	**5.3**	**3.8**	**4.1**	**4.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Dominion Resources Inc D USA	40,570 USD	0.43	0.45	0.48	0.68	0.70	0.71	0.54	0.54	0.55	0.06	0.07	0.07	67.5	68.3	69.9
Sempra Energy SRE USA	23,570 USD	3.65	1.62	2.02	0.87	0.95	0.95	0.77	0.84	0.84	0.48	0.40	0.51	61.0	58.4	56.0
CenterPoint Energy Inc CNP USA	10,164 USD	1.40	1.47	1.90	1.00	1.02	1.09	0.86	0.89	0.96	1.21	1.27	1.65	69.3	68.6	69.8
SCANA Corp SCG USA	7,006 USD	1.49	2.13	2.17	0.90	0.94	0.97	0.68	0.73	0.75	0.25	0.34	0.35	59.6	58.8	58.7
Average		1.74	1.42	1.64	0.86	0.90	0.93	0.71	0.75	0.78	0.50	0.52	0.65	64.4	63.5	63.6
NiSource Inc NI US	**10,958** USD	**0.11**	**0.62**	**0.52**	**0.68**	**0.75**	**0.77**	**0.52**	**0.59**	**0.60**	**0.03**	**0.16**	**0.13**	**57.8**	**61.9**	**59.5**

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Research Methodology for Valuing Companies

Components of Our Methodology

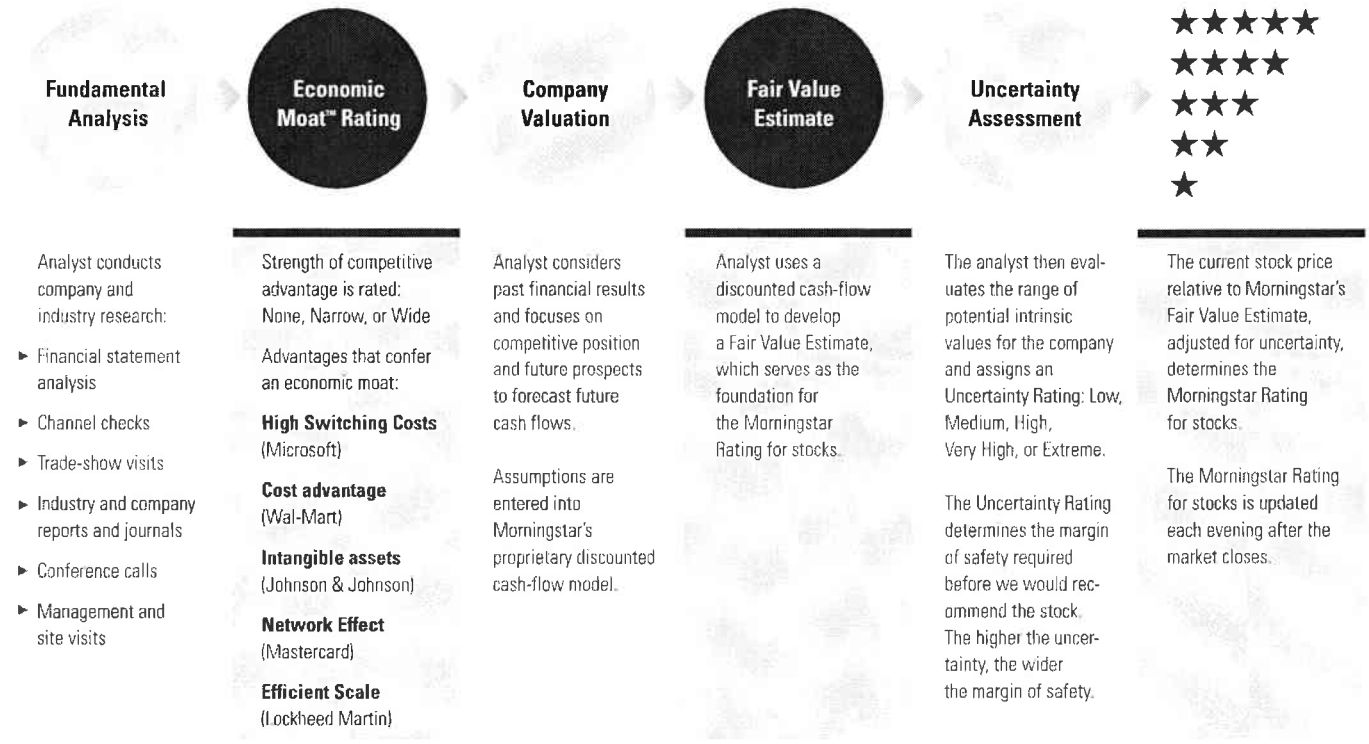
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



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Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

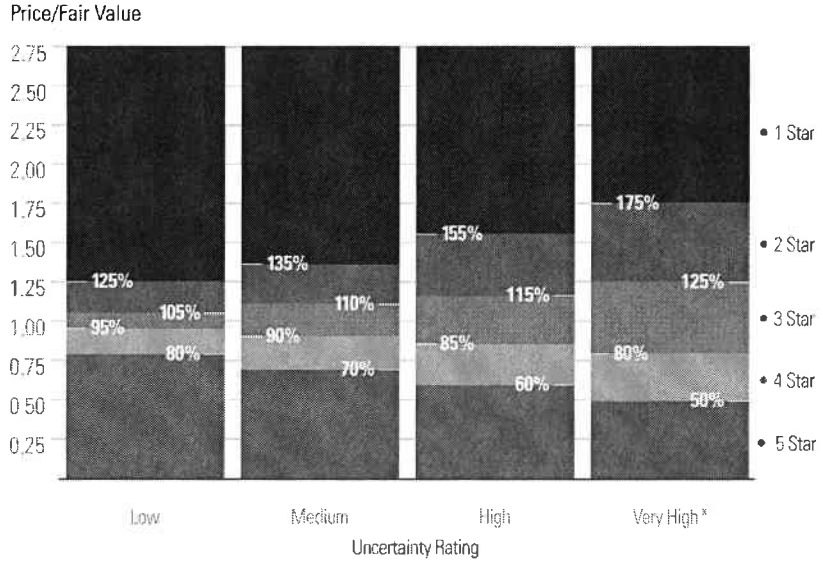
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

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Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

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Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

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NiSource

(NI-NYSE)

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

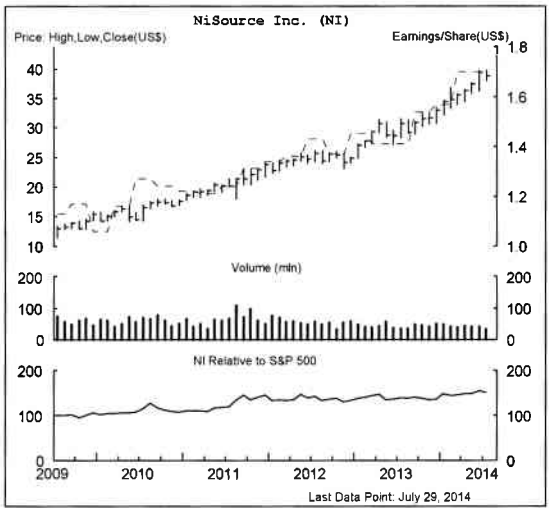
July 31, 2014

Carl Kirst, CFA **713-546-9756**
BMO Capital Markets Corp.
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan, CFA
BMO Capital Markets Corp.
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com / leah.jordan@bmo.com

2Q14 Operationally on Point; Pipe Projects Progress

Price (31-Jul)	$37.68	**52-Week High**	$39.70
Target Price	$38.00	**52-Week Low**	$28.85



Event

NI reported 2Q14 core EPS of $0.25, in line with consensus and $0.02 above our $0.23 estimate. With operations/EBITDA collectively on point, the beat to us came from interest and taxes. Key takeaways: 1) 2014 guidance was narrowed to the upper half of the previous $1.61-$1.71 range, indicating a new range of $1.66-$1.71 (we now reside at $1.71 post this $0.02 beat); 2) a potential MLP remains under review, and we still anticipate an announcement by the end of this quarter at NI's upcoming analyst day; 3) the ~$1.5B Leach/Rayne proposals continue to advance with additional detail expected in the coming weeks, adding confidence to these major projects (which are already included in our valuation at $2/share of NAV); 3) although it is earlier in the process, a third potential large pipeline project, WB Express, is also progressing, with more detail expected at the analyst day; 4) NI also announced two new secured pipe projects in the Marcellus/Utica, albeit smaller, in the $60mm area. That, along with ongoing discussion for a potential expansion of the Big Pine Gathering System, demonstrates NI's ability to continue to layer in additional growth tied to its established footprint in this region, which also would benefit a potential MLP; and 5) newly enacted legislation in MA could allow Columbia Gas of MA to reduce its recovery lag (+$0.01 to EPS) as well as invest slightly more per year. As a result, NI plans to file its request by October with rates to be in effect in May 2015, if approved. All eyes now turn to the September 29 analyst day.

Impact & Analysis

Owing to the 2Q beat, we are increasing our 2014 estimate by $0.02 to $1.71. We have also reworked our model for the expected Leach/Rayne projects to include AFUDC, which will add an incremental ~$0.04/year of noncash EPS until in service in 4Q17. We are thus increasing our 2015-2016 estimates to $1.81 and $1.88 from $1.77 and $1.77, respectively, resulting in about a 5% EPS CAGR.

Valuation & Recommendation

We are reaffirming our Market Perform rating and $38 price target, although we note WB Express represents another $1/share of upside optionality.

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	$1.44	$1.57	$1.71↑	$1.81↑
P/E			22.0x	20.8x
CFPS	$4.31	$4.37	$4.51↑	$4.25
P/CFPS			8.4x	8.9x
Rev. ($mm)	$5,091	$5,657	$6,336	$6,563
EV ($mm)	$14,955	$16,838	$16,838	$16,838
EBITDA ($mm)	$1,615	$1,745	$1,918	$2,037
EV/EBITDA	9.3x	9.6x	8.8x	8.3x

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	$0.73	$0.23	$0.05	$0.44
2013A	$0.69	$0.23	$0.18	$0.47
2014E	$0.82a	$0.25a	$0.16	$0.48

Dividend	$1.00	**Yield**	2.7%
Book Value	$18.21	**Price/Book**	2.1x
Shares O/S (mm)	313.3	**Mkt. Cap (mm)**	$11,805
Float O/S (mm)	310.8	**Float Cap (mm)**	$11,712
Wkly Vol (000s)	9,677	**Wkly $ Vol (mm)**	$326.7
Net Debt ($mm)	$6,740	**Next Rep. Date**	na

Notes: All values in US$
Major Shareholders:
First Call Mean Estimates: NISOURCE INC (US$) 2014E: $1.69; 2015E: $1.82

Changes	Annual EPS	Annual CFPS
	2014E $1.69 to $1.71	2014E $4.45 to $4.51
	2015E $1.77 to $1.81	

Please refer to pages 7 to 10 for Important Disclosures, including the Analyst's Certification.

2Q14 at a Glance

NI reported 2Q14 adjusted EPS of $0.25 in line with consensus and $0.02 above our $0.23 estimate. Primary deltas to our estimate along with business segment summaries are detailed below:

Pipes on target. EBIT of $104 million was in line with our estimate. Of note, total throughput of 322 MMDth increased 12% y/y, mainly due to favorable pricing conditions to third-party interconnects in the Southeast region.

+$0.01 LDC. Adjusted EBIT of $63 million (net of weather and gain on asset sale) was higher than our $56 million estimate, primarily due a greater net sales tariff. Of note, total volumes of 198 MMDth increased 2% y/y, mainly due to higher industrial throughput.

-$0.01 Electric. Adjusted EBIT of $60 million (net of weather and gain on asset sale) was lower than our $65 million estimate, primarily due to lower volumes. Specifically, total volumes of 4,261 GW hours decreased 5% y/y, mainly due to reduced market opportunities for off-system sales.

Corp/Other on target. Adjusted EBIT of $0 million (net of gain on asset sale) was in line with our estimate.

+$0.01 Interest. Interest expense of $109 million was lower than our $112 million estimate.

+$0.01 Taxes. The effective tax rate of 33% was lower than our 35% estimate.

Major Project Update

Leach Express & Rayne Express

With an estimated capacity of 1.5 Bcf/d, the proposed Leach Express project aims to transport Marcellus/Utica gas southward, namely to the Leach and TCO Pool delivery points. We estimate Leach Express to cost approximately $1.1-1.2 billion (at the midpoint) due to the size and scope of the project. Specifically, Leach Express would involve looping and new building in addition to incremental compression.

With an estimated capacity of 0.8 Bcf/d, the proposed Rayne Express project aims to backhaul the remaining capacity of the Columbia Gulf Pipeline, transporting gas south to the Gulf Coast from the Leach receipt point. Recognizing it is smaller in size and scope (e.g., additional compression only) compared with Leach Express, we estimate Rayne Express to cost about $350-400 million.

Notably, NI previously received strong customer interest from its non-binding open seasons for both the Leach and Rayne pipeline projects, and currently, NI remains in active discussion with potential customers. We note firm contracts, and subsequently more detail, are likely in the coming weeks.

On a combined basis, we estimate Rayne & Leach to represent approximately $1.5 billion of total investment and over $200 million of annual EBITDA (assuming 7.0x deployment), which provides ~$2/share of NPV (included in our $38 price target).

WB Express

The proposed WB Express project aims to provide about 1.3 Bcf/d of takeaway capacity for Marcellus gas to access both eastern and western markets. Although it is still early in the process, this project could be another ~$1 billion of investment given its size/scope (similar to Leach Express), which suggests over $1/share of additional upside. Notably, NI previously received strong customer interest from a non-binding open season for this project, and currently, NI remains in active discussion with potential customers. We look for more detail by the end of this quarter.

Exhibit 1: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E
Operating Revenues:														
Gas Distribution	$3,303	$3,096	$2,918	$1,960	$2,226	$1,215	$424	$409	$901	$2,949	$3,555	$3,638	$3,720	$3,803
Pipelines & Storage	1,241	1,261	1,355	1,462	1,643	579	390	300	340	1,609	1,422	1,489	1,539	1,600
Electric	1,213	1,375	1,428	1,508	1,563	450	405	425	400	1,679	1,725	1,770	1,815	1,860
Other	542	603	319	161	224	77	117	(29)	(65)	99	(140)	(140)	(140)	(140)
Revenues	6,299	6,335	6,019	5,091	5,657	2,321	1,335	1,105	1,576	6,336	6,563	6,757	6,935	7,323
Operating Expenses:														
Cost of Sales	2,978	2,898	2,556	1,549	1,816	1,061	372	226	478	2,140	2,189	2,202	2,215	2,228
Operation & Maintenance	1,650	1,654	1,723	1,674	1,874	501	533	479	519	2,033	2,078	2,134	2,192	2,251
DD&A	589	596	538	564	577	149	149	153	154	605	640	672	701	766
Loss (gain) on asset sales	16	1	17	(4)	(18)	(16)	(1)	0	0	(16)	0	0	0	0
Taxes and Other	283	287	295	289	301	101	73	60	82	317	311	311	312	313
Total Operating Expenses	5,516	5,436	5,129	4,072	4,550	1,797	1,127	921	1,234	5,078	5,217	5,319	5,419	5,558
Operating Income	783	899	890	1,020	1,108	524	209	184	342	1,259	1,346	1,438	1,516	1,765
Other:														
Equity in Earnings	16	15	15	32	36	10	11	11	11	43	55	65	76	86
Other	(6)	4	(61)	(1)	24	5	8	0	0	12	(4)	(4)	(4)	(4)
Total Other Income	10	19	(47)	31	60	14	19	11	11	55	51	61	72	82
Reported EBIT	**$793**	**$918**	**$844**	**$1,051**	**$1,168**	**$538**	**$227**	**$195**	**$353**	**$1,314**	**$1,397**	**$1,499**	**$1,588**	**$1,847**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$1,615**	**$1,745**	**$687**	**$376**	**$348**	**$507**	**$1,918**	**$2,037**	**$2,171**	**$2,288**	**$2,613**
EBIT Composition														
Gas Distribution	328	324	393	403	445	302	60	2	167	531	545	581	617	652
Pipelines & Storage	389	377	360	398	441	159	104	101	128	492	555	624	679	817
Electric	117	233	210	251	266	79	63	92	58	292	314	337	360	382
Corporate & Other	(40)	(16)	(119)	(2)	15	(1)	1	(0)	(0)	(1)	(4)	(4)	(4)	(4)
Total EBIT	**$793**	**$918**	**$844**	**$1,051**	**$1,168**	**$538**	**$227**	**$195**	**$353**	**$1,314**	**$1,410**	**$1,537**	**$1,651**	**$1,847**
Interest Expense	399	392	377	416	415	109	109	116	119	453	505	535	579	594
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	416	415	109	109	116	119	453	505	535	579	594
Minority Interests (NI MLP)	0	0	0	0	0	0	0	0	0	0	(19)	(86)	(119)	(143)
Income Before Taxes	394	526	467	635	753	429	118	79	234	861	885	916	953	1,110
Income Taxes														
Current	(214)	118	(15)	(86)	(26)	14	2	7	20	43	184	192	200	233
Deferred	378	55	178	305	287	149	38	21	61	269	125	128	133	155
Total Income Taxes	165	173	163	219	262	163	40	28	82	312	310	321	333	389
Effective Inc. Tax Rate (%)	42%	33%	35%	34%	35%	38%	33%	35%	35%	36%	35%	35%	35%	35%
Net Income From Continuing Operations	229	353	304	416	491	266	79	52	152	549	575	596	619	722
Discontinued Operations, net	(12)	(0)	(5)	0	6	(0)	(0)	0	0	(1)	0	0	0	0
Change in Accounting	(0)	(58)	0	0	35	0	0	0	0	0	0	0	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$416**	**$532**	**$266**	**$78**	**$52**	**$152**	**$548**	**$575**	**$596**	**$619**	**$722**
Adjustments to Core														
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(17)	(3)	8	1	0	0	9	0	0	0	0
Total Adjustments	(49)	11	(74)	(17)	(3)	8	1	0	0	9	0	0	0	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$433**	**$494**	**$258**	**$78**	**$52**	**$152**	**$540**	**$575**	**$596**	**$619**	**$722**
Shares Outstanding (mm)														
Avg. Diluted Shares Out	276	280	289	300	314	315	316	316	317	316	317	318	318	318
Avg. Basic Shares Out	275	278	280	292	312	314	315	315	316	315	316	317	317	317
Period-end basic Shares Out	276	279	282	311	314	315	315	316	316	316	317	317	317	317
Earnings Per Share (Diluted)														
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$1.39**	**$1.70**	**$0.84**	**$0.25**	**$0.16**	**$0.48**	**$1.73**	**$1.81**	**$1.88**	**$1.95**	**$2.27**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$1.44**	**$1.57**	**$0.82**	**$0.25**	**$0.16**	**$0.48**	**$1.71**	**$1.81**	**$1.88**	**$1.95**	**$2.27**
EPS Growth (core)	-19.4%	21.0%	7.4%	10.0%	9.3%	18.9%	6.9%	-10.4%	1.3%	8.5%	6.1% 7.9%	3.5%	4.0%	16.5%
Dividends														
Cash per share	$0.92	$0.92	$0.92	$0.94	$0.96	$0.25	$0.25	$0.26	$0.26	$1.02	$1.06	$1.12	$1.20	$1.28
Div Growth	0.0%	0.0%	0.0%	2.2%	4.3%	4.2%	4.2%	4.0%	4.0%	4.1%	3.9%	5.7%	7.1%	6.7%
Payout Ratio (%)	116.6%	87.5%	88.7%	67.9%	57.8%					58.8%	58.5%	59.7%	61.5%	56.3%

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E
Operating Activities														
GAAP Net Income from Cont. Ops	218	292	299	416	532	266	78	52	152	548	575	596	619	722
DD&A	589	586	538	562	577	149	149	153	154	605	640	672	701	766
Deferred income tax benefit	378	200	178	305	287	149	38	21	61	269	125	128	133	155
Deferred Revenues	4	(20)	3	(8)	(7)	2	(0)	0	0	2	0	0	0	0
Amortization of premium on debt	13	10	9	10	9	2	3	0	0	5	0	0	0	0
Less Gain or Loss on assets	(4)	(0)	0	(4)	(18)	(16)	(1)	0	0	(16)	0	0	0	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	4	(4)	(2)	(6)	0	0	(8)	0	0	0	0
Non-cash minority interest	0	0	0	0	0	0	0	0	0	0	19	86	119	143
Other non-cash income items	36	112	139	11	(6)	11	10	0	0	21	(13)	(38)	(63)	0
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$1,295**	**$1,372**	**$561**	**$271**	**$225**	**$368**	**$1,425**	**$1,348**	**$1,444**	**$1,509**	**$1,786**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$4.31**	**$4.37**	**$1.78**	**$0.86**	**$0.71**	**$1.16**	**$4.51**	**$4.25**	**$4.55**	**$4.75**	**$5.62**
Working Capital:														
Accounts and notes receivable	259	(244)	318	(181)	31	(264)	442			177	0	0	0	0
Inventory	129	103	(142)	62	(9)	274	(246)			28	0	0	0	0
Less Change of Price Risk Management Activities	0	0	0	0	0	0	0			0	0	0	0	0
Accounts payable	(192)	38	(155)	57	68	127	(297)			(170)	0	0	0	0
Customer deposit, net	25	(25)	(5)	(44)	(7)	(23)	2			(21)	0	0	0	0
Other assets	83	(206)	(201)	144	21	(276)	110			(166)	0	0	0	0
Other Liabilities	382	(86)	(78)	(68)	(49)	(4)	(24)			(28)	0	0	0	0
Changes in Working Capital	686	(420)	(262)	(30)	55	(167)	(13)	0	0	(180)	0	0	0	0
Discontinued Operations	(255)	(57)	(50)	11	10	(0)	(1)	0	0	(1)	0	0	0	0
Cash Flow From Operations	1,651	720	870	1,276	1,437	394	257	225	368	1,244	1,348	1,444	1,509	1,786
Investing Activities														
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(1,499)	(1,880)	(386)	(467)	(544)	(778)	(2,175)	(2,185)	(2,185)	(2,160)	(1,575)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	26	16	5	1	0	0	6	0	0	0	0
Other	109	(140)	(34)	51	(148)	(27)	(24)	0	0	(51)	0	0	0	0
Cash Used in Investing	(662)	(944)	(1,149)	(1,422)	(2,010)	(408)	(490)	(544)	(778)	(2,220)	(2,185)	(2,185)	(2,160)	(1,575)
Discontinued Operations	8	0	0	(3)	119	0	0	0	0	0	0	0	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(1,425)	(1,891)	(408)	(490)	(544)	(778)	(2,220)	(2,185)	(2,185)	(2,160)	(1,575)
Financing Activities														
Sale of Common Stock	26	14	24	384	44	9	7	12	12	40	24	0	0	0
Sale of Common Units (MLP)	0	0	0	0	0	0	0	0	0	0	375	500	500	500
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	988	1,308	0	0	1,000	0	1,000	0	0	0	0
Sale of L.T. Debt (MLP)	0	0	0	0	0	0	0	0	0	0	750	500	500	500
Redemption of Common Stock	(3)	(2)	(3)	(10)	(8)	(10)	(0)	0	0	(10)	0	0	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(332)	(511)	(9)	(4)	(500)	0	(513)	(230)	0	0	0
Redemption of L.T. Debt (MLP)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(582)	(78)	114	289	0	355	757	300	105	105	(500)
Change in Notes Payable, LC, ST Debt (MLP)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	(16)	(41)	(72)	(110)
Dividends	(253)	(256)	(256)	(273)	(306)	(79)	(79)	(82)	(82)	(321)	(335)	(355)	(380)	(405)
Other	0	0	(62)	0	(3)	0	0	0	0	0	0	0	0	0
Cash From (For) Financing	(1,000)	216	281	175	445	25	213	430	285	953	868	709	653	(15)
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	175	445	25	213	430	285	953	868	709	653	(15)
Change in Cash	($4)	($7)	$2	$25	($9)	$11	($20)	$112	($126)	($23)	$30	($32)	$2	$196
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$36	$27	$38	$18	$130	$27	$4	$34	$2	$4
Cash & Temp. Inv. End of Yr.	**$16**	**$9**	**$12**	**$37**	**$27**	**$38**	**$18**	**$130**	**$4**	**$4**	**$34**	**$2**	**$4**	**$200**

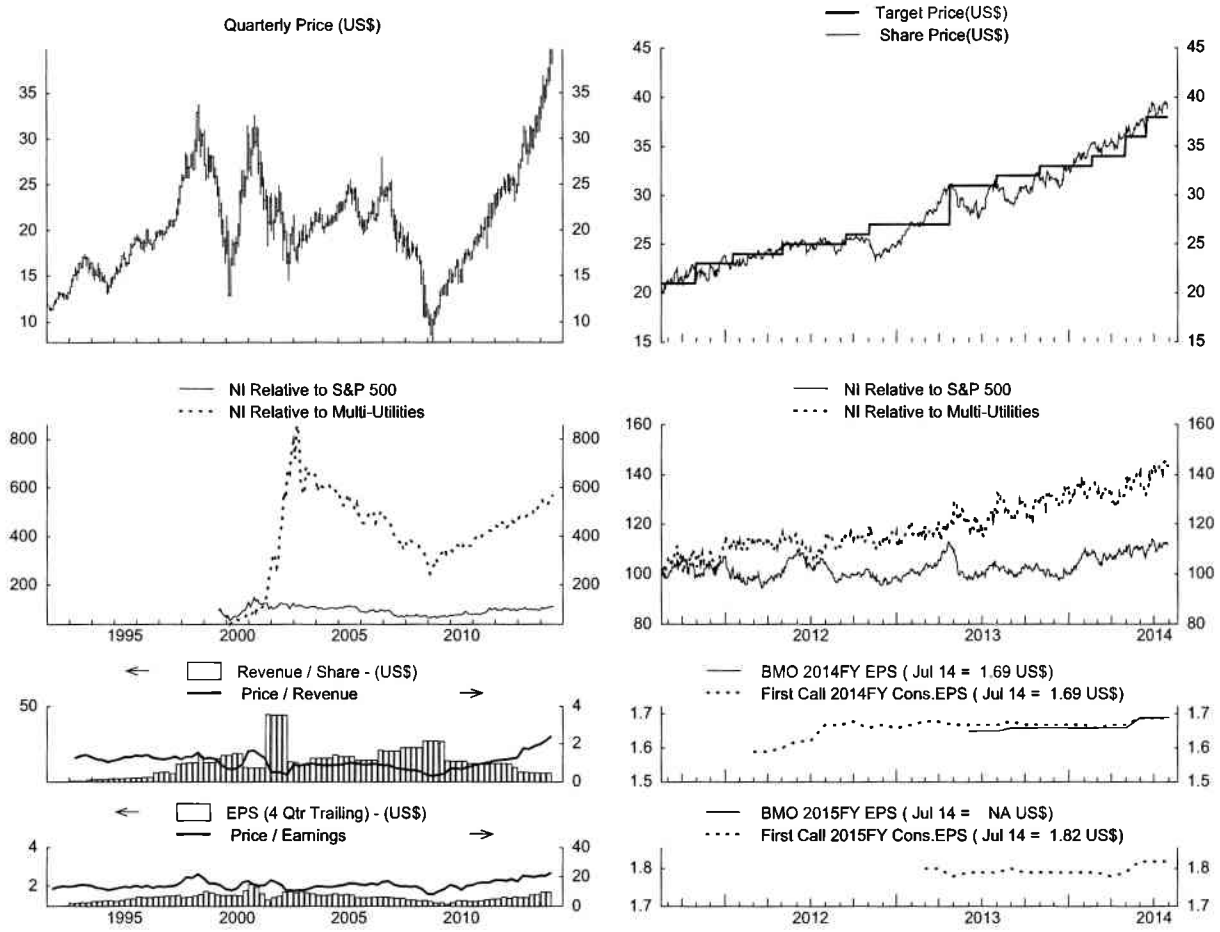
Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E
Assets:														
Cash & Equivalent	16	9	12	36	27	38	18	130	4	4	42	2	4	200
Restricted Cash	175	203	161	47	8	11	10	10	10	10	10	10	10	10
Receivables	848	1,121	951	1,114	1,105	1,471	989	989	989	989	989	989	989	989
Allowance for Uncollectable Acts	(40)	(41)	(31)	(24)	(24)	(35)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	40	136	21	45	46	114	76	76	76	76	76	76	76	76
Inventories	386	428	566	496	500	226	469	469	469	469	469	469	469	469
ST Assets Price Risk Management	173	160	137	92	23	14	13	13	13	13	13	13	13	13
Regulatory Assets	238	152	170	163	143	159	188	188	188	188	188	188	188	188
Other Current Assets	387	283	262	364	331	231	321	321	321	321	321	321	321	321
Total Current Assets	2,224	2,449	2,248	2,352	2,159	2,230	2,055	2,166	2,040	2,040	2,078	2,038	2,040	2,236
Plant & Equipment (Gross)	19,038	19,590	20,470	21,902	23,622	24,016	24,533	25,077	25,855	25,855	28,040	30,225	32,385	33,960
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,986)	(9,257)	(9,359)	(9,444)	(9,597)	(9,751)	(9,751)	(10,391)	(11,063)	(11,764)	(12,530)
Plant & Equipment, Net	10,684	11,097	11,800	12,916	14,365	14,658	15,089	15,480	16,104	16,104	17,649	19,162	20,621	21,430
Investments	295	349	356	438	578	610	639	639	639	639	639	639	639	639
LT Assets Price Risk Management	238	240	189	56	1	0	0	0	0	0	0	0	0	0
Regulatory Assets	1,644	1,650	1,978	2,024	1,522	1,495	1,454	1,454	1,454	1,454	1,454	1,454	1,454	1,454
Goodwill	3,677	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Intangible Assets	320	309	298	287	276	273	270	270	270	270	270	270	270	270
Other Long Term Assets (& flywheel)	53	168	162	94	87	85	85	85	85	85	78	39	(17)	(160)
Total Assets	19,134	19,939	20,708	21,845	22,654	23,017	23,258	23,760	24,259	24,259	25,835	27,268	28,674	29,536
Liabilities & Equity:														
Short Term Debt	800	1,417	1,687	1,264	1,240	1,343	1,631	1,631	1,986	1,986	2,286	2,391	2,496	1,996
Accounts Payables	502	582	435	539	805	793	542	542	542	542	542	542	542	542
ST Liabilities Price Risk Management	190	174	168	95	1	0	0	0	0	0	0	0	0	0
Regulatory Liabilities	44	93	112	172	60	79	89	89	89	89	89	89	89	89
Other	1,575	1,364	1,245	1,212	1,071	1,126	1,170	1,170	1,170	1,170	1,170	1,170	1,170	1,170
Total Current Liab	3,111	3,649	3,646	3,302	3,178	3,341	3,431	3,431	3,786	3,786	4,086	4,191	4,296	3,796
Long Term Debt	5,988	5,936	6,267	6,819	7,593	7,639	7,641	8,141	8,141	8,141	8,661	9,161	9,661	10,161
LT Liabilities Price Risk Management	170	182	139	20	0	0	0	0	0	0	0	0	0	0
Accumulated Deferred Taxes	2,018	2,243	2,571	2,953	3,278	3,412	3,491	3,512	3,573	3,573	3,699	3,827	3,960	4,116
Regulatory Liabilities	1,559	1,596	1,664	1,593	1,670	1,678	1,674	1,674	1,674	1,674	1,674	1,674	1,674	1,674
Other Liabilities	1,572	1,409	1,424	1,603	1,048	1,026	993	993	993	993	993	993	993	993
Total Liabilities	14,418	15,016	15,711	16,290	16,767	17,096	17,230	17,750	18,167	18,167	19,112	19,845	20,584	20,739
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,554	5,887	6,012	6,028	6,010	6,092	6,092	6,723	7,423	8,090	8,796
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	21,845	22,653	23,107	23,258	23,760	24,259	24,259	25,835	27,268	28,674	29,536

Source: BMO Capital Markets estimates, company data.

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
2009	1.06	14.9	7.3	0.92	11.8	5.8	87	17.6	0.9	0.4	6
2010	1.22	14.7	11.6	0.92	6.5	5.1	75	17.7	1.0	0.8	7
2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.7	1.4	0.9	8
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	17.9	1.5	1.2	8
2013	1.57	21.3	15.3	1.00	4.2	3.0	64	18.8	1.8	1.3	9
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.70	23.1		1.04	2.6		61	18.2	2.2		9
Growth(%):											
5 Year:	8.5			2.5				1.1			
10 Year:	1.1			1.2				0.8			
20 Year:	1.7			1.9				4.0			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q1/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (July 29, 2014): $38.85
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation
Methodology: Our target price for NI is based on a sum-of-the parts valuation. We individually value each one of NI's business segments using a target EV/EBITDA multiple approach. Our target multiple for each segment is derived from analyzing historical multiple trading ranges, peer multiples, and adjusting for any expectation of future changes in investor sentiment, which would lead to multiple expansion/contraction. We next add together the segment valuations to reach an operating enterprise value, which is then adjusted for net debt, off-balance sheet items, operating leases, pension costs, and any other non-operating obligations. After adjustments, we then have our net equity value, which is divided by fully diluted shares outstanding to arrive at our target price.
Risks: Risks to our 12-month price target for NI include: 1) Conservation - conservation and bad debt expense from high commodity prices could impact earnings more than the base level we have accounted for; 2) Weather; 3) Interest rates; 4) Regulatory risk - rulings counter to assumptions and guidance could negatively impact our valuations going forward.

Distribution of Ratings (June 30, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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31 July 2014 | 8 pages

Pipelines & Gas Utilities
North America | United States

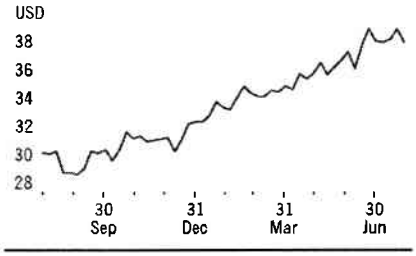
NiSource Inc (NI)

Results: 2Q EPS In-Line; Investor Day in September Highlighted

- **Citi's Take** — NI reported net operating earnings of $0.25 per share, in line with our estimate and consensus. 2Q operating earnings of $219.1mn rose by $24.4mn yoy.
- **Gas Distribution** — Reported operating income of $62.5mn vs. our estimate of $74.4mn. Operating expenses were up on increased outside service and other costs.
- **Columbia Pipeline** — Reported operating income of $103.7mn vs. our estimate of $117.7mn. Higher demand margin revenue from growth projects was short of expectations.
- **Electric** — Reported operating income of $59.8mn vs. our estimate of $59.6mn. Net revenues due to higher margins across the board were mostly offset by higher outage and maintenance costs.
- **Investor Day 2014** — NI plans to host an Investor Day on Sep. 29. Details forthcoming. On the call, 2014 EPS guidance was reiterated at $1.61-$1.71. Management expects to deliver in the upper half, in line with our reiterated $1.69 estimate.
- **Leach and Rayne** — Management said to expect details about the project soon, likely at the Investor Day. We believe that $1.0 - $1.5bn is a likely capex range for the project. The $200mn West Side Expansion project, which should be done by the end of this year, will reverse 500 MMcf/d. That will reverse 1 of 3 pipes but NI wants to reverse the rest of the Gulf System as well. So the Leach and Rayne project would cover the cost of taking the remaining 1.5 Bcf/d southward. The project is not currently reflected in our model, but would likely add $2-3 per share.
- **Implications** — We remain at a $40 target price and Neutral rating.

Neutral	**2**
Price (31 Jul 14)	US$38.22
Target price	US$40.00
Expected share price return	4.7%
Expected dividend yield	2.7%
Expected total return	**7.4%**
Market Cap	US$12,035M

Price Performance
(RIC: NI.N, BB: NI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	0.69A	0.23A	0.17A	0.47A	1.56A	1.58A
2014E	**0.82A**	**0.25A**	**0.16E**	**0.46E**	**1.69E**	**1.69E**
Previous	0.82A	0.25E	0.16E	0.46E	1.69E	na
2015E	**0.87E**	**0.32E**	**0.20E**	**0.49E**	**1.88E**	**1.82E**
Previous	0.87E	0.32E	0.20E	0.49E	1.88E	na
2016E	**0.87E**	**0.34E**	**0.24E**	**0.53E**	**2.00E**	**1.96E**
Previous	0.87E	0.34E	0.24E	0.53E	2.00E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Faisel Khan, CFA
+1-212-816-2825
faisel.khan@citi.com

Blake Clayton, Ph.D.
blake.clayton@citi.com

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rghuler@nisource.com Randy Huler 07/31/14 10:04:27 PM Nisource Corporate Services Co.

Figure 1. NI 2Q14 Quarterly Earnings

	Actual 2Q14	Citi Estimate 2Q14	Actual Delta (%)	Actual 1Q14	Actual Change Q-o-Q Unit	Actual Change Q-o-Q Delta (%)	Actual 2Q13	Actual Change Y-o-Y Unit	Actual Change Y-o-Y Delta (%)
Gas Distribution									
Sales Revenues	619.5	619.9	0%	1543.9	(924.4)	-60%	572.4	47.1	8%
Cost of Gas Sold	257.2	267.5	-4%	923.0	(665.8)	-72%	239.1	18.1	8%
Net Revenues	362.3	352.5	3%	620.9	(258.6)	-42%	333.3	29.0	9%
Operating Income	62.5	74.4	-16%	280.1	(217.6)	-78%	50.0	12.5	25%
Sales and Transportation Volumes (MMDth)									
Residential	35.0			156.5	(121.5)	-78%	34.8	0.2	1%
Commercial	27.4			90.1	(62.7)	-70%	27.0	0.4	1%
Industrial	121.7			136.8	(15.1)	-11%	113.4	8.3	7%
Off-System and Other	13.9			14.5	(0.6)	-4%	18.6	(4.7)	-25%
Total (Including Weather Adjust.)	198.0			397.9	(199.9)	-50%	193.8	4.2	2%
% Warmer (Colder) than Normal	-7%						-6%		
Customers									
Residential	3051.3			3094.4	(43.1)	-1%	3035.5	15.8	1%
Commercial	278.8			283.0	(4.2)	-1%	278.2	0.6	0%
Industrial	7.5			7.6	(0.1)	-1%	7.5	0.0	0%
Other	0.0			0.0	(0.0)	0%	0.0	0.0	0%
Total Customers	3337.6			3384.9	(47.3)	-1%	3321.2	16.4	0%
Gas Transmission and Storage									
Transportation Revenues	181.5	217.1	-16%	222.3	(40.8)	-18%	171.6	9.9	6%
Net Revenues	343.5	286.8	20%	345.6	(2.1)	-1%	273.8	69.7	25%
Operating Income	103.7	117.7	-12%	141.5	(37.8)	-27%	88.9	14.8	17%
Throughput (MMDth)									
Columbia Transmission	194.2			459.5	(265.3)	-58%	196.6	(2.4)	-1%
Columbia Gulf	145.4			184.9	(39.5)	-21%	169.8	(24.4)	-14%
Crossroads Pipeline	3.5			5.7	(2.2)	-39%	3.3	0.2	6%
Intersegment Eliminations	(21.6)			(61.6)	40.0	-65%	(81.4)	59.8	-73%
Total Throughput	321.5			588.5	(267.0)	-45%	288.3	33.2	12%
Electric Operations									
Sales Revenues	402.4	375.4	7%	445.7	(43.3)	-10%	385.1	17.3	4%
Cost of Sales	146.3	128.1	14%	180.4	(34.1)	-19%	141.3	5.0	4%
Net Revenues	256.1	247.3	4%	265.3	(9.2)	-3%	243.8	12.3	5%
Operating Income	59.8	59.6	0%	74.2	(14.4)	-19%	59.5	0.3	1%
Sales (GWh)									
Residential	793.2	772.9	3%	896.2	(103.0)	-11%	769.1	24.1	3%
Commercial	964.9	947.3	2%	935.5	29.4	3%	942.6	22.3	2%
Industrial	2455.8	2267.6	8%	2607.1	(151.3)	-6%	2256.3	199.5	9%
Wholesale	12.1	56.0	-78%	311.8	(299.7)	-96%	494.7	(482.6)	-98%
Other	34.9	27.0	29%	33.4	1.5	4%	27.0	7.9	29%
Total (Including Weather Adjustment)	4260.9	4070.8	5%	4784.0	(523.1)	-11%	4489.7	(228.8)	-5%
Customers									
Residential	401.7	403.2	0%	402.7	(1.0)	0%	401.2	0.5	0%
Commercial	54.3	54.5	0%	54.4	(0.1)	0%	54.2	0.1	0%
Industrial	2.4	2.4	1%	2.4	0.0	1%	2.4	0.0	1%
Wholesale	0.8	0.7	10%	0.7	0.1	10%	0.7	0.1	10%
Other	0.0	0.0	0%	0.0	0.0	20%	0.0	0.0	0%
Total	459.1	460.7	0%	460.2	(1.1)	0%	458.5	0.6	0%
Corporate/Other									
Operating Income	(6.9)	(4.5)	53%	(3.6)	(3.3)	92%	(4.5)	(2.4)	53%
Consolidated Financial Results									
Gross Revenues	1335.0	1282.1	4%	2335.2	(1000.2)	-43%	1231.3	103.7	8%
Costs of Sales (ex D&A)	371.7	395.6	-6%	1103.5	(731.8)	-66%	380.5	(8.8)	-2%
O&M	533.1	417.1	28%	507.0	26.1	5%	455.9	77.2	17%
D&A	149.1	172.5	-14%	145.9	3.2	2%	141.5	7.6	5%
Non-Income Taxes	73.4	59.1	24%	96.5	(23.1)	-24%	67.6	5.8	9%
Total Operating Expenses	755.3	648.7	16%	749.4	5.9	1%	665.0	90.3	14%
Operating Income	219.1	240.8	-9%	492.1	(273.0)	-55%	193.8	25.3	13%
Income Taxes	39.6	44.5	-11%	146.1	(106.5)	-73%	32.7	6.9	21%
Net Income from Continuing Ops	**77.9**	**79.1**	**-1%**	**257.9**	**(180.0)**	**-70%**	**72.4**	**5.5**	**8%**
EPS	**$0.25**	**0.25**	**0%**	**$0.82**	**(0.57)**	**-70%**	**$0.23**	**0.02**	**8%**

Source: Citi Research

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NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $40 target. Our NAV yields a value of $43. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $38. Our P/E and EV/EBITDA multiples (2014 estimates) are based on proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. Our P/E and EV/EBITDA analyses yield values of $33 and $35, respectively.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we have not modeled an MLP directly into our model.

Appendix A-1

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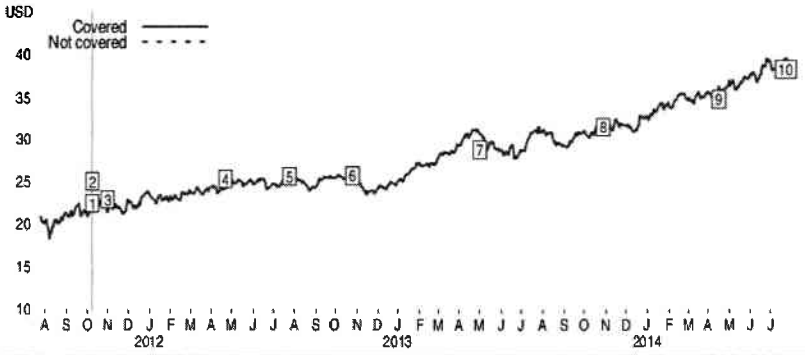
Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	6-Oct-11	Stock rating system changed		
2	6-Oct-11	*2	21.00	21.55
3	1-Nov-11	2	*22.00	21.32
4	23-Apr-12	2	*24.00	24.30
5	25-Jul-12	2	*26.00	25.12
6	25-Oct-12	2	*27.00	25.54
7	1-May-13	2	*30.00	30.61
8	29-Oct-13	2	*35.00	31.95
9	16-Apr-14	2	*36.00	36.30
10	23-Jul-14	2	*40.00	39.43

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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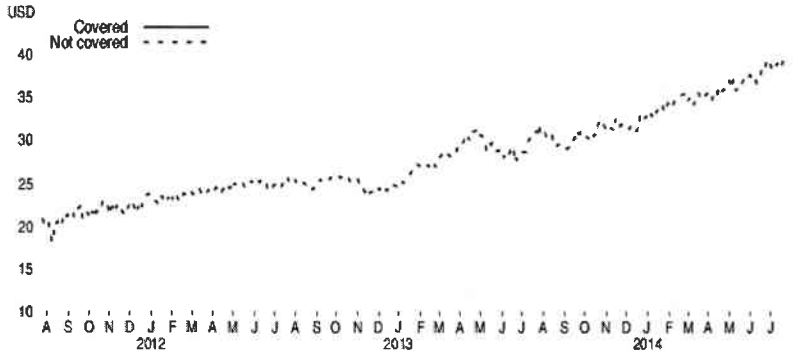
NiSource Inc (NI)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



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Data current as of 30 Jun 2014	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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% of companies in each rating category that are investment banking clients	55%	53%	46%	0%	54%	0%

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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rgmiller@nisource.com Randy Huller 07/31/14 10:04:27 PM Nisource Corporate Services Co.

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31 July 2014
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**NEUTRAL***
Price (31 Jul 14, US$)	37.68
Target price (US$)	(from 40.00) 41.00[1]
52-week price range	39.58 - 29.01
Market cap. (US$ m)	11,864.56
Enterprise value (US$ m)	21,535.79

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

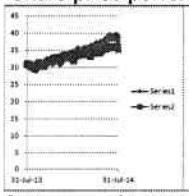
Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

INCREASE TARGET PRICE

2Q14 Mostly In-Line; Looking Ahead To Analyst Day For Deep-Dive Into Future Growth

- **Guidance moves to the high end:** Mgmt. now expects to achieve 2014 EPS around the upper half of its guidance range of $1.61-1.71. We expect 2014 EPS of $1.76 (up $0.04), above the upper end. NI expects to spend ~$2.2Bn on capex projects in 2014 with a major chunk ($825mm) to be spent on projects in the Columbia Pipeline group segment. Results were mixed -- segment EBITDA missed by 5% with high O&M at CPG and lower than expected electric sales (weather) offset by lower interest, taxes and other giving an in-line EPS of $0.25 vs. our $0.24.
- **NI still a low risk way to play shale with growth closer to MLPs than to utilities:** NI's utilities and midstream are in the heart of the Marcellus/Utica shale boom with visibility to approximately $30B in growth projects over the next 10 years over half of which is in low risk Gas Distribution and Electric Utility operations. We continue to believe EPS growth likely trends higher than the 5-7% guidance over the next few years as reflected in our forecast.
- **Raise TP by $1, to 41; maintain Neutral:** Our $41 TP is based on a Sum of the Parts valuation for NI. (See p.5) Together with a dividend of $1.09, this translates to a total return of c.8%, supportive of a Neutral rating on the shares. Thus the low risk, high growth reflected in current valuation.
- **Investor Day – Sept. 29th | NYC:** We expect an MLP announcement at or ahead of the Investor Day and management to go into further details regarding major projects such as Rayne/Leach Xpress, WB Xpress, Marcellus/Utica midstream.

Share price performance



On 07/31/14 the S&P 500 INDEX closed at 1930.67

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.69	0.23	0.18	0.47
2014E	0.82	0.25	0.15	0.52
2015E	0.93	0.27	0.14	0.60

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	1.57	1.76	1.94	2.12
Prev. EPS (US$)	—	1.72	1.85	2.02
P/E (x)	24.1	21.4	19.4	17.8
P/E rel. (%)	131.9	126.9	128.9	131.1
Revenue (US$ m)	5,657.3	6,439.2	6,898.1	7,565.2
EBITDA (US$ m)	1,720.7	1,905.8	2,155.3	2,388.4
OCFPS (US$)	4.58	4.61	5.07	4.21
P/OCF (x)	7.2	8.2	7.4	9.0
EV/EBITDA (current)	12.3	11.1	9.8	8.8
Net debt (US$ m)	8,807	9,671	10,213	10,818
ROIC (%)	5.07	5.38	5.76	5.91

Number of shares (m)	314.88	IC (current, US$ m)	14,693.80
BV/share (Next Qtr., US$)	19.3	EV/IC (x)	1.4
Net debt (Next Qtr., US$ m)	9,686.3	Dividend (current, US$)	1.0
Net debt/tot eq (Next Qtr., %)	161.4	Dividend yield (%)	0.69

Source: Company data, Credit Suisse estimates.

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2Q14 Earnings Variance

Exhibit 1: **Quarterly Earnings Variance**

Earnings Variance	2Q14 Actual	2Q14 CS Estimate	Diff.	Diff. (%)	2Q13 Actual	Comments
Segment EBITDA						
Gas Distribution	117	118	(1)	-1%	102	Lost customers
NIPSCO Electric	120	123	(3)	-3%	119	Lower than expected GWH
Gas Transmission & Storage	133	142	(9)	-6%	115	Higher than expected O&M
Other	(1)	4	(4)	NM	0	
Total EBITDA (recurring)	368	387	(18)	-5%	337	
Segment EBIT						
Gas Distribution	63	63	(1)	-1%	52	
NIPSCO Electric	60	61	(2)	-3%	59	
Gas Transmission & Storage	104	111	(7)	-6%	89	
Other	(7)	1	(7)	NM	(6)	
Total EBIT (recurring)	219	236	(17)	-7%	194	
Interest Expense	109	116	(7)	-6%	102	
Other Expenses	(8)	0	(8)	NM	(13)	
Taxes	40	44	(4)	-9%	33	
Recurring Net Income	78	77	1	1%	72	
Diluted Wtd Avg shares outstanding	316	315	1	0%	313	
Recurring EPS - Diluted	$0.25	$0.24	$0.00	1%	$0.23	
Dividend per share	$0.26	$0.26	$0.00	0%	$0.25	
Operational Metrics						
Gas Distribution						
Total Volumes (MDth)	198	194	4	2%	194	
Total Customers	3,337,613	3,388,328	(50,715)	-1%	3,321,238	
Electric Operations						
Total Heating customers (000s)	459,117	458,461	656	0%	458,461	
Sales (Gigawatt Hours)						
Total	4,261	4,560	(299)	-7%	4,490	6% lower y/y
Columbia Pipeline Group Operations						
Total Throughput (MMDth)	322	316	5	2%	288	

Source: Company data, Credit Suisse estimates

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Segment Update

Columbia Pipeline Group (CPG)

- **2Q14 Performance:** Operating earnings up 17% y/y at $103.7mm and total throughput of 321.5MMDth was up 12% y/y. Higher other revenues associated with the regulatory trackers was offset by the higher O&M costs the tracker are designed to recover. .
- **CapEx:** NI expects to spend ~$825mm (up from $800mm) on CPG capital projects in 2014. It is currently in advanced discussion with customers for additional gathering and compression facilities connected to the Big Pine Gathering system. This system will provide up to 175 MMcf/d of capacity.

Electric Operations

- **2Q14 Performance:** Operating earnings were up just 2% y/y at $62.9mm primarily due to 6% lower (y/y) volumes while total customer growth was relatively flat over last year. Operations were also impacted by 21% warmer than normal weather. Gross margin/MWH grew 12% year-on-year primarily due to lower wholesale low margin volumes in the mix.
- **CapEx:** In 2014, NI expects to spend ~$440mm (down from $450mm) on Electric Operations capital projects. It has begun its electric system modernization program after receiving approval in February. NI's Reynolds to Greentown, 70-mile 765-kV transmission project continues to move ahead with the selection of the final route and is expected to be placed into service in 2H18.

Gas Distribution

- **2Q14 Performance:** 7% warmer than normal weather resulted in a modest 2% y/y growth in volumes to 200MMDth and total customers fell 1% q/q. Despite lower volumes, operating earnings was up 20% y/y to $62.5mm as gross profit (net revenue) per customer grew 8% y/y. Gross profit/customer grew 7% over last year aided by a growing rate base related to the infrastructure modernization program.
- **CapEx:** In 2014, NI expects to spend ~$785mm (down from $815mm) on gas distribution capital projects. In March and April this year, NI filed cases for base rate revisions at Virginia and Pennsylvania, respectively and expects a decision by the end of 2014.

Additional Color

- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit of ~$1.2Bn at the end of 2Q14.

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Estimate Changes

We raise our 2014/15/16 EPS estimates to $1.76/$1.94/$2.12 from $1.72/$1.85/$2.02. Our 2014 estimate is above the upper end of the mgmt guidance range of $1.61-$1.71/share. Our overall outlook assumes a ~9% earnings growth for NI which we believe is fair considering the capex modernization projects being put into service and a decision expected on rate cases at the end of 2014. We have made no changes to our dividend estimates which are growing ~5-6% with an upward bias to future dividend estimates.

Exhibit 2: **NiSource 2014- 2017 Estimate Changes**

	Old estimates					New estimates					
	3Q14E	4Q14E	2014E	2015E	2016E	3Q14E	4Q14E	2014E	2015E	2016E	2017E
Segment EBITDA											
Gas Distribution	60	250	760	882	1,011	58	246	750	882	1,019	1,145
Electric Operations	155	106	519	546	565	155	115	528	556	573	587
Columbia Pipeline Group	118	172	620	676	747	126	162	609	694	773	875
Other	4	13	23	24	24	4	13	19	23	23	23
Total EBITDA (recurring)	336	541	1,921	2,128	2,346	343	537	1,906	2,155	2,388	2,630
Segment EBIT											
Gas Distribution	4	192	539	638	743	3	189	532	641	757	861
NIPSCO Electric	92	43	270	285	292	95	53	285	303	308	311
Gas Transmission & Storage	86	138	493	526	574	96	131	489	553	609	688
Other	0	10	11	10	10	0	10	4	6	3	2
Total EBIT (recurring)	182	383	1,313	1,459	1,620	193	382	1,310	1,502	1,677	1,862
Interest Expense	121	127	473	552	615	119	125	463	545	616	681
Other Expenses	0	0	(5)	0	0	0	0	(12)	0	0	0
Taxes	22	92	304	322	362	25	92	302	340	382	425
Recurring Net Income	39	163	541	586	643	49	166	557	618	679	755
Diluted Wtd Avg shares outstanding	315	316	315	317	319	317	317	316	318	320	321
Recurring EPS - Diluted	$0.12	$0.52	$1.72	$1.85	$2.02	$0.15	$0.52	$1.76	$1.94	$2.12	$2.35
Dividend per share	$0.26	$0.26	$1.03	$1.09	$1.15	$0.26	$0.26	$1.03	$1.09	$1.15	$1.21
Operational Metrics											
Gas Distribution											
Total Volumes (MDth)	168	287	1,046	1,056	1,067	169	289	1,055	1,065	1,071	1,073
Total Customers	3,391,716	3,395,108	3,395,108	3,408,709	3,422,364	3,340,951	3,344,292	3,344,292	3,364,403	3,377,880	3,391,412
Electric Operations											
Total Heating customers (000s)	458,546	460,194	460,194	460,194	460,194	459,005	460,654	460,654	461,576	462,037	462,037
Sales (Gigawatt Hours)											
Total	4,614	4,299	18,258	18,463	18,671	4,595	4,282	17,922	18,121	18,323	18,528
Columbia Pipeline Group Operations											
Total Throughput (MMDth)	283	501	1,688	1,874	2,045	269	478	1,657	1,817	1,979	2,156

Source: Company data, Credit Suisse estimates

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Valuation

- We are raising our target price by $1, to $41. Our sum of the parts analysis reflects what we think will be an initial 11.5% of the Columbia Pipeline assets in an MLP spinoff. We expect the MLP option to be announced before the Investor Day on 29th September, 2014 with an approximate 6-9 month timeframe for completion of the IPO spin-off.
- Our $41 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment, a 12.5x NTM EBITDA multiple on the assets that qualify for MLP treatment (which we model as ~11.5% of the Columbia Pipeline assets), and 1 turn lower for the remainder of the Columbia Pipeline assets – based on our valuation of a generic MLP with IDRs vs. similar assets within a C-Corp.
- Together with an expected dividend of $1.09, our target price translates to a total return of approximately 8%, in line with our median total return for midstream MLPs.

Exhibit 3: **NiSource Sum of the Parts Valuation**

NTM - MLP Valuation Multiple for Transmission and Storage

	2015 EBIT	D&A	2015 EBITDA / NI	Metric	Multiple Low	Base	High	Enterprise Value / Equity Value Low	Base	High
Electric Services	302.6	253.8	202.2	P/E	18.0x	19.5x	21.0x	3,638.8	3,942.1	4,245.3
Natural Gas Utilities	641.0	241.0	882.0	EV/EBITDA	10.0x	10.0x	10.0x	8,820.1	8,820.1	8,820.1
TG&S (88.5% of business)	446.3	109.7	556.1	EV/EBITDA	11.0x	11.5x	12.0x	6,116.9	6,394.9	6,672.9
TG&S (11.5% dropped into MLP)	58.0	14.3	72.3	EV/EBITDA	12.0x	12.5x	13.0x	867.1	903.2	939.4
Total Enterprise / Equity Value								**19,442.9**	**20,060.3**	**20,677.7**
Cash & Equivalents								27.8	27.8	27.8
Short-term Debt								530.0	530.0	530.0
Long-term Debt								7,640.6	7,640.6	7,640.6
Less Net Debt								8,142.8	8,142.8	8,142.8
Less Net Debt attributable to NIPSCO (~$1.1 billion)								7,042.8	7,042.8	7,042.8
Total Equity Value								**12,400.1**	**13,017.5**	**13,634.9**
Shares Outstanding								316	316	316
Per Share								**$39.23**	**$41.18**	**$43.13**
Current Share Price (Jul 30, 2014)								$39.31	$39.31	$39.31
Return								3%	8%	12%
Dividend per share (Est.)								$1.09	$1.09	$1.09
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*5%*	*10%*	*15%*
2015E EPS								$1.94	$1.94	$1.94
Implied P/E								**20.2x**	**21.2x**	**22.2x**
Implied Price Target								$39.00	$41.00	$43.00

Source: Company data, Credit Suisse estimates

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Risks

The main risk is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of having enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and $1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Commodity price risk is very low and under the current regulatory regime is recovered in utility rates.

The main risk in our view is valuation – as explained above NI and for that matter its peers have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. Consequently NI's shares are up ~14% YTD given the upward trend in EPS growth. The shares yield 2.8% and the company is guiding to 3-5% dividend growth though we believe this likely is revised higher. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues but has been reducing these purchases this year and phasing them out altogether by the end of this year. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

Companies Mentioned *(Price as of 31-Jul-2014)*

NiSource Inc. (NI.N, $37.68, NEUTRAL, TP $41.0)

Disclosure Appendix

Important Global Disclosures

John Edwards, CFA, Bhavesh Lodaya and Abhiram Rajendran each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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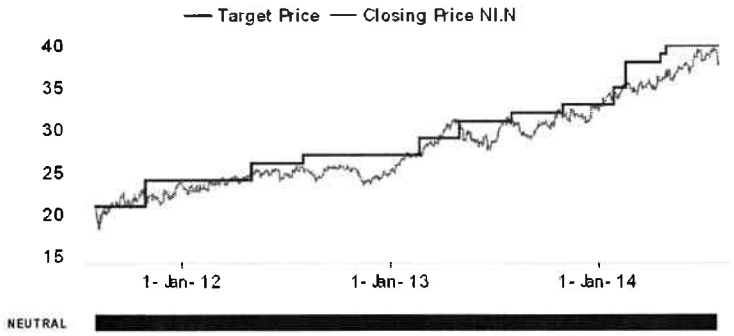
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	
01-Aug-13	31.11	32.00	
01-Nov-13	31.72	33.00	
28-Jan-14	34.18	35.00	
19-Feb-14	35.40	38.00	
21-Apr-14	35.71	39.00	
30-Apr-14	36.32	40.00	



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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

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Underperform/Sell*	13%	(47% banking clients)
Restricted	3%	

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: Our $41 TP is based on a 18-21x 2015E EPS on the electric utility business, a 10x 2015E EBITDA multiple on the natural gas utilities segment, a 12.5x NTM EBITDA multiple on the assets that qualify for MLP treatment (which we model as ~11.5% of the Columbia Pipeline assets), and 1 turn lower for the remainder of the Columbia Pipeline assets - based on our valuation of a generic MLP with IDRs vs. similar assets within a C-Corp.

Risk: The main risk to our $41 TP is that with NI's valuation continuing to rise in expectation of it forming an MLP, if it chooses to not carry out this option, there could be considerable downside to the current valuation and as such the shares could underperform.

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HILLIARD LYONS

Electric Utilities
Analyst: David Burks
502.588.8648 / DBurks@hilliard.com
Institutional Sales Desk: Tim Rexing
502.585.8509 / TRexing@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
August 1, 2014

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports higher second quarter earnings and reaffirms 2014 guidance

Key Metrics

NI - NYSE (Price as of 7/31/14)		$37.68
Price Target		NA
52-Week Range		$39.70 - $28.85
Shares Outstanding (mm)		315.0
Market Cap. ($mm)		$11,869
3-Mo. Average Daily Volume		1,862,000
Institutional Ownership		81.0%
Debt/Total Capital (6/30)		60.6%
ROE (ttm)		9.1%
Book Value/Share		$18.42
Price/Book Value		2.04x
Indicated Dividend / Yield	$1.04	2.8%
Dividend Cycle	Feb., May, Aug., Nov.	

EPS FY 12/31

	2013	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.58		$1.70		$1.82
P/E	23.8x		22.2x		20.7x
Payout	63%		61%		57%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2013	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$5,659		$6,300	--	$6,750

Company Description: *Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.*

Investment Highlights

- **NiSource reported second quarter net operating earnings of $0.25 per share versus $0.23 per share earned in the second quarter of 2013 and in line with expectations.** All of the company's segments, including Columbia pipeline, electric operations and gas distribution operations posted positive earnings comparisons in the second quarter. This marked the second straight quarter in which all business segments posted higher earnings. NI's pipeline operations revenues rose due to higher demand margin revenue from growth projects. Electric operations' results rose due to higher industrial, commercial, and residential margins and environmental investment cost recovery. NI's gas business was boosted by both increases in regulatory and service programs and the implementation of new rates in Ohio.
- **Management now expects 2014 earnings to be in the upper half of the previous $1.61 to $1.71 per share guidance.** The outlook is expected to be driven by a record $2.2 billion in capital investments this year. We are maintaining our 2014 EPS estimate at $1.70. We continue to believe NiSource is well positioned to deliver above average earnings and dividend growth.
- **The company will be hosting an Investor Day on September 29.** NiSource is expected to provide much more insight as to its future growth opportunities. We believe NI will provide updated long-term earnings guidance that will reinforce or even modestly increase the previous 5% to 7% earnings growth rate.
- **Our Neutral rating is based solely on valuation.** However, we think NI has a positive fundamental outlook. We feel the company's ambitious capital spending plans should position the company well for future earnings growth. With a low payout ratio, we believe NI will grow its dividend steadily as well. We would retain NI for investors seeking total return.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Additional information is available upon request.

Analyst Certification

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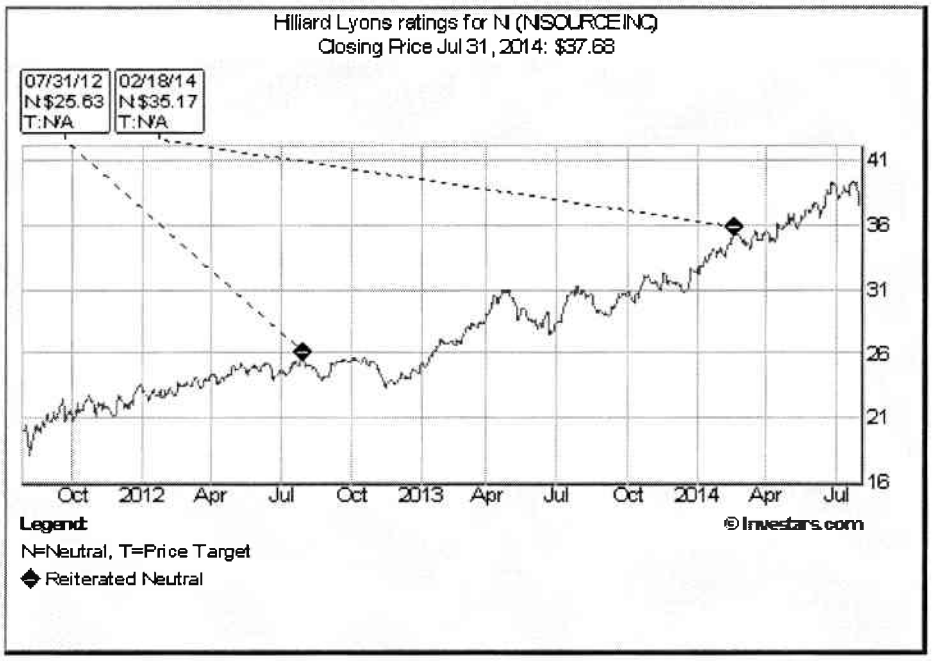
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	49	39%	14%	86%
Hold/Neutral	70	56%	6%	94%
Sell	5	4%	0%	100%
Restricted	1	1%	100%	0%

As of 7 July 2014

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

July 31, 2014

Jefferies

NiSource Inc. (NI)

2Q In-line; Analyst Day Slated for Sept. 29th

HOLD
Price target $37.00
Price $38.51

EQUITY RESEARCH AMERICAS

Key Takeaway

NI reported 2Q14 recurring diluted EPS of $0.25 (excluding asset sale gains), broadly in-line with our $0.24 forecast & the Street's $0.25 consensus estimate. Mgmt also affirmed its 2014 non-GAAP EPS guidance of $1.61-$1.71 and its $2.2B capital budget for the year, but indicated results are likely to be in the upper half of its EPS range; FactSet consensus 2014 EPS is currently $1.69.

Columbia Pipeline Group. CPG's $104mm operating income (excluding asset sale gains) was just above our $99mm expectation, driven primarily by higher margin revenue from new growth projects & higher mineral rights royalty revenue. Mgmt announced two new projects for this segment: the Utica Access project & a project to serve a natgas-fired power generation plant in Kentucky. These two projects have a combined cost of ~$75mm with projected in-service dates of late & mid-2016, respectively.

Gas Distribution. The gas utilities posted 2Q operating income of $63mm, ahead of our $56mm forecast, due primarily to increased revenues of ~$26mm y/y from a new rate settlement in PA and Columbia Gas of Ohio's approved modernization program. We still expect Gas Distribution to invest ~$815mm in system modernization & replacement during 2014. Also of note, the NIPSCO Gas seven-year, $700mm investment plan was approved by the Indiana URC in late April and we expect spending under the program to begin this year with recovery starting early 2015. Separately, the MA governor approved a bill in late June to implement a similar program for MA gas utilities.

Electric. NIPSCO Electric reported 2Q operating income of ~$60mm, in-line with our $61mm estimate. Mgmt noted that its Schahfer FGD project remains on track for YE14 completion while the FGD facility at Michigan City is on schedule for YE15 in-service.

Guidance & Analyst Day. Mgmt affirmed its 2014 non-GAAP EPS guidance of $1.61-$1.71 & its ~$2.2B capital budget, but indicated EPS will likely be in the upper-half of the range. It also formally announced an Analyst Day in New York on Sept. 29th; we expect it will provide mgmt a forum to discuss growth strategy & we anticipate a formal MLP announcement.

Dividend raised, as expected. NI declared a ~4% dividend increase in May, bringing its quarterly payout to 26¢/share ($1.04 annualized). This marks NI's third year of dividend raises since it resumed dividend growth in 2012; we project a 5-yr dividend CAGR of ~5.5%.

Dial-in for the Call: Today @ 9:00am ET. Dial-in: 866.515.2913; Passcode: 15780099

NI 2Q14 Results Review:

Operating Income by Division	Actual 2Q14A	Jefferies Expectations 2Q14E		Year-over-Year 2Q14A	
Gas Distribution	$62.5	$55.6	12.4%	$51.8	20.7%
Columbia Pipeline Group	$103.4	$98.5	5.0%	$88.8	16.4%
Electric Operations	$59.8	$61.0	-1.9%	$58.6	2.0%
Corporate, Other, and Eliminations	($6.9)	($4.2)	NA	($4.5)	-53.3%
Total Operating Income	**$218.8**	**$210.9**	**3.8%**	**$194.7**	**12.4%**
Depreciation	($149.1)	($147.3)	1.2%	($143.4)	4.0%
Other Income / (Expenses)	$7.5	$6.2	22.0%	$13.3	-43.6%
Interest Expense	($109.1)	($105.1)	3.8%	($102.0)	7.0%
Income Tax Benefit (Expense)	($39.4)	($37.0)	6.3%	($33.2)	18.7%
Recurring Net Income	**$77.8**	**$75.0**	**3.8%**	**$72.8**	**6.9%**
Avg Diluted Shares Outstanding	316.1	315.3	0.3%	313.2	0.9%
Earnings Per Diluted Share	**$0.25**	**$0.24**	**3.6%**	**$0.23**	**5.9%**
EBITDA ($MM)	**$375**	**$364**	**3.0%**	**$351**	**6.8%**
Capex & Affiliate Investments	**$490**	**$466**	**5.1%**	**$448**	**9.5%**

Source: NI report, Jefferies estimates
Note: Recurring EPS figures exclude the impact of non-normal weather & asset sale gains/ losses; they also utilize average diluted share counts during each respective period.

Christopher Sighinolfi, CFA *
Equity Analyst
(212) 707-6420 csighino@jefferies.com
Christopher Tillett *
Equity Associate
(212) 284-4697 ctillett@jefferies.com
Corey Goldman *
Equity Associate
(212) 284-3411 cgoldma1@jefferies.com
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Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Gas Transmission and Storage, and Electric. The Gas Distribution operations provide 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 segment offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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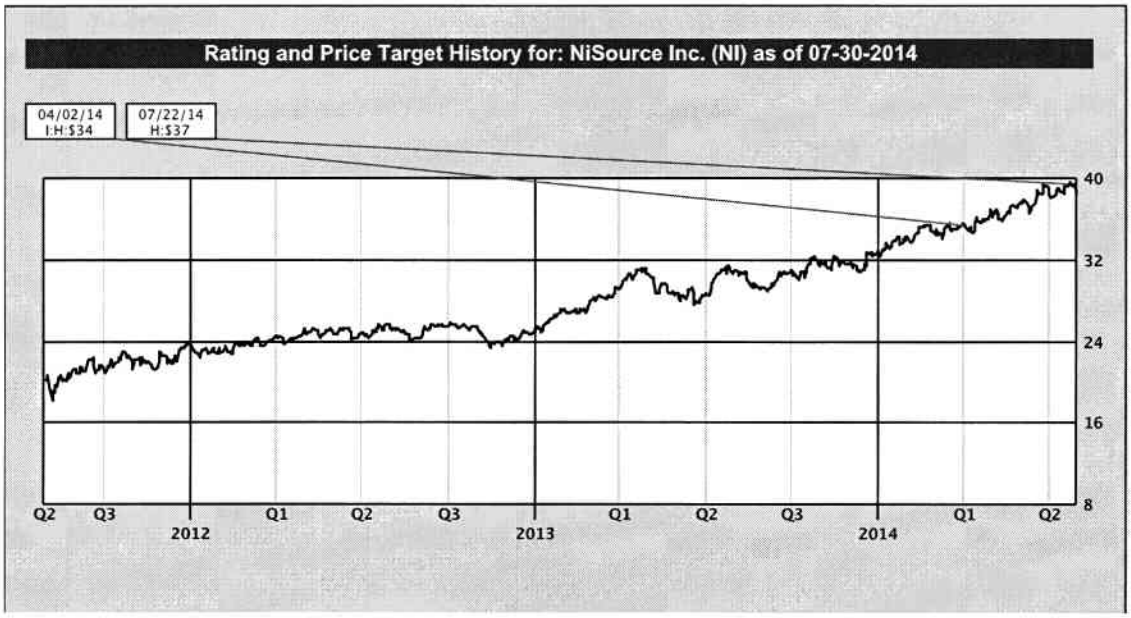

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BUY	961	51.58%	251	26.12%
HOLD	754	40.47%	121	16.05%
UNDERPERFORM	148	7.94%	8	5.41%

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

NiSource, Inc. (BUY)

NI - Quick Alert: 2Q14 Earnings Results in Line, Analyst Day Announced

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

KEY INVESTMENT POINTS

July 30, 2014 Close: $38.51
2Q14 KBCM EPS Estimate: $0.24 (Consensus: $0.24)
2014 KBCM EPS Estimate: $1.70 (Consensus: $1.70)
2015 KBCM EPS Estimate: $1.80 (Consensus: $1.83)

2Q14 Actual Results (vs. 2Q13):

- Ongoing EPS were $0.25 vs. $0.23; GAAP EPS were $0.25 vs. $0.23.
- Results were in line with our estimate of $0.24 consensus of $0.24.
- Growth projects remain on track in all segments.
- Analyst day announced for September 29.

Guidance: Management indicated that it now expects 2014 results to be in the upper half of guidance of $1.61- $1.71 per share.

2Q Highlights:

- Gas Distribution operating earnings were $10.7 million higher. Revenues rose $26 million on new rates in Ohio and Pennsylvania. The higher revenues were partly offset by higher expenses of $15 million on outside services, employee costs and higher depreciation.
- Columbia Pipeline Group reported lower results (operating earnings of $103.7 million vs. $88.8 million) on higher revenues ($22 million) resulting from higher demand margin and new projects coming into service.The higher top line was partly offset by higher expenses of $10 million on employee costs and higher depreciation.
- Electric operations earnings were $59.8 million vs. $58.6 million due to higher revenues of $12 million being partly offset by an $11 million increase in expenses related to outages and employee costs.

Initial Take: We expect a neutral to positive response to in line results. Consensus is currently in the upper half of guidance.

9:00 a.m. ET Conference Call #: (866) 515- 2913; ID#: 15780099
We will be focused on:

- Latest MLP thoughts.
- Thoughts on growth rate.
- Incremental infrastructure investment opportunities.
- Pipeline modernization project updates.

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As of the date of this report, we make a market in NiSource, Inc..

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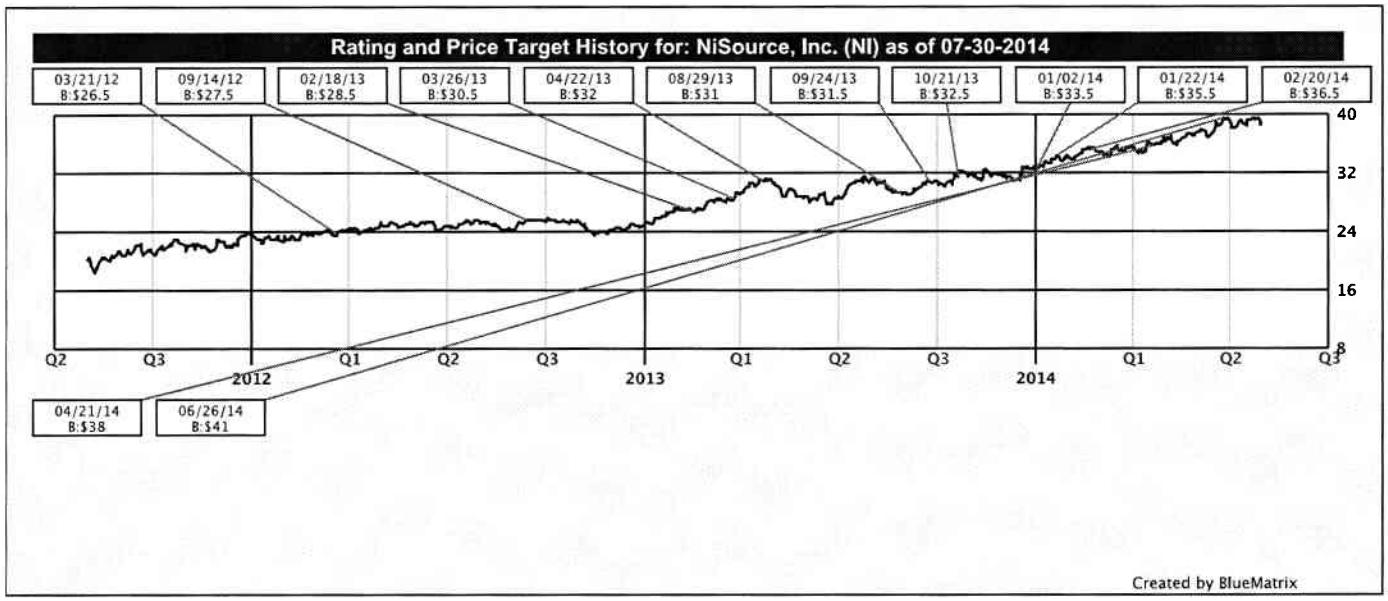

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Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	258	46.65	57	22.09	BUY [BUY]	37	52.11	20	54.05
HOLD [HOLD]	283	51.18	55	19.43	HOLD [HOLD]	34	47.89	17	50.00
SELL [UND]	12	2.17	3	25.00	SELL [UND]	0	0.00	0	0.00

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BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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Morgan Stanley

MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Brian Lasky
Brian.Lasky@morganstanley.com
+1 212 761 7249

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6385

Matthew Giacobbe
Matthew.Giacobbe@morganstanley.com
+1 212 761 7243

July 31, 2014

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Focus Shifts to Analyst Day

NI reported in-line results and is expecting to be at the upper half of their 2014 EPS guidance of $1.61 – 1.71 (MSe $1.68). Management also announced an Analyst Day for September, which will likely shed light on a pot'l MLP and refresh EPS/div guidance.

2Q14 results: NI reported EPS of $0.25 vs. MS / Consensus of $0.27/$0.24. While NI continues to execute on its guidance, investors are increasingly ascribing value to the company's northeast infrastructure asset base. As NI continues to de-risk their Rayne/Leach XPress (expect details over next several weeks) and WB XPress (details late 3Q) projects, along with developing midstream infrastructure within the Marcellus/Utica (Big Pine, Utica Access), attention now turns towards management's potential formation of an MLP (including details around structuring and capex/growth pot'l) due to equity needs in 2015. Our new $43 price target (up from $40) includes the anticipated MLP formation and reflects project backlog de-risking. We continue to view NI as an attractive lower risk Div. Nat Gas holding with a supportive regulatory backdrop (de-risked utility profile with a visible rate base and recovery strategy), attractive Marcellus/Utica footprint, and a sizeable, growing project outlook. We expect this to drive 6.8% EPS growth in 2014e and 7.8% in 2015e (high end of guidance) with 4% div growth each year. However, shares have begun to factor in NI's MLP pot'l (NI +17% YTD vs. S&P500 +7%), keeping us E/w as the next leg of outperformance is more uncertain and dependant upon execution / replenishment of their potential MLP / project backlog.

Segment results. *Electric EBIT* came in at $59.8mm vs. $58.6mm y/y due to higher industrial, commercial, and residential margins partially offset by a decrease in off-system sales. *Gas Distribution EBIT* increased to $62.5mm from $51.8mm due to increases in regulatory and service programs partially offset by increased service costs. *Columbia Pipeline Group EBIT* increased to $103.7mm from $88.8mm y/y due to higher demand margin and increased mineral rights royalty revenue.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	**$43.00**
Shr price, close (Jul 30, 2014)	$38.51
Mkt cap, curr (mm)	$12,216
52-Week Range	$39.70-28.85

Fiscal Year ending	**12/13**	**12/14e**	**12/15e**	**12/16e**
ModelWare EPS ($)	**1.57**	**1.68**	**1.81**	**1.92**
Prior ModelWare EPS ($)	**-**	**1.69**	**1.82**	**1.92**
P/E	**20.9**	**22.9**	**21.2**	**20.0**
Consensus EPS ($)§	**1.55**	**1.69**	**1.82**	**1.96**
Div yld (%)	3.0	2.7	2.8	2.9
Div per shr ($)	0.99	1.03	1.07	1.11
EBITDA ($mm)	1,705	1,836	2,012	2,197
EV/EBITDA	11.4	12.1	11.6	11.3
Shrs out, diluted, avg (mm)	314	316	316	316

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

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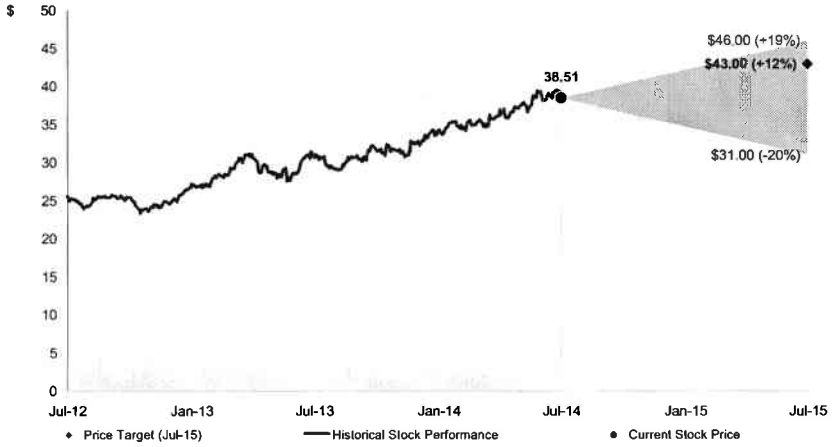
Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2014
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target $43

Bull Case $46	**Increasing Marcellus/Utica market share and utilities outperform; more projects, MLP creation.** NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case $43	**Executing on Marcellus opportunities with a steady recovery and execution in utility segments.** NI places Marcellus/Utica growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover. NI creates an MLP in 3Q.
Bear Case $31	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist or worsen, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions and the stock re-rates lower given weaker growth profile. NI does not pursue an MLP.

Target Price Derivation

Target price derivation		Per share
1. Implied dividend yield/growth		**$43**
dividend yield	2.5%	
2015e growth	4.0%	
2. Implied P/E		**$41**
P/E multiple	22.5x	
3. Dividend discount model		**$44**
4. Sum of parts		**$44**
Price target		**$43**

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments.
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- See upside in an MLP scenario, but next leg of outperformance is dependant on execution.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 4 – 5% annual growth to go along with 5 – 7% EPS growth potential over multiple years.

Potential Catalysts

- MLP formation adds to value of NI and offers further upside on projects and acquisitions.
- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Unfavorable outcomes in the northeast due to legislation, slower drilling, more competition.
- MLP not formed.

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2014
NiSource, Inc.

Exhibit 1
NI: Earnings Results and Preview
(amounts in 000s, except per unit)

	Actual 2Q13	Actual 2Q14	A / A % chg	MS 2Q14E	A / E % chg	MS 3Q14E
Operating Revenues						
Gas Distribution	395,000	426,400	7.9%	564,009	-24.4%	405,563
Gas Transportation and Storage	366,500	390,100	6.4%	294,167	32.6%	298,863
Electric	383,500	401,800	4.8%	397,834	1.0%	427,007
Other	57,400	116,700		-		-
Total operating revenues	**1,202,400**	**1,335,000**	11.0%	**1,256,011**	6.3%	**1,131,433**
Operating Expenses						
Cost of Sales	349,300	371,700	6.4%	364,894	1.9%	285,466
Operation and maintenance	452,300	533,100	17.9%	451,440	18.1%	474,598
Depreciation and amortization	143,400	149,100	4.0%	147,840	0.9%	151,978
Other taxes	70,700	73,400	3.8%	70,644	3.9%	59,763
Total operating expenses	**1,015,700**	**1,127,300**	11.0%	**1,034,818**	8.9%	**971,805**
Equity Earnings (Loss) In Uncon. Affiliates	**8,000**	**11,100**	38.8%	**9,849**	12.7%	**11,156**
EBIT	**194,700**	**218,800**	12.4%	**231,041**	-5.3%	**170,784**
EBITDA	**338,100**	**367,900**	8.8%	**378,881**	-2.9%	**322,762**
Interest expense, net	(102,000)	(109,100)	7.0%	(109,100)	0.0%	(109,100)
Other income	13,300	7,500		4,500		7,500
Total other income and expenses	**(88,700)**	**(101,600)**	14.5%	**(104,600)**	-2.9%	**(101,600)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**106,000**	**117,200**	10.6%	**126,441**	-7.3%	**69,184**
Income tax (provision)	33,200	39,600	19.3%	41,621	-4.9%	23,464
Net Income (Operating)	**72,800**	**77,600**	6.6%	**84,821**	-8.5%	**45,720**
Average # of Shares Outstanding	313,200	316,100	0.9%	314,200	0.6%	316,100
Net Income per Share (Operating)	**$ 0.23**	**$ 0.25**		**$ 0.27**		**$ 0.14**
Net Income per Share (GAAP)	**$ 0.23**	**$ 0.25**		**$ 0.27**		**$ 0.14**
Segment Data						
Gas Distribution (MMDth)						
Residential	34.8	35.0	0.6%	35.8	-2.4%	15.7
Commercial	27.0	27.4	1.5%	27.8	-1.5%	16.7
Industrial	113.4	121.7	7.3%	116.8	4.2%	124.3
Off System	18.4	14.2	-22.8%	17.5	-18.8%	14.8
Other	0.2	(0.3)		0.2		(0.1)
Gas Transmission & Storage (MMDth)						
Columbia Transmission	196.6	194.2	-1.2%	206.4	-5.9%	166.3
Columbia Gulf	169.8	145.4	-14.4%	169.8	-14.4%	134.0
Crossroads Gas Pipeline	3.3	3.5	6.1%	3.4	3.0%	4.2
Intrasegment eliminations	(81.4)	(21.6)	-73.5%	(101.8)	-78.8%	(61.9)
Electric Operations (Gigawatt Hours)						
Residential	769.1	793.2	3.1%	792.2	0.1%	1,030.5
Commercial	942.6	964.9	2.4%	961.5	0.4%	1,087.4
Industrial	2,256.3	2,455.8	8.8%	2,267.6	8.3%	2,348.9
Wholesale	494.7	12.1	-97.6%	497.2	-97.6%	109.1
Other	27.0	34.9	29.3%	27.5	26.7%	31.9

NI confirmed 2014 EPS guidance of $1.61-$1.71

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2014
NiSource, Inc.

Exhibit 2
NI Income Statement
Income Statement

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
Net Revenues					
Gas Distribution	2,225,300	2,982,248	3,599,872	3,927,424	4,285,213
Gas Transportation and Storage	1,646,400	1,601,289	1,481,841	1,739,102	1,959,945
Electric	1,563,200	1,684,335	1,771,784	1,854,564	1,915,384
Other	224,400	193,700	-	-	-
Total Net Revenues	**5,659,300**	**6,461,572**	**6,853,497**	**7,521,091**	**8,160,542**
Operating Costs					
Cost of Sales	1,815,500	2,351,575	2,375,324	2,616,842	2,798,262
Operation and maintenance	1,873,900	2,026,218	2,192,946	2,416,718	2,655,426
Depreciation and amortization	577,300	602,475	629,315	663,718	702,195
Other taxes	300,600	290,979	319,008	337,142	368,214
Total Operating Costs	**4,567,300**	**5,271,247**	**5,516,593**	**6,034,420**	**6,524,096**
Equity Earnings (Loss) in Uncon. Affiliates	**35,900**	**43,267**	**45,634**	**46,786**	**47,966**
EBIT	**1,127,900**	**1,233,591**	**1,382,538**	**1,533,457**	**1,684,412**
EBITDA	**1,705,200**	**1,836,066**	**2,011,853**	**2,197,174**	**2,386,607**
Other income					
Interest expense, net	(414,800)	(439,928)	(530,650)	(625,615)	(723,951)
Other income	42,600	27,000	30,000	30,000	30,000
Inc. from continuing operations bef inc. taxes	**755,700**	**820,664**	**881,889**	**937,841**	**990,461**
Income tax (provision)	261,800	289,107	308,974	329,457	347,976
Operating Net income (Loss)	**493,900**	**531,556**	**572,915**	**608,384**	**642,485**
Net Income per Share (Operating)	**$1.57**	**$1.68**	**$1.81**	**$1.92**	**$2.03**
Net Income per Share (GAAP)	**$1.56**	**$1.71**	**$1.81**	**$1.92**	**$2.03**
Weighted Avg Diluted Units Outstanding	313,600	316,100	316,100	316,100	316,100
Dividends per share	0.99	1.03	1.07	1.11	1.16

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2014
NiSource, Inc.

Exhibit 3

NI Operating Data

Operating Data

	2013	2014E	2015E	2016E	2017E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	272.3	302.0	292.6	307.2	322.6
Commercial	172.9	191.3	191.0	200.5	210.6
Industrial	494.5	513.7	529.1	545.0	561.4
Off System	70.4	57.3	58.4	59.6	60.8
Other	0.4	(0.2)	(0.2)	(0.2)	(0.2)
Total Sales and Transports	**1,010.5**	**1,064.1**	**1,070.9**	**1,112.2**	**1,155.1**
Weather Adjustment	(3.4)	(53.8)	(4.0)	(4.0)	(4.0)
Sales and Transport Vols — Excluding Weather	**1,007.1**	**1,010.3**	**1,066.9**	**1,108.2**	**1,151.1**
y/y change	*2.6%*	*0.3%*	*5.6%*	*3.9%*	*3.9%*
Sales Price ($ / Dth)	$3.03	$3.49	$3.37	$3.54	$3.72
y/y change	*8.9%*	*15.0%*	*-3.3%*	*5.0%*	*5.0%*
COGS Price ($ / Dth)	$1.41	$1.80	$1.65	$1.77	$1.84
y/y change	*18.1%*	*27.6%*	*-8.2%*	*7.4%*	*4.0%*
Gross Margin ($ / Dth)	$1.62	$1.69	$1.72	$1.77	$1.88
y/y change	*1.9%*	*4.1%*	*1.9%*	*2.8%*	*6.1%*
COLUMBIA PIPELINE GROUP					
Throughput (MMDth):					
Columbia Transmission	1,124.6	1,170.5	1,236.2	1,298.0	1,362.9
Columbia Gulf	643.0	613.3	648.5	681.0	715.0
Crossroads Gas Pipeline	16.9	18.1	19.0	19.9	20.9
Total throughput	**1,784.5**	**1,801.9**	**1,903.7**	**1,998.9**	**2,098.8**
Intrasegment eliminations	(239.4)	(231.0)	(296.3)	(277.3)	(295.4)
Total third-party throughput	**1,545.1**	**1,570.9**	**1,607.4**	**1,721.6**	**1,803.4**
y/y change	*-2.4%*	*1.7%*	*2.3%*	*7.1%*	*4.8%*
Tariff ($ / Dth)	$0.50	$0.50	$0.52	$0.55	$0.56
y/y change	*10.0%*	*-1.1%*	*5.3%*	*5.1%*	*2.9%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,444.7	3,571.5	3,713.6	3,899.2	3,977.2
Commercial	3,881.9	3,968.4	4,047.7	4,128.7	4,170.0
Industrial	9,339.7	9,886.9	10,084.7	10,286.3	10,389.2
Wholesale	669.7	438.2	447.0	455.9	465.0
Other	132.0	142.3	148.0	154.0	160.1
Total sales	**17,468.0**	**18,007.3**	**18,441.0**	**18,924.2**	**19,161.6**
Weather Adjustment	(2.4)	(114.4)	-	-	-
Total sales volumes — Adj. for weather impacts	**17,465.6**	**17,892.9**	**18,441.0**	**18,924.2**	**19,161.6**
y/y change	*3.6%*	*2.4%*	*3.1%*	*2.6%*	*1.3%*
Revenue ($ / Gigawatt hour)	$89.59	$94.19	$96.08	$98.00	$99.96
y/y change	*0.5%*	*5.1%*	*2.0%*	*2.0%*	*2.0%*
COGS ($ / Gigawatt hour)	$31.07	$33.98	$33.26	$34.41	$35.26
y/y change	*5.0%*	*9.4%*	*-2.1%*	*3.5%*	*2.5%*
Gross Margin ($ / Gigawatt hour)	$58.53	$60.21	$62.82	$63.59	$64.70
y/y change	*-1.8%*	*2.9%*	*4.3%*	*1.2%*	*1.7%*

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2014
NiSource, Inc.

Exhibit 4

NI Balance Sheet

Balance Sheet

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
ASSETS					
Cash and cash equivalents	26,800	94,364	266,582	206,841	299,555
Restricted cash	8,000	9,800	9,800	9,800	9,800
Accounts receivable	1,005,800	950,718	986,491	1,178,434	1,229,836
Income tax receivable	5,100	-	-	-	-
Gas inventory	354,600	55,506	58,891	202,531	118,524
Regulatory assets	142,800	188,100	188,100	188,100	188,100
Other	330,600	320,900	320,900	320,900	320,900
Total Current Assets	**2,159,200**	**1,991,488**	**2,202,864**	**2,478,706**	**2,538,815**
Net Property, Plant and Equipment	**14,365,100**	**16,106,225**	**17,476,910**	**18,813,192**	**20,110,998**
Unconsolidated affiliates	373,700	437,100	437,100	437,100	437,100
Other investments	204,000	201,900	201,900	201,900	201,900
Price risk management assets	500	-	-	-	-
Regulatory assets	1,522,200	1,454,100	1,454,100	1,454,100	1,454,100
Goodwill	3,666,200	3,666,200	3,666,200	3,666,200	3,666,200
Intangible assets	275,700	270,200	270,200	270,200	270,200
Deferred charges, Postretiremen, other	87,300	85,000	85,000	85,000	85,000
TOTAL ASSETS	**22,653,900**	**24,212,213**	**25,794,274**	**27,406,399**	**28,764,313**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	542,100	530,000	530,000	530,000	530,000
Short-term borrowings	698,700	1,101,100	1,101,100	1,101,100	1,101,100
Accounts payable	619,000	782,828	830,581	886,472	968,138
Dividends payable	-	82,000	82,000	82,000	82,000
Customer deposits and credits	262,600	241,700	241,700	241,700	241,700
Taxes accrued	254,800	216,100	216,100	216,100	216,100
Interest accrued	136,400	142,000	142,000	142,000	142,000
Price risk management liabilities	1,400	-	-	-	-
Exchange gas payable	186,400	139,200	139,200	139,200	139,200
Deferred revenue	18,500	8,700	8,700	8,700	8,700
Regulatory liabilities	60,200	88,700	88,700	88,700	88,700
Acc liab for post-retirement / -employment benefits	6,200	6,200	6,200	6,200	6,200
Other accruals	327,600	347,400	347,400	347,400	347,400
Total Current Liabilities	**3,178,400**	**3,754,628**	**3,802,381**	**3,858,272**	**3,939,938**
Long-term debt, excl amounts due within one year	7,593,200	8,240,600	9,540,600	10,840,600	11,840,600
Price risk management liabilities	300	-	-	-	-
Deferred income taxes	3,277,800	3,471,900	3,471,900	3,471,900	3,471,900
Deferred inc. taxes, credits, other	129,900	143,300	143,300	143,300	143,300
Acc liability for post-retirement/-employment benefits	527,500	466,100	466,100	466,100	466,100
Regulatory liabilities and other removal costs	1,669,800	1,673,900	1,673,900	1,673,900	1,673,900
Asset retirement obligations	174,400	178,000	178,000	178,000	178,000
Other noncurrent liabilities	216,000	224,300	224,300	224,300	224,300
Total Other Liabilities and Deferred Credits	**13,588,900**	**14,398,100**	**15,698,100**	**16,998,100**	**17,998,100**
Common stock	3,200	3,200	3,200	3,200	3,200
Additional paid-in capital	4,690,100	4,734,700	4,734,700	4,734,700	4,734,700
Retained earnings	1,285,500	1,421,784	1,656,093	1,912,327	2,188,575
Treasury stock	(43,600)	(41,400)	(41,400)	(41,400)	(41,400)
Accumulated other comprehensive loss	(48,600)	(58,800)	(58,800)	(58,800)	(58,800)
Total Common Stockholders' Equity	**5,886,600**	**6,059,484**	**6,293,793**	**6,550,027**	**6,826,275**
TOTAL CAPITALIZATION & LIABILITIES	**22,653,900**	**24,212,213**	**25,794,274**	**27,406,399**	**28,764,313**

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

July 31, 2014
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
Cash from Operating Activities					
Net Income	532,100	539,956	572,915	608,384	642,485
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,400	-	-	-	-
Depreciation and Amortization	577,300	602,475	629,315	663,718	702,195
Net Changes in Price Risk Mgmt A / L	2,600	1,400	-	-	-
Deferred: Inc. Tax/Credits; Revenues	280,200	188,400	-	-	-
Stock Compensation Expense	50,700	27,900	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(17,500)	(16,400)	-	-	-
Income from Unconsolidated Affiliates	(35,700)	(20,600)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	(41,200)	500	-	-	-
AFUDC Equity	(18,500)	(9,200)	-	-	-
Dist. of Earnings Received from Equity Investee	32,100	12,900	-	-	-
Other	10,000	4,100	-	-	-
Changes in Assets and Liabilities:	**55,300**	**282,405**	**8,594**	**(279,692)**	**114,271**
Net cash from operating activities	**1,436,800**	**1,613,836**	**1,210,824**	**992,410**	**1,458,951**
Cash from Investing Activities					
Capital Expenditures	(1,879,900)	(2,175,000)	(2,000,000)	(2,000,000)	(2,000,000)
Insurance Recoveries	6,400	6,800	-	-	-
Proceeds from Disposition of Assets	18,000	6,200	-	-	-
Restricted Cash Deposits (Borrowings)	38,700	(1,800)	-	-	-
Contributions to Equity Investments	(125,400)	(54,800)	-	-	-
Other Investing Activities	50,800	(1,100)	-	-	-
Net cash from investing activities	**(1,891,400)**	**(2,219,700)**	**(2,000,000)**	**(2,000,000)**	**(2,000,000)**
Cash from Financing Activities					
Issuance of Long-Term Debt	1,307,600	600,000	1,300,000	1,300,000	1,000,000
Retirement/Repurchase of Long-Term Debt	(510,900)	(13,300)	-	-	-
Change in Short-Term Borrowings, Net	(78,100)	402,400	-	-	-
Issuance of Common Stock	43,700	16,100	-	-	-
Acquisition of Treasury Stock	(8,100)	(10,200)	-	-	-
Dividends Paid - Common Stock	(305,900)	(321,572)	(338,606)	(352,151)	(366,237)
Other	(3,200)	-	-	-	-
Net cash from financing activities	**445,100**	**673,428**	**961,394**	**947,849**	**633,763**
Net change in cash	**(9,500)**	**67,564**	**172,217**	**(59,741)**	**92,714**
Cash at beginning of period	**36,300**	**26,800**	**94,364**	**266,582**	**206,841**
Cash at end of period	**26,800**	**94,364**	**266,582**	**206,841**	**299,555**

Source: Company data, Morgan Stanley Research

Morgan Stanley

Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 6,833	$ **21.61**
Gas Transmission & Storage	15,808	**50.01**
Electric Utility	3,926	**12.42**
Utica Leases	350	**1.11**
Value	**$ 26,916**	**$ 85.15**
Net Debt	**(13,160)**	**(41.63)**
Net Equity Value	**$ 13,756**	**$ 43.52**
Shares Outstanding (in m)		316.1

GAS DISTRIBUTION	
Forward EBIT (2015E)	$531
Interest	$159
Tax Rate	35%
Net Income	$242
Forward multiple	17.9x
Equity value	**$4,317**
Debt	$2,515
Enterprise value	**$6,833**

GAS TRANSMISSION & STORAGE (on a PV basis)	
MLP Drop-down Proceeds	$9,161
MLP GP Valuation	4,190
MLP LP Value	2,456
Enterprise value	**$15,808**

ELECTRIC UTILITY	
Forward EBIT (2015E)	$323
Interest	$81
Tax Rate	35%
Net Income	$157
Forward multiple	16.8x
Equity value	**$2,640**
Debt	$1,286
Enterprise value	**$3,926**

Estimated Utica 'Value' Credit	
Acres	175,000
$/acre	$2,000
Enterprise value	**$350**

Source: Company Data, Morgan Stanley Research

Valuation Methodology & Risks

Assets in an MLP have typically traded at a premium to C-Corps. MLPs have traded at higher valuations than would similar assets in a corporate structure due to: 1) their tax efficiency (no federal taxes) and 2) the premium investors tend to place on yield. These two factors have typically produced: 3) a lower cost of capital, which can facilitate a potentially faster growth rate.

Interest rates are not the driver. Although MLPs have benefited from declining interest rates, so have other asset classes. We believe that gains in MLP stocks are a function of their ability to grow cash flows, not just their current yield.

The key value proposition is total return (growing cash flow yield + stock price appreciation). We find a statistically insignificant correlation between bond and MLP prices. Several periods of rate increases (1994, 1999, 2004) are correlated with poor performance, but there is little day-to-day link.

Distribution discount models (DDM) and implied yield targets. We use a 10-year distribution discount model to arrive at our price targets along with our implied yield target for each individual MLP as we view long-term cash flow stability and growth as the true measure of an MLP stock's value.

Yield spread. Despite historical day-to-day insignificance, we think this is worth looking at as a check on valuation. Overall, yields tend to revert to their mean, and even if we have modest yield compression, significant share price upside is possible.

Multiples provide valuation check. While we generally think it is difficult to target an EV (enterprise value) / EBITDA or P / DCF (distributable cash flow) multiple for an MLP stock, we think it certainly provides a gauge as to the stock's valuation. Currently, MLP multiples are near their historical average over time and we believe this provides another metric of valuation support along with looking at the high yield spreads and distribution growth.

Relative (historical) valuation measures support MLPs. The primary argument against improving valuation is weak relative performance in a rising interest rate environment. While we believe that the relationship to Treasury yields will become less relevant over time, using traditional dividend yield analysis, and the MLP index dividend yield spread to Treasury MLPs appear undervalued. Valuation supports MLPs relative to peers. Pipeline MLPs offer organic growth in a rising petroleum demand environment that requires infrastructure development. When we compare MLPs to comparable income asset classes — utilities and REITs — the valuation disconnect is unwarranted, in our opinion, as the pipeline MLPs offer twice the implied return of REITs and utilities.

Distribution growth is predicated on energy fundamentals. The United States is short on critical energy infrastructure, much of which has scarcity/franchise value, in our view, and this should drive a number of expansion projects for MLPs over the next five years. This scarcity is apparent, given the age of most US energy infrastructure assets (many were constructed during or shortly after World War II), combined with approximately 1.5–2.0% demand growth for oil, natural gas, and refined products, along with changing sources of supply for natural gas — deepwater Gulf of Mexico, the US Rockies, and liquefied natural gas (LNG) versus more traditional, conventional sources of supply.

Access to capital markets is of particular importance in this space. Given that MLPs pay out a majority of their free cash flow to unitholders each quarter, growth is funded largely through ongoing debt and equity capital raises. To the extent MLPs are unable to raise financing on favorable terms, organic capital spending budgets and third party acquisitions will likely be delayed or forgone. A prolonged period of limited capital market access could place downward pressure on unit prices if investors are concerned that distribution growth could be limited for a significant amount of time.

Investment concerns. The risks to our thesis include economic growth and demand, alternative energy programs, legislative items including tax reform and easing of product restrictions for natural gas and refined products, as well as a return to Treasury yield valuation and infrastructure reliability. Increased institutional ownership would likely create a revaluation of the sector, as new money would flood the current market. Our analysis is based on the current capital markets and economic outlook, with our Overweight names likely to outperform with or without institutional equity.

Glossary of MLP Terms

Cash Available (distributable cash flow or "DCF"): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements.

Cash Distributed (distributions): Quarterly dividend payments made to limited partner (LP) and general partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Yield or Distribution Yield: Yield or distribution yield as referenced in this report are defined as most recent distribution declared, annualized, and then divided by the current market price. It may consist of short-term capital gains, long-term capital gains, and/or return of capital.

General Partner (GP): Corporate sponsor, management team, or financial investor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

Incentive Distribution Rights (IDRs): Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in many cases upwards of 50% of incremental cash payouts).

Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated by the partnership through a quarterly distribution. LPs typically cannot participate in making decisions regarding the operation of the MLP unless they secure a definitive majority (e.g., 66%, but it can vary) in a proxy vote.

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate.

Publicly Traded Partnership (PTP): a master limited partnership (MLP) or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are roughly 75 publicly traded partnerships and the majority is involved in energy-related activities. Energy related PTP's comprise approximately 85% of total PTP market cap, with REITs making up the majority of the 15% balance.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include 1) interest 2) dividends 3) real property rents 4) gains from the sale or other disposition of real estate 5) income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource 6) Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 7) Income and gains from commodities, if buying and selling commodities is the PTP's principal activity 8) Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).

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MORGAN STANLEY RESEARCH

July 31, 2014
NiSource, Inc.

MORGAN STANLEY ModelWare

Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Brian Lasky.
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Global Stock Ratings Distribution

(as of June 30, 2014)

Morgan Stanley

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July 31, 2014
NiSource, Inc.

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1080**	**35%**	**367**	**38%**	**34%**
Equal-weight/Hold	**1339**	**44%**	**469**	**49%**	**35%**
Not-Rated/Hold	**113**	**4%**	**23**	**2%**	**20%**
Underweight/Sell	**546**	**18%**	**98**	**10%**	**18%**
Total	**3,078**		**957**		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
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Stock Price, Price Target and Rating History (See Rating Definitions)

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July 31, 2014
NiSource, Inc.

Stock Rating History: 7/1/11 : E/A; 6/9/14 : E/A

Price Target History: 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30; 10/31/13 : 32; 1/8/14 : 34; 2/18/14 : 36; 4/30/14 : 40

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -•- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ··· Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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NiSource, Inc.

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The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
Tel: +81 (0) 3 6836 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (07/30/2014)
Brian Lasky		
CenterPoint Energy, Inc (CNP.N)	E (06/09/2014)	$24.56
Cheniere Energy Inc. (LNG.A)	O (06/09/2014)	$73.4
Cheniere Energy Partners L.P. Holdings (CQH.A)	E (06/09/2014)	$24.07
EnLink Midstream LLC (ENLC.N)	E (06/09/2014)	$39.01
Enbridge Energy Partners LP (EEP.N)	U (09/10/2012)	$35.23
Enbridge Energy Partners LP (EEQ.N)	U (12/17/2013)	$34.42
Kinder Morgan Energy Partners LP (KMR.N)	E- (06/09/2014)	$78.38
Kinder Morgan Energy Partners LP (KMP.N)	U (06/09/2014)	$82.17
Kinder Morgan Inc. (KMI.N)	E (06/09/2014)	$37.3
NiSource, Inc. (NI.N)	E (06/09/2014)	$38.51
Oneok Inc. (OKE.N)	O (06/09/2014)	$66.09
SemGroup Corp (SEMG.N)	O (06/09/2014)	$79.2
Spectra Energy Corp. (SE.N)	E (06/09/2014)	$42.17
Williams Companies, Inc (WMB.N)	O (06/09/2014)	$56.69

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* Historical prices are not split adjusted.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.68 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Raises Earnings Guidance: Increasing Our 5-Year EPS Growth Rate and Fair Value Estimates

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 31 Jul 2014
Estimates as of 21 Mar 2014
Pricing data as of 31 Jul 2014 15:20
Rating updated as of 31 Jul 2014 16:04

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 31 Jul 2014

NiSource reported 2014 second-quarter operating EPS of $0.25 versus $0.23 in the same period last year. All three operating segments posted strong results in the recently ended quarter. NiSource increased its operating earnings guidance to the upper half of its previous guidance of $1.61-$1.71 per share. We have increased our 2014 EPS estimate to $1.70 from $1.65 based on this revised guidance and the strong first-half performance.

NiSource announced that it would conduct an analyst day presentation on Sept. 29. Because of the increasing backlog of system modernization and growth projects, we believe there is a high probability that NiSource will increase its long-term annual EPS growth outlook (currently 5%-7%) at the presentation. We are increasing our five-year compound annual EPS growth rate estimate to 7.6% from 6.8%. This leads us to raise our fair value estimate to $32 per share from $30 per share. Our narrow moat and stable moat trend ratings are unchanged.

The increase is driven by increased investment at the Columbia Pipeline Group. Specifically, we have increased confidence that the Rayne and Leach XPress pipelines will be built based on management's comments during the second-quarter conference call. Although NiSource has not provided a capital estimate, we believe these pipelines combined could be as much as $500 million investment opportunity that would begin contributing to earnings in late 2017 or early 2018.

Vital Statistics

Market Cap (USD Mil)	12,126
52-Week High (USD)	39.70
52-Week Low (USD)	28.85
52-Week Total Return %	28.1
YTD Total Return %	19.4
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	6.8
5-Yr Forward EPS CAGR %	6.9
Price/Fair Value	1.28

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	17.0	20.8	*23.3*	*21.6*
EV/EBITDA	9.9	11.2	*11.3*	*10.3*
EV/EBIT	15.2	17.0	*16.6*	*15.2*
Free Cash Flow Yield %	-3.0	-4.4	*-4.7*	*-4.3*
Dividend Yield %	3.5	3.0	*2.7*	*2.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	5,061	5,657	*6,123*	*6,524*
Revenue YoY %	-15.9	11.8	*8.2*	*6.6*
EBIT	1,039	1,126	*1,269*	*1,388*
EBIT YoY %	12.7	8.4	*12.7*	*9.4*
Net Income, Adjusted	437	494	*526*	*572*
Net Income YoY %	12.4	13.0	*6.5*	*8.8*
Diluted EPS	1.46	1.58	*1.65*	*1.78*
Diluted EPS YoY %	7.9	8.3	*4.6*	*8.1*
Free Cash Flow	71	-379	*-157*	*-390*
Free Cash Flow YoY %	339.3	-637.2	*-58.5*	*148.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource also owns 15,000 miles of natural gas transmission pipeline, operates one of the nation's largest underground natural gas storage systems, and provides unregulated midstream services in the growing Marcellus and Utica shale production area. NiSource's electric utility generates, transmits, and distributes electricity in northern Indiana.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.68 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	Forecast 2015	5-Year Proj. CAGR
Revenue	-4.1	-6.3	-15.9	11.8	8.2	6.6	6.8
EBIT	6.8	-0.2	12.7	8.4	12.7	9.4	9.8
EBITDA	3.9	-4.0	9.6	6.4	9.9	9.3	8.9
Net Income	13.2	14.1	12.4	13.0	6.5	8.8	9.0
Diluted EPS	9.0	10.8	7.9	8.3	4.6	8.1	6.9
Earnings Before Interest, after Tax	4.4	10.4	4.1	-1.0	16.8	4.7	8.0
Free Cash Flow	-237.7	-88.9	339.3	-637.2	-58.5	148.0	—

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5 Year Proj. Avg
Operating Margin %	18.6	15.3	20.5	19.9	20.7	21.3	21.9
EBITDA Margin %	28.7	24.3	31.6	30.1	30.6	31.4	32.0
Net Margin %	7.9	6.5	8.6	8.7	8.6	8.8	9.1
Free Cash Flow Margin %	-1.7	0.3	1.4	-6.7	-2.6	-6.0	-2.9
ROIC %	7.3	7.6	7.5	6.9	7.4	7.2	7.2
Adjusted ROIC %	10.0	10.6	10.2	9.1	9.7	9.2	9.0
Return on Assets %	1.9	1.5	2.0	2.4	2.2	2.2	2.3
Return on Equity %	7.7	6.0	7.9	9.3	8.8	9.2	9.4

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	0.60	0.61	0.59	0.60	0.61	0.63	0.62
Total Debt/EBITDA	5.23	5.45	5.06	5.19	5.21	5.26	5.10
EBITDA/Interest Expense	3.94	3.88	3.83	4.11	4.03	3.99	4.07

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.00	1.22	—	—
Price/Earnings	17.0	20.8	23.3	21.6
EV/EBITDA	9.9	11.2	11.3	10.3
EV/EBIT	15.2	17.0	16.6	15.2
Free Cash Flow Yield %	-3.0	-4.4	-4.7	-4.3
Dividend Yield %	3.5	3.0	2.7	2.8

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	87.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-816	-4.5	-2.55
Present Value Stage II	1,359	7.5	4.25
Present Value Stage III	17,611	97.0	55.12
Total Firm Value	**18,155**	**100.0**	**56.82**
Cash and Equivalents	70	—	0.22
Debt	-8,834	—	-27.65
Preferred Stock	—	—	—
Other Adjustments	35	—	0.11
Equity Value	**9,425**	**—**	**29.50**
Projected Diluted Shares	320		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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MORNINGSTAR

NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.68 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Revenue	**6,019**	**5,061**	**5,657**	***6,123***	***6,524***
Cost of Goods Sold	2,556	1,542	1,816	*2,023*	*2,109*
Gross Profit	**3,463**	**3,520**	**3,842**	***4,100***	***4,415***
Selling, General & Administrative Expenses	1,723	1,663	1,874	*1,976*	*2,111*
Other Operating Expense (Income)	295	288	301	*297*	*307*
Other Operating Expense (Income)	-15	-32	-36	*-45*	*-49*
Depreciation & Amortization (if reported separately)	538	562	577	*603*	*658*
Operating Income (ex charges)	**922**	**1,039**	**1,126**	***1,269***	***1,388***
Restructuring & Other Cash Charges	17	-4	-18	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**905**	**1,043**	**1,143**	***1,269***	***1,388***
Interest Expense	377	418	415	*465*	*513*
Interest Income	-61	2	24	*5*	*5*
Pre-Tax Income	**467**	**626**	**753**	***809***	***880***
Income Tax Expense	163	216	262	*283*	*308*
Other After-Tax Cash Gains (Losses)	-5	6	6	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	35	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**299**	**416**	**532**	***526***	***572***
Weighted Average Diluted Shares Outstanding	289	300	314	*319*	*321*
Diluted Earnings Per Share	**1.03**	**1.39**	**1.70**	***1.65***	***1.78***
Adjusted Net Income	389	437	494	*526*	*572*
Diluted Earnings Per Share (Adjusted)	**1.35**	**1.46**	**1.58**	***1.65***	***1.78***
Dividends Per Common Share	0.92	0.94	0.98	*1.02*	*1.06*
EBITDA	**1,443**	**1,605**	**1,721**	***1,872***	***2,046***
Adjusted EBITDA	**1,460**	**1,601**	**1,703**	***1,872***	***2,046***

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37.68 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Cash and Equivalents	172	83	35	*199*	*168*
Investments	—	—	—	—	—
Accounts Receivable	855	907	1,006	*1,090*	*1,162*
Inventory	566	496	500	*554*	*578*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	655	866	618	*750*	*750*
Current Assets	**2,248**	**2,352**	**2,159**	***2,594***	***2,658***
Net Property Plant, and Equipment	11,800	12,916	14,365	*15,843*	*17,259*
Goodwill	3,677	3,677	3,666	*3,666*	*3,666*
Other Intangibles	298	287	276	*276*	*276*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,685	2,613	2,188	*2,561*	*2,689*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**20,708**	**21,845**	**22,654**	***24,940***	***26,548***
Accounts Payable	435	539	619	*690*	*719*
Short-Term Debt	1,687	1,284	1,241	*1,250*	*1,250*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,525	1,479	1,319	*1,500*	*1,500*
Current Liabilities	**3,646**	**3,302**	**3,178**	***3,440***	***3,469***
Long-Term Debt	6,267	6,819	7,593	*8,500*	*9,500*
Deferred Tax Liabilities (Long-Term)	2,542	2,953	3,278	*3,632*	*3,963*
Other Long-Term Operating Liabilities	3,256	3,216	2,718	*3,252*	*3,236*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**15,711**	**16,290**	**16,767**	***18,823***	***20,169***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,168	4,598	4,690	*4,725*	*4,760*
Retained Earnings (Deficit)	917	1,060	1,286	*1,486*	*1,717*
(Treasury Stock)	-31	-41	-49	*-49*	*-49*
Other Equity	-60	-66	-44	*-49*	*-54*
Shareholder's Equity	**4,997**	**5,554**	**5,887**	***6,117***	***6,379***
Minority Interest	—	—	—	—	—
Total Equity	**4,997**	**5,554**	**5,887**	***6,117***	***6,379***

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NiSource Inc NI (NYSE) ★★

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37.68 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Net Income	299	416	532	*526*	*572*
Depreciation	538	562	577	*603*	*658*
Amortization	—	—	—	—	—
Stock-Based Compensation	39	45	51	*49*	*53*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	178	305	287	*354*	*332*
Other Non-Cash Adjustments	217	25	-65	—	—
(Increase) Decrease in Accounts Receivable	220	-51	-95	*-85*	*-72*
(Increase) Decrease in Inventory	-142	62	-9	*-54*	*-24*
Change in Other Short-Term Assets	-274	-157	81	*-132*	—
Increase (Decrease) in Accounts Payable	-155	57	68	*71*	*29*
Change in Other Short-Term Liabilities	—	—	—	*181*	—
Cash From Operations	**920**	**1,264**	**1,427**	***1,514***	***1,549***
(Capital Expenditures)	-1,125	-1,499	-1,880	*-2,081*	*-2,074*
Net (Acquisitions), Asset Sales, and Disposals	9	26	18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-34	51	-148	*160*	*-143*
Cash From Investing	**-1,149**	**-1,422**	**-2,010**	***-1,921***	***-2,216***
Common Stock Issuance (or Repurchase)	21	374	36	*35*	*35*
Common Stock (Dividends)	-258	-273	-306	*-326*	*-341*
Short-Term Debt Issuance (or Retirement)	-23	-582	-78	*9*	—
Long-Term Debt Issuance (or Retirement)	541	656	794	*907*	*1,000*
Other Financing Cash Flows	—	—	—	*-49*	*-53*
Cash From Financing	**281**	**175**	**445**	***576***	***642***
Exchange Rates, Discontinued Ops, etc. (net)	-50	8	129	*-5*	*-5*
Net Change in Cash	**2**	**25**	**-10**	***164***	***-31***

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NiSource Inc NI (NYSE) ★★

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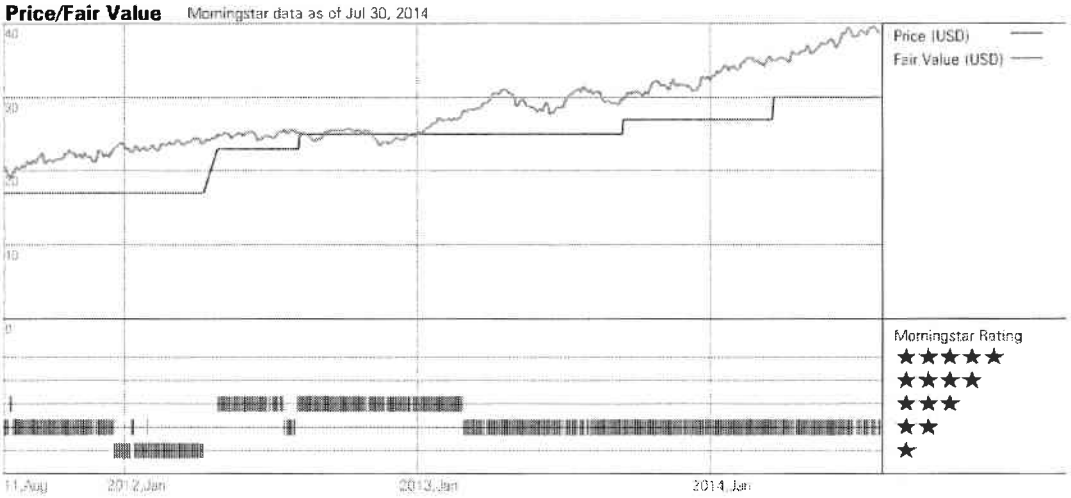
37.68 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Price/Fair Value Morningstar data as of Jul 30, 2014



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NiSource

(NI-NYSE)

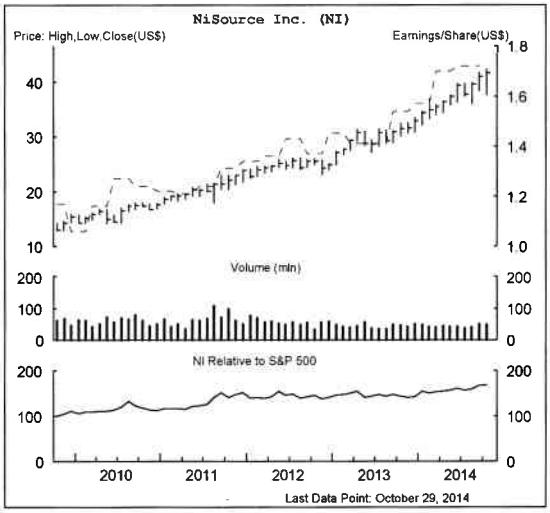
Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

October 30, 2014

Carl Kirst, CFA **713-546-9756**
BMO Capital Markets Corp
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan, CFA / Earl Lee
BMO Capital Markets Corp.
713-546-9741 / 713-546-9707 / 713-546-9764
danilo.juvane@bmo.com / leah.jordan@bmo.com / earl.lee@bmo.com

Price (29-Oct) $41.62 **52-Week High** $42.29
Target Price $42.00 **52-Week Low** $30.65



3Q Slight Miss; MLP Creation and Separation on Track

Event

NI reported 3Q14 adjusted EPS of $0.14, below our consensus-aligned $0.17 estimate. With the slight miss attributable to higher taxes (-$0.02) and higher employee/admin expenses at pipes (-$0.01), the quarter was solid operationally. More important, the MLP creation and separation transactions remain on track for completion by mid-2015, as expected. We reiterate this transformation will produce two yield plus growth investment vehicles that sport cleaner, lower risk cash flow with higher growth rates than arguably each of its peers. Project backlog update 1) this month, NI placed into service two pipeline projects (West Side expansion and Giles County growth project) totaling $240mm of investment on time and on budget; 2) the $870mm WB Xpress pipeline project is contracted and remaining conditions are expected to be cleared by year end; and 3) with solid results from its recently completed non-binding open season, the potential Mountaineer Xpress pipeline project continues to progress. Currently, the project's scope is being refined and discussions with potential shippers regarding capacity commitments are underway. While still early in the process, management indicated this project would be sizeable should it go forward, which we estimate to be in the $1B range, suggesting $1/sh of NAV upside.

Impact & Analysis

Neutral on the whole. Owing to the 3Q miss, we are reducing our 2014 estimates by $0.03 to $1.68, within management's reaffirmed guidance in the upper half of its initial $1.61-$1.71 band (i.e., $1.66-$1.71). For 2015-2016, our estimates remain unchanged at $1.83 and $1.95, respectively.

Valuation & Recommendation

Reiterate $42 price target ($20 attributable to NI remain-co, and $22 attributable to COLP spin-out) and maintain Market Perform rating. For 2016, NI trades at 15.8x P/DCF and 11.6x EV/EBITDA, slightly above our US coverage averages of 15.3x and 10.5x, respectively.

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	$1.44	$1.57	$1.68↓	$1.83
P/E			24.8x	22.7x
CFPS	$4.31	$4.37	$4.55↑	$4.27
P/CFPS			9.1x	9.7x
Rev. ($mm)	$5,091	$5,657	$6,352	$6,536
EV ($mm)	$22,590	$22,590	$22,590	$22,590
EBITDA ($mm)	$1,615	$1,745	$1,888	$2,014
EV/EBITDA	14.0x	12.9x	12.0x	11.2x

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	$0.73	$0.23	$0.05	$0.44
2013A	$0.69	$0.23	$0.18	$0.47
2014E	$0.82a	$0.25a	$0.14a	$0.47

Dividend	$1.04	Yield	2.5%
Book Value	$18.21	Price/Book	2.3x
Shares O/S (mm)	313.3	Mkt. Cap (mm)	$13,039
Float O/S (mm)	310.8	Float Cap (mm)	$12,936
Wkly Vol (000s)	10,066	Wkly $ Vol (mm)	$361.4
Net Debt ($mm)	$6,740	Next Rep. Date	na

Notes: All values in US$
Major Shareholders:
First Call Mean Estimates: NISOURCE INC (US$) 2014E: $1.71; 2015E: $1.84

Changes	Annual EPS	Annual CFPS
	2014E $1.71 to $1.68	2014E $4.51 to $4.55

3Q14 at a Glance

NI reported 3Q14 adjusted EPS of $0.14, below our consensus-aligned $0.17 estimate. Primary deltas to our estimate along with business segment summaries are detailed below:

-$0.01 Pipes. EBIT of $94 million was lower than our $98 million estimate primarily due to higher operating expenses, namely greater employee and administrative costs. Of note, total throughput of 285 MMDth increased 10% y/y, mainly due to greater Marcellus gas production.

LDC on target. Adjusted EBIT of $1 million (net of weather) was in line with our estimate. Of note, total volumes of 166 MMDth decreased 1% y/y, mainly driven by less off-system sales.

Electric on target. Adjusted EBIT of $90 million (net of weather) was in line with our estimate. Total volumes of 4,649 GW hours increased 2% y/y, mainly from greater industrial usage as a result of their expanding plant operations.

Corp/Other on target. EBIT of -$5 million was in line with our estimate.

Interest on target. Interest expense of $109 million was in line with our estimate.

-$0.02 Taxes. The effective tax rate of 45% was higher than our 35% estimate.

Major Project Update

WB Xpress

For $870 million, WB Xpress will provide 1.3 Bcf/d of takeaway capacity for Marcellus gas to access both eastern and western markets once in service (expected 4Q18). This project is contracted, and remaining conditions are expected to be cleared by year-end. WB is also reflected in our long-term financial and valuation forecast.

Mountaineer Xpress

The potential Mountaineer Xpress project aims to provide additional takeaway capacity (estimated to be within the 750 mmcf/d to 2.5 Bcf/d range) for Marcellus and Utica gas production. Currently, the project's scope is being refined and discussions with potential shippers regarding capacity commitments are underway. While still early in the process, management indicated this project would be sizeable should it go forward, which we estimate to be in the $1 billion range. This in turn would suggest an incremental $1/sh of NAV, or uplift to our price target should the project be brought over the commercial transom.

Exhibit 1: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E
Operating Revenues:												
Gas Distribution	$3,303	$3,096	$2,918	$1,960	$2,226	$1,215	$424	$240	$901	$2,780	$3,538	$3,620
Pipelines & Storage	1,241	1,261	1,355	1,462	1,643	579	390	382	337	1,688	1,437	1,504
Electric	1,213	1,375	1,428	1,508	1,563	450	405	425	400	1,679	1,715	1,760
Other	542	603	319	161	224	77	117	77	(65)	206	(154)	(154)
Revenues	6,299	6,335	6,019	5,091	5,657	2,321	1,335	1,124	1,573	6,352	6,536	6,729
Operating Expenses:												
Cost of Sales	2,978	2,898	2,556	1,549	1,816	1,061	372	231	478	2,142	2,135	2,148
Operation & Maintenance	1,650	1,654	1,723	1,674	1,874	501	533	530	519	2,083	2,117	2,175
DD&A	589	596	538	564	577	149	149	153	154	605	641	672
Loss (gain) on asset sales	16	1	17	(4)	(18)	(16)	(1)	0	0	(16)	0	0
Taxes and Other	283	287	295	289	301	101	73	68	82	325	314	314
Total Operating Expenses	5,516	5,436	5,129	4,072	4,550	1,797	1,127	981	1,234	5,138	5,207	5,309
Operating Income	783	899	890	1,020	1,108	524	209	143	339	1,214	1,329	1,420
Other:												
Equity in Earnings	16	15	15	32	36	10	11	12	12	45	58	69
Other	(6)	4	(61)	(1)	24	5	8	12	0	24	(4)	(4)
Total Other Income	10	19	(47)	31	60	14	19	24	12	69	54	65
Reported EBIT	**$793**	**$918**	**$844**	**$1,051**	**$1,168**	**$538**	**$227**	**$167**	**$351**	**$1,283**	**$1,384**	**$1,485**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$1,615**	**$1,745**	**$687**	**$376**	**$320**	**$505**	**$1,888**	**$2,014**	**$2,112**
EBIT Composition												
Gas Distribution	328	324	393	403	445	302	60	1	166	529	545	581
Pipelines & Storage	389	377	360	398	441	159	104	94	126	483	543	621
Electric	117	233	210	251	266	79	63	77	58	277	310	333
Corporate & Other	(40)	(16)	(119)	(2)	15	(1)	1	(5)	0	(6)	(4)	(4)
Total EBIT	**$793**	**$918**	**$844**	**$1,051**	**$1,168**	**$538**	**$227**	**$167**	**$351**	**$1,283**	**$1,394**	**$1,531**
Interest Expense	399	392	377	416	415	109	109	110	120	447	483	485
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	416	415	109	109	110	120	447	483	485
Minority Interests (NI MLP)	0	0	0	0	0	0	0	0	0	0	(17)	(94)
Income Before Taxes	394	526	467	635	753	429	118	57	231	836	894	952
Income Taxes												
Current	(214)	118	(15)	(86)	(26)	14	2	(8)	20	28	186	200
Deferred	378	55	178	305	287	149	38	34	61	282	127	133
Total Income Taxes	165	173	163	219	262	163	40	26	81	309	313	333
Effective Inc. Tax Rate (%)	42%	33%	35%	34%	35%	38%	33%	45%	35%	37%	35%	35%
Net Income From Continuing Operations	229	353	304	416	491	266	79	31	150	527	581	619
Discontinued Operations, net	(12)	(0)	(5)	0	6	(0)	(0)	(0)	0	(1)	0	0
Change in Accounting	(0)	(58)	0	0	35	0	0	0	0	0	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$416**	**$532**	**$266**	**$78**	**$31**	**$150**	**$526**	**$581**	**$619**
Adjustments to Core												
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(17)	(3)	8	1	(14)	0	(5)	0	0
Total Adjustments	(49)	11	(74)	(17)	(3)	8	1	(14)	0	(5)	0	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$433**	**$494**	**$258**	**$78**	**$45**	**$150**	**$532**	**$581**	**$619**
Shares Outstanding (mm)												
Avg. Diluted Shares Out	276	280	289	300	314	315	316	317	317	316	317	318
Avg. Basic Shares Out	275	278	280	292	312	314	315	315	316	315	316	317
Period-end basic Shares Out	276	279	282	311	314	315	315	316	316	316	317	317
Earnings Per Share (Diluted)												
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$1.39**	**$1.70**	**$0.84**	**$0.25**	**$0.10**	**$0.47**	**$1.66**	**$1.83**	**$1.95**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$1.44**	**$1.57**	**$0.82**	**$0.25**	**$0.14**	**$0.47**	**$1.68**	**$1.83**	**$1.95**
EPS Growth (core)	-19.4%	21.0%	7.4%	10.0%	9.3%	18.9%	6.9%	-21.0%	0.0%	6.9%	8.7% 8.3%	6.5%
Dividends												
Cash per share	$0.92	$0.92	$0.92	$0.94	$0.98	$0.25	$0.25	$0.26	$0.26	$1.02	$1.08	$1.16
Div Growth	0.0%	0.0%	0.0%	2.2%	4.3%	4.2%	4.2%	4.0%	4.0%	4.1%	5.9%	7.4%
Payout Ratio (%)	116.6%	87.5%	88.7%	67.9%	57.8%					61.3%	59.0%	59.5%

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E
Operating Activities												
GAAP Net Income from Cont. Ops	218	292	299	416	532	266	78	31	150	526	581	619
DD&A	589	596	538	562	577	149	149	153	154	605	641	672
Deferred income tax benefit	378	200	178	305	287	149	38	34	61	282	127	133
Deferred Revenues	4	(20)	3	(8)	(7)	2	(0)	0	0	2	0	0
Amortization of premium on debt	13	10	9	10	9	2	3	2	0	8	0	0
Less Gain or Loss on assets	(4)	(0)	0	(4)	(18)	(16)	(1)	(3)	0	(19)	0	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	4	(4)	(2)	(6)	3	0	(5)	0	0
Non-cash minority interest	0	0	0	0	0	0	0	0	0	0	17	94
Other non-cash income items	36	112	139	11	(6)	11	10	21	0	42	(10)	(46)
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$1,295**	**$1,372**	**$561**	**$271**	**$242**	**$365**	**$1,439**	**$1,355**	**$1,473**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$4.31**	**$4.37**	**$1.78**	**$0.86**	**$0.76**	**$1.15**	**$4.55**	**$4.27**	**$4.64**
Working Capital:												
Accounts and notes receivable	259	(244)	318	(181)	31	(264)	442	187		365	0	0
Inventory	129	103	(142)	62	(9)	274	(246)	(199)		(171)	0	0
Less Change of Price Risk Management Activities	0	0	0	0	0	0	0	0		0	0	0
Accounts payable	(192)	38	(155)	57	68	127	(297)	(48)		(218)	0	0
Customer deposit, net	25	(25)	(5)	(44)	(7)	(23)	2	91		70	0	0
Other assets	83	(206)	(201)	144	21	(276)	110	87		(79)	0	0
Other Liabilities	382	(86)	(78)	(68)	(49)	(4)	(24)	(125)		(154)	0	0
Changes in Working Capital	686	(420)	(262)	(30)	55	(167)	(13)	(6)	0	(187)	0	0
Discontinued Operations	(255)	(57)	(50)	11	10	(0)	(1)	(0)	0	(1)	0	0
Cash Flow From Operations	1,651	720	870	1,276	1,437	394	257	236	365	1,252	1,355	1,473
Investing Activities												
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(1,499)	(1,880)	(386)	(467)	(589)	(758)	(2,200)	(2,017)	(2,645)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	26	18	5	1	1	0	8	0	0
Other	109	(140)	(34)	51	(148)	(27)	(24)	(27)	0	(78)	0	0
Cash Used in Investing	(662)	(944)	(1,149)	(1,422)	(2,010)	(408)	(490)	(615)	(758)	(2,271)	(2,017)	(2,645)
Discontinued Operations	8	0	0	(3)	119	0	0	0	0	0	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(1,425)	(1,891)	(408)	(490)	(615)	(758)	(2,271)	(2,017)	(2,645)
Financing Activities												
Sale of Common Stock	26	14	24	384	44	9	7	6	12	34	24	0
Sale of Common Units (MLP)	0	0	0	0	0	0	0	0	0	0	375	500
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	988	1,308	0	0	748	1,000	1,748	0	0
Sale of L.T. Debt (MLP)	0	0	0	0	0	0	0	0	0	0	750	0
Redemption of Common Stock	(3)	(2)	(3)	(10)	(8)	(10)	(0)	(0)	0	(10)	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(332)	(511)	(9)	(4)	(504)	0	(517)	(230)	0
Redemption of L.T. Debt (MLP)	0	0	0	0	0	0	0	0	0	0	0	0
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(582)	(78)	114	289	210	(500)	112	50	575
Change in Notes Payable, LC, ST Debt (MLP)	0	0	0	0	0	0	0	0	0	0	0	500
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	(15)	(39)
Dividends	(253)	(256)	(258)	(273)	(306)	(79)	(79)	(82)	(82)	(321)	(342)	(367)
Other	0	0	(62)	0	(3)	0	0	0	0	0	0	0
Cash From (For) Financing	(1,000)	216	281	175	445	25	213	379	430	1,046	612	1,169
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	175	445	25	213	379	430	1,046	612	1,169
Change in Cash	($4)	($7)	$2	$25	($9)	$11	($20)	($0)	$37	$28	($50)	($3)
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$36	$27	$38	$18	$18	$27	$54	$5
Cash & Temp. Inv. End of Yr.	$16	$9	$12	$37	$27	$38	$18	$18	$54	$54	$5	$1

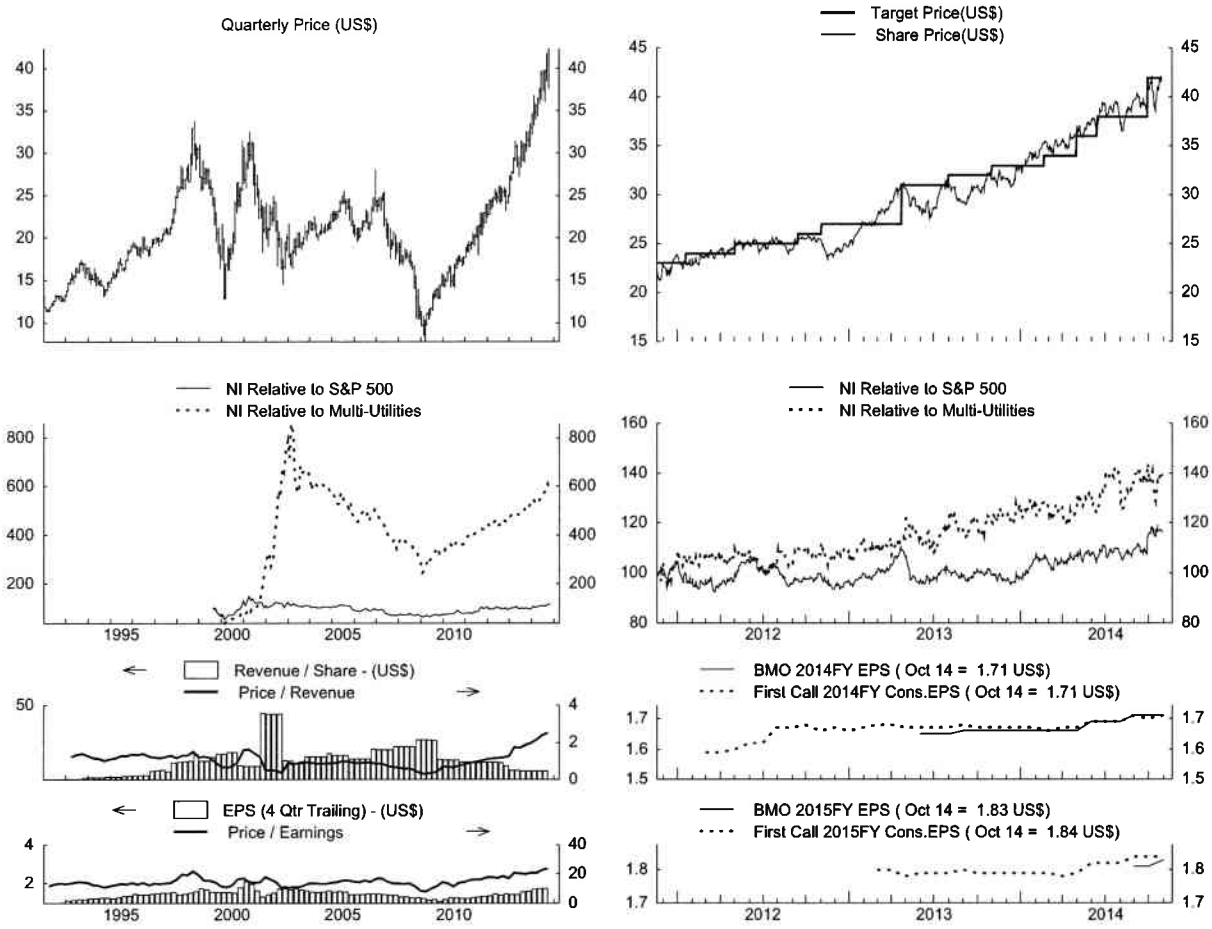
Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E
Assets:												
Cash & Equivalent	16	9	12	36	27	38	18	18	54	54	12	1
Restricted Cash	175	203	161	47	8	11	10	16	16	16	16	16
Receivables	848	1,121	951	1,114	1,105	1,471	989	739	739	739	739	739
Allowance for Uncollectable Acts	(40)	(41)	(31)	(24)	(24)	(35)	(30)	(18)	(18)	(18)	(18)	(18)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	40	136	21	45	46	114	76	55	55	55	55	55
Inventories	385	428	566	496	500	226	469	668	668	668	668	668
ST Assets Price Risk Management	173	160	137	92	23	14	13	0	0	0	0	0
Regulatory Assets	238	152	170	163	143	159	188	200	200	200	200	200
Other Current Assets	387	283	262	384	331	231	321	335	335	335	335	335
Total Current Assets	2,224	2,449	2,248	2,352	2,159	2,230	2,055	2,012	2,048	2,048	2,006	1,995
Plant & Equipment (Gross)	19,038	19,590	20,470	21,902	23,622	24,016	24,533	25,120	25,878	25,878	27,895	30,540
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,986)	(9,257)	(9,359)	(9,444)	(9,533)	(9,687)	(9,687)	(10,328)	(11,000)
Plant & Equipment, Net	10,684	11,097	11,800	12,916	14,365	14,658	15,089	15,587	16,191	16,191	17,567	19,540
Investments	295	349	356	438	578	610	639	655	655	655	655	655
LT Assets Price Risk Management	238	240	189	56	1	0	0	0	0	0	0	0
Regulatory Assets	1,644	1,650	1,978	2,024	1,522	1,495	1,454	1,441	1,441	1,441	1,441	1,441
Goodwill	3,677	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Intangible Assets	320	309	298	287	276	273	270	267	267	267	267	267
Other Long Term Assets (& flywheel)	53	168	162	94	87	85	85	82	82	82	75	34
Total Assets	19,134	19,939	20,708	21,845	22,654	23,017	23,258	23,710	24,351	24,351	25,678	27,599
Liabilities & Equity:												
Short Term Debt	800	1,417	1,687	1,284	1,240	1,343	1,631	1,330	830	830	880	1,955
Accounts Payables	502	582	435	539	805	793	542	510	510	510	510	510
ST Liabilities Price Risk Management	190	174	168	95	1	0	0	0	0	0	0	0
Regulatory Liabilities	44	93	112	172	60	79	89	80	80	80	80	80
Other	1,575	1,384	1,245	1,212	1,071	1,126	1,170	1,129	1,129	1,129	1,129	1,129
Total Current Liab	3,111	3,649	3,646	3,302	3,178	3,341	3,431	3,049	2,549	2,549	2,599	3,674
Long Term Debt	5,988	5,936	6,267	6,819	7,593	7,639	7,641	8,397	9,397	9,397	9,917	9,917
LT Liabilities Price Risk Management	170	182	139	20	0	0	0	0	0	0	0	0
Accumulated Deferred Taxes	2,018	2,243	2,571	2,953	3,278	3,412	3,491	3,559	3,620	3,620	3,746	3,880
Regulatory Liabilities	1,559	1,596	1,664	1,593	1,670	1,678	1,674	1,676	1,676	1,676	1,676	1,676
Other Liabilities	1,572	1,409	1,424	1,603	1,048	1,026	993	1,022	1,022	1,022	1,022	1,022
Total Liabilities	14,418	15,016	15,711	16,290	16,767	17,095	17,230	17,703	18,264	18,264	18,960	20,168
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,554	5,887	6,012	6,028	6,007	6,088	6,088	6,718	7,431
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	21,845	22,653	23,107	23,258	23,710	24,351	24,351	25,678	27,599

Source: BMO Capital Markets estimates, company data.

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
2009	1.06	14.9	7.3	0.92	11.8	5.8	87	17.6	0.9	0.4	6
2010	1.22	14.7	11.6	0.92	6.5	5.1	75	17.7	1.0	0.8	7
2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.7	1.4	0.9	8
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	17.9	1.5	1.2	8
2013	1.57	21.3	15.3	1.00	4.2	3.0	64	18.8	1.8	1.3	9
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.72	23.8		1.04	2.5		60	18.2	2.3		9
Growth(%):											
5 Year:	8.0			2.5				1.1			
10 Year:	1.0			1.2				0.8			
20 Year:	1.7			1.9				4.0			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q2/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (October 29, 2014): $41.62
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Disclosure 9: BMO Capital Markets makes a market in this security.

Methodology and Risks to Price Target/Valuation
Methodology: Sum of the Parts
Risks: 1) regulatory risk, 2) weather and 3) customer conservation

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.3%	18.0%	60.3%	43.9%	56.5%	56.0%
Hold	Market Perform	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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NiSource To:
Cc:
Bcc:
Subject:

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U.S. Equity Research

NiSource Inc. (NI): 3Q14 First Impression

(NI, $41.62 current price, 2.5% yield, $13.1B market cap)

We view this earnings release as: Slightly Negative

Highlights:

- NI reported EBITDA of $333mm below our $343mm estimate (3% lower) and the Street's $347mm estimate(4% lower).
- EBITDA came in 2-3% lower for each of the segments.
- 7% lower than expected operating income primarily attributed to higher O&M expenses at Electric Operations. O&M expenses/Megawatt Hour was 10% higher than last year.
- EPS of $0.14/share was lower than our $0.15/share estimate and the Street's $0.16/share estimate.
- Dividend/share of $0.26 was in-line with our estimate and the Street.
- On the Call – Look for more color on the expected timeline on the MLP formation and reiteration of guidance.

Stock Reaction : Expect NI units to trade flat to down today on the back of EPS slightly missing the Street.

Earnings Variance	3Q14 Actual	3Q14 CS Estimate	Diff.	Diff. (%)	3Q13 Actual
Segment EBITDA					
Gas Distribution	56	58	(2)	-3%	51
Electric Operations	153	155	(3)	-2%	151
Columbia Pipeline Group	124	126	(2)	-2%	125
Other	1	4	(3)	NM	1
Total EBITDA (recurring)	**333**	**343**	**(10)**	**-3%**	**328**
Segment EBIT					
Gas Distribution	1	3	(2)	-66%	(0)
Electric Operations	90	95	(4)	-5%	91
Columbia Pipeline Group	94	96	(1)	-1%	99
Other	(5)	0	(5)	NM	(5)
Total EBIT (recurring)	**180**	**193**	**(13)**	**-7%**	**184**
Interest Expense	110	119	(10)	-8%	104
Other Expenses	(9)	0	(9)	NM	(5)
Taxes	34	25	10	39%	28
Recurring Net Income	**46**	49	**(3)**	**-7%**	**57**
Diluted Wtd Avg shares outstanding	317	317	0	0%	313
Recurring EPS - Diluted	**$0.14**	**$0.15**	**($0.01)**	**(7%)**	**$0.18**
Dividend per share	**$0.26**	**$0.26**	**$0.00**	**0%**	**$0.25**
Operational Metrics					
Gas Distribution					
Total Volumes (MDth)	**166**	**169**	**(3)**	**-2%**	**168**
Total Customers	**3,319,851**	**3,340,951**	**(21,100)**	**-1%**	**3,306,018**
Electric Operations					
Total Heating customers (000s)	**459,185**	**459,005**	**180**	**0%**	**458,546**
Sales (Gigawatt Hours)					
Total	**4,649**	**4,595**	**54**	**1%**	**4,544**
Columbia Pipeline Group Operations					
Total Throughput (MMDth)	**285**	**269**	**16**	**6%**	**260**

Conf. Call: 9:00 a.m. ET; Webcast available at www.nisource.com

A full note will be out later.

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31 October 2014
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**OUTPERFORM***
Price (30 Oct 14, US$)	42.37
Target price (US$)	50.00[1]
52-week price range	42.37 - 30.80
Market cap. (US$ m)	13,376.20
Enterprise value (US$ m)	23,034.29

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

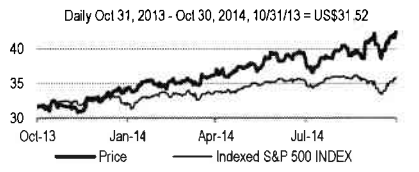
Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

FORECAST REDUCTION

NI Goes Mountainnering as MLP Spinoff On-Track for Early 2015. Q3 a Tad Light

- **Fresh off Analyst Day, Mountaineer is the Main Incremental Positive:** Mgmt. reiterated 2014 EPS around the upper half of its guidance range of $1.61-1.71 and $2.2B in capital investment in 2014. The CPG spinoff announced in September is still expected to be completed in mid-2015 as planned (see our note on the MLP formation **here**). Visibility for long term capital investments remains ~$42-$45B total, with $12-$15B of that amount to be invested at the CPG level. We continue to see the spinoff as a positive to NI shareholders. Early indications on Mountaineer are 750mmcf/d to as much as 2.5bcf/d of potential interest. So we figure a $1B place holder is fair for that opportunity.
- **3Q14 Slightly below Estimates:** NI reported EPS of $0.14 vs our estimate of $0.15 and the Street's $0.16, EBITDA came in at $333mm, below our estimate of $343mm and consensus of $347mm. Segments were ~3% below our estimates due primarily to higher operating and maintenance costs.
- **Maintain $50 TP and Outperform Rating:** We are maintaining our $50 TP based on our Sum of the Parts analysis using a 14-15x multiple range on 2015E EBITDA. Together with the NTM dividend, gives total return over 25% supportive of a relative O/P. After adjusting for the quarter, our 2015 and 2016 EPS estimates both move down by 1-cent to $1.93 and $2.11, respectively.

Share price performance



On 10/30/14 the S&P 500 INDEX closed at 1994.65

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.69	0.23	0.18	0.47
2014E	0.82	0.25	0.14	0.52
2015E	0.92	0.27	0.14	0.60

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	1.57	1.76	1.93	2.11
Prev. EPS (US$)	—	—	1.94	2.12
P/E (x)	27.1	24.1	21.9	20.1
P/E rel. (%)	157.7	151.4	153.1	156.6
Revenue (US$ m)	5,657.3	6,441.2	6,907.7	7,576.9
EBITDA (US$ m)	1,720.7	1,894.4	2,150.2	2,381.8
OCFPS (US$)	4.58	4.83	5.07	4.22
P/OCF (x)	7.2	8.8	8.4	10.0
EV/EBITDA (current)	13.4	12.2	10.7	9.7
Net debt (US$ m)	8,807	9,658	10,201	10,802
ROIC (%)	5.07	5.28	5.75	5.89

Number of shares (m)	315.70	IC (current, US$ m)	14,693.80
BV/share (Next Qtr., US$)	19.6	EV/IC (x)	1.5
Net debt (Next Qtr., US$ m)	9,658.1	Dividend (current, US$)	1.0
Net debt/tot eq (Next Qtr., %)	158.4	Dividend yield (%)	0.61

Source: Company data, Credit Suisse estimates.

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3Q14 Earnings Variance

Exhibit 1: Quarterly Earnings Variance

Quarterly Variance

Earnings Variance	3Q14 Actual	3Q14 CS Estimate	Diff.	Diff. (%)	3Q13 Actual
Segment EBITDA					
Gas Distribution	56	58	(2)	-3%	51
Electric Operations	153	155	(3)	-2%	151
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Total EBITDA (recurring)	333	343	(10)	-3%	328
Segment EBIT					
Gas Distribution	1	3	(2)	-66%	(0)
Electric Operations	90	95	(4)	-5%	91
Columbia Pipeline Group	94	96	(1)	-1%	99
Other	(5)	0	(5)	NM	(5)
Total EBIT (recurring)	180	193	(13)	-7%	184
Interest Expense	110	119	(10)	-8%	104
Other Expenses	(9)	0	(9)	NM	(5)
Taxes	34	25	10	39%	28
Recurring Net Income	46	49	(3)	-7%	57
Diluted Wtd Avg shares outstanding	317	317	0	0%	313
Recurring EPS - Diluted	**$0.14**	**$0.15**	**($0.01)**	**(7%)**	**$0.18**
Dividend per share	**$0.26**	**$0.26**	**$0.00**	**0%**	**$0.25**
Operational Metrics					
Gas Distribution					
Total Volumes (MDth)	166	169	(3)	-2%	168
Total Customers	3,319,851	3,340,951	(21,100)	-1%	3,306,018
Electric Operations					
Total Heating customers (000s)	459,185	459,005	180	0%	458,546
Sales (Gigawatt Hours)					
Total	4,649	4,595	54	1%	4,544
Columbia Pipeline Group Operations					
Total Throughput (MMDth)	285	269	16	6%	260

Source: Company data, Credit Suisse estimates

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Segment Update

Columbia Pipeline Group (CPG)

- **2015 Spinoff:** At the September 28th analyst day NI announced that the company plans to separate its natural gas pipeline and related businesses into a stand-alone, publicly traded company. CPG expects to invest $12-15B in modernization and growth projects over the next 10 years.
- **Mountaineer Pipeline Positive:** Early indications are for 750mmcf/d to 2.5bcfd of interest. If the open season leads to binding commitments we would look for an investment opportunity of anywhere from $800mm to over $2B. Too early to tell at this stage but signs are encouraging.
- **3Q14 Performance:** Operating earnings down 4% y/y at $94.4mm and total throughput of 321.5MMDth was up 12% y/y. The lower earnings were primarily attributable to higher employee and administrative costs, partially offset by lower software data conversion costs.

Electric Operations

- **3Q14 Performance:** Operating earnings were flat y/y at $90.2mm primarily due to higher employee and administrative and electric generation costs related to maintenance-related outages and increased storm damage costs.

Gas Distribution

- **3Q14 Performance:** Operating earnings of $1mm were up compared to a $0.5mm loss last year. Employee and administrative costs were higher as was depreciation due to capital expenditures, which were partially offset by lower environmental costs.

Additional Color

- **Interest Expense:** Interest expense increased by $5.9mm Y/Y due to long-term debt issued in Oct. of last year, which was partially offset by the maturity of long-term debt in July 2014.
- **Tax:** NI's effective tax rate for the period was 43.1% vs. 32.6% last year.

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Estimate Changes

Our estimates going forward are mostly unchanged after in-putting 3Q14 results.

Exhibit 2: NiSource 2014- 2017 Estimate Changes

Quarterly Variance

Earnings Variance	Old estimates					New estimates				
	4Q14E	2014E	2015E	2016E	2017E	4Q14E	2014E	2015E	2016E	2017E
Segment EBITDA										
Gas Distribution	246	750	882	1,019	1,145	244	747	883	1,026	1,159
Electric Operations	115	528	556	573	587	115	525	554	571	585
Columbia Pipeline Group	162	609	694	773	875	162	607	691	762	864
Other	13	19	23	23	23	13	16	23	23	23
Total EBITDA (recurring)	537	1,906	2,155	2,388	2,630	535	1,895	2,150	2,382	2,631
Segment EBIT										
Gas Distribution	189	532	641	757	861	187	528	642	764	875
Electric Operations	53	285	303	308	311	53	282	300	305	308
Columbia Pipeline Group	131	489	553	609	688	131	487	549	598	677
Other	10	4	6	3	2	10	1	6	4	2
Total EBIT (recurring)	382	1,310	1,502	1,677	1,862	381	1,298	1,497	1,671	1,863
Interest Expense	125	463	545	616	681	125	453	544	616	681
Other Expenses	0	(12)	0	0	0	0	(21)	0	0	0
Taxes	92	302	340	382	425	91	311	338	380	425
Recurring Net Income	166	557	618	679	755	164	555	615	675	756
Diluted Wtd Avg shares outstanding	317	316	318	320	321	317	316	318	320	321
Recurring EPS - Diluted	$0.52	$1.76	$1.94	$2.12	$2.35	$0.52	$1.76	$1.93	$2.11	$2.36
Dividend per share	$0.26	$1.03	$1.09	$1.15	$1.21	$0.26	$1.03	$1.09	$1.15	$1.21
Operational Metrics										
Gas Distribution										
Total Volumes (MDth)	289	1,055	1,065	1,071	1,073	289	1,051	1,062	1,067	1,070
Total Customers	3,344,292	3,344,292	3,364,403	3,377,880	3,391,412	3,323,171	3,323,171	3,343,155	3,356,547	3,369,994
Electric Operations										
Total Heating customers (000s)	460,654	460,654	461,576	462,037	462,037	460,654	460,654	461,576	462,037	462,037
Sales (Gigawatt Hours)										
Total	4,282	17,922	18,121	18,323	18,528	4,282	17,976	18,176	18,379	18,583
Columbia Pipeline Group Operations										
Total Throughput (MMDth)	478	1,657	1,817	1,979	2,156	478	1,673	1,833	1,995	2,171
Financing & Credit Metrics										
Total Debt / Total Cap	61.4%	61.4%	60.8%	59.6%	58.2%	61.3%	61.3%	60.7%	59.5%	58.1%
Net Debt / Total Cap	61.3%	61.3%	60.7%	59.5%	58.1%	61.3%	61.3%	60.7%	59.5%	58.0%
Net Debt / Equity	158.7%	158.7%	154.6%	147.1%	138.7%	158.4%	158.4%	154.5%	146.9%	138.4%
Book Value Per Share	$19.22	$19.28	$20.75	$22.97	$25.43	$19.22	$19.29	$20.75	$22.96	$25.42
Net Debt / TTM EBITDA	5.1x	5.1x	4.7x	4.5x	4.3x	5.1x	5.1x	4.7x	4.5x	4.3x

Source: Company data, Credit Suisse estimates

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Valuation

- The most challenging aspect of evaluating the separation is assigning the proper valuation. NI shareholders will receive a special dividend of COLP following the separation which is expected mid-2015. COLP is expected to own 85.4% of CPG Op, the IDR's and over 50% of the MLP. The formation of the MLP is expected to be completed in 1Q15. Management says that the $1.2B/year in expected cap ex will be financed at the MLP yet housed at CPG Op Co (which seems contradictory to us). Other Mid-stream MLPs have EV/EBITDA multiples running 12-20x depending on the distribution growth rates. Assuming $1.2B of capital investment at CPG overall and about $700mm in 2015 EBITDA would suggest that teens type of EBITDA growth is in the future and suggests a multiple uplift in the midstream assets to the 14-15x range and giving us a valuation range of $48-$51 over the next 12 months, which we average to $50. Together with dividend would take our total return outlook to ~25% and would warrant an Outperform relative to our universe.

Exhibit 3: NiSource Sum of the Parts Valuation

	2015 EBIT	D&A	2015 EBITDA / NI	Metric	Multiple Low	Multiple Base	Multiple High	Enterprise Value / Equity Value Low	Enterprise Value / Equity Value Base	Enterprise Value / Equity Value High
Electric Services	302.6	253.8	202.2	P/E	18.0x	19.5x	21.0x	3,638.8	3,942.1	4,245.3
Natural Gas Utilities	641.0	241.0	882.0	EV/EBITDA	10.0x	10.0x	10.0x	8,820.1	8,820.1	8,820.1
TG&S (88.5% of business)	552.8	141.3	694.1	EV/EBITDA	14.0x	15.0x	16.0x	9,717.4	10,411.5	11,105.6
TG&S (11.5% dropped into MLP)	0.0	0.0	0.0	EV/EBITDA	14.0x	15.0x	16.0x	0.0	0.0	0.0
			694.1							
Total Enterprise / Equity Value								**22,176.4**	**23,173.7**	**24,171.1**
Cash & Equivalents								27.8	27.8	27.8
Short-term Debt								530.0	530.0	530.0
Long-term Debt								7,640.6	7,640.6	7,640.6
Less Net Debt								8,142.8	8,142.8	8,142.8
Less Net Debt attributable to NIPSCO (~$1.1 billion)								7,042.8	7,042.8	7,042.8
Total Equity Value								15,133.6	16,130.9	17,128.3
Shares Outstanding								316	316	316
Per Share								**$47.88**	**$51.03**	**$54.19**
Current Share Price (Sep 29, 2014)								$40.84	$40.84	$40.84
Return								20%	28%	35%
Dividend per share (Est.)								$1.09	$1.09	$1.09
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*23%*	*30%*	*38%*
Implied Price Target								$48.00	$51.00	$54.00

Source: Company data, Credit Suisse estimates

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Risks

The main risk to our call is the valuation. There are few disputes with fundamentals in terms of being very strong. The regulatory environment is benign and the and gas production in the Marcellus and Utica is expected to roughly double between 2014 and 2020 from about 12-13bcf/d to 24-26 bcf/d on average. So the risk is in the valuation – MLPs that support this kind of projected EBITDA and what we believe will be mid-teens distribution growth trade at high EBITDA multiples but we have not been able to completely verify our calculations from the somewhat limited disclosures in the S-1. But our preliminary calculation suggest more upside than the uplift in the EV/EBITA multiple so we will keep it here for now. The risk is in our being too aggressive pending modeling verification of our preliminary calculation when we try to back into the cash flows from the restructuring associated with the MLP formation and separation.

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Companies Mentioned *(Price as of 31-Oct-2014)*

NiSource Inc. (NI.N, $42.37, OUTPERFORM, TP $50.0)

Disclosure Appendix

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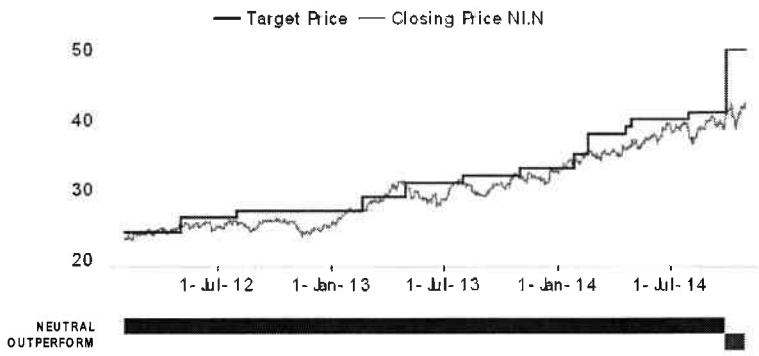
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
02-Feb-12	22.86	24.00	N
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	
01-Aug-13	31.11	32.00	
01-Nov-13	31.72	33.00	
28-Jan-14	34.18	35.00	
19-Feb-14	35.40	38.00	
21-Apr-14	35.71	39.00	
30-Apr-14	36.32	40.00	
31-Jul-14	37.68	41.00	
30-Sep-14	40.98	50.00	O



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

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**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

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rghuler@nisource.com Randy Huler 10/31/14 11:28:43 AM Nisource Corporate Services Co.

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	46%	(54% banking clients)
Neutral/Hold*	38%	(51% banking clients)
Underperform/Sell*	13%	(44% banking clients)
Restricted	3%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: Assuming $1.2B of capital investment at CPG overall and about $700mm in 2015 EBITDA would suggest that teens type of EBITDA growth is in the future and suggests a multiple uplift in the midstream assets to the 14-15x range and giving us a valuation range of $48-$51 over the next 12 months, which we average to $50. Together with dividend would take our total return outlook to ~25% and would warrant an Outperform relative to our universe.

Risk: The main risk to our call is the valuation. MLPs that support this kind of projected EBITDA and what we believe will be mid-teens distribution growth trade at high EBITDA multiples but we have not been able to completely verify our calculations from the somewhat limited disclosures in the S-1. The regulatory environment is benign and the and gas production in the Marcellus and Utica is expected to roughly double between 2014 and 2020 from about 12-13bcf/d to 24-26 bcf/d on average.

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See the Companies Mentioned section for full company names

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rghuler@nisource.com Randy Huler 10/31/14 11:28:43 AM Nisource Corporate Services Co.

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rghuler@nisource.com Randy Huler 10/31/14 11:28:43 AM Nisource Corporate Services Co.

HILLIARD LYONS

Electric Utilities
Analyst: David Burks
502.588.8648 / DBurks@hilliard.com
Institutional Sales Desk: Tim Rexing
502.585.8509 / TRexing@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
October 31, 2014

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports solid third quarter results

Key Metrics

NI - NYSE (Price as of 10/30/14)	$42.37
Price Target	NA
52-Week Range	$42.46 - $30.65
Shares Outstanding (mm)	315.4
Market Cap. ($mm)	$12,908
3-Mo. Average Daily Volume	1,949,000
Institutional Ownership	81.0%
Debt/Total Capital (9/30)	61.8%
ROE (ttm)	9.7%
Book Value/Share	$18.34
Price/Book Value	2.3x
Indicated Dividend / Yield	$1.04 2.4%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2013	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.58		$1.70		$1.82
P/E	26.8x		24.9x		23.3x
Payout	63%		61%		57%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2013	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$5,659		$6,300	--	$6,750

Company Description: *Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.*

Investment Highlights

- **NiSource reported third quarter earnings of $0.14 per share versus $0.18 per share in the third quarter of 2013.** Earnings were modestly below the consensus estimate of $0.17 per share. However, the third quarter is typically the smallest earnings contributor to NiSource each year. Through nine months NI has earned $1.21 per share compared to $1.11 per share in the same time period last year. Management reaffirmed 2014 guidance at the upper half of $1.61 to $1.71 per share.
- **The company's previously announced separation appears on track to occur in mid-2015.** NiSource announced on September 28th that it plans to separate into two companies: a fully regulated natural gas and electric utilities company (NiSource), and a pure-play natural gas pipeline midstream and storage company (Columbia Pipeline Group - CPG).
- **Separation plan terms.** Under the separation plan, NiSource shareholders would retain their current shares of NiSource stock and receive a pro-rata dividend of shares of CPG stock in a transaction that is expected to be tax-free to NiSource and its shareholders. The actual number of shares that would be distributed to NiSource shareholders will be determined prior to the closing.
- **NiSource will remain a large natural gas and electric utility.** It will serve more than 3.4 million natural gas customers in northern Indiana. NiSource expects to be able to grow its earnings and dividends by 4% to 6% annually. This potential growth is supported by multiple infrastructure opportunities in the coming years.
- **Columbia Pipeline Group appears to have significant growth potential.** CPG expects to have projects that represent potential capital investment opportunities of $12-$15 billion over the next 10 years. This could drive both future earnings and dividend growth.
- **We would maintain positions in NiSource.** In our view, the company's proposed strategy has the potential to enhance long-term shareholder value.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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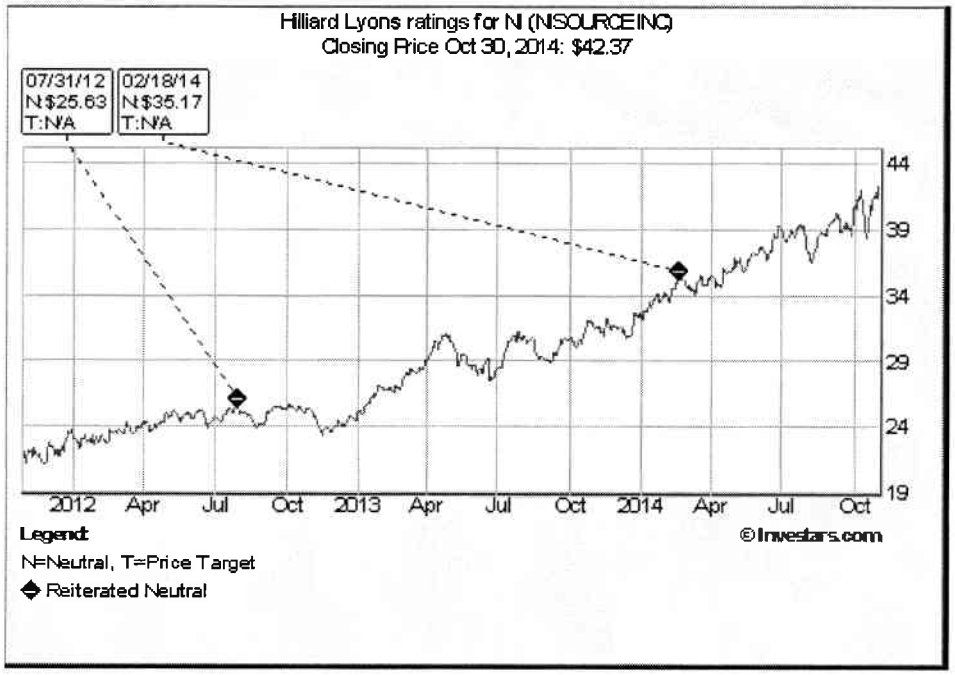
Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	50	40%	10%	90%
Hold/Neutral	71	56%	4%	96%
Sell	5	4%	0%	100%

As of 1 October 2014

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

October 30, 2014

Jefferies

NiSource Inc. (NI)

Costs Drag as EPS Misses

HOLD
Price target $40.00
Price $41.62

EQUITY RESEARCH AMERICAS

Key Takeaway

NI realized 3Q recurring diluted EPS of 14¢ (excl. asset sale gains), below our 17¢ forecast & the 16¢ Street mean estimate; the EPS miss was primarily due to higher than expected O&M expense at CPG & Gas Distribution. Mgmt affirmed its $1.61-$1.71 2014 non-GAAP EPS & $2.2B capex guidance, and noted results are likely to be in the upper half of its EPS range; consensus 2014 EPS is $1.71.

Columbia Pipeline Group. CPG's $91.4mm operating income (excluding asset sale gains) was below our $97.3mm expectation, driven primarily by higher O&M costs. Mgmt said in the press release it was encouraged by the results of the non-binding open season of the recently-announced Mountaineer XPress project. No formal details have yet been provided on the project, but we do note that mgmt officially quoted the WB Xpress project at a cost of $870mm for 1.3 Bcf/d with an expected in-service date of 4Q18.

Gas Distribution. The gas utilities posted 3Q operating income of $1.0mm, below our $6.6mm estimate, but ahead of 3Q13's $0.5mm loss, due primarily to higher O&M costs. The company is still awaiting a ruling in PA on the recovery of CPA's infrastructure modernization program investments; a settlement for an annual revenue increase of roughly $33mm was submitted in September and a decision is expected by year-end. Separately, CGV is expecting a settlement on its base rate case filed in April; if approved, the case would increase annual revenues by $25mm. Finally, CMD reached a settlement on its rate case in September, which allows for a $1.1mm annual revenue increase effective 9/30.

Pending structural changes. NI hosted its biennial Investor Day on September 29th in NYC, where mgmt reviewed operations and announced plans to IPO a midstream MLP in early 2015 and to split the utility and midstream segments into two separately-listed companies in the middle of next year. The expected tax-free transaction will create Columbia Pipeline Group Inc. (COLP), a natural gas focused midstream company, and leave NiSource as a fully-regulated natural gas and electric distribution company.

2014 guidance affirmed. Mgmt affirmed its $1.61-$1.71 2014 non-GAAP EPS guidance & ~$2.2B capital budget, but indicated EPS will likely be in the upper-half of the range.

Dividend to be maintained through spin, grow thereafter. NI declared a dividend in August of 26¢/shr ($1.04 annualized) and mgmt noted at its Sept. Investor Day that the current run-rate would be maintained through the spin of COLP and grow thereafter.

Dial-in for the Call: Today @ 9:00am ET. Dial-in: 877.280.4959. Passcode: 20776398

NI 3Q14 Results Review:

Operating Income by Division	Actual 3Q14A	JEFe 3Q14E		Year-over-Year 3Q13A	
Gas Distribution	$1.0	$6.6	-84.9%	($0.5)	-300.0%
Columbia Pipeline Group	$91.4	$97.3	-6.1%	$87.6	4.3%
Electric Operations	$90.2	$92.4	-2.3%	$90.5	-0.3%
Corporate, Other, and Eliminations	($5.3)	($3.5)	NA	($5.0)	-6.0%
Total Operating Income	$177.3	$192.8	-8.1%	$172.6	2.7%
Depreciation	($153.0)	($150.7)	1.5%	($144.5)	5.9%
Other Income / (Expenses)	$9.2	$4.7	95.7%	$4.7	95.7%
Interest Expense	($109.6)	($114.2)	-4.0%	($103.7)	5.7%
Income Tax Benefit (Expense)	($33.2)	($28.4)	17.2%	($23.4)	41.8%
Recurring Net Income	$43.7	$55.0	-20.6%	$50.2	-12.9%
Avg Diluted Shares Outstanding	316.6	316.5	0.0%	313.8	0.9%
Earnings Per Diluted Share	$0.14	$0.17	-20.7%	$0.16	-13.7%
EBITDA ($MM)	$340	$348	-2.5%	$322	5.5%
Capex & Affiliate Investments	$598	$583	2.5%	$540	10.7%

Source: NI report, Jefferies estimates
Note: Recurring EPS figures exclude the impact of non-normal weather & asset sale gains/ losses; they also utilize avg diluted share counts during each period.

Christopher Sighinolfi, CFA *
Equity Analyst
(212) 707-6420 csighino@jefferies.com
Christopher Tillett *
Equity Associate
(212) 284-4697 ctillett@jefferies.com
Corey Goldman *
Equity Associate
(212) 284-3411 cgoldma1@jefferies.com
* Jefferies LLC

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Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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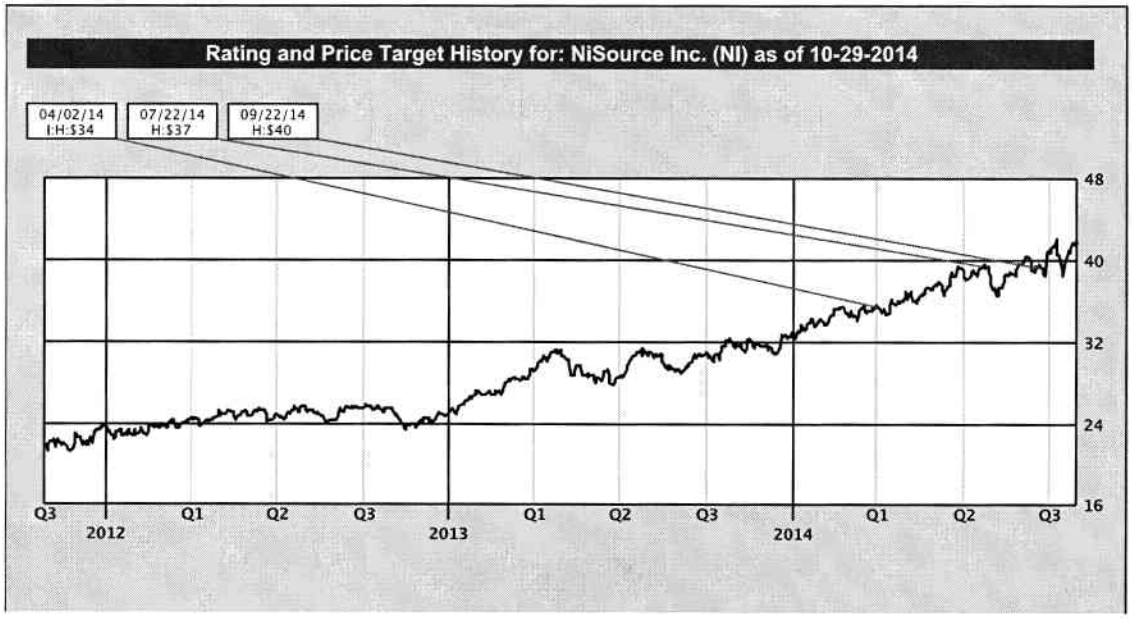

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HOLD	781	40.47%	139	17.80%
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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

NiSource Inc. (BUY)

NI - Quick Alert: 3Q14 Slight Miss. Upper Half of Guidance Maintained

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

KEY INVESTMENT POINTS

October 29, 2014 Close: $41.62
3Q14 KBCM EPS Estimate: $0.16 (Consensus: $0.16)
2014 KBCM EPS Estimate: $1.70 (Consensus: $1.71)
2015 KBCM EPS Estimate: $1.80 (Consensus: $1.84)

3Q14 Actual Results (vs. 3Q13):

- Ongoing EPS $0.14 vs. $0.18; GAAP EPS $0.10 vs. $0.16.
- NI excludes the impact from weather variations from normal in its ongoing earnings. Results reported include roughly $0.03 of mild weather. Additionally, the GAAP number includes transaction costs for the proposed MLP spin.
- Results were below our estimate of $0.16 and consensus of $0.16 per share. Relative to our estimate, it appears tax timing issues drove a higher tax rate (43.1% vs. 32.6% in 3Q13), resulting in a $0.03 per share headwind.

Guidance: Management continues to expect 2014 results to be in the upper half of guidance of $1.61- $1.71 per share.

3Q Highlights:

- Growth projects remain on track in all segments under NI's $2.2 billion 2014 capex plan.
- NI indicated that an initial non- binding open season for the Mountaineer Express pipe produced encouraging interest.
- Columbia Pipeline Group saw lower results (operating earnings of $94.4 million vs. $98.7 million) as higher revenues related to new projects, increased royalties and higher LNG proceeds were offset by the roll- off of a gain from the sale of base gas, higher employee costs and depreciation of new plant.
- Electric operations earnings were essentially flat at $90.2 million vs. $90.5 million as revenues rose on recovery of environmental spending and improved industrial and residential margins. The higher venues were offset by employee costs, planned outages and higher storm activity. Cooling degree days fell 7% to 33% below normal.
- Gas Distribution operating earnings were $1 million vs. earnings loss of $0.5 million as new rates in Ohio and Massachusetts were partially offset by higher costs.
- Corporate losses rose approximately $0.3 million primarily due to higher outside services.
- Interest expense rose $5.9 million on a higher debt balance and expiring rate swaps. Other income rose $4.5 million on transmission income.

Initial Take: We expect a generally neutral response to results as the miss relative to views appears to be driven by tax timing, and the upper half of guidance has been maintained.

9:00 a.m. ET Conference Call #: (877) 280- 4959; ID#: 20776398
We will be focused on:

- Thoughts on growth rate.
- Incremental infrastructure investment opportunities.
- Pipeline modernization project updates.

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As of the date of this report, we make a market in NiSource Inc..

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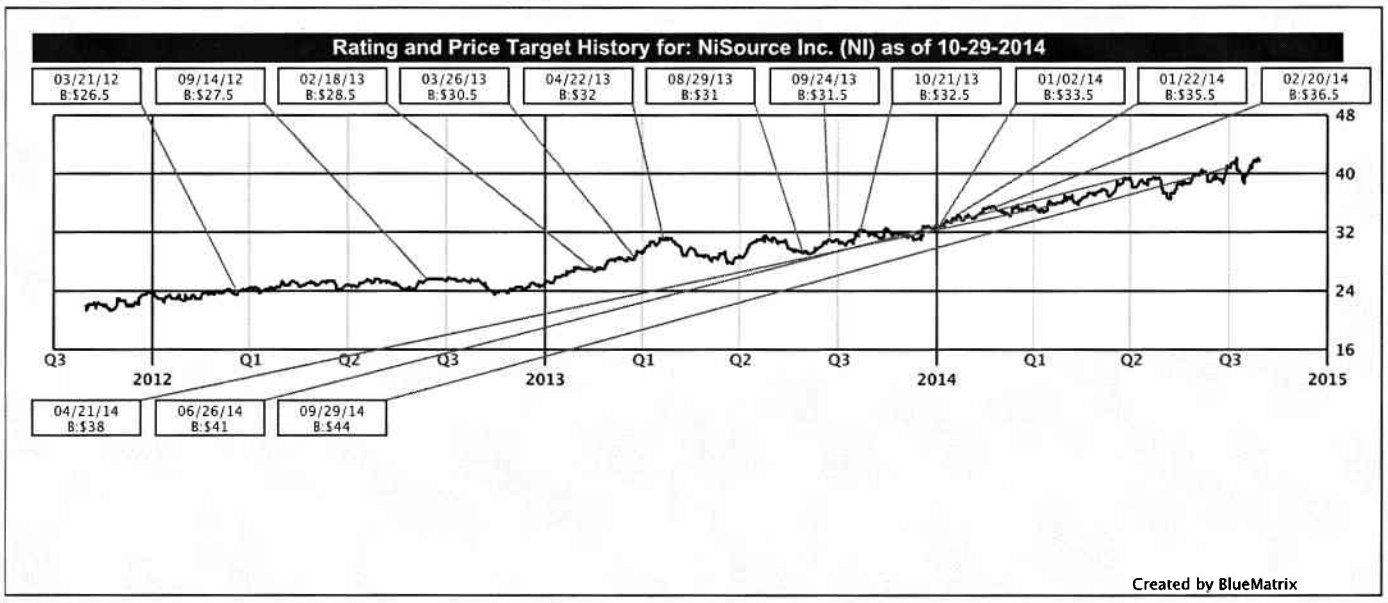

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Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	259	46.50	60	23.17	BUY [BUY]	45	52.94	19	42.22
HOLD [HOLD]	284	50.99	49	17.25	HOLD [HOLD]	40	47.06	16	40.00
SELL [UND]	14	2.51	4	28.57	SELL [UND]	0	0.00	0	0.00

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MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Brian Lasky
Brian.Lasky@morganstanley.com
+1 212 761 7249

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6385

Matthew Giacobbe
Matthew.Giacobbe@morganstanley.com
+1 212 761 7243

Alexander H Renker
Alexander.Renker@morganstanley.com
+1 212 761 4657

October 30, 2014

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Continued Progress Within the Northeast

NiSource reported in-line results (EPS of $0.14 vs. MSe of $0.14) despite warmer than expected weather and higher expenses. We look forward to the separation of CPG and further clarity on large-scale project development within the Northeast, such as Mountaineer XPress.

Looking for Further Clarity on CPG. With another solid quarter of execution under NI's belt, focus now turns to the execution of the planned separation of CPG set to be completed by mid-2015. While the unveiling of COLP and CPPL at NI's Analyst Day in late September was a welcome surprise and well-received by the market, we continue to look for more clarity on targeted dropdown pace and payout policies. As valuation around the pro forma entity remains in flux given limited information during the registration process, we believe the stock could trade somewhat range-bound until the market gets greater clarity on the new entity's strategy. We maintain our EW rating reaffirm our $45 price target.

Mountaineer Could Represent Significant Capital Opportunity. Management retired strong customer interest in their Mountaineer XPress project, which could rival Rayne/Leach XPress from a capital cost point-of view.

Results largely in-line with MSe: Columbia Pipeline Ahead of Our Estimates. Columbia Pipeline operating income came in at $94.4mm vs. MSe of $85.6mm as new growth projects came into service. **Gas Distribution** reported operating income of $1.0mm vs. MSe of $1.1mm as. Results were largely impacted by increases in regulatory and service programs, including the implementation of new rates in Ohio and Massachusetts. **Electric Operations** operating income was $90.2mm vs. MSe of $92.3mm primarily due to higher industrial and residential margins partially offset by increased employee/admin costs and electric generation costs due to outages.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	**$45.00**
Shr price, close (Oct 30, 2014)	$42.37
Mkt cap, curr (mm)	$13,465
52-Week Range	$42.37-30.66

Fiscal Year ending	**12/13**	**12/14e**	**12/15e**	**12/16e**
ModelWare EPS ($)	**1.57**	**1.69**	**1.81**	**1.92**
Prior ModelWare EPS ($)	**-**	**1.68**	**1.81**	**1.92**
P/E	**20.9**	**25.0**	**23.4**	**22.1**
Consensus EPS ($)§	**1.55**	**1.71**	**1.84**	**2.00**
Div yld (%)	3.0	2.4	2.5	2.6

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
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rghuler@nisource.com Randy Huler 10/31/14 11:29:51 AM Nisource Corporate Services Co.

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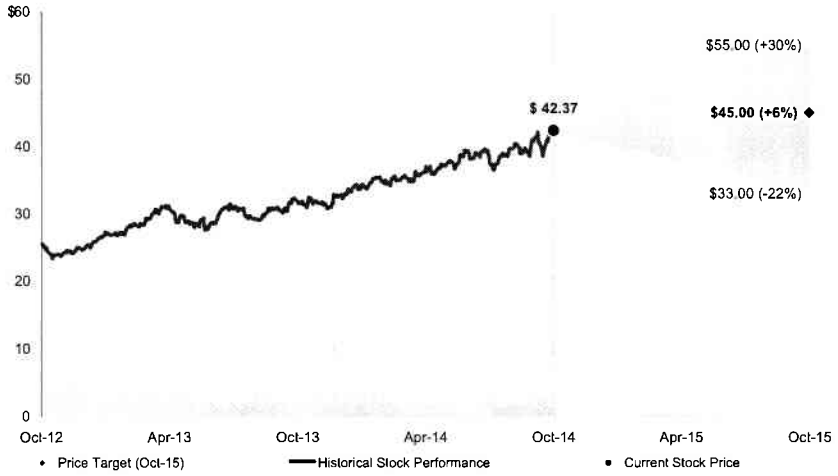
October 30, 2014
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: Thomson Reuters; Morgan Stanley Research

Price Target $45

Bull Case $55	**Increasing Marcellus/Utica market share and utilities outperform; more projects, aggressive MLP/GP strategy.** NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the CPG segment. Newly formed CPPL and COLP aggressively pursue organic and third party growth and achieve premium resulting valuations in stand-alone structures committed to high-payout, high growth strategies.
Base Case $45	**Business separation allows better recognition of execution on Marcellus / Utica opportunities.** NI places Marcellus/Utica growth projects on budget and on time. NI's adoption of an MLP is followed through with a periodic dropdown strategy.
Bear Case $33	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist or worsen, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions and the stock re-rates lower given weaker growth profile. NI underutilizes its MLP.

Target price derivation	Per share
1. Sum-of-the Parts	$49
2. Comparables	$43
Price target	$45

Why Equal-weight?

- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value.
- Restored earnings power at regulated utilities segments.
- Announced separation of midstream and utility businesses should help value recognition with upside in aggressive MLP/GP scenario, but next leg of outperformance is likely dependent on execution and might ultimately take a period of time to be realized.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend growth profiles consistent with both of NI's core businesses as they migrate to stand-alone entities.

Potential Catalysts

- MLP formation adds to value of NI and offers further upside on projects and acquisitions, particularly through general partner value recognition.
- Updates to rate case settlement approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Execution challenges

rghuler@nisource.com Randy Huler 10/31/14 11:29:51 AM Nisource Corporate Services Co.

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October 30, 2014
NiSource, Inc.

Exhibit 1

NI Earnings Variance

NiSource Inc.

(amounts in 000s, except per unit)

	Actual 3Q13	Actual 3Q14	A / A % chg	MS 3Q14E	A / E % chg	MS 4Q14E
Operating Revenues						
Gas Distribution	255,300	240,400	-5.8%	405,563	-40.7%	969,857
Gas Transportation and Storage	350,100	381,700	9.0%	298,863	27.7%	335,862
Electric	416,400	437,900	5.2%	427,007	2.6%	406,376
Other	61,200	77,300		-		-
Total operating revenues	**1,083,000**	**1,137,300**	5.0%	**1,131,433**	0.5%	**1,712,094**
Operating Expenses						
Cost of Sales	243,200	230,400	-5.3%	285,466	-19.3%	638,552
Operation and maintenance	468,900	520,600	11.0%	474,598	9.7%	517,188
Depreciation and amortization	144,500	153,000	5.9%	151,978	0.7%	155,998
Other taxes	64,300	65,000	1.1%	59,763	8.8%	74,919
Total operating expenses	**920,900**	**969,000**	5.2%	**971,805**	-0.3%	**1,386,657**
Equity Earnings (Loss) in Uncon. Affiliates	**10,500**	**12,000**	14.3%	**11,156**	7.6%	**12,180**
EBIT	**172,600**	**180,300**	4.5%	**170,784**	5.6%	**337,617**
EBITDA	**317,100**	**333,300**	5.1%	**322,762**	3.3%	**493,615**
Interest expense, net	(103,700)	(109,600)	5.7%	(109,100)	0.5%	(109,600)
Other income	15,800	9,200		7,500		9,200
Total other income and expenses	**(87,900)**	**(100,400)**	14.2%	**(101,600)**	-1.2%	**(100,400)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**84,700**	**79,900**	-5.7%	**69,184**	15.5%	**237,217**
Income tax (provision)	27,600	34,400	24.6%	23,464	46.6%	82,530
Net Income (Operating)	**57,100**	**45,500**	-20.3%	**45,720**	-0.5%	**154,687**
Average # of Shares Outstanding	313,800	316,600	0.9%	316,100	0.2%	316,600
Net Income per Share (Operating)	**$ 0.18**	**$ 0.14**		**$ 0.14**		**$ 0.49**
Net Income per Share (GAAP)	**$ 0.16**	**$ 0.10**		**$ 0.14**		**$ 0.49**
Segment Data						
Gas Distribution (MMDth)						
Residential	15.2	15.4	1.3%	15.7	-1.6%	93.0
Commercial	16.2	17.5	8.0%	16.7	4.9%	56.0
Industrial	120.7	126.2	4.6%	124.3	1.5%	133.5
Off System	15.6	7.1	-54.5%	14.8	-52.1%	12.5
Other	-	-		(0.1)		(0.0)
Gas Transmission & Storage (MMDth)						
Columbia Transmission	158.4	160.9	1.6%	166.3	-3.3%	350.5
Columbia Gulf	134.0	143.0	6.7%	134.0	6.7%	159.4
Crossroads Gas Pipeline	4.1	3.2	-22.0%	4.2	-24.2%	4.6
Intrasegment eliminations	(36.5)	(22.1)	-39.5%	(61.9)	-64.3%	(87.7)
Electric Operations (Gigawatt Hours)						
Residential	1,000.5	915.2	-8.5%	1,030.5	-11.2%	835.3
Commercial	1,066.1	1,031.6	-3.2%	1,087.4	-5.1%	980.6
Industrial	2,337.2	2,504.7	7.2%	2,348.9	6.6%	2,450.9
Wholesale	108.6	161.4	48.6%	109.1	47.9%	5.2
Other	31.3	36.4	16.3%	31.9	14.0%	41.7

Source: Company data, Morgan Stanley Research

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October 30, 2014
NiSource, Inc.

Exhibit 2
NI Income Statement

NiSource Inc.

Income Statement

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
Net Revenues					
Gas Distribution	2,225,300	2,829,957	3,592,351	3,956,138	4,356,885
Gas Transportation and Storage	1,646,400	1,686,162	1,471,176	1,724,978	1,944,212
Electric	1,563,200	1,691,376	1,790,867	1,874,020	1,935,239
Other	224,400	271,000	-	-	-
Total Net Revenues	**5,659,300**	**6,478,494**	**6,854,394**	**7,555,136**	**8,236,336**
Operating Costs					
Cost of Sales	1,815,500	2,301,952	2,365,379	2,615,126	2,818,335
Operation and maintenance	1,873,900	2,072,088	2,198,302	2,441,221	2,690,390
Depreciation and amortization	577,300	606,798	642,898	677,813	716,843
Other taxes	300,600	296,919	318,700	339,123	371,218
Total Operating Costs	**4,567,300**	**5,277,757**	**5,525,279**	**6,073,283**	**6,596,786**
Equity Earnings (Loss) in Uncon. Affiliates	**35,900**	**45,080**	**49,823**	**51,080**	**52,368**
EBIT	**1,127,900**	**1,245,817**	**1,378,938**	**1,532,932**	**1,691,918**
EBITDA	**1,705,200**	**1,852,615**	**2,021,836**	**2,210,745**	**2,408,762**
Other income					
Interest expense, net	(414,800)	(437,400)	(530,650)	(625,615)	(723,951)
Other income	42,600	30,400	36,800	36,800	36,800
Inc. from continuing operations bef inc. taxes	**755,700**	**838,817**	**885,089**	**944,117**	**1,004,767**
Income tax (provision)	261,800	302,630	312,596	336,692	356,469
Operating Net income (Loss)	**493,900**	**536,187**	**572,493**	**607,424**	**648,298**
Net Income per Share (Operating)	**$1.57**	**$1.69**	**$1.81**	**$1.92**	**$2.05**
Net Income per Share (GAAP)	**$1.56**	**$1.68**	**$1.81**	**$1.92**	**$2.05**
Weighted Avg Diluted Units Outstanding	313,600	316,600	316,600	316,600	316,600
Dividends per share	0.99	1.03	1.07	1.11	1.16

Source: Company data, Morgan Stanley Research

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October 30, 2014
NiSource, Inc.

Exhibit 3

NI Balance Sheet

Balance Sheet

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
ASSETS					
Cash and cash equivalents	26,800	89,131	272,382	226,761	339,850
Restricted cash	8,000	9,800	9,800	9,800	9,800
Accounts receivable	1,005,800	956,896	981,473	1,177,122	1,233,414
Income tax receivable	5,100	-	-	-	-
Gas inventory	354,600	55,983	58,393	202,149	119,094
Regulatory assets	142,800	188,100	188,100	188,100	188,100
Other	330,600	320,900	320,900	320,900	320,900
Total Current Assets	**2,159,200**	**1,992,910**	**2,203,148**	**2,496,931**	**2,583,258**
Net Property, Plant and Equipment	**14,365,100**	**16,101,902**	**17,459,004**	**18,781,190**	**20,064,347**
Unconsolidated affiliates	373,700	437,100	437,100	437,100	437,100
Other investments	204,000	201,900	201,900	201,900	201,900
Price risk management assets	500	-	-	-	-
Regulatory assets	1,522,200	1,454,100	1,454,100	1,454,100	1,454,100
Goodwill	3,666,200	3,666,200	3,666,200	3,666,200	3,666,200
Intangible assets	275,700	270,200	270,200	270,200	270,200
Deferred charges, Postretiremen, other	87,300	85,000	85,000	85,000	85,000
TOTAL ASSETS	**22,653,900**	**24,209,312**	**25,776,652**	**27,392,622**	**28,762,105**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	542,100	530,000	530,000	530,000	530,000
Short-term borrowings	698,700	1,101,100	1,101,100	1,101,100	1,101,100
Accounts payable	619,000	789,557	823,546	884,800	972,800
Dividends payable	-	82,000	82,000	82,000	82,000
Customer deposits and credits	262,600	241,700	241,700	241,700	241,700
Taxes accrued	254,800	216,100	216,100	216,100	216,100
Interest accrued	136,400	142,000	142,000	142,000	142,000
Price risk management liabilities	1,400	-	-	-	-
Exchange gas payable	186,400	139,200	139,200	139,200	139,200
Deferred revenue	18,500	8,700	8,700	8,700	8,700
Regulatory liabilities	60,200	88,700	88,700	88,700	88,700
Acc liab for post-retirement / -employment benefits	6,200	6,200	6,200	6,200	6,200
Other accruals	327,600	347,400	347,400	347,400	347,400
Total Current Liabilities	**3,178,400**	**3,761,357**	**3,795,346**	**3,856,600**	**3,944,600**
Long-term debt, excl amounts due within one year	7,593,200	8,240,600	9,540,600	10,840,600	11,840,600
Price risk management liabilities	300	-	-	-	-
Deferred income taxes	3,277,800	3,471,900	3,471,900	3,471,900	3,471,900
Deferred inc. taxes, credits, other	129,900	143,300	143,300	143,300	143,300
Acc liability for post-retirement/-employment benefits	527,500	466,100	466,100	466,100	466,100
Regulatory liabilities and other removal costs	1,669,800	1,673,900	1,673,900	1,673,900	1,673,900
Asset retirement obligations	174,400	178,000	178,000	178,000	178,000
Other noncurrent liabilities	216,000	224,300	224,300	224,300	224,300
Total Other Liabilities and Deferred Credits	**13,588,900**	**14,398,100**	**15,698,100**	**16,998,100**	**17,998,100**
Common stock	3,200	3,200	3,200	3,200	3,200
Additional paid-in capital	4,690,100	4,734,700	4,734,700	4,734,700	4,734,700
Retained earnings	1,285,500	1,412,155	1,645,505	1,900,222	2,181,705
Treasury stock	(43,600)	(41,400)	(41,400)	(41,400)	(41,400)
Accumulated other comprehensive loss	(48,600)	(58,800)	(58,800)	(58,800)	(58,800)
Total Common Stockholders' Equity	**5,886,600**	**6,049,855**	**6,283,205**	**6,537,922**	**6,819,405**
TOTAL CAPITALIZATION & LIABILITIES	**22,653,900**	**24,209,312**	**25,776,652**	**27,392,622**	**28,762,105**
CONSOLIDATED DEBT METRICS					
Average Total Debt	8,468,600	9,352,850	10,521,700	11,821,700	12,971,700
Average Net Debt	8,437,050	9,294,884	10,340,943	11,572,129	12,688,395
Net Debt/ Total Book Capitalization	59.6%	60.9%	62.6%	64.4%	65.5%
Average Debt/ EBITDA	5.0x	5.0x	5.2x	5.3x	5.4x
Average Interest Rate	4.9%	4.7%	5.0%	5.3%	5.6%

Source: Company data, Morgan Stanley Research

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October 30, 2014
NiSource, Inc.

Exhibit 4

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)	2013	2014E	2015E	2016E	2017E
Cash from Operating Activities					
Net Income	532,100	530,587	572,493	607,424	648,298
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,400	-	-	-	-
Depreciation and Amortization	577,300	606,798	642,898	677,813	716,843
Net Changes in Price Risk Mgmt A / L	2,600	1,400	-	-	-
Deferred: Inc. Tax/Credits; Revenues	280,200	188,400	-	-	-
Stock Compensation Expense	50,700	27,900	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(17,500)	(16,400)	-	-	-
Income from Unconsolidated Affiliates	(35,700)	(20,600)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	(41,200)	500	-	-	-
AFUDC Equity	(18,500)	(9,200)	-	-	-
Dist. of Earnings Received from Equity Investee	32,100	12,900	-	-	-
Other	10,000	4,100	-	-	-
Changes in Assets and Liabilities:	**55,300**	**282,478**	**7,002**	**(278,152)**	**114,764**
Net cash from operating activities	**1,436,800**	**1,608,863**	**1,222,393**	**1,007,086**	**1,479,905**
Cash from Investing Activities					
Capital Expenditures	(1,879,900)	(2,175,000)	(2,000,000)	(2,000,000)	(2,000,000)
Insurance Recoveries	6,400	6,800	-	-	-
Proceeds from Disposition of Assets	18,000	6,200	-	-	-
Restricted Cash Deposits (Borrowings)	38,700	(1,800)	-	-	-
Contributions to Equity Investments	(125,400)	(54,800)	-	-	-
Other Investing Activities	50,800	(1,100)	-	-	-
Net cash from investing activities	**(1,891,400)**	**(2,219,700)**	**(2,000,000)**	**(2,000,000)**	**(2,000,000)**
Cash from Financing Activities					
Issuance of Long-Term Debt	1,307,600	600,000	1,300,000	1,300,000	1,000,000
Retirement/Repurchase of Long-Term Debt	(510,900)	(13,300)	-	-	-
Change in Short-Term Borrowings, Net	(78,100)	402,400	-	-	-
Issuance of Common Stock	43,700	16,100	-	-	-
Acquisition of Treasury Stock	(8,100)	(10,200)	-	-	-
Dividends Paid - Common Stock	(305,900)	(321,832)	(339,142)	(352,708)	(366,816)
Other	(3,200)	-	-	-	-
Net cash from financing activities	**445,100**	**673,168**	**960,858**	**947,292**	**633,184**
Net change in cash	**(9,500)**	**62,331**	**183,251**	**(45,622)**	**113,089**
Cash at beginning of period	**36,300**	**26,800**	**89,131**	**272,382**	**226,761**
Cash at end of period	**26,800**	**89,131**	**272,382**	**226,761**	**339,850**

Source: Company data, Morgan Stanley Research

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October 30, 2014
NiSource, Inc.

Exhibit 5

NI Operating Data

Operating Data

	2013	2014E	2015E	2016E	2017E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	272.3	299.9	290.4	304.9	320.2
Commercial	172.9	191.0	190.7	200.2	210.2
Industrial	494.5	518.2	544.1	571.3	599.8
Off System	70.4	48.1	49.1	50.0	51.0
Other	0.4	(0.1)	(0.1)	(0.1)	(0.1)
Total Sales and Transports	**1,010.5**	**1,057.1**	**1,074.1**	**1,126.3**	**1,181.1**
Weather Adjustment	(3.4)	(33.8)	(4.0)	(4.0)	(4.0)
Sales and Transport Vols — Excluding Weather	**1,007.1**	**1,023.3**	**1,070.1**	**1,122.3**	**1,177.1**
y/y change	*2.6%*	*1.6%*	*4.6%*	*4.9%*	*4.9%*
Sales Price ($ / Dth)	$3.03	$3.46	$3.36	$3.52	$3.70
y/y change	*8.9%*	*14.2%*	*-3.1%*	*5.0%*	*5.0%*
COGS Price ($ / Dth)	$1.41	$1.76	$1.63	$1.74	$1.82
y/y change	*18.1%*	*24.8%*	*-7.2%*	*6.9%*	*4.1%*
Gross Margin ($ / Dth)	$1.62	$1.71	$1.73	$1.78	$1.89
y/y change	*1.9%*	*5.0%*	*1.1%*	*3.2%*	*5.9%*
COLUMBIA PIPELINE GROUP					
Throughput (MMDth):					
Columbia Transmission	1,124.6	1,165.1	1,234.8	1,296.6	1,361.4
Columbia Gulf	643.0	632.7	672.6	706.3	741.6
Crossroads Gas Pipeline	16.9	17.0	17.9	18.8	19.7
Total throughput	**1,784.5**	**1,814.9**	**1,925.3**	**2,021.6**	**2,122.7**
Intrasegment eliminations	(239.4)	(193.0)	(285.1)	(260.4)	(271.0)
Total third-party throughput	**1,545.1**	**1,621.9**	**1,640.3**	**1,761.3**	**1,851.7**
y/y change	*-2.4%*	*5.0%*	*1.1%*	*7.4%*	*5.1%*
Tariff ($ / Dth)	$0.50	$0.50	$0.52	$0.55	$0.56
y/y change	*10.0%*	*-0.6%*	*4.4%*	*5.2%*	*3.0%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,444.7	3,439.9	3,611.9	3,792.5	3,868.4
Commercial	3,881.9	3,912.6	3,990.8	4,070.6	4,111.3
Industrial	9,339.7	10,018.5	10,319.0	10,525.4	10,630.7
Wholesale	669.7	490.5	500.3	510.3	520.5
Other	132.0	146.4	150.8	155.3	160.0
Total sales	**17,468.0**	**18,007.8**	**18,572.8**	**19,054.1**	**19,290.8**
Weather Adjustment	(2.4)	79.3	-	-	-
Total sales volumes — Adj. for weather impacts	**17,465.6**	**18,087.1**	**18,572.8**	**19,054.1**	**19,290.8**
y/y change	*3.6%*	*3.6%*	*2.7%*	*2.6%*	*1.2%*
Revenue ($ / Gigawatt hour)	$89.59	$93.57	$96.42	$98.35	$100.32
y/y change	*0.5%*	*4.4%*	*3.0%*	*2.0%*	*2.0%*
COGS ($ / Gigawatt hour)	$31.07	$33.59	$33.32	$34.47	$35.29
y/y change	*5.0%*	*8.1%*	*-0.8%*	*3.4%*	*2.4%*
Gross Margin ($ / Gigawatt hour)	$58.53	$59.99	$63.10	$63.89	$65.03
y/y change	*-1.8%*	*2.5%*	*5.2%*	*1.2%*	*1.8%*

Source: Company data, Morgan Stanley Research

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October 30, 2014
NiSource, Inc.

Exhibit 6

NI Sum of Parts Analysis

NiSource, Inc.
NI

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 6,369	$ 20.12
Gas Transmission & Storage	14,758	46.62
Electric Utility	3,692	11.66
Value	$ 24,819	$ 78.39
Net Debt	(9,295)	(29.36)
Net Equity Value	$ 15,524	$ 49.04
Shares Outstanding (in m)		316.6

GAS DISTRIBUTION	
Forward EBIT (2015E)	$527
Interest	$136
Tax Rate	35%
Net Income	$253
Forward multiple	16.0x
Equity value	**$4,051**
Debt	$2,318
Enterprise value	**$6,369**

GAS TRANSMISSION & STORAGE (on a PV basis)	
MLP Drop-down Proceeds, Net of Funding Obligation	$9,213
MLP GP Value	4,275
MLP LP Value	1,270
Enterprise value	**$14,758**

ELECTRIC UTILITY	
Forward EBIT (2015E)	$319
Interest	$79
Tax Rate	35%
Net Income	$155
Forward multiple	15.5x
Equity value	**$2,406**
Debt	$1,286
Enterprise value	**$3,692**

EBITDA Breakdown		
Gas Distribution	$754	37%
Gas Transmission & Storage	$694	34%
Electric Utility	$570	28%
	$2,017	

Consolidated	
Interest Expense (2015)	531
Tax Rate (2015)	35%
Incremental Funding Obligation (dropdown period)	$917

Source: Company Data, Morgan Stanley Research

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October 30, 2014
NiSource, Inc.

Exhibit 7

NI New Stand-Alone Entities Comparable Metrics

Pro-Forma Net Debt (3,000)
Pro-Forma Shares 316.6

		EV / Adj. EBITDA		Price / CF		Forward Yield		Dividend Growth		
		15E	16E	15E	16E	15E	16E	15E	16E	17E
ONEOK Inc	OKE	16.5x	14.9x	23.3x	20.5x	4.3%	4.7%	11.4%	10.8%	9.7%
Spectra Energy Corp	SE	17.3x	16.1x	22.9x	20.0x	3.8%	4.1%	9.0%	8.2%	7.6%
Williams Cos	WMB	14.8x	13.0x	17.7x	15.5x	4.7%	5.5%	17.3%	16.0%	15.0%
Average		16.2x	14.7x	21.3x	18.7x	4.2%	4.8%	12.6%	11.7%	10.8%
Columbia Pipeline Group	**COLP**									
Statistics		640	710	311	380	0.99	1.20		22%	24%

15.0x	$20.85	13.5x	$20.82	19.0x	$18.66	16.5x	$19.81	4.75%	$20.68	5.25%	$25.28
15.5x	$21.86	14.0x	$21.94	20.5x	$20.14	18.0x	$21.61	4.50%	$21.83	5.00%	$26.68
16.0x	$22.87	14.5x	$23.06	22.0x	$21.61	19.5x	$23.41	4.25%	$23.11	4.75%	$28.25
16.5x	$23.88	15.0x	$24.18	23.5x	$23.08	21.0x	$25.22	4.00%	$24.56	4.50%	$30.02
17.0x	$24.89	15.5x	$25.30	25.0x	$24.56	22.5x	$27.02	3.75%	$26.19	4.25%	$32.02

	P/E		P/E		P/E		EPS Growth
	15E	16E	15E	16E	15E	16E	3-Yr
Gas LDC Group Median	16.1x	15.4x	16.1x	15.4x	16.1x	15.4x	5%

Pro-Forma NiSource **NI**
NiSource Gas Distribution

15.0x	$12.00	14.5x	$12.18	15.0x	$12.00	14.5x	$12.18	15.0x	$12.00	14.5x	$12.18
15.5x	$12.40	15.0x	$12.60	15.5x	$12.40	15.0x	$12.60	15.5x	$12.40	15.0x	$12.60
16.0x	$12.80	15.5x	$13.02	16.0x	$12.80	15.5x	$13.02	16.0x	$12.80	15.5x	$13.02
16.5x	$13.20	16.0x	$13.44	16.5x	$13.20	16.0x	$13.44	16.5x	$13.20	16.0x	$13.44
17.0x	$13.60	16.5x	$13.86	17.0x	$13.60	16.5x	$13.86	17.0x	$13.60	16.5x	$13.86

	P/E		P/E		P/E		EPS Growth
	15E	16E	15E	16E	15E	16E	3-Yr
Regulated Utilities Group Median	15.3x	14.2x	15.3x	14.2x	15.3x	14.2x	5%

Nipsco

14.5x	$7.11	13.0x	$6.69	14.0x	$6.87	13.0x	$6.69	14.0x	$6.87	13.0x	$6.69
15.0x	$7.36	13.5x	$6.95	14.5x	$7.11	13.5x	$6.95	14.5x	$7.11	13.5x	$6.95
15.5x	$7.60	14.0x	$7.21	15.0x	$7.36	14.0x	$7.21	15.0x	$7.36	14.0x	$7.21
16.0x	$7.85	14.5x	$7.47	15.5x	$7.60	14.5x	$7.47	15.5x	$7.60	14.5x	$7.47
16.5x	$8.09	15.0x	$7.72	16.0x	$7.85	15.0x	$7.72	16.0x	$7.85	15.0x	$7.72

Total Consolidated Value **NI**

$39.95	$39.69	$37.52	$38.68	$39.54	$44.15	
$41.61	$41.48	$39.64	$41.16	$41.33	$46.23	
$43.26	$43.28	$41.76	$43.64	$43.26	$48.48	
$44.92	$45.08	$43.88	$46.12	$45.35	$50.92	
$46.58	$46.88	$46.00	$46.59	$47.63	$53.60	

							2015 Avg
Minimum	$39.95	$39.69	$37.52	$38.68	$39.54	$44.15	$39.00
Average	$43.26	$43.28	$41.76	$43.64	$43.42	$48.67	$42.82
Maximum	$46.58	$46.88	$46.00	$48.59	$47.63	$53.60	$46.73

Source: Company Data, Morgan Stanley Research

rghuler@nisource.com Randy Huler 10/31/14 11:29:51 AM Nisource Corporate Services Co.

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Valuation Methodology & Risks

Assets in an MLP have typically traded at a premium to C-Corps. MLPs have traded at higher valuations than would similar assets in a corporate structure due to: 1) their tax efficiency (no federal taxes) and 2) the premium investors tend to place on yield. These two factors have typically produced: 3) a lower cost of capital, which can facilitate a potentially faster growth rate.

Interest rates are not the driver. Although MLPs have benefited from declining interest rates, so have other asset classes. We believe that gains in MLP stocks are a function of their ability to grow cash flows, not just their current yield.

The key value proposition is total return (growing cash flow yield + stock price appreciation). We find a statistically insignificant correlation between bond and MLP prices. Several periods of rate increases (1994, 1999, 2004) are correlated with poor performance, but there is little day-to-day link.

Distribution discount models (DDM) and implied yield targets. We use a 10-year distribution discount model to arrive at our price targets along with our implied yield target for each individual MLP as we view long-term cash flow stability and growth as the true measure of an MLP stock's value.

Yield spread. Despite historical day-to-day insignificance, we think this is worth looking at as a check on valuation. Overall, yields tend to revert to their mean, and even if we have modest yield compression, significant share price upside is possible.

Multiples provide valuation check. While we generally think it is difficult to target an EV (enterprise value) / EBITDA or P / DCF (distributable cash flow) multiple for an MLP stock, we think it certainly provides a gauge as to the stock's valuation. Currently, MLP multiples are near their historical average over time and we believe this provides another metric of valuation support along with looking at the high yield spreads and distribution growth.

Relative (historical) valuation measures support MLPs. The primary argument against improving valuation is weak relative performance in a rising interest rate environment. While we believe that the relationship to Treasury yields will become less relevant over time, using traditional dividend yield analysis, and the MLP index dividend yield spread to Treasury MLPs appear undervalued. Valuation supports MLPs relative to peers. Pipeline MLPs offer organic growth in a rising petroleum demand environment that requires infrastructure development. When we compare MLPs to comparable income asset classes — utilities and REITs — the valuation disconnect is unwarranted, in our opinion, as the pipeline MLPs offer twice the implied return of REITs and utilities.

Distribution growth is predicated on energy fundamentals. The United States is short on critical energy infrastructure, much of which has scarcity/franchise value, in our view, and this should drive a number of expansion projects for MLPs over the next five years. This scarcity is apparent, given the age of most US energy infrastructure assets (many were constructed during or shortly after World War II), combined with approximately 1.5–2.0% demand growth for oil, natural gas, and refined products, along with changing sources of supply for natural gas — deepwater Gulf of Mexico, the US Rockies, and liquefied natural gas (LNG) versus more traditional, conventional sources of supply.

Access to capital markets is of particular importance in this space. Given that MLPs pay out a majority of their free cash flow to unitholders each quarter, growth is funded largely through ongoing debt and equity capital raises. To the extent MLPs are unable to raise financing on favorable terms, organic capital spending budgets and third party acquisitions will likely be delayed or forgone. A prolonged period of limited capital market access could place downward pressure on unit prices if investors are concerned that distribution growth could be limited for a significant amount of time.

Investment concerns. The risks to our thesis include economic growth and demand, alternative energy programs, legislative items including tax reform and easing of product restrictions for natural gas and refined products, as well as a return to Treasury yield valuation and infrastructure reliability. Increased institutional ownership would likely create a revaluation of the sector, as new money would flood the current market. Our analysis is based on the current capital markets and economic outlook, with our Overweight names likely to outperform with or without institutional equity.

rghuler@nisource.com Randy Huler 10/31/14 11:29:51 AM Nisource Corporate Services Co.

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Glossary of MLP Terms

Cash Available (distributable cash flow or "DCF"): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements.

Cash Distributed (distributions): Quarterly dividend payments made to limited partner (LP) and general partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Yield or Distribution Yield: Yield or distribution yield as referenced in this report are defined as most recent distribution declared, annualized, and then divided by the current market price. It may consist of short-term capital gains, long-term capital gains, and/or return of capital.

General Partner (GP): Corporate sponsor, management team, or financial investor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

Incentive Distribution Rights (IDRs): Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in many cases upwards of 50% of incremental cash payouts).

Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated by the partnership through a quarterly distribution. LPs typically cannot participate in making decisions regarding the operation of the MLP unless they secure a definitive majority (e.g., 66%, but it can vary) in a proxy vote.

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate.

Publicly Traded Partnership (PTP): a master limited partnership (MLP) or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are roughly 75 publicly traded partnerships and the majority is involved in energy-related activities. Energy related PTP's comprise approximately 85% of total PTP market cap, with REITs making up the majority of the 15% balance.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include 1) interest 2) dividends 3) real property rents 4) gains from the sale or other disposition of real estate 5) income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource 6) Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 7) Income and gains from commodities, if buying and selling commodities is the PTP's principal activity 8) Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).

rghuler@nisource.com Randy Huler 10/31/14 11:28:51 AM Nisource Corporate Services Co.

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MORGAN STANLEY ModelWare

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Global Stock Ratings Distribution

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(as of September 30, 2014)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1113**	**35%**	**353**	**40%**	**32%**
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Not-Rated/Hold	**109**	**3%**	**21**	**2%**	**19%**
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Total	**3,187**		**880**		

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Stock Price, Price Target and Rating History (See Rating Definitions)

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Stock Rating History: 10/1/11 : E/A; 6/9/14 : E/A

Price Target History: 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30; 10/31/13 : 32; 1/8/14 : 34; 2/18/14 : 36; 4/30/14 : 40; 7/31/14 : 43; 9/30/14 : 45

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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rghuler@nisource.com Randy Huler 10/31/14 11:28:51 AM Nisource Corporate Services Co.

Morgan Stanley

MORGAN STANLEY RESEARCH

The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
Tel: +81 (0) 3 6836 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (10/30/2014)
Brian Lasky		
CenterPoint Energy, Inc (CNP.N)	E (06/09/2014)	$24.41
Cheniere Energy Inc. (LNG.A)	O (06/09/2014)	$73.75
Cheniere Energy Partners L.P. Holdings (CQH.A)	E (06/09/2014)	$24
EnLink Midstream LLC (ENLC.N)	E (06/09/2014)	$38
Enbridge Energy Partners LP (EEP.N)	U (09/10/2012)	$36.43
Enbridge Energy Partners LP (EEQ.N)	U (12/17/2013)	$35.48
Kinder Morgan Energy Partners LP (KMR.N)	E- (06/09/2014)	$94.92
Kinder Morgan Energy Partners LP (KMP.N)	E (08/14/2014)	$93.96
Kinder Morgan Inc. (KMI.N)	E (06/09/2014)	$38.54
NiSource, Inc. (NI.N)	E (06/09/2014)	$42.37
Oneok Inc. (OKE.N)	O (06/09/2014)	$58.67
SemGroup Corp (SEMG.N)	O (06/09/2014)	$76.8
Spectra Energy Corp. (SE.N)	E (06/09/2014)	$38.83
Williams Companies, Inc (WMB.N)	O (06/09/2014)	$55

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* Historical prices are not split adjusted.

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MORNINGSTAR

NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
42.37 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Reaffirms Earnings Guidance; Mountaineer XPress Pipeline Could Be $1 Billion Investment

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 31 Oct 2014
Estimates as of 31 Jul 2014
Pricing data through 30 Oct 2014
Rating updated as of 30 Oct 2014

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 31 Oct 2014

We are reaffirming our narrow moat and stable moat trend ratings and $32 fair value estimate after NiSource reported third-quarter operating earnings per share of $0.14 versus $0.18 in the same period last year. Management reiterated its expectation that 2014 operating earnings would probably be in the upper half of the guidance range of $1.61-$1.71 per share. Our EPS estimate of $1.70 is unchanged.

NiSource indicated that the planned NiSource/Columbia Pipeline Group separation is on track for completion in mid-2015. Columbia Pipeline Partners, the new master limited partnership, filed its registration statement with the Securities and Exchange Commission on Sept. 29.

The only new project NiSource discussed was the Mountaineer XPress, potentially a $1 billion pipeline serving Marcellus and Utica gas shippers. If constructed, the 750 mmcf/d- 2.5 bcf/d pipeline would provide incremental capacity from Noble County, Ohio, via the Leach Xpress header. NiSource management said it was encouraged by the strong interest following the nonbinding open season for the project and is currently refining the project scope. Management declined to provide a range of the investment, but indicated it could be similar in size to the WB XPress ($870 million) and the Rayne/Leach XPress ($1.75 billion).

Vital Statistics

Market Cap (USD Mil)	13,360
52-Week High (USD)	42.45
52-Week Low (USD)	30.65
52-Week Total Return %	36.9
YTD Total Return %	32.0
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	7.1
5-Yr Forward EPS CAGR %	7.7
Price/Fair Value	1.32

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	17.0	20.8	*24.9*	*23.2*
EV/EBITDA	9.9	11.2	*11.9*	*10.9*
EV/EBIT	15.2	17.0	*17.5*	*16.0*
Free Cash Flow Yield %	-3.0	-4.4	*-4.2*	*-4.1*
Dividend Yield %	3.5	3.0	*2.4*	*2.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	5,061	5,657	*6,169*	*6,573*
Revenue YoY %	-15.9	11.8	*9.0*	*6.6*
EBIT	1,039	1,126	*1,294*	*1,413*
EBIT YoY %	12.7	8.4	*14.9*	*9.2*
Net Income, Adjusted	437	494	*542*	*589*
Net Income YoY %	12.4	13.0	*9.7*	*8.6*
Diluted EPS	1.46	1.58	*1.70*	*1.83*
Diluted EPS YoY %	7.9	8.3	*7.8*	*7.9*
Free Cash Flow	71	-379	*-148*	*-417*
Free Cash Flow YoY %	339.3	-637.2	*-61.0*	*182.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource also owns 15,000 miles of natural gas transmission pipeline, operates one of the nation's largest underground natural gas storage systems, and provides unregulated midstream services in the growing Marcellus and Utica shale production area. NiSource's electric utility generates, transmits, and distributes electricity in northern Indiana.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
42.37 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	Forecast 2015	5-Year Proj. CAGR
Revenue	-4.1	-6.3	-15.9	11.8	9.0	6.6	7.1
EBIT	6.8	-0.2	12.7	8.4	14.9	9.2	10.4
EBITDA	3.9	-4.0	9.6	6.4	11.4	9.2	9.4
Net Income	13.2	14.1	12.4	13.0	9.7	8.6	9.8
Diluted EPS	9.0	10.8	7.9	8.3	7.8	7.9	7.7
Earnings Before Interest, after Tax	4.4	10.4	4.1	-1.0	18.4	5.4	8.7
Free Cash Flow	-237.7	-88.9	339.3	-637.2	-61.0	182.0	—

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5 Year Proj. Avg
Operating Margin %	18.6	15.3	20.5	19.9	21.0	21.5	22.1
EBITDA Margin %	28.7	24.3	31.6	30.1	30.8	31.5	32.2
Net Margin %	7.9	6.5	8.6	8.7	8.8	9.0	9.3
Free Cash Flow Margin %	-1.7	0.3	1.4	-6.7	-2.4	-6.4	-3.4
ROIC %	7.3	7.6	7.5	6.9	7.5	7.3	7.3
Adjusted ROIC %	10.0	10.6	10.2	9.1	9.8	9.3	9.2
Return on Assets %	1.9	1.5	2.0	2.4	2.3	2.3	2.4
Return on Equity %	7.7	6.0	7.9	9.3	9.0	9.4	9.7

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	0.60	0.61	0.59	0.60	0.61	0.63	0.62
Total Debt/EBITDA	5.23	5.45	5.06	5.19	5.14	5.19	5.05
EBITDA/Interest Expense	3.94	3.88	3.83	4.11	4.08	4.04	4.12

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.00	1.22	—	—
Price/Earnings	17.0	20.8	24.9	23.2
EV/EBITDA	9.9	11.2	11.9	10.9
EV/EBIT	15.2	17.0	17.5	16.0
Free Cash Flow Yield %	-3.0	-4.4	-4.2	-4.1
Dividend Yield %	3.5	3.0	2.4	2.6

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	87.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-974	-5.2	-3.05
Present Value Stage II	1,407	7.5	4.40
Present Value Stage III	18,225	97.7	57.04
Total Firm Value	**18,657**	**100.0**	**58.39**
Cash and Equivalents	70	—	0.22
Debt	-8,834	—	-27.65
Preferred Stock	—	—	—
Other Adjustments	35	—	0.11
Equity Value	**9,928**	**—**	**31.07**
Projected Diluted Shares	320		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
42.37 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2011	2012	2013	*Forecast* 2014	*Forecast* 2015
Revenue	**6,019**	**5,061**	**5,657**	***6,169***	***6,573***
Cost of Goods Sold	2,556	1,542	1,816	*2,044*	*2,129*
Gross Profit	**3,463**	**3,520**	**3,842**	***4,125***	***4,445***
Selling, General & Administrative Expenses	1,723	1,663	1,874	*1,976*	*2,115*
Other Operating Expense (Income)	295	288	301	*297*	*307*
Other Operating Expense (Income)	-15	-32	-36	*-45*	*-49*
Depreciation & Amortization (if reported separately)	538	562	577	*603*	*658*
Operating Income (ex charges)	**922**	**1,039**	**1,126**	***1,294***	***1,413***
Restructuring & Other Cash Charges	17	-4	-18	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**905**	**1,043**	**1,143**	***1,294***	***1,413***
Interest Expense	377	418	415	*465*	*513*
Interest Income	-61	2	24	*5*	*5*
Pre-Tax Income	**467**	**626**	**753**	***834***	***906***
Income Tax Expense	163	216	262	*292*	*317*
Other After-Tax Cash Gains (Losses)	-5	6	6	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	35	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**299**	**416**	**532**	***542***	***589***
Weighted Average Diluted Shares Outstanding	289	300	314	*319*	*321*
Diluted Earnings Per Share	**1.03**	**1.39**	**1.70**	***1.70***	***1.83***
Adjusted Net Income	389	437	494	*542*	*589*
Diluted Earnings Per Share (Adjusted)	**1.35**	**1.46**	**1.58**	***1.70***	***1.83***
Dividends Per Common Share	0.92	0.94	0.98	*1.02*	*1.06*
EBITDA	**1,443**	**1,605**	**1,721**	***1,897***	***2,071***
Adjusted EBITDA	**1,460**	**1,601**	**1,703**	***1,897***	***2,071***

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42.37 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Cash and Equivalents	172	83	35	*209*	*151*
Investments	—	—	—	—	—
Accounts Receivable	855	907	1,006	*1,099*	*1,171*
Inventory	566	496	500	*560*	*583*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	655	866	618	*750*	*750*
Current Assets	**2,248**	**2,352**	**2,159**	***2,617***	***2,655***
Net Property Plant, and Equipment	11,800	12,916	14,365	*15,843*	*17,310*
Goodwill	3,677	3,677	3,666	*3,666*	*3,666*
Other Intangibles	298	287	276	*276*	*276*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,685	2,613	2,188	*2,561*	*2,689*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**20,708**	**21,845**	**22,654**	***24,963***	***26,595***
Accounts Payable	435	539	619	*697*	*726*
Short-Term Debt	1,687	1,284	1,241	*1,250*	*1,250*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,525	1,479	1,319	*1,500*	*1,500*
Current Liabilities	**3,646**	**3,302**	**3,178**	***3,447***	***3,476***
Long-Term Debt	6,267	6,819	7,593	*8,500*	*9,500*
Deferred Tax Liabilities (Long-Term)	2,542	2,953	3,278	*3,632*	*3,972*
Other Long-Term Operating Liabilities	3,256	3,216	2,718	*3,252*	*3,236*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**15,711**	**16,290**	**16,767**	***18,830***	***20,184***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,168	4,598	4,690	*4,725*	*4,760*
Retained Earnings (Deficit)	917	1,060	1,286	*1,502*	*1,750*
(Treasury Stock)	-31	-41	-49	*-49*	*-49*
Other Equity	-60	-66	-44	*-49*	*-54*
Shareholder's Equity	**4,997**	**5,554**	**5,887**	***6,133***	***6,411***
Minority Interest	—	—	—	—	—
Total Equity	**4,997**	**5,554**	**5,887**	***6,133***	***6,411***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Net Income	299	416	532	*542*	*589*
Depreciation	538	562	577	*603*	*658*
Amortization	—	—	—	—	—
Stock-Based Compensation	39	45	51	*49*	*53*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	178	305	287	*354*	*340*
Other Non-Cash Adjustments	217	25	-65	—	—
(Increase) Decrease in Accounts Receivable	220	-51	-95	*-93*	*-72*
(Increase) Decrease in Inventory	-142	62	-9	*-60*	*-23*
Change in Other Short-Term Assets	-274	-157	81	*-132*	—
Increase (Decrease) in Accounts Payable	-155	57	68	*78*	*29*
Change in Other Short-Term Liabilities	—	—	—	*181*	—
Cash From Operations	**920**	**1,264**	**1,427**	***1,523***	***1,574***
(Capital Expenditures)	-1,125	-1,499	-1,880	*-2,081*	*-2,125*
Net (Acquisitions), Asset Sales, and Disposals	9	26	18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-34	51	-148	*160*	*-143*
Cash From Investing	**-1,149**	**-1,422**	**-2,010**	***-1,921***	***-2,268***
Common Stock Issuance (or Repurchase)	21	374	36	*35*	*35*
Common Stock (Dividends)	-258	-273	-306	*-326*	*-341*
Short-Term Debt Issuance (or Retirement)	-23	-582	-78	*9*	—
Long-Term Debt Issuance (or Retirement)	541	656	794	*907*	*1,000*
Other Financing Cash Flows	—	—	—	*-49*	*-53*
Cash From Financing	**281**	**175**	**445**	***576***	***641***
Exchange Rates, Discontinued Ops, etc. (net)	-50	8	129	*-5*	*-5*
Net Change in Cash	**2**	**25**	**-10**	***174***	***-58***

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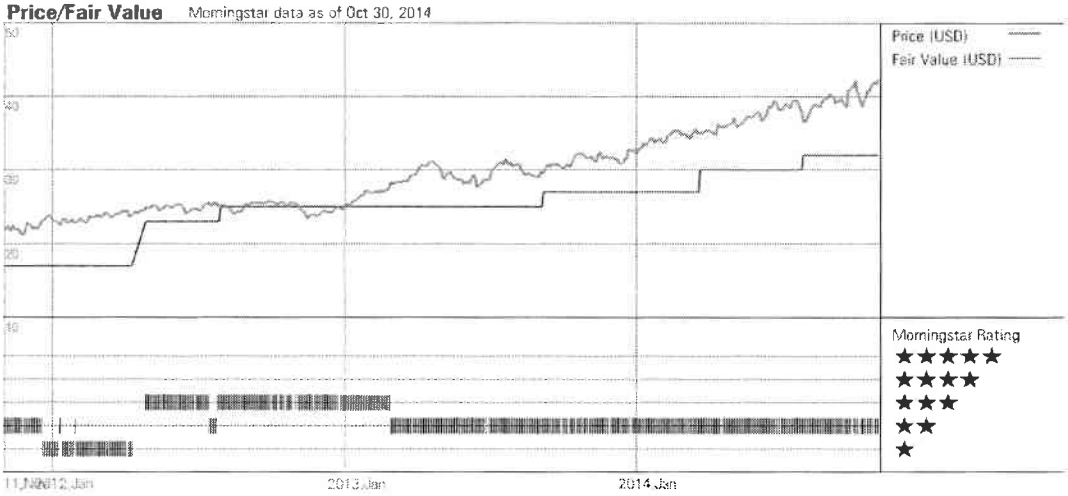
NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
42.37 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Price/Fair Value Morningstar data as of Oct 30, 2014



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UTILITIES & POWER

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October 30, 2014

NISOURCE INC.

(NI US Equity – $ 42.37 – Outperform)

NI takes up Mountaineering to avoid Q3 doldrums

- **Midstream opportunities the key from a quiet quarter**
  Between its seasonally slowest quarter and pending IPO of its pipeline MLP, NI's quarter was relatively quiet. The major new update was progress on growth initiatives at the pipeline segment. The $870M WB Xpress project is moving forward and is now in execution. NI management also expressed optimism on Mountaineer Xpress, which just completed an open season. Sizing (750mmcf/d to 2.5Bcf/d), route, and firm commitments are being finalized; the potential investment could be at least as large as WB.

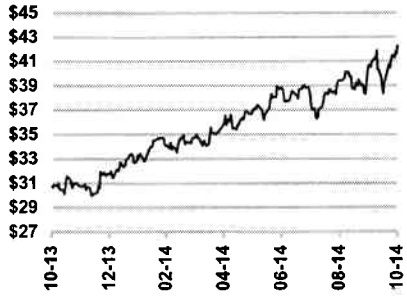
- **MLP and corporate separation are on track**
  The MLP IPO announced last month is moving forward as expected, with no major developments to report – the key next event is SEC approval of the S-1. We believe that timing on the offering remains early next year. The corporate separation also remains on track for mid-2015.

- **Q3 lower as expected; estimates and $49 PT unchanged**
  The Q3 result of $0.14 vs. $0.18 last year was in line with our estimate, as the absence of base gas sales and higher interest costs more than offset investment growth. NI remains on target for the upper half of the $1.61-$1.71 guidance range for 2014. Estimates and sum of parts target price of $49 are unchanged.

- **NI still one of the best gas infrastructure ideas; Outperform**
  We continue to see NiSource as a highly attractive way to play the gas infrastructure growth theme. The company plans to at least triple its pipeline business by 2020, and the combination of MLP and corporate separation should support a robust valuation. The utilities benefit from investment recovery via trackers in balanced regulatory environments, and gas main replacements provide a long path of investment growth at the LDC.

Trading and Fundamental Data	
Target Price	$ 49
Current Price	$ 42.37
52 Week Range	$ 31 - $ 42
Market Cap. ($MM)	$ 13,376
Share Out. (MM)	315.7
Dividend Yield	2.38%
Dividend Payout Ratio	62.4%
ROE	9%
Debt to Cap	60%
Avg Daily Vol (ooo)	1,467

Price Performance	YTD	LTM
NI US Equity	29%	34%
Utility Index	19%	16%
S&P 500	8%	13%



Source: Bloomberg/Wolfe Research

Estimates / Valuation				
(US$)	2014E	2015E	2016E	2017E
EPS	$1.69	$1.89	$2.03	$2.21
Consensus	$1.71	$1.84	$2.00	$2.10
P/E	25.0x	22.4x	20.8x	19.1x
Dividend Per Share	$1.02	$1.11	$1.21	$1.32
Dividend Yield	2.4%	2.6%	2.9%	3.1%

Steven Fleishman
(646) 582-9241
SFleishman@WolfeResearch.com

Alex Kania
(646) 582-9244
AKania@WolfeResearch.com

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October 30, 2014

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2014E	2015E	2016E	2017E
EPS	$1.69	$1.89	$2.03	$2.21
Diluted Shares Outstanding	314	319	326	330
Dividends Per Share	$1.02	$1.11	$1.21	$1.32
Dividend Yield	2.4%	2.6%	2.9%	3.1%
Dividend Payout Ratio	60%	59%	60%	60%
Equity Ratio	39%	39%	39%	37%
FFO/Net Debt	14%	14%	13%	13%
Valuation Metrics				
P/E	25.0x	22.4x	20.8x	19.1x
Price/Book	2.2x	1.9x	1.8x	1.7x
Segment EPS				
Gas Distribution	$0.75	$0.83	$0.89	$0.95
Transmission & Storage	0.60	0.72	0.81	0.94
Electric	0.55	0.57	0.59	0.61
Parent & Other	(0.21)	(0.23)	(0.26)	(0.29)
Total EPS	**$1.69**	**$1.89**	**$2.03**	**$2.21**
EBITDA by Segment				
Gas Distribution	$701	$776	$845	$907
Transmission & Storage	$565	$676	$792	$931
Electric	$588	$615	$641	$667
Parent	$16	$16	$16	$16
Total EBIT	**$1,869**	**$2,082**	**$2,294**	**$2,520**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2014E	2015E	2016E	2017E
Total Capital Spending by Segment ($M)				
Gas Distribution	$790	$790	$760	$730
Transmission & Storage	825	1,255	1,542	1,474
Electric	440	593	593	593
Parent	125	50	50	50
Total Capex	**$2,180**	**$2,688**	**$2,945**	**$2,847**
Financings ($M)				
Total Equity Issued/(Repurchased)	$45	$300	$275	$45
Total Debt Issued/(Repurchased)	$1,078	$1,180	$1,448	$1,338

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates three separate business lines: electric utility, gas distribution, and midstream natural gas. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.4 million customers in Ohio, Pennsylvania, Kentucky, Virginia, and Massachusetts. Finally, the midstream segment, Columbia Pipeline Group, operates 15,000 miles of interstate gas pipelines and has a large set of storage assets across its footprint.

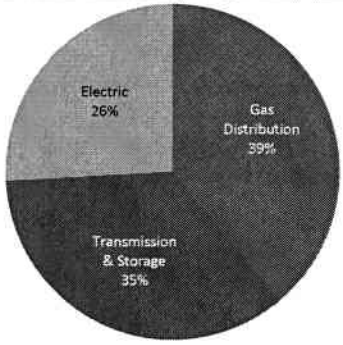
Investment Thesis

We believe that the significant investment opportunities in the midstream space will serve to boost NI's long term growth rate close to double digits over the next five years, up from the current 5%-7%. We see well over $5B of known investment opportunities in the gas infrastructure segment over the next five years with a substantial likelihood of upside, plus the cost of capital benefits of forming an MLP.

Valuation

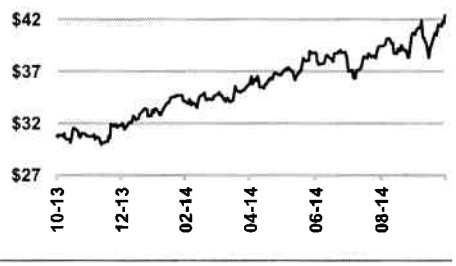
Our $49 price target is from our sum of parts valuation. We apply a16x multiple to 2016E electric utility earnings and a 16.5x multiple to 2016E gas distribution earnings, and 16.5x parent drag. We value midstream on an MLP basis targeting a 5% yield. Downside risks for NiSource are execution on project development, economic conditions and long-term performance of an MLP. Upside risks are additional growth projects in midstream.

Exhibit 3. 2016 EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: Bloomberg

Exhibit 5:NiSource valuation

Regulated Operations	Valuation Metric	Estimate	Valuation Multiple	$MM Value
Electric Utility	P/E	193	16.0	3,082
Gas Distribution	P/E	289	16.5	4,775
Parent Drag	P/E	(83)	16.5	(1,372)
Equity Value of Utility				**6,485**

MLP Valuation	2019E	
LP Stake		
Total LP Distributions	449	
Less Taxes on Distributions	(99)	Assume 20% tax rate
Net After Tax Distributions	350	
Target Equity Yield	5.00%	
Equity Value of MLP LP	**5,884**	Discounted back 3 years
GP Stake		
Total GP Distributions	241	
Less Taxes on Distributions	(84)	Assume 35% tax rate
Net After Tax Distributions	157	
Target Equity Yield of GP	4.00%	
Equity Value of MLP GP	**3,290**	Discounted back 3 years

Total Equity Value of MLP to NiSource	**9,174**
NiSource Equity Value	**$15,659**
Fully Diluted Outstanding Shares	318.7
NI Equity Value per Share	**$49**

Source: NI, Wolfe Research

October 30, 2014

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Company:	Fundamental Valuation Methodology:
NI US Equity	Sum of parts: P/E on utility, EV/EBITDA on midstream

Wolfe Research, LLC Fundamental Target Price Risks:

Company:	Fundamental Target Price Risks:
NI US Equity	Economy, regulatory outcomes, project execution

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

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October 30, 2014

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BARCLAYS

Equity Research
Power & Utilities | North America Utilities
29 September 2014

NiSource, Inc.
Suspending Rating

Suspending rating: Barclays Bank plc and/or an affiliate is providing investment banking services to NiSource Inc. (NI) in relation to the potential IPO of Columbia Pipeline Partners LP. The ratings, price target, and estimates of NiSource Inc. (NI) previously issued by the Firm's Research department have been temporarily suspended due to Barclays' role in the potential transaction.

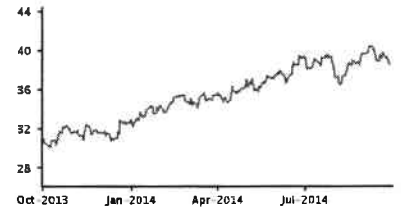
Stock Rating	RATING SUSPENDED
Industry View	NEUTRAL Unchanged
Price Target	N/A

Price (29-Sep-2014)	USD 40.84
Potential Upside/Downside	N/A
Tickers	NI

Market Cap (USD mn)	12878
Shares Outstanding (mn)	315.32
Free Float (%)	99.52
52 Wk Avg Daily Volume (mn)	2.0
Dividend Yield (%)	2.7
Return on Equity TTM (%)	9.33
Current BVPS (USD)	19.12

Source: Thomson Reuters

Price Performance Exchange-NYSE
52 Week range USD 41.46-30.09



Link to Barclays Live for interactive charting

NI: Quarterly and Annual EPS (USD)

	2013	2014			2015			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2014	2015
Q1	0.69A	0.82A	0.82A	0.82A	N/A	N/A	0.90E	19%	N/A
Q2	0.23A	N/A	N/A	0.25A	N/A	N/A	0.26E	N/A	N/A
Q3	0.18A	N/A	N/A	0.16E	N/A	N/A	0.16E	N/A	N/A
Q4	0.47A	N/A	N/A	0.50E	N/A	N/A	0.56E	N/A	N/A
Year	1.58A	N/A	N/A	1.71E	N/A	N/A	1.84E	N/A	N/A
P/E	25.8		N/A			N/A			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

North America Utilities
Daniel Ford, CFA
1.212.526.0836
daniel.x.ford@barclays.com
BCI, New York

William Zhang
1.212.526.6203
william.zhang@barclays.com
BCI, New York

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 29-Sep-2014, USD 40.84), Rating Suspended/Neutral, C/D/J/K/L/M/O

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In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	Integrys Energy Group Inc. (TEG)
ITC Holdings (ITC)	National Grid Plc (NGG)	National Grid Plc (NG.L)
NiSource, Inc. (NI)	Northeast Utilities (NU)	OGE Energy Corp. (OGE)
Pepco Holdings (POM)	PG&E Corp. (PCG)	Pinnacle West Capital (PNW)
PNM Resources (PNM)	Portland General Electric Co. (POR)	PPL Corporation (PPL)
SCANA Corp. (SCG)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

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IMPORTANT DISCLOSURES CONTINUED

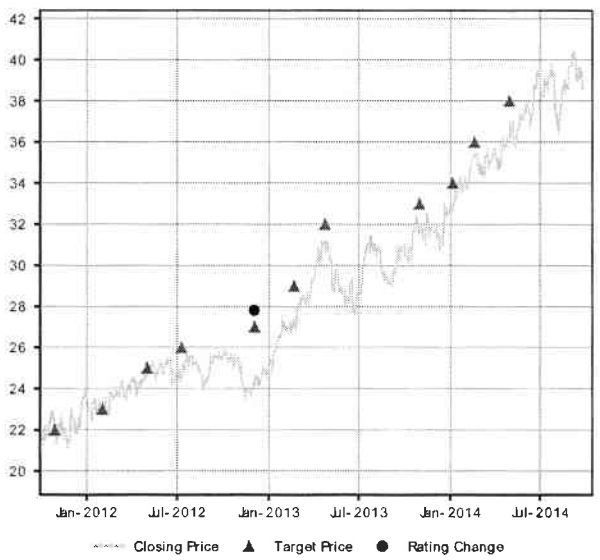
NiSource, Inc. (NI)

USD 40.84 (29-Sep-2014)

Stock Rating
RATING SUSPENDED

Industry View
NEUTRAL

Rating and Price Target Chart - USD (as of 29-Sep-2014) **Currency=USD**



Date	Closing Price	Rating	Adjusted Price Target
30-Apr-2014	36.32		38.00
19-Feb-2014	35.40		36.00
06-Jan-2014	32.95		34.00
31-Oct-2013	31.52		33.00
24-Apr-2013	31.14		32.00
20-Feb-2013	27.04		29.00
03-Dec-2012	24.34	Overweight	27.00
09-Jul-2012	24.41		26.00
01-May-2012	25.33		25.00
01-Feb-2012	23.45		23.00
28-Oct-2011	22.52		22.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

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Valuation Methodology: Rating Suspended

Risks which May Impede the Achievement of the Barclays Research Price Target: Rating Suspended

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NiSource

(NI-NYSE)

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

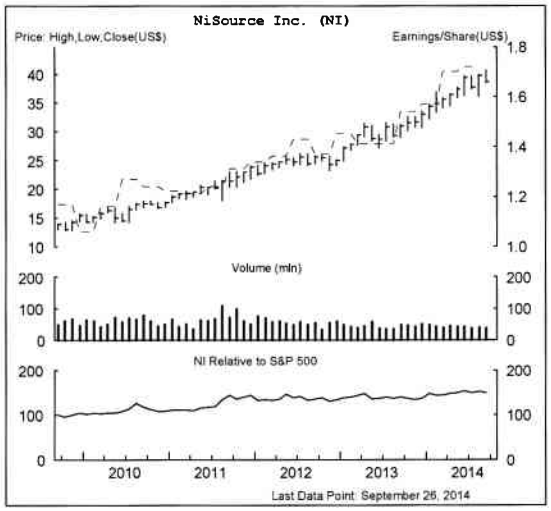
October 1, 2014

Carl Kirst, CFA **713-546-9756**
BMO Capital Markets Corp.
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan, CFA
BMO Capital Markets Corp.
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com / leah.jordan@bmo.com

Unlocking Value With Pure-Play Entities

Price (30-Sep)	$40.98	**52-Week High**	$41.46
Target Price	$42.00↑	**52-Week Low**	$30.09



Event

In conjunction with its bi-annual Analyst Day, NI announced the formation of a high-growth MLP (expected) and, surprisingly, the tax-free spin-off of its pipes business; the MLP IPO is set to occur in 1Q15 with the separation following suit in mid-2015. Positively, the two new entities—CPG (the pipes corporate parent, ticker: COLP) and NI Remain Co (gas and electric utilities)—will provide competitive dividend growth rates versus each's peers at mid-teens (our estimate) for the former and 4-6% (guidance) for the latter, largely driven by the sizeable long-term fixed-fee investment opportunity set that both possess.

Impact & Analysis

Positive. The transaction provides additional clarity, addresses future funding needs and creates two yield plus growth investment vehicles (COLP and its MLP, CPPL) that sport cleaner, lower-risk cash flow with higher growth rates than arguably each of its peers. Our EPS is only slightly tweaked in the process.

Valuation & Recommendation

We're raising our price target $4 to $42 post refinement of our sum-of-the-parts valuation and assuming NI's structural split into two entities. Our $42 target comprises $22/sh for COLP and $20/sh for NI Remain Co. On the former, given the significant step-up of distributable cash flow post the $1.75B Rayne/Leach, we look to 2018 estimates to value COLP and discount back. At peer 2016 EV/EBITDA and P/DCF multiples of 14.5x and 18.3x, respectively, we derive an average target of $22, although note we could see upside from 1) looking deeper into 2019 given the $87 5mm WB Express, now contracted, and 2) the potential for a group premium multiple given its high-growth but lower-risk asset base versus peers. NI Remain Co at $20 implies 2016 stand-alone P/E and EV/EBITDA multiples of 17.9x and 9.4x, 19% and 18% premiums to current trading multiples at 15.0x and 8.0x (assuming a gas-electric weighting in line with its business mix), defensible given low-risk tracker-related investment driving above utility average growth (4-6% vs. peers at ~4%). Given the recent uplift we maintain our Market Perform, but continue to see long-term upside.

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	$1.44	$1.57	$1.70↓	$1.84↑
P/E			24.1x	22.3x
CFPS	$4.31	$4.37	$4.49↓	$4.25
P/CFPS			9.1x	9.6x
Rev. ($mm)	$5,091	$5,657	$6,330	$6,558
EV ($mm)	$14,955	$16,838	$16,838	$16,838
EBITDA ($mm)	$1,615	$1,745	$1,913	$2,009
EV/EBITDA	9.3x	9.6x	8.8x	8.4x

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	$0.73	$0.23	$0.05	$0.44
2013A	$0.69	$0.23	$0.18	$0.47
2014E	$0.82a	$0.25a	$0.16	$0.47↓

Dividend	$1.04	**Yield**	2.5%
Book Value	$18.21	**Price/Book**	2.3x
Shares O/S (mm)	313.3	**Mkt. Cap (mm)**	$12,839
Float O/S (mm)	310.8	**Float Cap (mm)**	$12,737
Wkly Vol (000s)	9,658	**Wkly $ Vol (mm)**	$340.0
Net Debt ($mm)	$6,740	**Next Rep. Date**	na

Notes: All values in US$
First Call Mean Estimates: NISOURCE INC (US$) 2014E: $1.71; 2015E: $1.84

Changes	Annual EPS	Annual CFPS	Quarterly EPS	Target
	2014E $1.71 to $1.70 2015E $1.81 to $1.84	2014E $4.51 to $4.49	Q4/14E $0.48 to $0.47	$38.00 to $42.00

Structural Changes at NI

On Monday, NI held its bi-annual Analyst Day and announced the formation of a new MLP and the separation of its pipes business. While the former was expected, the latter was a surprise, unlocking value with the transition of NI into two pure-play entities. Below we highlight the two new companies—Columbia Pipeline Group (COLP) and NI Remain Co.

Columbia Pipeline Group (CPG, expected ticker: COLP)

In an effort to provide clarity and unlock value, NI intends to separate its pipeline business from its utilities via a tax-free spin-off (expected mid-2015), creating a new company Columbia Pipeline Group to serve as the pipes corporate parent (ultimately becoming a pure-play GP in the future). All of NI's pipeline assets, including midstream and storage, will be housed in an operating company, Columbia Pipeline Operating Company (Op Co), with various ownership interests from COLP and Columbia Pipeline Partners (CPPL). CPPL is the new MLP NI concurrently announced that is expected to IPO in 1Q15. Initially, Op Co ownership will be spilt at an estimated 85%/15% COLP/CPPL, noting COLP plans to sell additional ownership to CPPL over time (via multiple transactions) to drive additional growth at the MLP and transition itself into a pure-play GP, similar to WMB, OKE and to a lesser extent, SE. Notably, COLP will be the 2% general partner (GP) of CPPL in addition to holding about 50% of the LP units at the start. Under this GP-MLP structure, equity financing will be done primarily at the MLP level. All-in, we see potential for a mid-teen dividend and distribution CAGR at both entities.

Notably, management sees $12-15 billion of fixed-fee investment opportunity for the pipeline assets over the next 10 years ($1 billion-plus annually) given their strategic position within the Marcellus and Utica shale plays, which in turn could drive additional growth for COLP and CPPL well beyond asset drop-downs. We bake in only $5.5 billion of collective growth capital—that which is secured—while through 2020 management sees additional upside from $1 billion in midstream spend, and an additional $2 billion in FERC-regulated pipeline projects.

COLP Valuation

Given the significant step-up of cash flow as a result of Rayne and Leach ($1.75 billion of total investment) coming into service year-end 2017, we look to 2018 estimates to value COLP. Specifically, we estimate EBITDA and DCF/sh to increase 47% and 158% y/y to $1,119 million and $1.24/sh, respectively, in 2018. As such, using average 2016 trading EV/EBITDA and P/DCF multiples of large infrastructure companies growing at or near double-digit rates (see Exhibit 1) on COLP's 2018 estimates and discounting back two years, we derive values of $25 and $19, respectively, or an average of $22. (See Exhibit 2.) Given the lower-risk asset base and greater clarity, we also see potential support for COLP to trade at a premium—assuming 10% on each multiple, we derive valuations at $29 on EV/EBITDA and $21 for P/DCF for a $25 average, suggesting $3 or, 7% upside to our current $42 target. Furthermore, with another sizeable project, $875 million WB Express, due in service by year-end 2018, looking to 2019, our EBITDA and DCF/sh estimates increase 12% and 19% y/y to $1,254 million and $1.48/sh, respectively. Using those estimates with the same 2016 trading multiples, discounted back, we derive an average valuation of $25 ($28 EV/EBITDA and $22 P/DCF) or $28 ($33 EV/EBITDA and $24 P/DCF) assuming the same 10% premiums, suggesting support for further upside to our estimate over the long term.

Exhibit 1: COLP Comp Sheet

Company	Ticker	Price 09/30/14	Rating	Mkt Cap ($MM)	Current Yield	Est. 3-yr Div. CAGR	Total Enterprise Value / EBITDA 2014E	2015E	2016E	Adj. 2015E	Adj. 2016E	P/Distributable Cash Flow (1) 2014E	2015E	2016E
Enbridge Inc. (2)	ENB	$53.61	OP	$45,374	2.5%	11.0%	16.6x	15.5x	14.9x	15.5x	14.9x	15.9x	15.5x	14.4x
Kinder Morgan Inc. (4)	KMI	$38.34	OP	$39,414	4.5%	11.3%	10.7x	15.5x	15.2x	15.5x	15.2x	21.4x	16.7x	15.8x
Oneok Inc. (3)	OKE	$65.55	MKT	$13,635	3.4%	10.0%	15.2x	14.2x	14.6x	17.7x	16.0x	24.3x	23.3x	21.7x
Spectra Energy (3)	SE	$39.26	OP	$26,339	3.4%	9.0%	13.5x	13.1x	12.4x	13.8x	12.7x	18.7x	21.6x	21.0x
Williams Cos (3)	WMB	$55.35	OP	$41,364	3.1%	15.0%	17.7x	14.1x	12.2x	16.6x	13.8x	27.2x	21.4x	18.7x
Average					**3.4%**	**11.3%**	**14.7x**	**14.5x**	**13.8x**	**15.8x**	**14.5x**	**21.6x**	**19.7x**	**18.3x**

1) After tax cash flow from operations less sustaining / maintenance capital
2) Dollars Canadian
3) Adjusted EBITDA valuation assesses the "family multiple," including the market cap of the parent, publicly traded market cap of the MLP and total debt to calculate Enterprise Value, which is then divided by consolidated EBITDA before minority interest
4) Pro forma for completion of proposed KMP/KMR/EPB acquisition by year end 2014

Source: BMO Capital Markets estimates, company data.

Exhibit 2: COLP Valuation

	2018E	2016 Valuation Multiple	
COLP			
EV/EBITDA			
EBITDA	$1,119	14.5x	$16,226
Enterprise Value of COLP			$16,226
Net COLP Debt (YE17)			($5,466)
Net publicly owned portion of MLP			($1,515)
Net Equity Value			**$9,245**
Diluted Shares Outstanding			317
$/sh			$29.16
Discount to 2016			$25.00
P/DCF			
DCF	$1.24	18.3x	$22.67
Discount to 2016			$19.43
Average COLP Price Target			**$22.21**

Source: BMO Capital Markets estimates, company data.

NI Remain Co

After the separation of the pipes business, the NI Remain Co will retain NIPSCO electric and the seven gas utilities, resulting in an earnings mix of 35%/65% electric/gas. Driving 4-6% annual earnings and dividend growth, NI has identified $30 billion in investment opportunity over the next 20-plus years (~$1.2 billion annually), 75% of which is expected to be revenue producing. Breaking down the $30 billion opportunity set, about two-thirds is targeting the gas utilities, with the remainder for NIPSCO electric, suggesting the business mix should not materially change over time. As a 100% regulated company, the NI Remain Co will be suitable for low risk investors targeting a higher yield plus modest single digit growth.

NI Remain Co Valuation

After the spin-off of the pipes business, we derive a NI Remain Co valuation of $20 (see Exhibit 3), implying 2016 P/E and EV/EBITDA multiples of 17.9x and 9.4x, appropriate premiums we would argue to the current trading multiples for gas and electric utilities (see Exhibit 4) given both a) its higher earnings and dividend growth rate at 4-6% versus peers at ~4%, and b) the growth is delivered primarily through trackers, significantly reducing regulatory risk. Assuming two-thirds/one-thirds split for gas/electric in line with NI Remain Co's business mix, we derive comp multiples of 15.0x and 8.0x for P/E and EV/EBITDA, respectively. As such, our EBITDA derived SOTP for the utility component implies premiums of 19% and 18% for group comparable P/E and EV/EBITDA metrics, respectively.

Exhibit 3: NI Remain Co Comp Sheet

	2016E	Valuation Multiple		Notes:
NI Remain Co				
EBITDA by Segment				
Gas Distribution	$824	10.0x	$8,244	- 1x turn higher given $700mm 7-yr pipe modernization prgm
Electric	$597	9.0x	$5,371	- 1x turn higher given $3-4B L-T t&d modernization prgm (see tab)
Other	$48	5.0x	$241	
Enterprise Value of NI Remain Co	**$1,469**	**9.4x**	**$13,856**	
Net NI Debt (YE 2015)			($7,443)	Consolidated, net of cash
Pension/OPEB Underfunded Obligation	($448)	25%	($112)	- est underfunded at YE14; risk adjusted at 25% (rest assumes recovery in rates)
Net Equity Value			$6,301	
Diluted Shares Outstanding			317	
$/sh			$19.85	
Net NI Remain Co Price Target			**$19.85**	

Source: BMO Capital Markets estimates, company data.

Exhibit 4: NI Remain Co Comp Sheet

Company	Ticker	P/E 2014E	P/E 2015E	P/E 2016E	TEV/EBITDA 2014E	TEV/EBITDA 2015E	TEV/EBITDA 2016E
Industry Comps							
U.S. Gas Utilities							
Average		**16.6x**	**16.3x**	**15.2x**	**10.1x**	**9.8x**	**9.1x**
U.S. Regulated Electric Utilities							
Average		**15.9x**	**15.3x**	**14.6x**	**8.8x**	**8.3x**	**7.9x**

Source: BMO Capital Markets estimates, company data. Priced as of 9/30/14.

Exhibit 5: NiSource Valuation

Sum-of-the-Parts Valuation Analysis

	2018E	2016 Valuation Multiple		Notes:
COLP				
EV/EBITDA				
EBITDA	$1,119	14.5x	$16,226	
Enterprise Value of COLP			$16,226	
Net COLP Debt (YE17)			($5,466)	
Net publicly owned portion of MLP			($1,515)	
Net Equity Value			$9,245	
Diluted Shares Outstanding			317	
$/sh			$29.16	
Discount to 2016			$25.00	
P/DCF				
DCF	$1.24	18.3x	$22.67	
Discount to 2016			$19.43	
Average COLP Price Target			**$22.21**	

	2016E	Valuation Multiple		Notes:
NI Remain Co				
EBITDA by Segment				
Gas Distribution	$824	10.0x	$8,244	- 1x turn higher given $700mm 7-yr pipe modernization prgm
Electric	$597	9.0x	$5,371	- 1x turn higher given $3-4B L-T t&d modernization prgm (see tab)
Other	$48	5.0x	$241	
Enterprise Value of NI Remain Co	**$1,469**	**9.4x**	**$13,856**	
Net NI Debt (YE 2015)			($7,443)	Consolidated, net of cash
Pension/OPEB Underfunded Obligation	($448)	25%	($112)	- est underfunded at YE14; risk adjusted at 25% (rest assumes recovery in rates)
Net Equity Value			$6,301	
Diluted Shares Outstanding			317	
$/sh			$19.85	
Net NI Remain Co Price Target			**$19.85**	

Target Price (rounded):	**$42.00**
Valuation Summary:	
Current Price	$40.98
Current Dividend	$1.04
Appreciation Potential	2.5%
Current Yield	2.5%
Total Return Potential	5.0%

Source: BMO Capital Markets estimates, company data.

Exhibit 6: NiSource Income Statement

NiSource Inc.

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E
Operating Revenues:														
Gas Distribution	$3,303	$3,096	$2,918	$1,960	$2,226	$1,215	$424	$409	$901	$2,949	$3,555	$3,638	$3,720	$3,803
Pipelines & Storage	1,241	1,261	1,355	1,462	1,643	579	390	297	337	1,603	1,417	1,483	1,534	1,903
Electric	1,213	1,375	1,428	1,508	1,563	450	405	425	400	1,679	1,725	1,770	1,815	1,860
Other	542	603	319	161	224	77	117	(29)	(65)	99	(140)	(140)	(140)	(140)
Revenues	6,299	6,335	6,019	5,091	5,657	2,321	1,335	1,102	1,573	6,330	6,558	6,751	6,929	7,426
Operating Expenses:														
Cost of Sales	2,978	2,898	2,556	1,549	1,816	1,061	372	228	478	2,140	2,189	2,202	2,215	2,228
Operation & Maintenance	1,650	1,654	1,723	1,674	1,874	501	533	479	519	2,033	2,078	2,134	2,192	2,251
DD&A	589	596	538	564	577	149	149	153	154	605	640	672	701	780
Loss (gain) on asset sales	16	1	17	(4)	(18)	(16)	(1)	0	0	(16)	0	0	0	0
Taxes and Other	283	287	295	289	301	101	73	60	82	317	311	311	312	313
Total Operating Expenses	5,516	5,436	5,129	4,072	4,550	1,797	1,127	921	1,234	5,078	5,217	5,319	5,419	5,572
Operating Income	783	899	890	1,020	1,108	524	209	181	339	1,253	1,340	1,432	1,510	1,854
Other:														
Equity in Earnings	16	15	15	32	36	10	11	11	11	43	55	65	76	86
Other	(6)	4	(61)	(1)	24	5	8	0	0	12	(4)	(4)	(4)	(4)
Total Other Income	10	19	(47)	31	60	14	19	11	11	55	51	61	72	82
Reported EBIT	**$793**	**$918**	**$844**	**$1,051**	**$1,168**	**$538**	**$227**	**$193**	**$350**	**$1,308**	**$1,391**	**$1,494**	**$1,582**	**$1,937**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$1,615**	**$1,745**	**$687**	**$376**	**$346**	**$504**	**$1,913**	**$2,009**	**$2,098**	**$2,169**	**$2,678**
EBIT Composition														
Gas Distribution	328	324	393	403	445	302	60	2	167	531	545	581	617	652
Pipelines & Storage	389	377	360	398	441	159	104	98	125	486	559	648	723	945
Electric	117	233	210	251	266	79	63	92	58	292	314	337	360	382
Corporate & Other	(40)	(16)	(119)	(2)	15	(1)	1	(0)	(0)	(1)	(4)	(4)	(4)	(4)
Total EBIT	**$793**	**$918**	**$844**	**$1,051**	**$1,168**	**$538**	**$227**	**$193**	**$350**	**$1,308**	**$1,414**	**$1,562**	**$1,695**	**$1,975**
Interest Expense	399	392	377	416	415	109	109	116	119	453	495	500	588	611
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	416	415	109	109	116	119	453	495	500	588	611
Minority Interests (NI MLP)	0	0	0	0	0	0	0	0	0	0	(18)	(96)	(108)	(134)
Income Before Taxes	394	526	467	635	753	429	118	76	231	855	900	966	999	1,230
Income Taxes														
Current	(214)	118	(15)	(86)	(26)	14	2	7	20	42	188	203	210	258
Deferred	378	55	178	305	287	149	38	20	61	268	127	135	140	172
Total Income Taxes	165	173	163	219	262	163	40	27	81	310	315	338	350	430
Effective Inc. Tax Rate (%)	42%	33%	35%	34%	35%	38%	33%	35%	35%	36%	35%	35%	35%	35%
Net Income From Continuing Operations	229	353	304	416	491	266	79	50	150	545	585	628	649	799
Discontinued Operations, net	(12)	(0)	(5)	0	6	(0)	(0)	0	0	(1)	0	0	0	0
Change in Accounting	(0)	(58)	0	0	35	0	0	0	0	0	0	0	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$416**	**$532**	**$266**	**$78**	**$50**	**$150**	**$544**	**$585**	**$628**	**$649**	**$799**
Adjustments to Core														
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(17)	(3)	8	1	0	0	9	0	0	0	0
Total Adjustments	(49)	11	(74)	(17)	(3)	8	1	0	0	9	0	0	0	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$433**	**$494**	**$258**	**$78**	**$50**	**$150**	**$536**	**$585**	**$628**	**$649**	**$799**
Shares Outstanding (mm)														
Avg. Diluted Shares Out	276	280	289	300	314	315	316	316	317	316	317	318	318	318
Avg. Basic Shares Out	275	278	280	292	312	314	315	315	316	315	316	317	317	317
Period-end basic Shares Out	276	279	282	311	314	315	315	316	316	316	317	317	317	317
Earnings Per Share (Diluted)														
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$1.39**	**$1.70**	**$0.84**	**$0.25**	**$0.16**	**$0.47**	**$1.72**	**$1.84**	**$1.98**	**$2.04**	**$2.52**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$1.44**	**$1.57**	**$0.82**	**$0.25**	**$0.16**	**$0.47**	**$1.70**	**$1.84**	**$1.98**	**$2.04**	**$2.52**
EPS Growth (core)	-19.4%	21.0%	7.4%	10.0%	9.3%	18.9%	6.9%	-13.7%	0.0%	7.7%	8.7% 8.6%	7.2%	3.4%	23.1%
Dividends														
Cash per share	$0.92	$0.92	$0.92	$0.94	$0.98	$0.25	$0.25	$0.26	$0.26	$1.02	$1.08	$1.16	$1.24	$1.32
Div Growth	0.0%	0.0%	0.0%	2.2%	4.3%	4.2%	4.2%	4.0%	4.0%	4.1%	5.9%	7.4%	6.9%	6.5%
Payout Ratio (%)	116.6%	87.5%	88.7%	67.9%	57.8%					59.2%	58.6%	58.7%	60.6%	52.4%

Source: BMO Capital Markets estimates, company data.

Exhibit 7: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E
Operating Activities														
GAAP Net Income from Cont. Ops	218	292	299	416	532	266	78	50	150	544	585	628	649	799
DD&A	589	596	538	562	577	149	149	153	154	605	640	672	701	780
Deferred income tax benefit	378	200	178	305	287	149	38	20	61	268	127	135	140	172
Deferred Revenues	4	(20)	3	(8)	(7)	2	(0)	0	0	2	0	0	0	0
Amortization of premium on debt	13	10	9	10	9	2	3	0	0	5	0	0	0	0
Less Gain or Loss on assets	(4)	(0)	0	(4)	(18)	(16)	(1)	0	0	(16)	0	0	0	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	4	(4)	(2)	(6)	0	0	(8)	0	0	0	0
Non-cash minority interest	0	0	0	0	0	0	0	0	0	0	18	96	108	134
Other non-cash income items	36	112	139	11	(6)	11	10	0	0	21	(23)	(68)	(113)	0
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$1,295**	**$1,372**	**$561**	**$271**	**$223**	**$365**	**$1,420**	**$1,349**	**$1,463**	**$1,485**	**$1,885**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$4.31**	**$4.37**	**$1.78**	**$0.86**	**$0.70**	**$1.15**	**$4.49**	**$4.25**	**$4.61**	**$4.68**	**$5.94**
Working Capital:														
Accounts and notes receivable	259	(244)	318	(181)	31	(264)	442			177	0	0	0	0
Inventory	129	103	(142)	62	(9)	274	(246)			28	0	0	0	0
Less Change of Price Risk Management Activities	0	0	0	0	0	0	0			0	0	0	0	0
Accounts payable	(192)	38	(155)	57	68	127	(297)			(170)	0	0	0	0
Customer deposit, net	25	(25)	(5)	(44)	(7)	(23)	2			(21)	0	0	0	0
Other assets	83	(206)	(201)	144	21	(276)	110			(166)	0	0	0	0
Other Liabilities	382	(86)	(78)	(68)	(49)	(4)	(24)			(28)	0	0	0	0
Changes in Working Capital	686	(420)	(262)	(30)	55	(167)	(13)	0	0	(180)	0	0	0	0
Discontinued Operations	(255)	(57)	(50)	11	10	(0)	(1)	0	0	(1)	0	0	0	0
Cash Flow From Operations	1,651	720	870	1,276	1,437	394	257	223	365	1,239	1,349	1,463	1,485	1,885
Investing Activities														
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(1,499)	(1,880)	(386)	(467)	(544)	(778)	(2,175)	(2,522)	(2,525)	(2,500)	(1,744)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	26	18	5	1	0	0	6	0	0	0	0
Other	109	(140)	(34)	51	(148)	(27)	(24)	0	0	(51)	0	0	0	0
Cash Used in Investing	(662)	(944)	(1,149)	(1,422)	(2,010)	(408)	(490)	(544)	(778)	(2,220)	(2,522)	(2,525)	(2,500)	(1,744)
Discontinued Operations	8	0	0	(3)	119	0	0	0	0	0	0	0	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(1,425)	(1,891)	(408)	(490)	(544)	(778)	(2,220)	(2,522)	(2,525)	(2,500)	(1,744)
Financing Activities														
Sale of Common Stock	26	14	24	384	44	9	7	12	12	40	24	0	0	0
Sale of Common Units (MLP)	0	0	0	0	0	0	0	0	0	0	375	500	500	500
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	988	1,308	0	0	1,000	0	1,000	0	0	0	0
Sale of L.T. Debt (MLP)	0	0	0	0	0	0	0	0	0	0	750	0	1,350	500
Redemption of Common Stock	(3)	(2)	(3)	(10)	(8)	(10)	(0)	0	0	(10)	0	0	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(332)	(511)	(9)	(4)	(500)	0	(513)	(230)	0	0	0
Redemption of L.T. Debt (MLP)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(582)	(78)	114	289	0	360	762	675	410	475	(500)
Change in Notes Payable, LC, ST Debt (MLP)	0	0	0	0	0	0	0	0	0	0	0	500	(850)	0
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	(15)	(39)	(68)	(104)
Dividends	(253)	(256)	(258)	(273)	(306)	(79)	(79)	(82)	(82)	(321)	(342)	(367)	(393)	(418)
Other	0	0	(62)	0	(3)	0	0	0	0	0	0	0	0	0
Cash From (For) Financing	(1,000)	216	281	175	445	25	213	430	290	958	1,237	1,004	1,014	(22)
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	175	445	25	213	430	290	958	1,237	1,004	1,014	(22)
Change in Cash	($4)	($7)	$2	$25	($9)	$11	($20)	$109	($124)	($23)	$64	($58)	($1)	$120
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$36	$27	$38	$18	$127	$27	$3	$67	$9	$8
Cash & Temp. Inv. End of Yr.	$16	$9	$12	$37	$27	$38	$18	$127	$3	$3	$67	$9	$8	$128

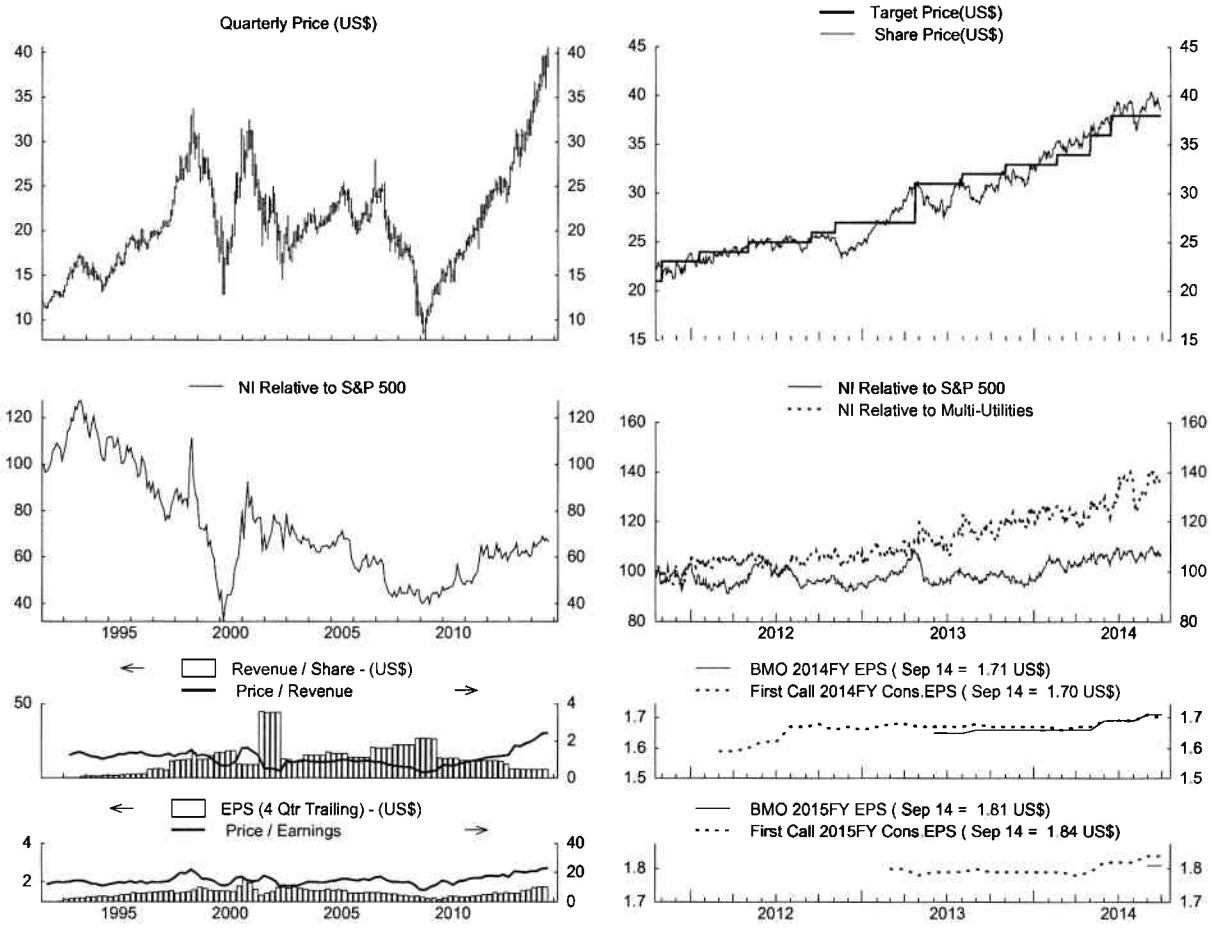
Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E
Assets:														
Cash & Equivalent	16	9	12	36	27	38	18	127	3	3	75	9	8	128
Restricted Cash	175	203	161	47	8	11	10	10	10	10	10	10	10	10
Receivables	848	1,121	951	1,114	1,105	1,471	989	989	989	989	989	989	989	989
Allowance for Uncollectable Acts	(40)	(41)	(31)	(24)	(24)	(35)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Undercovered gas & fuel costs	40	136	21	45	46	114	76	76	76	76	76	76	76	76
Inventories	385	428	566	496	500	226	469	469	469	469	469	469	469	469
ST Assets Price Risk Management	173	160	137	92	23	14	13	13	13	13	13	13	13	13
Regulatory Assets	236	152	170	163	143	159	188	188	188	188	188	188	188	188
Other Current Assets	387	283	262	384	331	231	321	321	321	321	321	321	321	321
Total Current Assets	2,224	2,449	2,246	2,352	2,159	2,230	2,055	2,164	2,040	2,040	2,111	2,045	2,044	2,164
Plant & Equipment (Gross)	19,038	19,590	20,470	21,902	23,622	24,016	24,533	25,077	25,855	25,855	28,377	30,903	33,403	35,147
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,986)	(9,257)	(9,359)	(9,444)	(9,597)	(9,751)	(9,751)	(10,391)	(11,063)	(11,764)	(12,544)
Plant & Equipment, Net	10,684	11,097	11,800	12,916	14,365	14,658	15,089	15,480	16,104	16,104	17,986	19,839	21,639	22,603
Investments	295	349	356	438	578	610	639	639	639	639	639	639	639	639
LT Assets Price Risk Management	238	240	189	56	1	0	0	0	0	0	0	0	0	0
Regulatory Assets	1,644	1,650	1,978	2,024	1,522	1,495	1,454	1,454	1,454	1,454	1,454	1,454	1,454	1,454
Goodwill	3,677	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Intangible Assets	320	309	298	287	276	273	270	270	270	270	270	270	270	270
Other Long Term Assets (& flywheel)	53	168	162	94	87	85	85	85	85	85	90	69	74	(60)
Total Assets	19,134	19,939	20,708	21,845	22,654	23,017	23,258	23,758	24,259	24,259	26,216	27,983	29,786	30,736
Liabilities & Equity:														
Short Term Debt	800	1,417	1,687	1,284	1,240	1,343	1,631	1,631	1,991	1,991	2,686	3,576	3,201	2,701
Accounts Payables	502	582	435	539	805	793	542	542	542	542	542	542	542	542
ST Liabilities Price Risk Management	190	174	168	95	1	0	0	0	0	0	0	0	0	0
Regulatory Liabilities	44	93	112	172	60	79	89	89	89	89	89	89	89	89
Other	1,575	1,384	1,245	1,212	1,071	1,126	1,170	1,170	1,170	1,170	1,170	1,170	1,170	1,170
Total Current Liab	3,111	3,649	3,646	3,302	3,178	3,341	3,431	3,431	3,791	3,791	4,486	5,376	5,001	4,501
Long Term Debt	5,986	5,936	6,267	6,819	7,593	7,639	7,641	8,141	8,141	8,141	8,661	8,661	10,011	10,511
LT Liabilities Price Risk Management	170	182	139	20	0	0	0	0	0	0	0	0	0	0
Accumulated Deferred Taxes	2,018	2,243	2,571	2,953	3,278	3,412	3,491	3,511	3,572	3,572	3,699	3,834	3,974	4,147
Regulatory Liabilities	1,559	1,596	1,664	1,593	1,670	1,678	1,674	1,674	1,674	1,674	1,674	1,674	1,674	1,674
Other Liabilities	1,572	1,409	1,424	1,603	1,048	1,026	993	993	993	993	993	993	993	993
Total Liabilities	14,418	15,016	15,711	16,290	16,767	17,095	17,230	17,750	18,170	18,170	19,493	20,538	21,653	21,825
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,554	5,887	6,012	6,028	6,008	6,088	6,088	6,723	7,445	8,134	8,911
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	21,845	22,653	23,107	23,258	23,758	24,259	24,259	26,216	27,983	29,786	30,736

Source: BMO Capital Markets estimates, company data.

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
2009	1.06	14.9	7.3	0.92	11.8	5.8	87	17.6	0.9	0.4	6
2010	1.22	14.7	11.6	0.92	6.5	5.1	75	17.7	1.0	0.8	7
2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.7	1.4	0.9	8
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	17.9	1.5	1.2	8
2013	1.57	21.3	15.3	1.00	4.2	3.0	64	18.8	1.8	1.3	9
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.72	23.1		1.04	2.6		60	18.2	2.2		9
Growth(%):											
5 Year:	8.8			2.5				1.1			
10 Year:	1.2			1.2				0.8			
20 Year:	1.8			1.9				4.0			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q2/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (September 26, 2014): $38.58
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology: Sum of the Parts
Risks: 1) regulatory risk, 2) weather and 3) customer conservation

Distribution of Ratings (June 30, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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Flash

BMO Capital Markets

NiSource

(NI-NYSE)

Stock Rating: **Market Perform**
Stock Price: **US$38.58**
Target Price: **US$38.00**

September 29, 2014
North American Pipelines

Carl Kirst, CFA **713-546-9756**
BMO Capital Markets Corp.
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan, CFA
(713) 546-9741 / (713) 546-9707
BMO Capital Markets Corp.
danilo.juvane@bmo.com / leah.jordan@bmo.com

Restructuring Wave Continues: I'll See Your MLP, and Raise You A Spin-Off

In front of its biannual analyst day, NiSource announced both an expected and an unexpected move. The expected move is the formal announcement creating a pipeline MLP (we expect the S1 to be filed before tomorrow's presentations kick off), an event which has been well telegraphed over the last 12 months. Not expected was the company's move to separate in a tax-free spin the entirety of its pipeline and midstream business, Columbia Pipeline Group (CPG), by mid-2015. In effect, NI would split into two companies: a pure 100% regulated gas/electric combination utility (NiSource), and a new pipeline corporate parent, CPG (expected ticker COLP). This latter entity would in turn own and operate the newly created MLP to both optimize valuation and fund CPG's growth initiatives; over time we'd expect it to become an asset-light corporate wrap around the MLP, making it analogous to the parent-subsidiary structures at Williams (WMB, $56.51, Outperform), ONEOK (OKE, $66.17, Market Perform), and Spectra (SE, $39.18, Outperform). While details remain scarce at this point—we're hoping to glean more from both the S1 and the analyst day—our initial reaction is incrementally positive, and we expect the market to provide a warm reception to the news. Even as we see the stand-alone utility as likely trading at a slight premium to other pure utilities given its arguably above-average 4%-6% EPS and dividend growth outlook, we think investors will more welcome a new pure-play, well-positioned high-quality (low-to-no commodity exposure) midstream player whose dividend and MLP distribution CAGR are both likely to reside in the double-digit/mid-teen range. While we have already fully baked a hypothetical MLP into our NI financial forecast and valuation, our SOTP price target does not fully mark CPG to WMB, OKE and SE's trading multiples, and as such we see potential upside. Our $38 target effectively values the utility piece at $24/sh, and the pipeline/MLP combination at $14/sh. All else equal, marking the latter to its midstream comps could generate an incremental $2/sh of value. We'll look to do a greater refresh and refinement post the analyst day.

Our View:

- Key assumptions: we estimate 1) that CPG will be recapitalized, and loaded with ~$3B of debt (~5x trailing EBITDA, maintaining solid investment grade given its low-risk cash flow), 2) we incorporate $3B of NI's indicated $12-$15B in growth prospects through 2025—the 5-yr $1.5B modernization and $1.5B Rayne/Leach pipes; WB Express remains nascent stage and we don't yet include—which generates over $1B in CPG EBITDA come 2018, and 3) hypothetical distributable cash flow at CPG, net of ongoing MLP drops, at $0.87/sh come 2018 (assuming spin at NI share count).
- CPG Value. Its three closest comps are trading at average 2016 multiples of 14.2x EBITDA and 20.6x distributable cash flow. Applied to our 2018 forecast would imply future CPG value of ~$22/sh and $18/sh, respectively, which discounted back to present would imply an avg value of $16/sh, upside to the $14 incorporated in our target today.

Please refer to pages 2 to 5 for Important Disclosures, including the Analyst's Certification.

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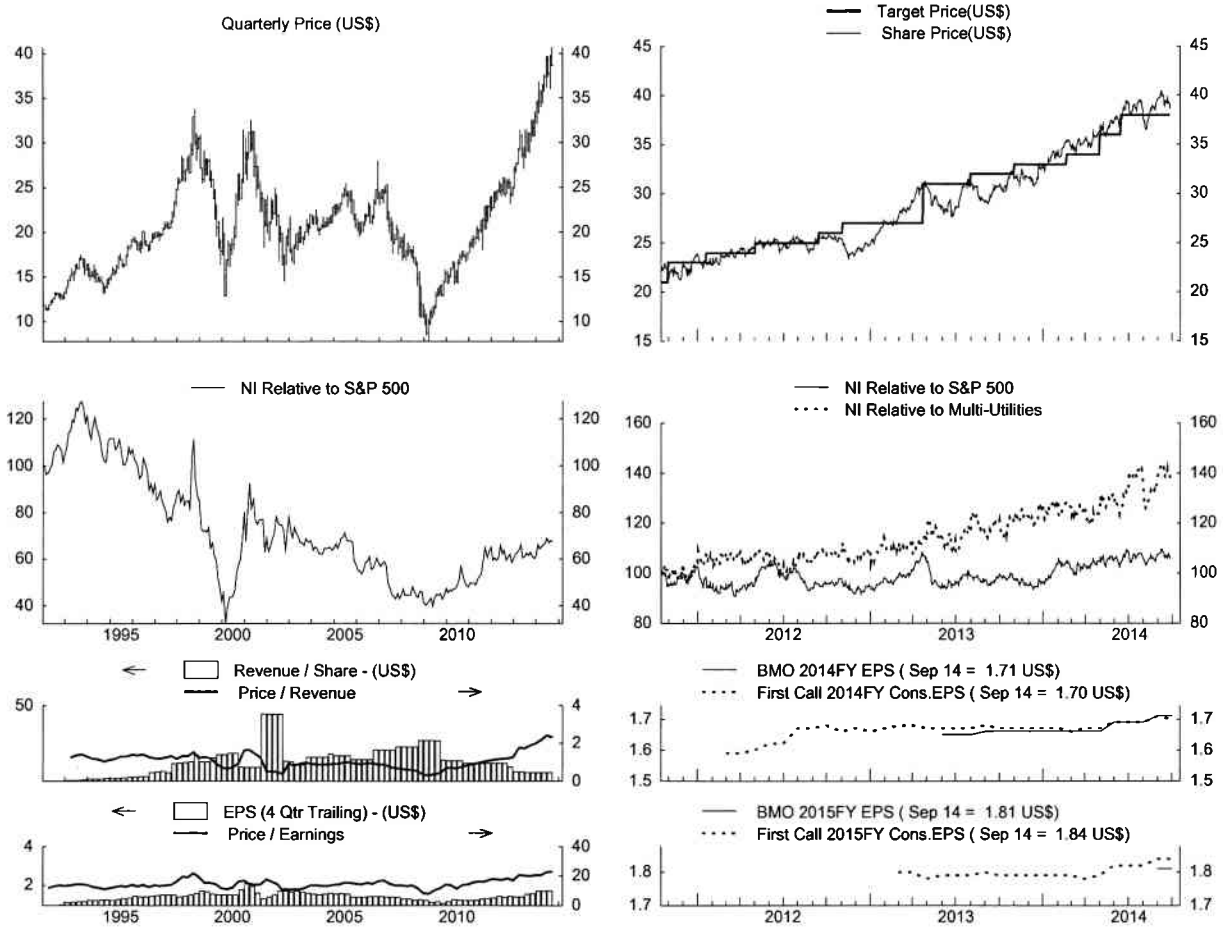
BMO Capital Markets

NiSource Inc. (NI)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.00	13.5	11.3	0.62	5.5	4.6	62	7.9	1.7	1.4	
1993	1.16	15.0	10.7	0.72	5.8	4.1	62	8.3	2.1	1.5	14
1994	1.24	13.3	10.5	0.78	6.0	4.7	63	8.7	1.9	1.5	15
1995	1.36	14.2	10.4	0.84	5.9	4.4	62	9.0	2.1	1.6	15
1996	1.43	14.1	12.3	0.90	5.1	4.5	63	9.2	2.2	1.9	16
1997	1.53	16.3	12.4	0.96	5.1	3.8	63	10.2	2.5	1.9	16
1998	1.59	21.2	14.4	1.02	4.5	3.0	64	9.8	3.5	2.3	16
1999	1.52	20.4	10.8	1.08	6.6	3.5	71	10.9	2.8	1.5	15
2000	1.89	16.7	6.7	1.08	8.5	3.4	57	16.6	1.9	0.8	14
2001	1.30	25.0	14.0	1.16	6.4	3.6	89	16.8	1.9	1.1	8
2002	2.00	12.5	7.3	1.16	8.0	4.6	58	20.1	1.2	0.7	11
2003	1.60	13.7	10.2	0.92	5.6	4.2	58	16.8	1.3	1.0	9
2004	1.61	14.2	12.2	0.92	4.7	4.0	57	17.7	1.3	1.1	9
2005	1.42	18.0	14.4	0.92	4.5	3.6	65	18.1	1.4	1.1	8
2006	1.43	19.6	13.6	0.92	4.7	3.3	64	18.3	1.5	1.1	8
2007	1.38	20.3	12.7	0.92	5.3	3.3	67	18.5	1.5	0.9	7
2008	1.27	15.6	8.1	0.92	8.9	4.6	72	17.2	1.1	0.6	7
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2011	1.33	18.0	12.7	0.92	5.5	3.8	69	17.7	1.4	0.9	8
2012	1.44	18.2	15.0	0.96	4.4	3.7	67	17.9	1.5	1.2	8
2013	1.57	21.3	15.3	1.00	4.2	3.0	64	18.8	1.8	1.3	9
Range*:		25.0	6.7		11.8	3.0			3.5	0.4	
Current*	1.72	23.1		1.04	2.6		60	18.2	2.2		9
Growth(%):											
5 Year:	8.8			2.5				1.1			
10 Year:	1.2			1.2				0.8			
20 Year:	1.8			1.9				4.0			

NI - Rating as of 26-Jun-08 = Mkt

* Current EPS is the 4 Quarter Trailing to Q2/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (September 25, 2014): $38.65
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

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Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	(from Neutral) **OUTPERFORM***
Price (29 Sep 14, US$)	40.84
Target price (US$)	(from 41.00) 50.00[1]
52-week price range	40.84 - 30.16
Market cap. (US$ m)	12,877.59
Enterprise value (US$ m)	22,548.82

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

Research Analysts

John Edwards, CFA
713 890 1594
john.edwards@credit-suisse.com

Abhiram Rajendran
212 538 9038
abhiram.rajendran@credit-suisse.com

Bhavesh Lodaya
212 325 2337
bhavesh.lodaya@credit-suisse.com

UPGRADE RATING

Raising TP by $9, to $50 on Separation/MLP Formation; Raise to O/P

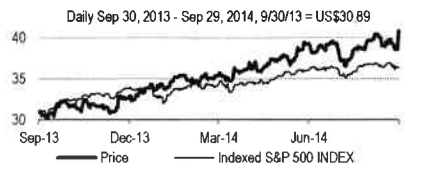
Our take: With NI only taking its EPS growth trajectory down by 100bp to 4-6% after the separation of Columbia Pipeline Group which has ~$700mm in 2015E EBITDA, it's clear NI's growth prospects are rising and difficult to see downside to the outlook. CPG is expected to invest $12-$15b over the next 10 years which should support double digit EBITDA growth.

Risks to our call: Putting a value on NI post separation given the financial engineering – the IDRs, unit count, and capitalization information is very limited though our preliminary assumptions suggest a higher valuation is supportable (see risks section for more details).

NI to Separate CPG, Form MLP to IPO in 2015: NI announced plans to separate into two publicly traded companies by spinning off its Columbia Pipeline Group into a separate MLP. The new MLP (CPPL) will have its own GP and IDRs owned by Columbia Pipeline Group (COLP), and will initially own 14.6% of CPG OpCo's (asset holding company).

Raising TP by $9 to $50, Upgrade to Outperform: We are valuing NI shares based on sum of the parts for now. We note that with $1.2B+ being invested at Columbia Op Co, mid-teens growth is sustainable for the next 5 to 10 years. Thus we are raising the multiple on 2015E EBITDA to the 14-15x range giving us a TP on all NI of $50. Together with the NTM dividend, gives a total return potential of over 25%, supportive of a relative O/P. We have given no credit for NI EPS growth falling by only 100bp despite the spin next year which suggests accelerating growth at the utility.

Share price performance



On 09/29/14 the S&P 500 INDEX closed at 1977.8

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.69	0.23	0.18	0.47
2014E	0.82	0.25	0.15	0.52
2015E	0.93	0.27	0.14	0.60

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	1.57	1.76	1.94	2.12
Prev. EPS (US$)	—	—	—	—
P/E (x)	26.1	23.2	21.0	19.3
P/E rel. (%)	141.6	135.9	138.2	140.7
Revenue (US$ m)	5,657.3	6,439.2	6,898.1	7,565.2
EBITDA (US$ m)	1,720.7	1,905.8	2,155.3	2,388.4
OCFPS (US$)	4.58	4.61	5.07	4.21
P/OCF (x)	7.2	8.9	8.0	9.7
EV/EBITDA (current)	12.9	11.6	10.3	9.3
Net debt (US$ m)	8,807	9,671	10,213	10,818
ROIC (%)	5.07	5.38	5.76	5.91

Number of shares (m)	315.32	IC (current, US$ m)	14,693.80
BV/share (Next Qtr., US$)	19.3	EV/IC (x)	1.4
Net debt (Next Qtr., US$ m)	9,686.3	Dividend (current, US$)	1.0
Net debt/tot eq (Next Qtr., %)	161.4	Dividend yield (%)	0.64

Source: Company data, Credit Suisse estimates.

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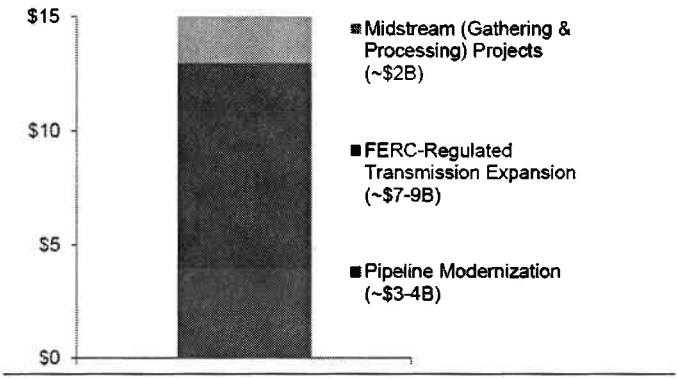
MLP and Separation specifics

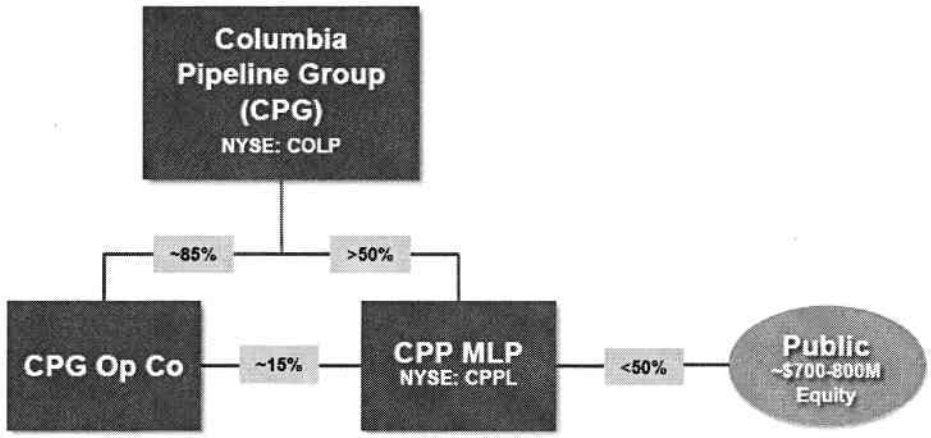
The Columbia Pipeline Group (CPG) will be separating from NI and forming a standalone MLP (NYSE: CPPL) which will operate under a general partner owned by Columbia Pipeline Group (NYSE: COLP). The assets will be housed in CPG OpCo LP, of which CPPL will initially own 14.6%. The MLP will be the primary funding vehicle for $12-$15B in organic projects highlighted in Exhibit 1. CLLP will be a pure-play natural gas pipeline, midstream and storage business with an investment grade balance sheet and visible double-digit distribution growth. NI management indicated that both NI and CPG will benefit from the split as it will allow both to focus on their respective businesses, i.e., regulated utility and midstream. We agree. The MLP is expected to IPO in 1Q2015, with CPG's separation from NI to occur in mid-2015 following establishment of the MLP. CPG will pay a one-time cash distribution to NI just prior to separation which will be funded by ~$3B in debt, and NI shareholders will receive a pro-rata dividend of CPG shares. NI's dividend would be maintained in total following separation.

Exhibit 1: $12-$15B of capital projects identified by CPG



Source: Company presentation 9/29/14

Exhibit 2: NI will own the MLP (CPPL) through its ownership of Columbia Energy Group



Source: Company presentation 9/29/14

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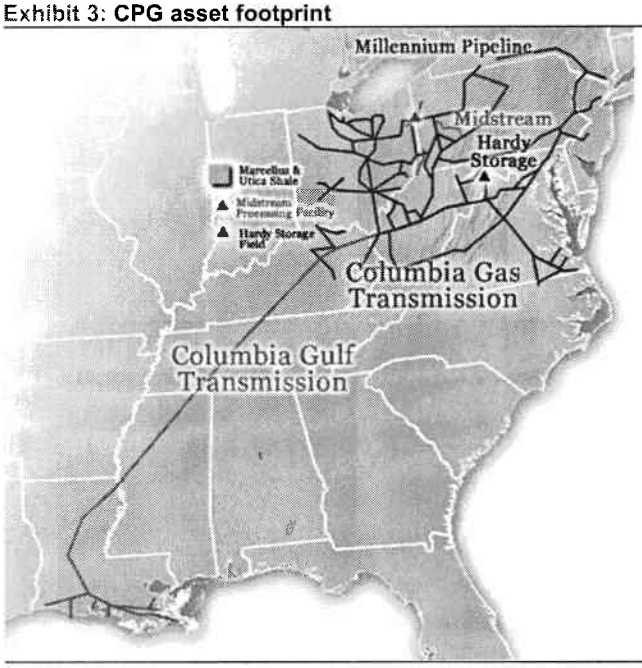
Exhibit 3: **CPG asset footprint**



Source: Company S-1 Filing

The MLP's initial assets will consist of a 14.6% interest in Columbia OpCo, whose assets include:

Columbia Gas Transmission, LLC: 100% owned by Columbia OpCo, includes 11,200 miles of natural gas transmission pipeline, 98 compressor stations and 3,400 underground storage wells with 290 MMDth of working gas capacity and operations located in Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia, and West Virginia.

Columbia Gulf Transmission Company, LLC: 100% owned by Columbia OpCo, includes 3,400 miles of natural gas transmission pipeline and 11 compressor stations with ~470,200 horsepower of installed capacity. Columbia Gulf is interconnected to major natural gas pipelines in the Gulf Coast and as a response to increased Utica/Marcellus production is currently undergoing bi-directional expansion.

Millennium Pipeline Joint Venture: 47.5% owned by Columbia OpCo, includes 253 miles of natural gas transmission pipeline and three compressor stations. Millennium Pipeline transports an average of 1MMDth/d of natural gas from the Marcellus to southern New York.

Hardy Storage Joint Venture: 49% owned by Columbia OpCo, includes 12 MMDth of underground storage capacity.

NiSource Midstream Services, LLC: 100% owned by Columbia OpCo, natural gas gathering, treating, conditioning, processing and liquids handling in the Appalachian Basin. Includes 104 miles of natural gas gathering pipeline and one compressor station with 6,800 horsepower of installed capacity.

Pennant Midstream, LLC: 50% owned by Columbia OpCo, includes 43 miles of wet natural gas gathering pipeline infrastructure, a gas processing facility and a NGL pipeline.

NiSource Energy Ventures, LLC: 100% owned by Columbia OpCo, manages Columbia OpCo's mineral rights positions in Marcellus and Utica. Production rights to over 450,000 acres and subleased production rights to four storage fields. NEVCO owns 100% of ownership interest in CNS Microwave, INC, which provides ancillary communication services.

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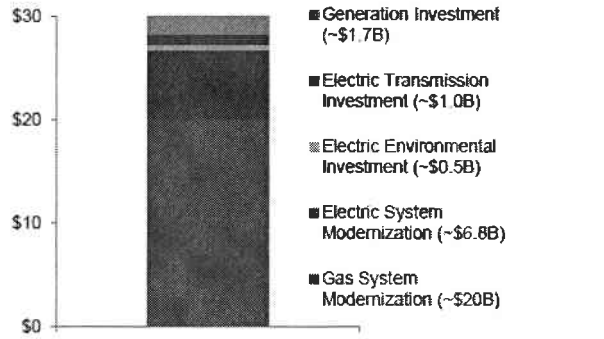
NI to 4-6% EPS Growth Post-Split

Perhaps the most important news for NI shareholders is the fact that NI plans to grow earnings and dividends by 4% - 6% annually after separating CPG, which is roughly 100bp below previous guidance. This growth is expected to be driven by NI's backlog of capital investment projects totaling ~30B over 20+ years and an average rate base growth of 8% per year. NI will also likely benefit from increased efficiencies by focusing solely on its regulated gas and electric utilities business. Lastly, NI now has the ability to use the MLP as a vehicle to obtain financing needed for its robust capital program, which it can obtain by dropping down incremental ownership interests of CPG OpCo to the MLP.

Exhibit 4: NI Capital Investment Backlog ~$30B



Source: Company presentation 9/29/14

Valuation

The most challenging aspect of evaluating the separation is assigning the proper valuation. NI shareholders will receive a special dividend of COLP following the separation which is expected mid-2015. COLP is expected to own 85.4% of CPG Op, the IDR's and over 50% of the MLP. The formation of the MLP is expected to be completed in 1Q15. Management says that the $1.2B /year in expected cap ex will be financed at the MLP yet housed at CPG Op Co (which seems contradictory to us). Other Mid-stream MLPs have EV/EBITDA multiples running 12-20x depending on the distribution growth rates. Assuming $1.2B of capital investment at CPG overall and about $700mm in 2015 EBITDA would suggest that teens type of EBITDA growth is in the future and suggests a multiple uplift in the midstream assets to the 14-15x range and giving us a valuation range of $48-$51 over the next 12 months, which we average to $50. Together with dividend would take our total return outlook to ~25% and would warrant an Outperform relative to our universe.

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Exhibit 5: Multiple uplift on Midstream Suggests Uplift in Valuation to the $50 range

	2015 EBIT	D&A	2015 EBITDA / NI	Metric	Multiple Low	Base	High	Enterprise Value / Equity Value Low	Base	High
Electric Services	302.6	253.8	202.2	P/E	18.0x	19.5x	21.0x	3,638.8	3,942.1	4,245.3
Natural Gas Utilities	641.0	241.0	882.0	EV/EBITDA	10.0x	10.0x	10.0x	8,820.1	8,820.1	8,820.1
TG&S (88.5% of business)	552.8	141.3	694.1	EV/EBITDA	14.0x	15.0x	16.0x	9,717.4	10,411.5	11,105.6
TG&S (11.5% dropped into MLP)	0.0	0.0	0.0	EV/EBITDA	14.0x	15.0x	16.0x	0.0	0.0	0.0
			694.1							
Total Enterprise / Equity Value								**22,176.4**	**23,173.7**	**24,171.1**
Cash & Equivalents								27.8	27.8	27.8
Short-term Debt								530.0	530.0	530.0
Long-term Debt								7,640.6	7,640.6	7,640.6
Less Net Debt								8,142.8	8,142.8	8,142.8
Less Net Debt attributable to NIPSCO (~$1.1 billion)								7,042.8	7,042.8	7,042.8
Total Equity Value								**15,133.6**	**16,130.9**	**17,128.3**
Shares Outstanding								316	316	316
Per Share								**$47.88**	**$51.03**	**$54.19**
Current Share Price (Sep 29, 2014)								$40.84	$40.84	$40.84
Return								20%	28%	35%
Dividend per share (Est.)								$1.09	$1.09	$1.09
Dividend Yield								*3%*	*3%*	*3%*
Total Return								*23%*	*30%*	*38%*
Implied Price Target								$48.00	$51.00	$54.00

Source: Company data, Credit Suisse estimates

Risks to our Call

The main risk to our call is the valuation. There are few disputes with fundamentals in terms of being very strong. The regulatory environment is benign and the gas production in the Marcellus and Utica is expected to roughly double between 2014 and 2020 from about 12-13bcf/d to 24-26 bcf/d on average. So the risk is in the valuation – MLPs that support this kind of projected EBITDA and what we believe will be mid-teens distribution growth trade at high EBITDA multiples but we have not been able to completely verify our calculations from the somewhat limited disclosures in the S-1. But our preliminary calculation suggests more upside than the uplift in the EV/EBITA multiple so we will keep it here for now. The risk is in our being too aggressive pending modeling verification of our preliminary calculation when we try to back into the cash flows from the restructuring associated with the MLP formation and separation.

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Companies Mentioned *(Price as of 29-Sep-2014)*

NiSource Inc. (NI.N, $40.84, OUTPERFORM, TP $50.0)

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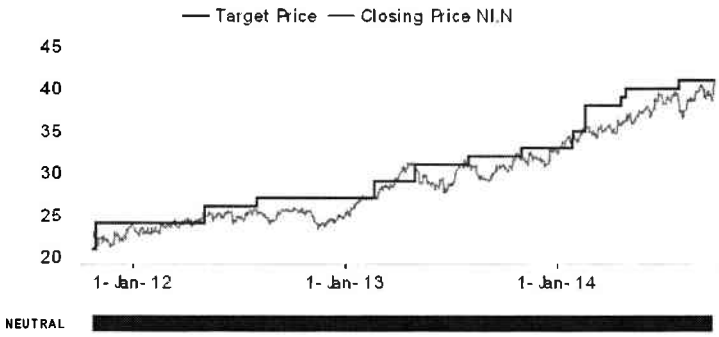
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
24-Oct-11	22.92	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	
20-Feb-13	27.04	29.00	
01-May-13	30.61	31.00	
01-Aug-13	31.11	32.00	
01-Nov-13	31.72	33.00	
28-Jan-14	34.18	35.00	
19-Feb-14	35.40	38.00	
21-Apr-14	35.71	39.00	
30-Apr-14	36.32	40.00	
31-Jul-14	37.68	41.00	



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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: Assuming $1.2B of capital investment at CPG overall and about $700mm in 2015 EBITDA would suggest that teens type of EBITDA growth is in the future and suggests a multiple uplift in the midstream assets to the 14-15x range and giving us a valuation range of $48-$51 over the next 12 months, which we average to $50. Together with dividend would take our total return outlook to ~25% and would warrant an Outperform relative to our universe.

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rghuler@nisource.com Randy Huler 09/30/14 12:27:06 PM Nisource Corporate Services Co.

HILLIARD LYONS

Electric Utilities
Analyst: David Burks
502.588.8648 / DBurks@hilliard.com
Institutional Sales Desk: Tim Rexing
502.585.8509 / TRexing@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
October 1, 2014

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company announces plan to separate into two publicly traded companies and create an MLP

Key Metrics

NI - NYSE (Price as of 9/30/14)		$40.98
Price Target		NA
52-Week Range		$41.70 - $30.09
Shares Outstanding (mm)		315.0
Market Cap. ($mm)		$12,908
3-Mo. Average Daily Volume		1,949,000
Institutional Ownership		81.0%
Debt/Total Capital (6/30)		60.6%
ROE (ttm)		9.1%
Book Value/Share		$18.42
Price/Book Value		2.22x
Indicated Dividend / Yield	$1.04	2.5%
Dividend Cycle	Feb., May, Aug., Nov.	

EPS FY 12/31

	2013	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.58		$1.70		$1.82
P/E	25.9x		24.1x		22.5x
Payout	63%		61%		57%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2013	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$5,659		$6,300	--	$6,750

Company Description: *Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.*

Investment Highlights

- **NiSource announced on September 28th that it plans to separate into two companies: a fully regulated natural gas and electric utilities company (NiSource), and a pure-play natural gas pipeline midstream and storage company (Columbia Pipeline Group - CPG).** The separation is expected to occur in mid-2015. In addition, the company announced that it intends to file a registration statement for an initial public offering of common units representing limited partner interests in a new master limited partnership to be named Columbia Pipeline Partners LP. The MLP's initial assets are expected to consist of a 14.6% interest in Columbia Pipeline Group which represents nearly all of NI's natural gas transmission, midstream and storage assets.
- **Separation plan terms.** Under the separation plan, NiSource shareholders would retain their current shares of NiSource stock and receive a pro-rata dividend of shares of CPG stock in a transaction that is expected to be tax-free to NiSource and its shareholders. The actual number of shares that would be distributed to NiSource shareholders will be determined prior to the closing.
- **NiSource will remain a large natural gas and electric utility.** It will serve more than 3.4 million natural gas customers in seven states and 450,000 NIPSCO electric customers in northern Indiana. NiSource expects to be able to grow its earnings and dividends by 4% to 6% annually. This potential growth is supported by multiple infrastructure opportunities in the coming years.
- **Columbia Pipeline Group appears to have significant growth potential.** CPG expects to have projects that represent potential capital investment opportunities of $12-$15 billion over the next 10 years. This could drive both future earnings and dividend growth.
- **We would maintain positions in NiSource.** In our view, the company's proposed strategy has the potential to enhance long-term shareholder value.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Additional information is available upon request.

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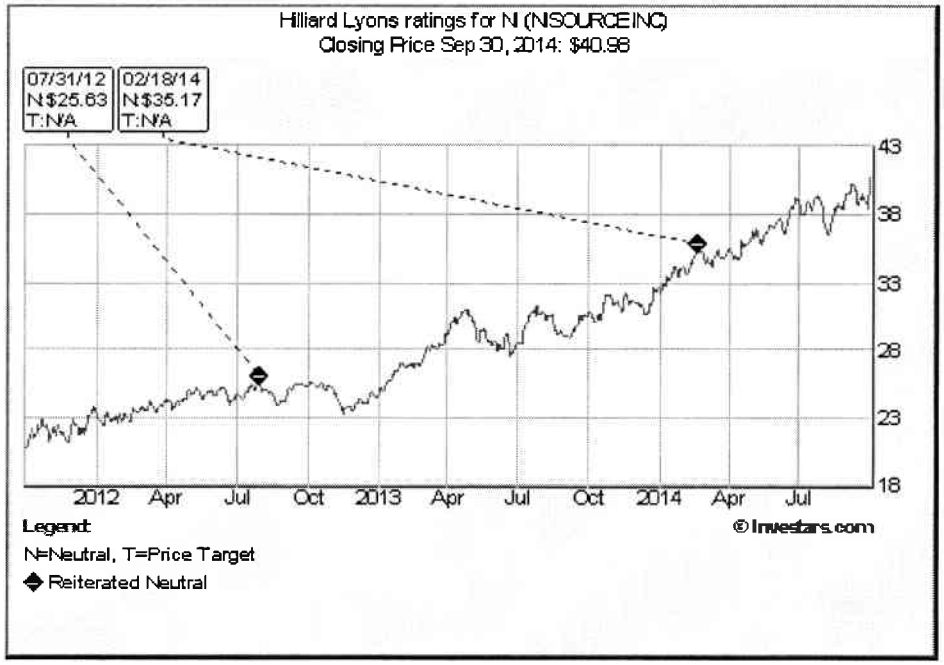
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	49	39%	10%	90%
Hold/Neutral	71	57%	3%	97%
Sell	5	4%	0%	100%

As of 3 September 2014

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

September 28, 2014

Jefferies

NiSource Inc. (NI)

NiSource to Separate, Form MLP

HOLD
Price target $40.00
Price $38.58

EQUITY RESEARCH AMERICAS

Key Takeaway

This afternoon, NI announced that its Board of Directors had approved a plan to split its utility and natural gas midstream operations into two distinct, publicly-traded companies; this is to be achieved via a tax-free spin of Columbia Pipeline Group in mid-2015. In a separate announcement, NI unveiled plans to file an S-1 Monday morning for an early 2015 IPO of a midstream MLP. We await Monday's Investor Day for greater detail on these strategic initiatives.

Tax-free spin of CPG to result in two investment grade energy companies. NI announced Sunday that its Board had approved plans to separate the company's utility and midstream operations into two publicly-traded companies via a tax-free spin of the midstream businesses in mid-2015. The transaction will create the Columbia Pipeline Group Inc., a natural gas focused midstream company, and leave NiSource as a fully-regulated natural gas & electric distribution company. NI shareholders are expected to receive a pro-rate dividend of CPG stock, with the exchange ratio to be determined prior to deal closing. NI's announcement comes amid a broader sector trend toward dis-aggregation of integrated energy businesses and we highlight the tax-free spin of OKE's gas distribution businesses into ONE Gas, Inc. (OGS) last February as the most recent comparable example. Mgmt stated an expectation for both companies to carry investment grade credit ratings and noted that the separation will not impact operational commitments or employment levels.

CPG to form MLP. In a separate press release this afternoon, NI announced plans to file an S-1 with the SEC on Monday for an early 2015 IPO of a midstream Master Limited Partnership (MLP). The MLP, to be called Columbia Pipeline Partners LP, will initially own an approximate 14.6% interest in a to-be-formed CPG operating partnership, which will own substantially all of NI's transmission & storage assets. These initial MLP details closely resemble the expectations outlined in our Investor Day Preview last week, in which we estimated ~15% of CPG would initially be dropped into a NI-MLP in 1H15.

Growth and investment updates. Mgmt expects the utility companies (NI pro-forma) to produce annual earnings & dividend growth of 4-6% and noted that CPG's future earnings & dividends will be driven by its net investment growth, though it refrained from citing a numeric range. Mgmt also noted $12-$15B in CPG investment opportunities over the next 10 years, a notable increase from the previous $8-$10B range. With large-scale projects such as Rayne/Leach XPress, WB XPress, and Cameron Access already in the works, and annual FERC-tracked modernization investments running at $300mm, we look forward to tomorrow's Investor Day for additional color on the expanded opportunity set. We note that these CPG investments provide future drop-down opportunities to Columbia Pipeline Partners, LP.

Shares fairly reflect break-up value. While we are encouraged by the news as separately-focused companies tend to more efficiently allocate capital and better capture dedicated investor bases, we see the shares as already reflecting full Sum-of-the-Parts (SOP) value. Our $40 price target is derived via a combination of SOP, DCF, and target yield approaches; however, our SOP analysis itself, which includes an MLP component for CPG, yields an approximate $40 outcome, just ~4% above NI's Friday closing price. Please see our Investor Day Preview for a full description of our various valuation methodologies.

Anticipate greater detail at tomorrow's Investor Day. We await further detail on today's strategic announcements at tomorrow's Investor Day. In particular, we anticipate mgmt will review the strategy, time-line, and valuation considerations of its plans in prepared commentary and Q&A.

Investor Day Details: Sept. 29, 2014 @ 8:30am ET; Millennium Broadway Hotel, 145 W 44th Street NY, NY. Live webcast available at www.nisource.com.

Christopher Sighinolfi, CFA *
Equity Analyst
(212) 707-6420 csighino@jefferies.com
Christopher Tillett *
Equity Associate
(212) 284-4697 ctillett@jefferies.com
Corey Goldman *
Equity Associate
(212) 284-3411 cgoldma1@jefferies.com
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NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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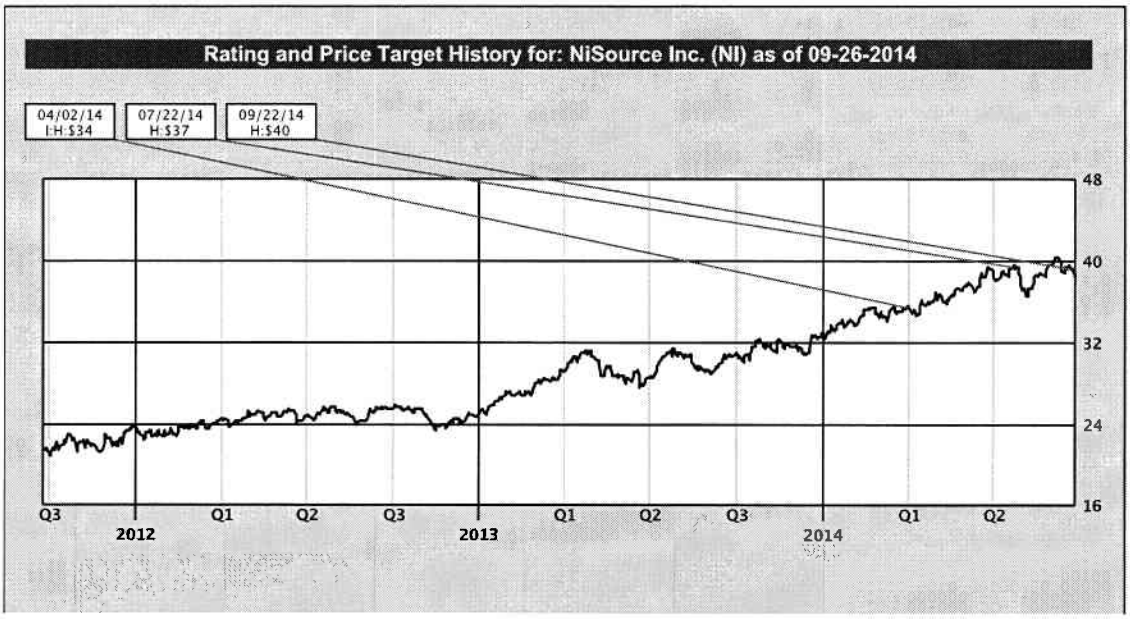

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
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HOLD	774	40.89%	136	17.57%
UNDERPERFORM	144	7.61%	6	4.17%

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

NiSource, Inc.:

NI: Upbeat Analyst Day; Raising Price Target Given Stronger Growth

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

Rating	BUY
Price	$40.84
12- Mo. Price Target	$44.00
Dividend	$0.96
Yield	2.4%
52- Wk. Range	$30 - $41
Trading Volume (000)	1,854
Market Cap. (mm)	$12,080.5
Shares Out. (mm)	295.80
Book Value/Share	$17.93

EPS (Net) Summary

FY Dec	2013A	2014E	2015E
1Q	$0.69	$0.82A	--
2Q	$0.23	$0.25A	--
Prior	*$0.23*	*$0.24*	--
3Q	$0.18	$0.20	--
4Q	$0.47	--	--
YEAR	$1.58	$1.70	$1.80
First Call	--	$1.70E	$1.84E
P/E	25.8x	24.0x	22.7x

ACTION STATEMENT

NiSource, Inc. (NI-NYSE) hosted an analyst day to update investors on its corporate separation plan, its planned IPO and an updated capital forecast. We viewed the event positively. We believe the separation allows for two cleaner stories, each attractive to different investor bases. Given attractive investment opportunities, NI updated its capital forecast. We have increased our price target to $44 from $41 per share.

- **Price Target: $44.00 from $41.00**

KEY INVESTMENT POINTS

NI hosted an analyst day on September 29, 2014 to update investors on its decision to separate its company into two publicly traded companies. The regulated utility companies will remain at NiSource, while the natural gas transmission, storage and midstream businesses will comprise Columbia Pipeline Group (CPG).

NI plans to IPO an MLP at the midstream segment in 1Q15, and complete the corporate separation mid 2015.

NI updated its capital expenditure forecasts at the regulated utility and CPG segments. We believe the plans position both segments to be very well positioned relative to their peers. The utility segment is expected to grow rate base by an average 8% annually, while CPG is expected to grow at a CAGR of 20%, which will likely triple assets by 2020 to an estimated $12.5 billion.

We have updated our valuation given the separation plans and more robust capital forecast. We have raised our price target to $44 from $41 per share.

VALUATION

Our $44 price target is based upon a sum of the regulated utility based upon a P/E methodology and CPG based upon an EBITDA valuation. We value the regulated utility at $18 per share based on our 2015 forecast of $1.05 and a target P/E ratio of 17.0x. This target valuation represents a 5% premium to peers, which we believe is justified by the combination of a robust capital plan backed by constructive regulation. For CPG, we grow $600 million of trailing EBITDA by 20% (per the targeted asset growth rate) and apply a 15.5x EV/EBITDA multiple, which we believe is justified by NI's growth platform and strategic position in the Utica and Marcellus. A peer group we view less well positioned trades at a multiple of 13.6x. Subtracting $3 billion of debt that NI indicated it would issue at the CPG level leaves an equity value of $8.16 billion, or approximately $26 per share, resulting in our $44 price target. NI is trading at an overall 2015 P/E ratio of 22.7x compared with its peers, which are trading at a 2015 P/E ratio of 16.2x, and our price target reflects a 2015 P/E ratio of 24.4x.

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RISKS

We believe the primary risks to achieving our price target include: any deterioration of regulation; and any inability to execute on the growth initiatives that management is targeting. We believe management has historically been somewhat conservative in its communications with investors.

DISCUSSION

As discussed, NI hosted an analyst in New York on September 29. 2014. Key takeaways from the meeting are discussed below:

Business Separation – NI announced plans to separate its state regulated utility electric and natural gas utilities from its FERC regulated pipelines, storage and midstream segments. We believe this facilitates valuation and more closely aligns the assets with specific investor classes.

MLP Formally Announced – As widely anticipated, NI announced plans to form an MLP at the CPG segment. NI expects to IPO Columbia Pipeline Partners (CPPL- NYSE) during 1Q15. The structure calls for 100% of CPG to be held by an operating company (CPG OpCO). Initially, roughly 15% of the OpCo will be offered to limited partners with the balance held by CPG. The general partner will be 100% owned by CPG. Rather than dropping discrete assets into the MLP, we expect percentage interest in CPG will be sold to limited partners, allowing management to grow the MLP in a very controlled manner. The filing of the S- 1 Registration statement precludes management from discussing the MLP and, largely by reference, CPG in greater detail.

Updated Capital Plans – NI updated its capital plans and gave a view of a longer dated investment runway. At the regulated utilities, NI forecasts a $30 billion ($20 billion at the LDC's and $10 billion on the electric side) investment opportunity over 20 years. In the more near term, utility investment is expected at approximately $1.2 billion per year, driving 8% rate base growth (off a current level of $7.4 billion) and earnings and dividend growth of 4- 6%. 75% of the capital is expected to drive revenue increases (in excess of depreciation). Previous growth discussions were around investment of up to ~$16 billion.

On the CPG side, NI's presence in the Utica and Marcellus drive stronger growth. Assets are forecast to grow from the current ~$4 billion level to $12.5 billion by 2020, an approximate 20% CAGR. Management expects longer- term investment of $12 billion- $15 billion over the next 10 years. Previous forecasts discussed a ~$10 billion opportunity.

Minimal Dissynergies – Management indicated that costs to achieve the separation would be on the order of "a couple hundred million" and that the cost structure going forward for the separated entities would increase due to the separation by an amount that was not material.

Dividend Outlook – Management forecasts that the dividend of the two companies would collectively be equal to the current NI dividend of $1.04 per share. We expect that the regulated utilities will continue to pay roughly 60- 70% of earnings out in dividends.

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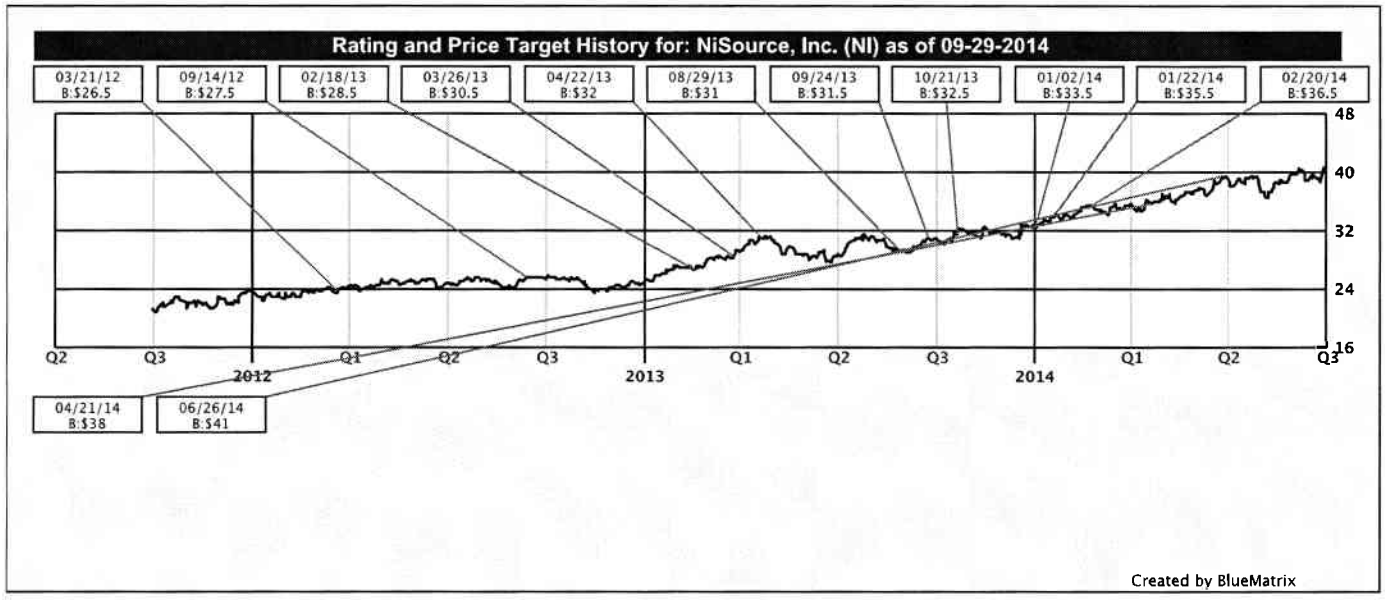
Three- Year Rating and Price Target History



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BUY [BUY]	270	47.04	60	22.22	BUY [BUY]	44	52.38	19	43.18
HOLD [HOLD]	292	50.87	50	17.12	HOLD [HOLD]	40	47.62	16	40.00
SELL [UND]	12	2.09	3	25.00	SELL [UND]	0	0.00	0	0.00

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NiSource, Inc. (BUY)

NI - QA: Separation Shows Commitment to Value Creation; More Details at Meeting

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

KEY INVESTMENT POINTS

NiSource, Inc. (NI- NYSE) has announced that on top of forming an MLP for its midstream segment (as was widely expected), it will effect a tax- free corporate separation of its regulated utility businesses and its natural gas pipeline, midstream and storage businesses. The new public entity will be known as Columbia Pipeline Group (CPG). The new segment is expected to trade under the symbol COLP. COLP will be the entity to form the MLP. The spin is expected around mid- 2015.

We expect this announcement will be well received by investors, given several positives aspects, including:

- **Separation Allows Clearer Path to Valuation** – We believe COLP's value has been masked by the P/E valuation methodology we believe is widely used given that the majority of earnings are derived from regulated operations.
- **Access to Different Investor Bases** – We believe the current structure of NI may be limiting potential interest from various investor classes. The different classes we think may have been precluded are midstream, pure utility and MLP investors.
- **More Attractive M&A Characteristics** – While not an absolute deal killer, we believe NI's current diverse businesses may have been a potential impediment to merger activity. We expect pure regulated and pure midstream entities are likely more easy entities with which to transact.
- **Differentiated Strategy Should Be Well Received** – Other entities announcing MLPs have performed well into the anticipated announcement of MLP formation, then tended to languish post announcement. In our view, NI has created a more clear path to value creation by its planned corporate separation.

VALUATION IMPLICATIONS

As discussed, we expect the separation to more clearly define the value of NI's asset portfolio. We value the Indiana electric utility and local gas distribution utilities at roughly $17 per existing NI share, based upon our expectation of roughly $1.05 of 2015 earnings from these segment at a blended P//E multiple of 16.2x. NI has indicated in the past that it expects to grow CPG at 10- 12%. In light of the attractive additions to project backlog, we fully expect NI management to raise this growth rate at its investor presentation. LTM EBITDA of roughly $600 million and growing it at 13- 14% (13.5% midpoint) yields $681 million of forward EBITDA. While we await further details at analyst day regarding the capital structure of COLP, we believe $3 billion of leverage would provide the credit protection that NI has indicated was necessary before pursuing an MLP.

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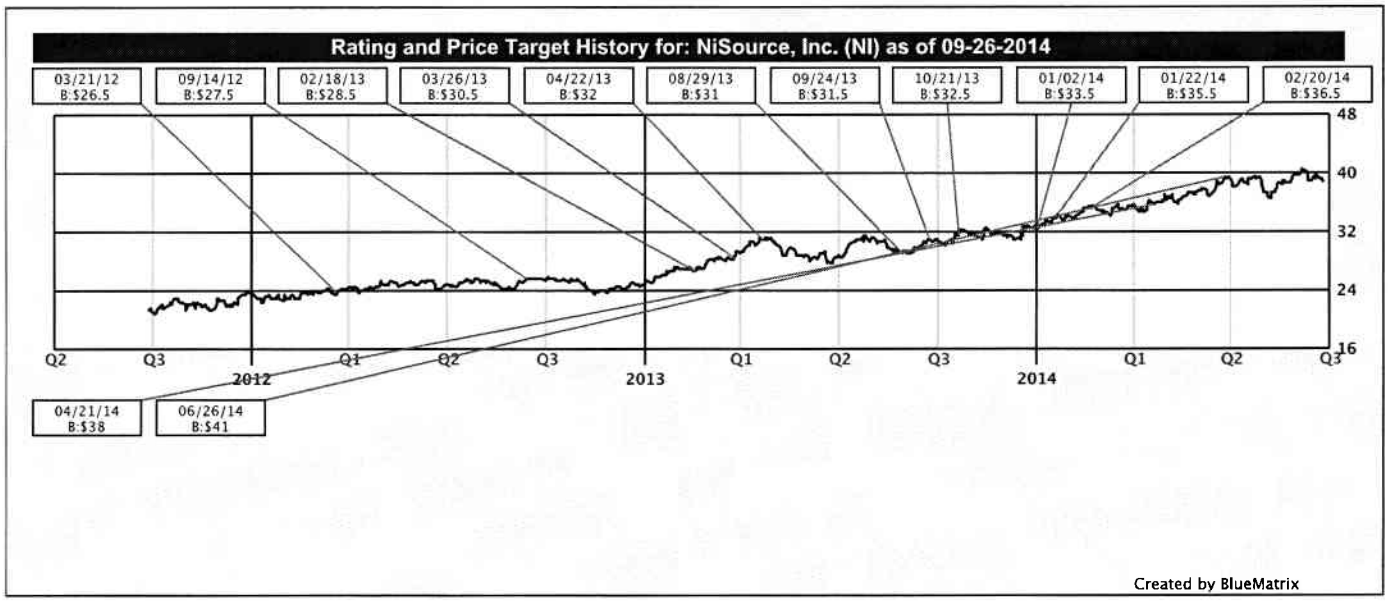

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MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Brian Lasky
Brian.Lasky@morganstanley.com
+1 212 761 7249

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6385

Matthew Giacobbe
Matthew.Giacobbe@morganstanley.com
+1 212 761 7243

Alexander H Renker
Alexander.Renker@morganstanley.com
+1 212 761 4657

September 30, 2014

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Unlocking the Embedded Value of Midstream Assets

NiSource unveiled the spinoff of COLP (Columbia Pipeline) and the formation of CPPL (midstream MLP) at its analyst day and outlined a capex opportunity of more than $40b by 2020 for the entire company.

NiSource analyst day highlights separation potential given leading position within the Marcellus and Utica shales. Despite limited details on COLP or CPPL's strategy, investors were encouraged by the value unlock proposition of spinning off COLP and establishing CPPL as a dropdown vehicle with significant exposure to infrastructure investment within the Marcellus and Utica. However, there is a debate around what is currently priced in the stock. Management outlined an investment opportunity of $12-15b of projects over the next 10 years for CPPL and expects to place into service almost $4b of projects by YE18. Additionally, NiSource sees a bright outlook at LCD and NIPSCO, where ~$1.2b of expected annual capital investment will produce 4-6% of expected EPS and dividend growth. NI noted that once the MLP IPO and COLP spin-off is complete, they will provide more detailed guidance on the proforma entities.

Long-term value, but could take some time to play out. While the formation of an MLP does not come as a surprise, spinning off COLP is a positive long-term development. This standalone structure will highlight the GP value of CPPL as COLP transitions to an asset-light GP Holdco over time (similar to WMB, OKE, and SE). We believe that this strategic move could represent further valuation upside, but details around dropdown pace and payout policy are needed in order to become more constructive. We expect the stock could trade somewhat range-bound until the market gets this clarity and while we see long-term value in the pro-forma entities, we acknowledge it could take time to play out. We maintain our EW rating and increase our price target to $45 from $43. *Please see the following pages for our key takeaways and analysis.*

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	**$45.00**
Shr price, close (Sep 29, 2014)	$40.84
Mkt cap, curr (mm)	$12,955
52-Week Range	$40.84-30.10

Fiscal Year ending	**12/13**	**12/14e**	**12/15e**	**12/16e**
ModelWare EPS ($)	**1.57**	**1.68**	**1.81**	**1.92**
Prior ModelWare EPS ($)	**-**	**-**	**-**	**-**
P/E	**20.9**	**24.3**	**22.5**	**21.2**
Consensus EPS ($)§	**1.55**	**1.71**	**1.84**	**2.01**
Div yld (%)	3.0	2.5	2.6	2.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

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rghuler@nisource.com Randy Huler 09/30/14 12:26:36 PM Nisource Corporate Services Co.

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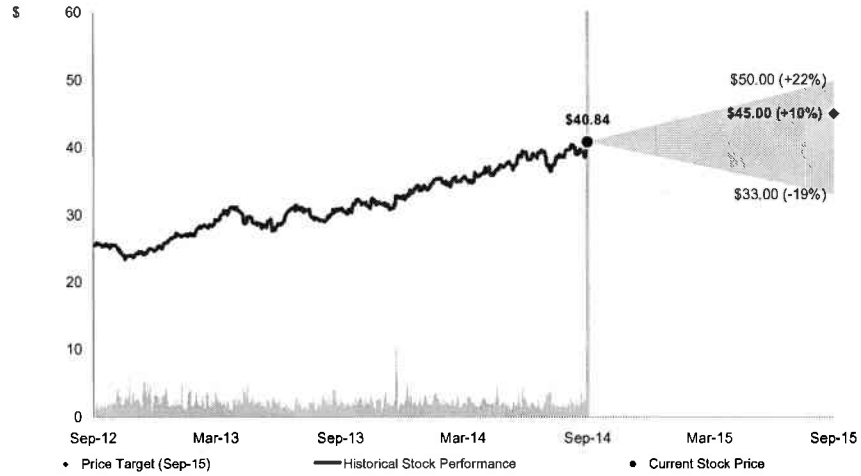
September 30, 2014
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target $45

Bull Case **$55**	**Increasing Marcellus/Utica market share and utilities outperform; more projects, aggressive MLP/GP strategy.** NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the CPG segment. Newly formed CPPL and COLP aggressively pursue organic and third party growth and achieve premium resulting valuations in stand-alone structures committed to high-payout, high growth strategies.
Base Case **$45**	**Business separation allows better recognition of execution on Marcellus / Utica opportunities.** NI places Marcellus/Utica growth projects on budget and on time. NI's adoption of an MLP is followed through with a periodic dropdown strategy.
Bear Case **$33**	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist or worsen, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions and the stock re-rates lower given weaker growth profile. NI underutilizes its MLP.

Why Equal-weight?

- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value.
- Restored earnings power at regulated utilities segments.
- Announced separation of midstream and utility businesses should help value recognition with upside in aggressive MLP/GP scenario, but next leg of outperformance is likely dependent on execution and might ultimately take a period of time to be realized.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend growth profiles consistent with both of NI's core businesses as they migrate to stand-alone entities.

Potential Catalysts

- MLP formation adds to value of NI and offers further upside on projects and acquisitions, particularly through general partner value recognition.
- Updates to rate case settlement approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Execution challenges

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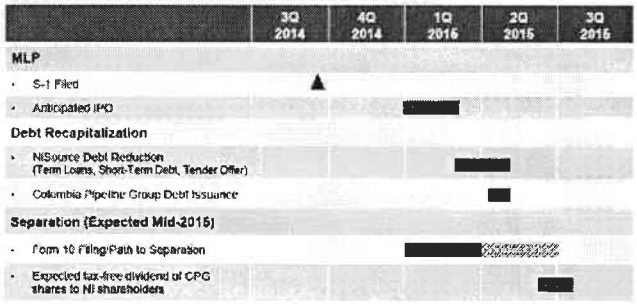
September 30, 2014
NiSource, Inc.

Transaction Overview

- **Transaction Overview:** NiSource announced its plan to separate into two publicly traded companies (NiSource and Columbia Pipeline Group). The separation is expected to occur in mid-2015. No state or regulatory filings are needed for the transaction to proceed, which will be wholly controlled by NiSource. Under the separation plan, NiSource shareholders would retain their current NI shares and receive a pro-rata dividend of CPG stock in a tax-free transaction. Prior to the separation, NI expects to complete a debt recapitalization, where NiSource will reduce its net debt by receiving a one-time cash distribution from CPG, which will be funded through the issuance of long-term CPG debt (~$3bn). NI and CPG will both target investment grade credit metrics pro forma the transaction. Separately, NI announced its intent to form a midstream energy MLP. Its initial assets will consist of a 14.6% interest in CPG OpCo LP, which will own substantially all of NI's midstream assets. CPG will own the general partner and limited partner units in the newly formed MLP.

Exhibit 1
Separation Timeline



Source: Company data.

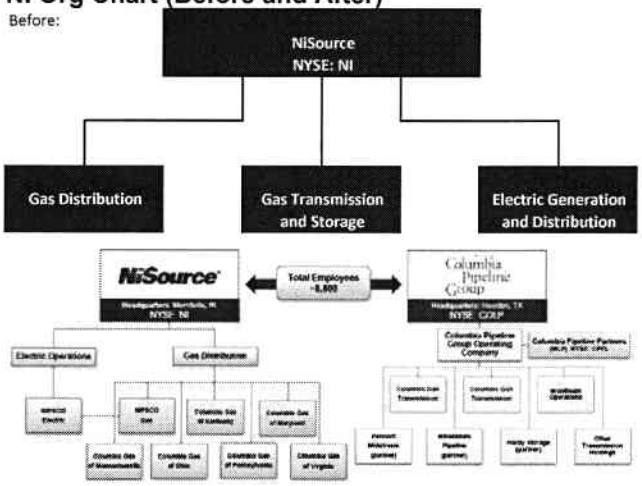
- **MLP Value Creation.** With the creation of a dedicated midstream MLP, CPPL should be able to leverage an advantaged cost of capital. The absence of taxes at the company level would allow CCPL access to a lower cost of capital than is typically available to corporations, allowing the MLP to pursue projects that might not be feasible for a taxable entity. An advantaged cost of capital would greatly aid CPG as it executes on $12-15b of expected infrastructure investment opportunities over the next ten years. Secondly, NI should see a significant valuation uplift from greater transparency on its midstream earnings and cash flow growth.

Exhibit 2
Proforma NI and CPG
Two Premier Companies with Significant Growth Potential

NiSource	Strategic Focus & Clarity	Columbia Pipeline Group
Pure-Play Natural Gas & Electric Utilities Company		Pure-play Pipeline, Midstream & Storage Company
Utility System Modernization & Organic Growth (~$30B Over 20+ Years; ~75% Revenue-Producing)	Long-Term Investment Opportunity	Pipeline/Midstream Growth & Modernization ($12-15B Over Next 10 Years; ~90% Fixed Fee)
~$7.4B; Expected to Grow on Average by ~8% Per Year	Rate Base*/Net Investment Growth	~$4B; Expected to Grow to ~$12.5B by 2020
Expected Net Earnings Growth 4-6% Per Year	Long-Term Growth	Expected EBITDA Growth Driven By Net Investment Growth
Expected to Average 4-6% Per Year	Long-Term Dividend Growth	Expected to be Driven By Net Investment Growth
Expected to Maintain Investment-Grade Credit Rating with Strong Liquidity	Investment-Grade Credit	Expected to Maintain Investment-Grade Credit Rating with Strong Liquidity

Source: Company data.

Exhibit 3
NI Org Chart (Before and After)



Source: Company data, Morgan Stanley Research.

- **NI/CPG Separation Value Creation.** The breakup of NiSource and CPG also creates several value-enhancing initiatives. First, the creation of CPG forms a public structure, which will hold the general partner and incentive distribution rights (IDRs) of CPPL. With CPPL's strategy of capitalizing on organic expansion opportunities and through dropdown acquisitions (increasing ownership interests in Columbia OpCo), we believe that the corresponding IDR cash flows will grow significantly, which investors should value at a premium multiple, given CPPL will represent an early-stage Marcellus/Utica dropdown MLP with a compelling mix of dropdown and organic growth opportunities. Secondly,

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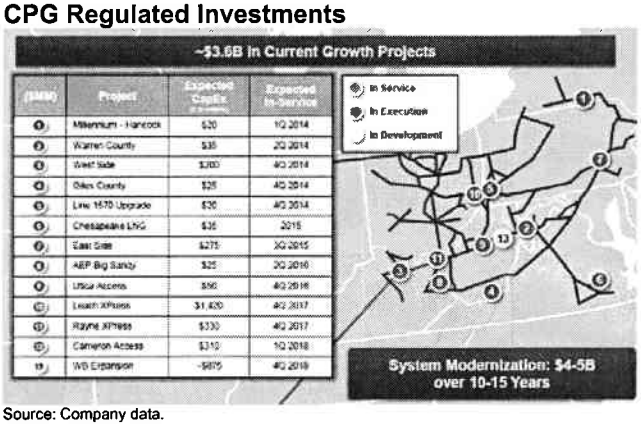
CPG should be able to adopt a payout strategy suitable to its dedicated cash flow streams. Before, NiSource traditionally pursued a 60-70% payout ratio, given its mix of LDC, NIPSCO, and Midstream earnings. However, with CPG solely dedicated towards midstream, CPG should be able to adopt a payout ratio (presumably higher) more fitting to their cash flow streams and new general partner and IDR cash flow streams. Lastly, the ownership of CPPL's GP and IDR interests exposes CPG to upside from M&A at the CPPL level through accretive acquisitions and additional equity issuance.

- **Large capex backlog dedicated to midstream.** The Columbia Pipeline system is strategically located in that it links Marcellus and Utica supply regions to the Midwest, Mid-Atlantic, and Gulf Coast markets. With significant new supply sources arising out of the Marcellus/Utica, Columbia has been able to identify several large-scale projects (Rayne/Leach Xpress, WB Expansion, Cameron Access) providing line of sight towards earnings and cash flow growth throughout the end of the decade ($12-15b growth project inventory over the next 10 years). The Columbia system is underpinned with fee-based (~90% demand based) long-term firm contracts with minimal commodity/volumetric exposure. Columbia is also undergoing a sizeable system modernization program, which represents a $4-5b investment over the next 10-15 years, where the company will earn a return on upgrading compression, replacing aging infrastructure, and increasing in-line inspections. Columbia also has a growing midstream business (gathering and processing) which is a joint venture with privately owned Hilcorp. The company is currently contemplating a second phase of their joint venture (Pennant II) which would involve an incremental $250mm investment over 2015-2018 and would position the company to win new third-party midstream business ($500mm opportunity over 2016-2018).

Exhibit 4

CPG Regulated Investments

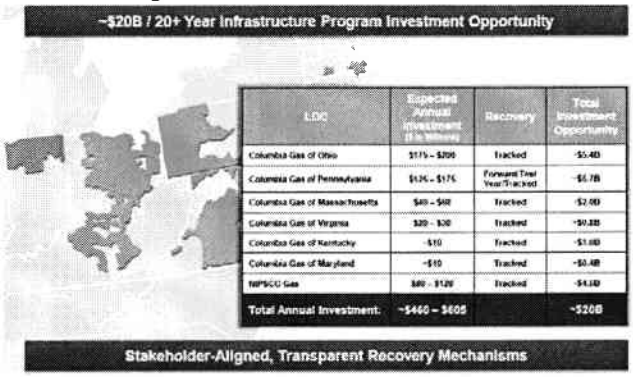


Source: Company data.

- **Opportunities at NIPSCO/LDC.** NiSource has identified 20-plus years and ~$30 billion of investment opportunities in its natural gas LDC and NIPSCO electric businesses, with annual capex totaling ~$460-$605mm for LDCs and ~$175-$500mm for NIPSCO electric. Capital investment will be focused on expanding distribution programs and growing NiSource's customer base, enhancing the electric transmission system, and modernizing gas & electric infrastructure. With ~75% of capex expected to be revenue-producing and complementary rate structures and tracker mechanisms, NiSource expects that its capital investment program will lead to a 4-6% annual EPS and dividend growth rate.

Exhibit 5

LDC Backlog



Source: Company data.

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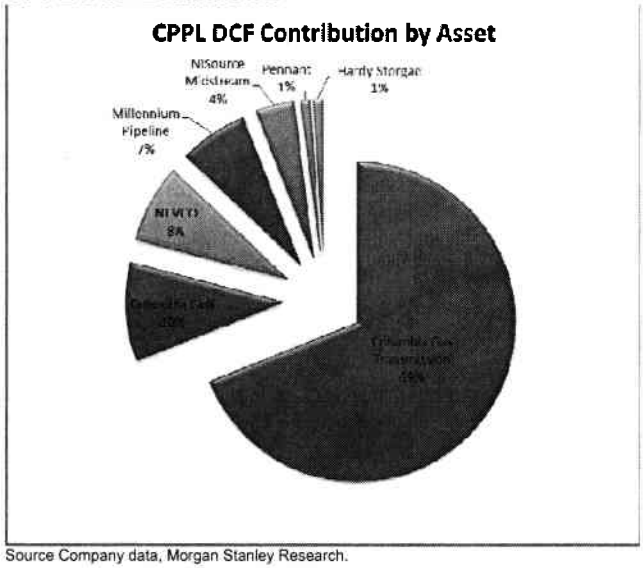
CPPL Summary

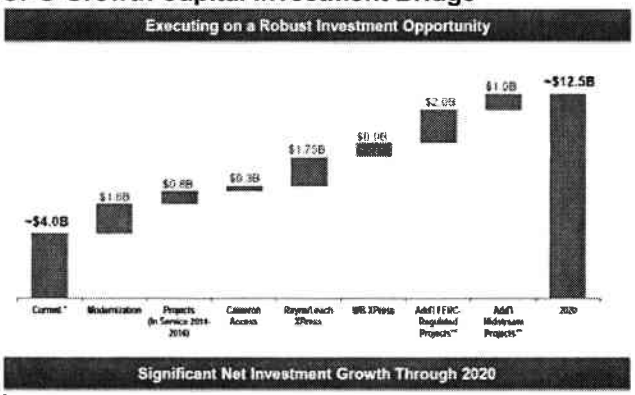
- **Extensive East Coast interstate and storage footprint at Columbia OpCo.** Columbia OpCo owns and operates one of the largest underground natural gas storage systems in the United States, with approximately 300 MMDth of working gas capacity, as well as an extensive interstate pipeline networking serving customers in 15 states from the Gulf of Mexico to New York. CCPL's initial assets will include a 14.6% limited partner interest in Columbia OpCo, as well as the non-economic general partner interest.
- **Distributable cash flow profile levered toward steady cash-flow generating interstate assets.** Excluding cost recoveries under regulatory tracker mechanisms, 93% of Columbia OpCo's revenue for the year ended December 31, 2013 was generated under firm revenue contracts with a weighted average remaining contract life of 5.2 years. Through its ownership interest in Columbia OpCo, CPPL's initial assets include FERC-regulated interstate pipeline and storage assets as well as gathering, processing and mineral rights assets. FERC-regulated assets including Columbia Gas Transmission, LLC, Columbia Gulf Transmission Company, LLC, Millennium Pipeline Joint Venture, and Hardy Storage Joint Venture, constitute the majority (~87%) of CPPL's initial forecasted distributable cash flow. The remaining ~13% of distributable cash flow is attributable to ownership interest in Columbia OpCo's gathering, processing, and mineral rights assets, including NiSource Midstream Services, LLC, Pennant Midstream, LLC, and NiSource Energy Ventures, LLC. Exhibit 10 offers an asset-level overview of expected distributable cash flow contribution from CPPL's initial assets.
- **Multi-tiered strategy provides optionality for executing distribution growth** CPPL expects to generate increasing quarterly cash distributions through four principal business strategies: 1) capitalizing on $4.0 billion of organic growth opportunities expected to be completed by the first quarter of 2018, 2) increasing ownership interest in Columbia OpCo by exercising preemptive rights to purchase equity interest issued to fund CPPL capex, 3) maintaining and growing stable cash flows by focusing on minimizing commodity exposure and winning long-term firm customer commitments and 4) targeting a conservative and flexible capital structure, while contributing substantially all of the capital required to finance Columbia OpCo's organic expansion projects and pursuing third-party acquisitions.

Exhibit 6
CPPL DCF Breakdown



Source Company data, Morgan Stanley Research.

Exhibit 7
CPG Growth Capital Investment Bridge



Source Company data, Morgan Stanley Research.

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Exhibit 8
NI MLP (CPPL) IPO Assumptions
MLP IPO Assumptions

	Metric
Assumed IPO Unit Price ($ / unit)	20.00
Assumed Fully Distributed Yield (%)	2.50%
IPO Discount	15%
Assumed IPO Yield (%)	2.88%
Implied P/DCF	31.1x
Implied EV/EBITDA	31.1x
LP Share (%)	98%
NTM LP Distribution ($MM)	58.54
Implied Equity Value ($MM)	2,036
LP Units Outstanding (MM)	101.8
Implied MQD / Distribution ($ / unit)	0.58
IPO Size ($MM)	750
Public Units (MM)	37.5
Public Ownership (%)	36.8%
Sponsor Ownership (%)	63.2%

Source: Company Data, Morgan Stanley Research

Exhibit 9
NI MLP (CPPL) Estimated Distributable Cash Flow
Estimated Distributable Cash Flow
$MM
Twelve Months Ending September 30, 2015

	2015
Total EBITDA	620.0
MLP Initial EBITDA	90.5
Less: Cash Interest Paid	(2.6)
Less: Income Taxes Paid & Other	(6.4)
Less: Main. Capex	(15.8)
Total DCF	65.70
Coverage	1.10x
Total Distributions	59.73

Market Cap	2,036
Net Debt	758
Enterprise Value	2,794

Source: Company Data, Morgan Stanley Research

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September 30, 2014
NiSource, Inc.

Exhibit 10

NI MLP Illustrative Analysis (CPPL)

MLP Summary Page

	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Unit Value (trading to a 2.5% yield)	$27.60	$29.81	$31.16	$32.85	$33.36	$34.07	$33.39	$32.87	$32.48	$31.60
Equity Raised	3,227.1	774.8	1,159.8	1,157.7	1,421.9	1,688.7	1,957.0	2,226.2	2,495.7	2,583.5
Debt Raised	288.8	516.6	773.2	771.8	947.9	1,125.8	1,304.7	1,484.1	1,663.8	1,722.3
EBITDA	140.5	225.5	345.5	500.5	690.5	915.5	1,175.5	1,470.5	1,800.5	2,135.3
Debt	399.5	916.0	1,689.2	2,461.0	3,408.9	4,534.7	5,839.4	7,323.5	8,987.3	10,709.6
Interest Expense	16.0	36.6	67.6	98.4	136.4	181.4	233.6	292.9	359.5	428.4
Maintenance Capex	14.1	22.6	34.6	50.1	69.1	91.6	117.6	147.1	180.1	213.5
Cash Flow Distributed to GP + LP	**83.5**	**122.2**	**196.4**	**297.6**	**414.2**	**569.4**	**727.5**	**923.7**	**1,163.5**	**1,405.5**
Unit Structure										
Common Units	116.6	142.6	179.8	215.1	257.7	307.2	365.9	433.6	510.4	592.2
GP Interest Unit Equivalent	2.4	2.9	3.7	4.4	5.3	6.3	7.5	8.8	10.4	12.1
Total Units Outstanding (incl. Implied GP inte	119.0	145.5	183.5	219.4	262.9	313.5	373.3	442.4	520.8	604.3
Expected Distribution per Unit	**$0.69**	**$0.83**	**$0.95**	**$1.10**	**$1.20**	**$1.32**	**$1.39**	**$1.46**	**$1.53**	**$1.58**
Total unit distribution coverage	**1.32x**	**1.36x**	**1.24x**	**1.18x**	**1.17x**	**1.13x**	**1.13x**	**1.12x**	**1.08x**	**1.06x**
Calculation of Incentive Distributions										
Distribution Levels										
MQD (Minimum Quarterly Distributions)	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58
First Target	$0.66	$0.66	$0.66	$0.66	$0.66	$0.66	$0.66	$0.66	$0.66	$0.66
Second Target	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72
Third Target	$0.86	$0.86	$0.86	$0.86	$0.86	$0.86	$0.86	$0.86	$0.86	$0.86
Incentive Distribution GP Sharing Percentage										
MQD (Minimum Quarterly Distributions)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
First Target	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Second Target	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Third Target	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
thereafter	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Distribution of MQD (Implied initial 3% Yield)	0	0	0	0	0	0	0	0	0	0
Common Units	67.0	82.0	103.4	123.7	148.2	176.7	210.4	249.3	293.5	340.5
GP Interest Unit Equivalent	1.4	1.7	2.1	2.5	3.0	3.6	4.3	5.1	6.0	6.9
Total MQD Distribution	68.4	83.7	105.5	126.2	151.2	180.3	214.7	254.4	299.5	347.5
per Common Unit	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58	$0.58
First Target Distribution										
Common Units	9.9	12.1	15.2	18.2	21.8	26.0	30.9	36.6	43.1	50.1
GP Interest Unit Equivalent	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.9	1.0
Cash Distributed	10.1	12.3	15.5	18.5	22.2	26.5	31.6	37.4	44.0	51.1
per Common Unit	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08
Second Target Distribution										
Common Units	4.2	7.0	8.8	10.5	12.6	15.0	17.9	21.2	24.9	28.9
GP Interest Unit Equivalent	0.7	1.2	1.6	1.9	2.2	2.6	3.2	3.7	4.4	5.1
Cash Distributed	5.0	8.2	10.3	12.4	14.8	17.7	21.0	24.9	29.3	34.1
per Common Unit	$0.04	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05
Third Target Distribution										
Common Units	0.0	13.5	19.4	23.2	27.8	33.1	39.4	46.7	55.0	63.8
GP Interest Unit Equivalent	0.0	4.5	6.5	7.7	9.3	11.0	13.1	15.6	18.3	21.3
Cash Distributed	0.0	18.0	25.8	30.9	37.0	44.2	52.6	62.3	73.4	85.1
per Common Unit	$0.00	$0.09	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11
Remaining Distribution										
Common Units	0.0	0.0	19.6	54.8	94.5	150.4	203.8	272.3	358.6	443.9
GP Interest Unit Equivalent	0.0	0.0	19.6	54.8	94.5	150.4	203.8	272.3	358.6	443.9
Cash Distributed	0.0	0.0	39.2	109.6	188.9	300.8	407.7	544.7	717.3	887.8
per Common Unit	$0.00	$0.00	$0.11	$0.25	$0.37	$0.49	$0.56	$0.63	$0.70	$0.75
Total Distributions										
Common Units	81.1	114.5	166.4	230.3	304.8	401.2	502.4	626.2	775.3	927.2
GP Interest Unit Equivalent	2.3	7.6	30.1	67.3	109.4	168.2	225.1	297.5	388.3	478.3
Total Distributions	83.5	122.2	196.4	297.6	414.2	569.4	727.5	923.7	1,163.5	1,405.5
Gp Distribution as % Total	*3%*	*6%*	*15%*	*23%*	*26%*	*30%*	*31%*	*32%*	*33%*	*34%*
Common Units (at IPO, no further participatio	73.7	73.7	73.7	73.7	73.7	73.7	73.7	73.7	73.7	73.7
% of Total Common Units	63.2%	51.6%	41.0%	34.2%	28.6%	24.0%	20.1%	17.0%	14.4%	12.4%
Share of LP Distribution	50.8	61.0	70.1	80.7	88.7	97.6	102.5	107.6	113.0	116.4
Share of GP Distribution	2.3	7.6	30.1	67.3	109.4	168.2	225.1	297.5	388.3	478.3
Total MLP Distributions	53.1	68.6	100.2	147.9	198.1	265.8	327.5	405.1	501.2	594.6

Source: Company Data, Morgan Stanley Research

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September 30, 2014
NiSource, Inc.

Exhibit 11

NI Midstream Illustrative Capex

Top-Down Capex

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total CPG Capex	490	798	807	1,125	1125	1125	1125	1125	1125	1125	1125	1125	1125
Maintanence Capex			125	125	125	125	125	125	125	125	125	125	125
Total - Maintanence			682	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Columbia Gas Modernization	300	300	300	300	300	300	300	300	300	300	300	300	300
Midstream Capex			175	175	175	175	175	175	175	175	175	175	175
Residual Pipeline & Storage Capex			207	525	525	525	525	525	525	525	525	525	525

Bottom-Up Growth Capex

			2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Columbia Gas Modernization			300	300	300	300	300	300	300	300	300	300	300
Pipeline & Storage Capex			300	310	950	1623	438						
Midstream Capex			85	95	280	30	30						
Total CPG Capex			**685**	**705**	**1,530**	**1,953**	**768**	**300**	**300**	**300**	**300**	**300**	**300**

Modeled Growth Capex

Columbia Gas Modernization			300	300	300	300	300	300	300	300	300	300	300
Pipeline & Storage Capex			207	525	950	1623	525	525	525	525	525	525	525
Midstream Capex			175	175	280	175	175	175	175	175	175	175	175
Total Growth Capex			**682**	**1,000**	**1,530**	**2,098**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
Maintanence Capex			125	125	125	125	125	125	125	125	125	125	125
Total CPG Capex			**807**	**1,125**	**1,655**	**2,223**	**1,125**	**1,125**	**1,125**	**1,125**	**1,125**	**1,125**	**1,125**
Columbia Gas Modernization			300	300	300	300	300	300	300	300	300	300	300
Assumed Multiple			8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x
Pipeline & Storage Capex			207	525	950	1,623	525	525	525	525	525	525	525
Assumed Multiple			8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x	8.7x
Midstream Capex			175	175	280	175	175	175	175	175	175	175	175
Assumed Multiple			7.4x	7.4x	7.4x	7.4x	7.4x	7.4x	7.4x	7.4x	7.4x	7.4x	7.4x
Additional EBITDA				**82**	**119**	**182**	**245**	**119**	**119**	**119**	**119**	**119**	**119**
pipeline				*58*	*95*	*144*	*221*	*95*	*95*	*95*	*95*	*95*	*95*
midstream				24	24	38	24	24	24	24	24	24	24
Total EBITDA	**497**	**549**	**595**	**640**	**771**	**968**	**1,232**	**1,376**	**1,522**	**1,670**	**1,822**	**1,977**	**2,135**
Invested Capex			**4,000**	**5,125**	**6,780**	**9,003**	**10,128**	**11,253**	**12,378**	**13,503**	**14,628**	**15,753**	**16,878**

Source: Company Data, Morgan Stanley Research

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Valuation of Combined NI

To determine fair value for the newly reconfigured NI, we leverage two primary methods: 1) sum of parts analysis and 2) relative trading multiples against the two newly formed entities' closest comps. Excluded from our formal price target derivation but nonetheless likely to be tools as well over time are implied dividend yield/growth and dividend discount model analyses as COLP executes on its business strategies and transitions to a general partner holdco model pivoting toward a high dividend payout and growth-focused model. **As a result of formal announcement of plans to pursue an MLP as well as management's new strategic decision to fully separate the midstream and utility businesses, we are raising our price target on NI to $45 (from $43).**

- **1.) Sum of Parts Analysis - $49 fair value.** Given the disparate nature of NI's assets and resulting strategic decision toward separation, sum of parts analysis is particularly helpful as it isolates the various sources of value uplift. In the following pages, we detail the illustrative impact of MLP formation and pursuit of a dual growth capital expenditure and parent asset dropdown strategy as it relates to the economics benefits of COLP's general and limited partner interests. With the separation of the utility and midstream businesses, full value recognition of the two businesses and its attendant structures is more likely, but we note could take time to achieve as growth project execution and return of cash to shareholders is realized.

Exhibit 12
NI Sum of Parts Analysis
NiSource, Inc.
NI

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$ 6,429	$ 20.34
Gas Transmission & Storage	19,567	61.90
Electric Utility	3,738	11.82
Value	$ 29,733	$ 94.06
Net Debt	(14,237)	(45.04)
Net Equity Value	$ 15,496	$ 49.02
Shares Outstanding (in m)		316.1

GAS DISTRIBUTION	
Forward EBIT (2015E)	$531
Interest	$136
Tax Rate	35%
Net Income	$257
Forward multiple	16.0x
Equity value	**$4,111**
Debt	$2,318
Enterprise value	**$6,429**

GAS TRANSMISSION & STORAGE (on a PV basis)	
MLP Drop-down Proceeds	$13,775
MLP GP Valuation	4,390
MLP LP Value	1,401
Enterprise value	**$19,567**

ELECTRIC UTILITY	
Forward EBIT (2015E)	$323
Interest	$79
Tax Rate	35%
Net Income	$158
Forward multiple	15.5x
Equity value	**$2,452**
Debt	$1,286
Enterprise value	**$3,738**

EBITDA Breakdown		
Gas Distribution	$754	38%
Gas Transmission & Storage	$688	34%
Electric Utility	$567	28%
	$2,009	

Consolidated	
Interest Expense (2015)	531
Tax Rate (2015)	35%
Incremental Funding Obligation (dropdown period)	$4,945

Source: Company Data, Morgan Stanley Research

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Exhibit 13

NI Value from CPPL MLP Formation & Subsequent Midstream Asset Dropdowns

Assumptions	
C-Corp	
Discount Rate (on cash proceeds)	10.0%
Return Spread (on cash proceeds)	5.0%
Tax Rate	35%
Tax Deferral on LP Units	80%
LP Units Holdco Discount	10%
GP	
Discount Rate	10.0%
Terminal Multiple	20.0x
LP	
Discount Rate	10.0%
Terminal Yield	5.0%

MLP
Valuation

MLP Drop-down Proceeds	$ 13,775
MLP GP Valuation	$ 4,390
MLP LP Value	$ 1,401
Total Value	19,567

MLP Drop-down Proceeds	
Dropdown, GP+LP, net	$13,157
Total NPV Proceeds	$13,775

MLP GP Valuation	
Total Value	19,567

MLP LP Value	
LP Price Target	21.14
Holdco Discount	10%
NPV, LP Value	$ 1,401

MLP
Asset Dropdown Schedule

Date	9/29/2014		12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	
Discount period			0.6	1.6	2.6	3.6	4.6	5.6	6.6	7.6	8.6	9.6	9.6
EBITDA	620	529	640	771	968	1,232	1,376	1,522	1,670	1,822	1,977	2,135	
Contributed EBITDA			50	85	120	155	190	225	260	295	330	335	
Cumulative Contributed EBITDA			141	226	346	501	691	916	1,176	1,471	1,801	2,135	
% of Entity Owned By MLP		15%	22%	29%	36%	41%	50%	60%	70%	81%	91%	100%	

		IPO	EBITDA Drop-down Value										Terminal
		Proceeds	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	LP Value
EBITDA to Sold to MLP		91	50	85	120	155	190	225	260	295	330	335	2,135
Multiple Paid (peer avg, IPO discount)		31.1x	9.5x	9.5x	9.5x	9.5x	9.5x	9.5x	9.5x	9.5x	9.5x	9.5x	12.5x
MLP Enterprise Value Added		$ 2,794	$ 475	$ 808	$ 1,140	$ 1,473	$ 1,805	$ 2,138	$ 2,470	$ 2,803	$ 3,135	$ 3,181	$ 26,592
Debt		111	190	323	456	589	722	855	988	1,121	1,254	1,272	7,881
% Debt			40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	
Debt/EBITDA			2.8x	4.1x	4.9x	4.9x	4.9x	5.0x	5.0x	5.0x	5.0x	5.0x	
Total EBITDA		*91*	*141*	*226*	*346*	*501*	*691*	*916*	*1,176*	*1,471*	*1,801*	*2,135*	
Total Debt		*111*	*399*	*916*	*1,689*	*2,461*	*3,409*	*4,535*	*5,839*	*7,323*	*8,987*	*10,710*	
Equity		2,794	285	485	684	884	1,083	1,283	1,482	1,682	1,881	1,908	18,711
27% IPO Offered to Public		*750*											
Dropdown Cash Proceeds		861	475	808	1,140	1,473	1,805	2,138	2,470	2,803	3,135	3,181	
Return on Cash Proceeds			-	-	-	57	74	90	107	124	140	157	
GP Distributions			2	8	30	67	109	168	225	297	388	478	
LP Distributions			51	61	70	81	89	98	102	108	113	116	
IPO Proceeds after tax		$ 619											
After tax, discounted cash flow			$ 496	$ 753	$ 972	$ 1,201	$ 1,362	$ 1,503	$ 1,612	$ 1,708	$ 1,797	$ 1,752	
Discount Rate		10.0%											
LP assumed tax deferral		80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	
Tax Rate		35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	
Total Estimated Cost Basis	$11,110												
Allocated Cost Basis		1,397.0	237.5	403.8	570.0	736.3	902.5	1,068.8	1,235.0	1,401.3	1,567.5	1,590.4	
Total Dropped	$22,220												
% Dropped Down		13%	2%	4%	5%	7%	8%	10%	11%	13%	14%	14%	
Consolidated Capex			1,125	1,655	2,223	1,125	1,125	1,125	1,125	1,125	1,125	1,125	
C-Corp Capex			878	1,171	1,429	668	560	448	333	217	101	0	
Residual Proceeds			(403)	(364)	(289)	804	1,245	1,689	2,137	2,585	3,034	3,181	

Source: Company Data, Morgan Stanley Research

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Exhibit 14

NI Illustrative Value of CPPL General & Limited Partner Interests in MLP

MLP

General Partner (GP) Interest Valuation

			0.6	1.6	2.6	3.6	4.6	5.6	6.6	7.6	8.6	9.6
GP Value	**$ 4,390**		**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
GP IDR discount rate	10.00%	*GP IDRs*	$ 2	$ 8	$ 30	$ 67	$ 109	$ 168	$ 225	$ 297	$ 388	$ 478
GP terminal multiple	20.0x	*Taxes*	-	(3)	(11)	(24)	(38)	(59)	(79)	(104)	(136)	(167)
		Net	$ 2	$ 5	$ 20	$ 44	$ 71	$ 109	$ 146	$ 193	$ 252	$ 311
		PV	2	4	15	31	46	64	78	93	111	124
		Terminal value										$ 9,565
		PV of Terminal value										$ 3,821

MLP

Limited Partner (LP) Interest Valuation

			0.6	1.6	2.6	3.6	4.6	5.6	6.6	7.6	8.6	9.6
LP Value	**$ 1,557**		**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Distribution per unit			$0.69	$0.83	$0.95	$1.10	$1.20	$1.32	$1.39	$1.46	$1.53	$1.58
Terminal value of paid distribution												$ 31.60
PV of paid distributions per unit		$0.58	$ 0.65	$ 0.71	$ 0.74	$ 0.77	$ 0.77	$ 0.77	$ 0.74	$ 0.71	$ 0.67	$ 0.63

Sum of PV of paid distributio	$ 7.12
PV of terminal value	12.62
Equity value per unit	**$ 19.74**
Forecasted equity value in 1	**$ 21.14**

Assumptions	
1-5 year distribution CAGR	6.15%
4-9 year distribution CAGR	5.57%
Current yield	2.50%
Terminal value trading yield	5.00%
Forward US 10-Year Yield	3.50%
Equity Risk Premium	5.00%
Stock Specific Risk Premium	1.50%
Discount rate	**10.00%**
Terminal Discount rate	**10.00%**

Source: Company Data, Morgan Stanley Research

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➢ **2.) Relative Trading Multiples - $43 fair value.** While a range of outcomes is likely here – perhaps more so on the COLP side in the degree to which it maximizes the potential value of its general partner interest in CPPL and achieves valuation credit in line with high dividend growth peers – reference to NI's closest midstream and utility segment peers helps bracket valuation. For the midstream business, we have triangulated across EV/EBITDA, Price / Cash Flow and forward dividend yield, while the utility valuation has centered on P/E metrics.

Exhibit 15

NI New Stand-Alone Entities Comparable Metrics

Pro-Forma Net Debt (3,000)
Pro-Forma Shares 316.1

		EV / Adj. EBITDA		Price / CF		Forward Yield		Dividend Growth		
		15E	16E	15E	16E	15E	16E	15E	16E	17E
ONEOK Inc	OKE	16.2x	14.6x	25.3x	22.2x	3.9%	4.3%	11.4%	10.8%	9.7%
Spectra Energy Corp	SE	17.0x	15.7x	23.0x	20.2x	3.8%	4.1%	8.8%	7.4%	5.0%
Williams Cos	WMB	14.8x	13.0x	18.8x	16.5x	4.5%	5.2%	17.3%	16.0%	15.0%
Average		16.0x	14.4x	22.4x	19.6x	4.1%	4.5%	12.5%	11.4%	9.9%

Columbia Pipeline Group **COLP**

15.0x	$20.88	13.5x	$20.85	19.0x	$18.70	16.5x	$18.84	4.75%	$20.72	5.25%	$24.04
15.5x	$21.89	14.0x	$21.97	20.5x	$20.18	18.0x	$20.55	4.50%	$21.87	5.00%	$25.37
16.0x	$22.90	14.5x	$23.10	22.0x	$21.65	19.5x	$22.27	4.25%	$23.16	4.75%	$26.87
16.5x	$23.92	15.0x	$24.22	23.5x	$23.13	21.0x	$23.98	4.00%	$24.60	4.50%	$28.55
17.0x	$24.93	15.5x	$25.34	25.0x	$24.60	22.5x	$25.69	3.75%	$26.25	4.25%	$30.45

	P/E		P/E		P/E		EPS Growth
	15E	16E	15E	16E	15E	16E	3-Yr
Gas LDC Group Median	16.1x	15.4x	16.1x	15.4x	16.1x	15.4x	5%

Pro-Forma NiSource **NI**
NiSource Gas Distribution

15.0x	$12.19	14.5x	$12.37	15.0x	$12.19	14.5x	$12.37	15.0x	$12.19	14.5x	$12.37
15.5x	$12.60	15.0x	$12.80	15.5x	$12.60	15.0x	$12.80	15.5x	$12.60	15.0x	$12.80
16.0x	$13.00	15.5x	$13.23	16.0x	$13.00	15.5x	$13.23	16.0x	$13.00	15.5x	$13.23
16.5x	$13.41	16.0x	$13.65	16.5x	$13.41	16.0x	$13.65	16.5x	$13.41	16.0x	$13.65
17.0x	$13.82	16.5x	$14.08	17.0x	$13.82	16.5x	$14.08	17.0x	$13.82	16.5x	$14.08

	P/E		P/E		P/E		EPS Growth
	15E	16E	15E	16E	15E	16E	3-Yr
Regulated Utilities Group Median	15.3x	14.2x	15.3x	14.2x	15.3x	14.2x	5%

Nipsco

14.5x	$7.26	13.0x	$6.83	14.0x	$7.01	13.0x	$6.83	14.0x	$7.01	13.0x	$6.83
15.0x	$7.51	13.5x	$7.09	14.5x	$7.26	13.5x	$7.09	14.5x	$7.26	13.5x	$7.09
15.5x	$7.76	14.0x	$7.36	15.0x	$7.51	14.0x	$7.36	15.0x	$7.51	14.0x	$7.36
16.0x	$8.01	14.5x	$7.62	15.5x	$7.76	14.5x	$7.62	15.5x	$7.76	14.5x	$7.62
16.5x	$8.26	15.0x	$7.88	16.0x	$8.01	15.0x	$7.88	16.0x	$8.01	15.0x	$7.88

Total Consolidated Value **NI**

$40.33	$40.06	$37.90	$38.05	$39.92	$43.24	
$42.00	$41.87	$40.03	$40.45	$41.73	$45.27	
$43.67	$43.68	$42.16	$42.85	$43.67	$47.45	
$45.34	$45.50	$44.30	$45.25	$45.77	$49.82	
$47.00	$47.31	$46.43	$47.66	$48.07	$52.41	

						2015 Avg
Minimum	$40.33	$40.06	$37.90	$38.05	$39.92	$43.24	$39.38
Average	$43.67	$43.68	$42.16	$42.85	$43.83	$47.64	$43.22
Maximum	$47.00	$47.31	$46.43	$47.66	$48.07	$52.41	$47.17

Source: Company Data, Morgan Stanley Research

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- **Implied Dividend Yield/Growth & Dividend Discount Model analysis.** Given the challenges associated with transitioning from direct ownership of assets to an asset-light general partner holdco model in terms of immediate recurring cash flow displacement, uncertainty exists as far as COLP's immediate payout ratio. By way of referencing, SEMG –which faces a similar challenge as it completes its dropdown strategy – has elected a payout strategy underpinned solely by cash flows in its MLP interests and excludes direct asset ownership from its distributable cash flow calculation. Over time, however, as COLP reaches an inflection in this transaction as general partner cash flows reach critical mass, asset-level EBITDA shrinks in proportionate contribution and redeployment of cash proceeds from dropdowns manifests itself in tangible benefits, we would expect yield-based valuation to ascend in importance to investors and growth positioning relative to general partner peers to be of primary importance. Consistent with this view, a dividend discount model can help derive value from long-term general partner cash flows while also offering the ability to flex up or down to sensitize for the optionality to new growth investment at the MLP level. Over time, therefore, we would expect to include both of these approaches in our formal price target methodology as payout normalization and strategic focus on payout growth dictate.

Exhibit 16

COLP Free Cash Flow Analysis

COLP	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBITDA from Assets at CPG OpCo	$ 499	$ 546	$ 623	$ 732	$ 685	$ 606	$ 495	$ 352	$ 177	$ -
Cash flow from MLP LP distribution	44	53	61	70	77	85	89	94	99	102
Cash flow from MLP GP distribution	2	8	30	67	109	168	225	297	388	478
Corporate capex & other	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Corporate interest	(135)	(135)	(135)	(135)	(135)	(135)	(135)	(135)	(135)	(135)
Maintanence Capex	(50)	(55)	(62)	(73)	(68)	(61)	(49)	(35)	(18)	-
Taxes	(40)	(46)	(57)	(72)	(73)	(71)	(66)	(60)	(52)	(43)
Other / Reinvestment of Dropdown Cash Proceeds	-	-	-	57	74	90	107	124	140	157
effective cash tax rate	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Total COLP estimated Free Cash Flow	**$ 311**	**$ 361**	**$ 450**	**$ 636**	**$ 659**	**$ 673**	**$ 655**	**$ 627**	**$ 589**	**$ 548**
COLP shares outstanding	316	316	316	316	316	316	316	316	316	316
COLP free cash flow per share	$ 0.98	$ 1.14	$ 1.42	$ 2.01	$ 2.09	$ 2.13	$ 2.07	$ 1.98	$ 1.86	$ 1.73
Assumed COLP dividend	$ 0.29	$ 0.38	$ 0.47	$ 0.59	$ 0.71	$ 0.85	$ 1.02	$ 1.17	$ 1.29	$ 1.35
Dividend growth rate		30.0%	25.0%	25.0%	20.0%	20.0%	20.0%	15.0%	10.0%	5.0%
Free cash flow growth rate		16%	25%	41%	4%	2%	-3%	-4%	-6%	-7%
Dividend coverage ratio	3.39x	3.03x	3.02x	3.42x	2.95x	2.51x	2.04x	1.69x	1.45x	1.28x
Taxes										
Assets at CPG OpCo	175	191	218	256	240	212	173	123	62	-
LP Distribution	3	4	4	5	5	6	6	7	7	7
GP Distribution	-	-	11	24	38	59	79	104	136	167
Tax Shields	(138)	(149)	(178)	(212)	(211)	(205)	(192)	(174)	(153)	(131)
Total Taxes	**40**	**46**	**57**	**72**	**73**	**71**	**66**	**60**	**52**	**43**
	2015E	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
LP / GP Cash from MLP										
MLP shares owned	64	64	64	64	64	64	64	64	64	64
MLP distribution/share	$0.69	$0.83	$0.95	$1.10	$1.20	$1.32	$1.39	$1.46	$1.53	$1.58
Cash from ownership in MLP LP	44	53	61	70	77	85	89	94	99	102
% LP tax deferred (*MS assumption*)	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Tax rate on LP distributions	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Cash from ownership in MLP GP	2	8	30	67	109	168	225	297	388	478
Tax rate on GP distributions	0%	0%	35%	35%	35%	35%	35%	35%	35%	35%
Net overall tax rate on MLP distributions (LP + GP)	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*100%*	*100%*	*100%*	*92%*
Cash tax rate on assets at OpCo	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
OpCo net pro forma corp debt	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000
Proportionate debt issued to fund capex	$876	$1,171	$1,429	$668	$560	$448	$333	$217	$101	$0
Cash proceeds from asset dropdowns	$475	$808	$1,140	$1,473	$1,805	$2,138	$2,470	$2,803	$3,135	$3,181
Interest rate (assumed)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
OpCo cash on hand	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest rate (assumed)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Pro forma proportionate expansion capex	$1,034	$1,421	$1,754	$825	$722	$610	$493	$371	$248	$140
Maintanence capex	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Source: Company Data, Morgan Stanley Research

rghuler@nisource.com Randy Huler 09/30/14 12:26:38 PM Nisource Corporate Services Co.

Valuation Methodology & Risks

Assets in an MLP have typically traded at a premium to C-Corps. MLPs have traded at higher valuations than would similar assets in a corporate structure due to: 1) their tax efficiency (no federal taxes) and 2) the premium investors tend to place on yield. These two factors have typically produced: 3) a lower cost of capital, which can facilitate a potentially faster growth rate.

Interest rates are not the driver. Although MLPs have benefited from declining interest rates, so have other asset classes. We believe that gains in MLP stocks are a function of their ability to grow cash flows, not just their current yield.

The key value proposition is total return (growing cash flow yield + stock price appreciation). We find a statistically insignificant correlation between bond and MLP prices. Several periods of rate increases (1994, 1999, 2004) are correlated with poor performance, but there is little day-to-day link.

Distribution discount models (DDM) and implied yield targets. We use a 10-year distribution discount model to arrive at our price targets along with our implied yield target for each individual MLP as we view long-term cash flow stability and growth as the true measure of an MLP stock's value.

Yield spread. Despite historical day-to-day insignificance, we think this is worth looking at as a check on valuation. Overall, yields tend to revert to their mean, and even if we have modest yield compression, significant share price upside is possible.

Multiples provide valuation check. While we generally think it is difficult to target an EV (enterprise value) / EBITDA or P / DCF (distributable cash flow) multiple for an MLP stock, we think it certainly provides a gauge as to the stock's valuation. Currently, MLP multiples are near their historical average over time and we believe this provides another metric of valuation support along with looking at the high yield spreads and distribution growth.

Relative (historical) valuation measures support MLPs. The primary argument against improving valuation is weak relative performance in a rising interest rate environment. While we believe that the relationship to Treasury yields will become less relevant over time, using traditional dividend yield analysis, and the MLP index dividend yield spread to Treasury MLPs appear undervalued. Valuation supports MLPs relative to peers. Pipeline MLPs offer organic growth in a rising petroleum demand environment that requires infrastructure development. When we compare MLPs to comparable income asset classes — utilities and REITs — the valuation disconnect is unwarranted, in our opinion, as the pipeline MLPs offer twice the implied return of REITs and utilities.

Distribution growth is predicated on energy fundamentals. The United States is short on critical energy infrastructure, much of which has scarcity/franchise value, in our view, and this should drive a number of expansion projects for MLPs over the next five years. This scarcity is apparent, given the age of most US energy infrastructure assets (many were constructed during or shortly after World War II), combined with approximately 1.5–2.0% demand growth for oil, natural gas, and refined products, along with changing sources of supply for natural gas — deepwater Gulf of Mexico, the US Rockies, and liquefied natural gas (LNG) versus more traditional, conventional sources of supply.

Access to capital markets is of particular importance in this space. Given that MLPs pay out a majority of their free cash flow to unitholders each quarter, growth is funded largely through ongoing debt and equity capital raises. To the extent MLPs are unable to raise financing on favorable terms, organic capital spending budgets and third party acquisitions will likely be delayed or forgone. A prolonged period of limited capital market access could place downward pressure on unit prices if investors are concerned that distribution growth could be limited for a significant amount of time.

Investment concerns. The risks to our thesis include economic growth and demand, alternative energy programs, legislative items including tax reform and easing of product restrictions for natural gas and refined products, as well as a return to Treasury yield valuation and infrastructure reliability. Increased institutional ownership would likely create a revaluation of the sector, as new money would flood the current market. Our analysis is based on the current capital markets and economic outlook, with our Overweight names likely to outperform with or without institutional equity.

rghuler@nisource.com Randy Huler 09/30/14 12:26:36 PM Nisource Corporate Services Co

Glossary of MLP Terms

Cash Available (distributable cash flow or "DCF"): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements.

Cash Distributed (distributions): Quarterly dividend payments made to limited partner (LP) and general partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Yield or Distribution Yield: Yield or distribution yield as referenced in this report are defined as most recent distribution declared, annualized, and then divided by the current market price. It may consist of short-term capital gains, long-term capital gains, and/or return of capital.

General Partner (GP): Corporate sponsor, management team, or financial investor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

Incentive Distribution Rights (IDRs): Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in many cases upwards of 50% of incremental cash payouts).

Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated by the partnership through a quarterly distribution. LPs typically cannot participate in making decisions regarding the operation of the MLP unless they secure a definitive majority (e.g., 66%, but it can vary) in a proxy vote.

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate.

Publicly Traded Partnership (PTP): a master limited partnership (MLP) or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are roughly 75 publicly traded partnerships and the majority is involved in energy-related activities. Energy related PTP's comprise approximately 85% of total PTP market cap, with REITs making up the majority of the 15% balance.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include 1) interest 2) dividends 3) real property rents 4) gains from the sale or other disposition of real estate 5) income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource 6) Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 7) Income and gains from commodities, if buying and selling commodities is the PTP's principal activity 8) Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).

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Morgan Stanley

MORGAN STANLEY RESEARCH

September 30, 2014
NiSource, Inc.

MORGAN STANLEY ModelWare

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Global Stock Ratings Distribution

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September 30, 2014
NiSource, Inc.

(as of August 31, 2014)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1078**	**34%**	**334**	**39%**	**31%**
Equal-weight/Hold	**1378**	**44%**	**413**	**48%**	**30%**
Not-Rated/Hold	**108**	**3%**	**21**	**2%**	**19%**
Underweight/Sell	**566**	**18%**	**93**	**11%**	**16%**
Total	**3,130**		**861**		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Stock Price, Price Target and Rating History (See Rating Definitions)

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September 30, 2014
NiSource, Inc.

Stock Rating History: 9/1/11 : E/A; 6/9/14 : E/A

Price Target History: 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30; 10/31/13 : 32; 1/8/14 : 34; 2/18/14 : 36; 4/30/14 : 40; 7/31/14 : 43

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -•- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ~~ Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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September 30, 2014
NiSource, Inc.

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The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
Tel: +81 (0) 3 6836 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (09/29/2014)
Brian Lasky		
CenterPoint Energy, Inc (CNP.N)	E (06/09/2014)	$24.46
Cheniere Energy Inc. (LNG.A)	O (06/09/2014)	$81.59
Cheniere Energy Partners L.P. Holdings (CQH.A)	E (06/09/2014)	$24.48
EnLink Midstream LLC (ENLC.N)	E (06/09/2014)	$41.27
Enbridge Energy Partners LP (EEP.N)	U (09/10/2012)	$39.55
Enbridge Energy Partners LP (EEQ.N)	U (12/17/2013)	$37.35
Kinder Morgan Energy Partners LP (KMR.N)	E- (06/09/2014)	$94.5
Kinder Morgan Energy Partners LP (KMP.N)	E (08/14/2014)	$93.6
Kinder Morgan Inc. (KMI.N)	E (06/09/2014)	$38.53
NiSource, Inc. (NI.N)	E (06/09/2014)	$40.84
Oneok Inc. (OKE.N)	O (06/09/2014)	$66.07
SemGroup Corp (SEMG.N)	O (06/09/2014)	$84.26
Spectra Energy Corp. (SE.N)	E (06/09/2014)	$39.23
Williams Companies, Inc (WMB.N)	O (06/09/2014)	$55.99

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MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

Brian Lasky
Brian.Lasky@morganstanley.com
+1 212 761 7249

Robert S Kad
Robert.Kad@morganstanley.com
+1 212 761 6385

Matthew Giacobbe
Matthew.Giacobbe@morganstanley.com
+1 212 761 7243

Alexander H Renker
Alexander.Renker@morganstanley.com
+1 212 761 4657

September 28, 2014

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Doubling Down on Midstream

NiSource announced its intent to separate into two publicly traded companies and form an MLP. While the formation of a midstream MLP does not come as a surprise given management's previous comments - the breakup of NiSource and Columbia Pipeline Group (CPG) comes as an incremental positive and we expect the market to react favorably to the news. This transaction enables each entity to independently fund and aggressively pursue strategic initiatives (i.e., large-scale project development, M&A). Furthermore, it should provide the market better transparency around each business' cash flow growth and risk profiles. The creation of an MLP through an OpCo structure with 85% of the EBITDA remaining and $12-$15bn in capex over the next decade should create a high growth MLP that will drive meaningful midstream value (both LP and GP) over time. Given CPG's premier asset base located in the Marcellus/Utica shales, we believe premium valuation will be ascribed to both CPG and its pending MLP formation. *We will provide our analysis of this transaction after NI's Analyst Day on 9/29.*

What's new: NI announced its plan to separate into two publicly traded companies (NiSource and Columbia Pipeline Group). The separation is expected to occur in mid-2015. Under the separation plan, NI shareholders would retain their current NI shares and receive a pro-rata dividend of CPG stock in a tax-free transaction. Prior to the separation, NI expects to reduce its net debt with proceeds from a one-time cash distribution from CPG, through long-term debt. NI and CPG will target IG credit metrics. Separately, NI announced its intent to form a midstream MLP. The initial assets will consist of a 14.6% interest in CPG OpCo LP, which will own substantially all of NI's midstream assets.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Shr price, close (Sep 26, 2014)	$38.58
Mkt cap, curr (mm)	$12,238
52-Week Range	$40.66-30.10

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Valuation Methodology & Risks

Assets in an MLP have typically traded at a premium to C-Corps. MLPs have traded at higher valuations than would similar assets in a corporate structure due to: 1) their tax efficiency (no federal taxes) and 2) the premium investors tend to place on yield. These two factors have typically produced: 3) a lower cost of capital, which can facilitate a potentially faster growth rate.

Interest rates are not the driver. Although MLPs have benefited from declining interest rates, so have other asset classes. We believe that gains in MLP stocks are a function of their ability to grow cash flows, not just their current yield.

The key value proposition is total return (growing cash flow yield + stock price appreciation). We find a statistically insignificant correlation between bond and MLP prices. Several periods of rate increases (1994, 1999, 2004) are correlated with poor performance, but there is little day-to-day link.

Distribution discount models (DDM) and implied yield targets. We use a 10-year distribution discount model to arrive at our price targets along with our implied yield target for each individual MLP as we view long-term cash flow stability and growth as the true measure of an MLP stock's value.

Yield spread. Despite historical day-to-day insignificance, we think this is worth looking at as a check on valuation. Overall, yields tend to revert to their mean, and even if we have modest yield compression, significant share price upside is possible.

Multiples provide valuation check. While we generally think it is difficult to target an EV (enterprise value) / EBITDA or P / DCF (distributable cash flow) multiple for an MLP stock, we think it certainly provides a gauge as to the stock's valuation. Currently, MLP multiples are near their historical average over time and we believe this provides another metric of valuation support along with looking at the high yield spreads and distribution growth.

Relative (historical) valuation measures support MLPs. The primary argument against improving valuation is weak relative performance in a rising interest rate environment. While we believe that the relationship to Treasury yields will become less relevant over time, using traditional dividend yield analysis, and the MLP index dividend yield spread to Treasury MLPs appear undervalued. Valuation supports MLPs relative to peers. Pipeline MLPs offer organic growth in a rising petroleum demand environment that requires infrastructure development. When we compare MLPs to comparable income asset classes — utilities and REITs — the valuation disconnect is unwarranted, in our opinion, as the pipeline MLPs offer twice the implied return of REITs and utilities.

Distribution growth is predicated on energy fundamentals. The United States is short on critical energy infrastructure, much of which has scarcity/franchise value, in our view, and this should drive a number of expansion projects for MLPs over the next five years. This scarcity is apparent, given the age of most US energy infrastructure assets (many were constructed during or shortly after World War II), combined with approximately 1.5–2.0% demand growth for oil, natural gas, and refined products, along with changing sources of supply for natural gas — deepwater Gulf of Mexico, the US Rockies, and liquefied natural gas (LNG) versus more traditional, conventional sources of supply.

Access to capital markets is of particular importance in this space. Given that MLPs pay out a majority of their free cash flow to unitholders each quarter, growth is funded largely through ongoing debt and equity capital raises. To the extent MLPs are unable to raise financing on favorable terms, organic capital spending budgets and third party acquisitions will likely be delayed or forgone. A prolonged period of limited capital market access could place downward pressure on unit prices if investors are concerned that distribution growth could be limited for a significant amount of time.

Investment concerns. The risks to our thesis include economic growth and demand, alternative energy programs, legislative items including tax reform and easing of product restrictions for natural gas and refined products, as well as a return to Treasury yield valuation and infrastructure reliability. Increased institutional ownership would likely create a revaluation of the sector, as new money would flood the current market. Our analysis is based on the current capital markets and economic outlook, with our Overweight names likely to outperform with or without institutional equity.

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Glossary of MLP Terms

Cash Available (distributable cash flow or "DCF"): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements.

Cash Distributed (distributions): Quarterly dividend payments made to limited partner (LP) and general partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Yield or Distribution Yield: Yield or distribution yield as referenced in this report are defined as most recent distribution declared, annualized, and then divided by the current market price. It may consist of short-term capital gains, long-term capital gains, and/or return of capital.

General Partner (GP): Corporate sponsor, management team, or financial investor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

Incentive Distribution Rights (IDRs): Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in many cases upwards of 50% of incremental cash payouts).

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Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated by the partnership through a quarterly distribution. LPs typically cannot participate in making decisions regarding the operation of the MLP unless they secure a definitive majority (e.g., 66%, but it can vary) in a proxy vote.

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate.

Publicly Traded Partnership (PTP): a master limited partnership (MLP) or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are roughly 75 publicly traded partnerships and the majority is involved in energy-related activities. Energy related PTP's comprise approximately 85% of total PTP market cap, with REITs making up the majority of the 15% balance.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include 1) interest 2) dividends 3) real property rents 4) gains from the sale or other disposition of real estate 5) income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource 6) Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 7) Income and gains from commodities, if buying and selling commodities is the PTP's principal activity 8) Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).

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MORGAN STANLEY ModelWare

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(as of August 31, 2014)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1078**	**34%**	**334**	**39%**	**31%**
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Not-Rated/Hold	**108**	**3%**	**21**	**2%**	**19%**
Underweight/Sell	**566**	**18%**	**93**	**11%**	**16%**
Total	**3,130**		**861**		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Stock Price, Price Target and Rating History (See Rating Definitions)

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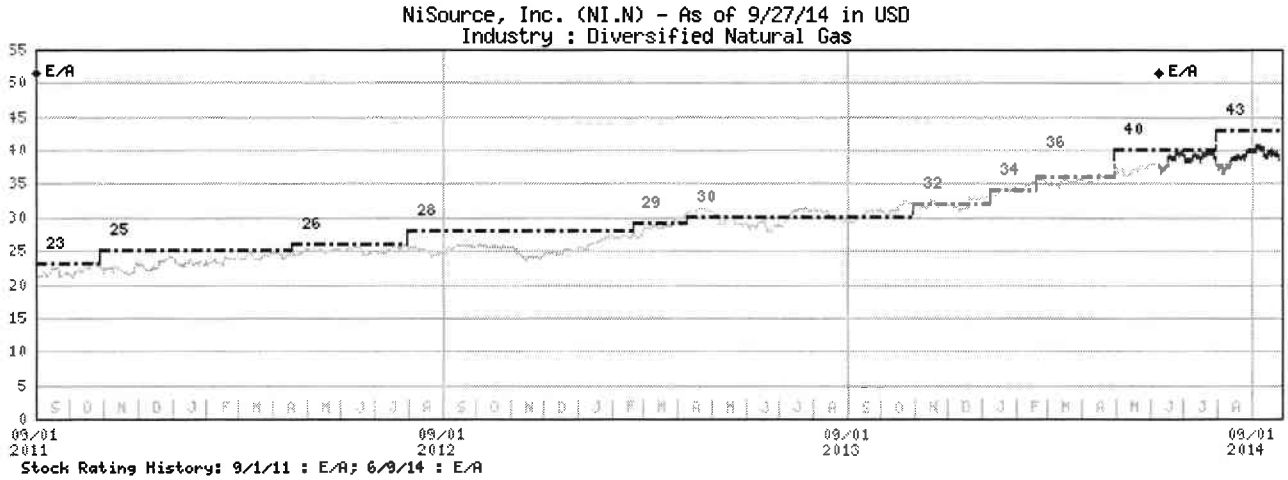

Stock Rating History: 9/1/11 : E/A; 6/9/14 : E/A

Price Target History: 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30; 10/31/13 : 32; 1/8/14 : 34; 2/18/14 : 36; 4/30/14 : 40; 7/31/14 : 43

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -•- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
Tel: +81 (0) 3 6836 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (09/26/2014)
Brian Lasky		
CenterPoint Energy, Inc (CNP.N)	E (06/09/2014)	$24.39
Cheniere Energy Inc. (LNG.A)	O (06/09/2014)	$80.14
Cheniere Energy Partners L.P. Holdings (CQH.A)	E (06/09/2014)	$24.55
EnLink Midstream LLC (ENLC.N)	E (06/09/2014)	$41.45
Enbridge Energy Partners LP (EEP.N)	U (09/10/2012)	$39.46
Enbridge Energy Partners LP (EEQ.N)	U (12/17/2013)	$37.1
Kinder Morgan Energy Partners LP (KMR.N)	E- (06/09/2014)	$94.15
Kinder Morgan Energy Partners LP (KMP.N)	E (08/14/2014)	$93.45
Kinder Morgan Inc. (KMI.N)	E (06/09/2014)	$38.39
NiSource, Inc. (NI.N)	E (06/09/2014)	$38.58
Oneok Inc. (OKE.N)	O (06/09/2014)	$66.17
SemGroup Corp (SEMG.N)	O (06/09/2014)	$83.75
Spectra Energy Corp. (SE.N)	E (06/09/2014)	$39.18
Williams Companies, Inc (WMB.N)	O (06/09/2014)	$56.51

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
38.58 USD	32.00 USD	22.40 USD	43.20 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Announces Columbia Pipeline MLP Plans, Finally

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 29 Sep 2014
Estimates as of 31 Jul 2014
Pricing data through 26 Sep 2014
Rating updated as of 26 Sep 2014

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 29 Sep 2014

In a long-anticipated move, NiSource announced it will split off its natural gas pipeline, midstream, and storage businesses into a publicly traded master limited partnership, Columbia Pipeline Group. NiSource expects to launch an initial public offering in early 2015 and close the transaction in mid-2015.

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for NiSource. Although we think the split could result in a higher market valuation for the midstream business, it won't change CPG's fundamentals or cash flow profile. Thus, we don't expect the transaction itself to have a material impact on our fair value estimate. We do think CPG's pipeline assets in particular have wide-moat characteristics, given their favorable federal regulation and location in the Eastern U. S. shale gas regions.

Management said it intends to invest $12 billion-$15 billion during the next 10 years at CPG, representing a growing trend from the $4.5 billion management previously said it planned to invest during the next five years at the group. We think the Columbia Pipeline modernization program and opportunities in shale gas producing regions can support 12.6% average annual earnings growth during the next five years at CPG.

This is higher than the 10%-12% growth target management had set before announcing the CPG spin-off. However, management set this target in 2012 before the joint venture with Hilcorp announced several new midstream projects. It also does not include any benefit from the Rayne and Leach XPress pipeline projects. We believe both of these projects have a high probability of moving forward.

Vital Statistics

Market Cap (USD Mil)	12,165
52-Week High (USD)	40.66
52-Week Low (USD)	30.09
52-Week Total Return %	29.1
YTD Total Return %	19.7
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	7.1
5-Yr Forward EPS CAGR %	7.7
Price/Fair Value	1.21

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	17.0	20.8	*22.7*	*21.1*
EV/EBITDA	9.9	11.2	*11.3*	*10.3*
EV/EBIT	15.2	17.0	*16.6*	*15.2*
Free Cash Flow Yield %	-3.0	-4.4	*-4.6*	*-4.5*
Dividend Yield %	3.5	3.0	*2.7*	*2.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	5,061	5,657	*6,169*	*6,573*
Revenue YoY %	-15.9	11.8	*9.0*	*6.6*
EBIT	1,039	1,126	*1,294*	*1,413*
EBIT YoY %	12.7	8.4	*14.9*	*9.2*
Net Income, Adjusted	437	494	*542*	*589*
Net Income YoY %	12.4	13.0	*9.7*	*8.6*
Diluted EPS	1.46	1.58	*1.70*	*1.83*
Diluted EPS YoY %	7.9	8.3	*7.8*	*7.9*
Free Cash Flow	71	-379	*-148*	*-417*
Free Cash Flow YoY %	339.3	-637.2	*-61.0*	*182.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource also owns 15,000 miles of natural gas transmission pipeline, operates one of the nation's largest underground natural gas storage systems, and provides unregulated midstream services in the growing Marcellus and Utica shale production area. NiSource's electric utility generates, transmits, and distributes electricity in northern Indiana.

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We've said that completing the spin-off could help NiSource avoid having to issue equity in 2015. We'll continue to monitor this as we gain a better idea of the transaction's exact impact on NiSource.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	Forecast 2015	5-Year Proj. CAGR
Revenue	-4.1	-6.3	-15.9	11.8	9.0	6.6	7.1
EBIT	6.8	-0.2	12.7	8.4	14.9	9.2	10.4
EBITDA	3.9	-4.0	9.6	6.4	11.4	9.2	9.4
Net Income	13.2	14.1	12.4	13.0	9.7	8.6	9.8
Diluted EPS	9.0	10.8	7.9	8.3	7.8	7.9	7.7
Earnings Before Interest, after Tax	4.4	10.4	4.1	-1.0	18.4	5.4	8.7
Free Cash Flow	-237.7	-88.9	339.3	-637.2	-61.0	182.0	—

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5 Year Proj. Avg
Operating Margin %	18.6	15.3	20.5	19.9	21.0	21.5	22.1
EBITDA Margin %	28.7	24.3	31.6	30.1	30.8	31.5	32.2
Net Margin %	7.9	6.5	8.6	8.7	8.8	9.0	9.3
Free Cash Flow Margin %	-1.7	0.3	1.4	-6.7	-2.4	-6.4	-3.4
ROIC %	7.3	7.6	7.5	6.9	7.5	7.3	7.3
Adjusted ROIC %	10.0	10.6	10.2	9.1	9.8	9.3	9.2
Return on Assets %	1.9	1.5	2.0	2.4	2.3	2.3	2.4
Return on Equity %	7.7	6.0	7.9	9.3	9.0	9.4	9.7

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	0.60	0.61	0.59	0.60	0.61	0.63	0.62
Total Debt/EBITDA	5.23	5.45	5.06	5.19	5.14	5.19	5.05
EBITDA/Interest Expense	3.94	3.88	3.83	4.11	4.08	4.04	4.12

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.00	1.22	—	—
Price/Earnings	17.0	20.8	22.7	21.1
EV/EBITDA	9.9	11.2	11.3	10.3
EV/EBIT	15.2	17.0	16.6	15.2
Free Cash Flow Yield %	-3.0	-4.4	-4.6	-4.5
Dividend Yield %	3.5	3.0	2.7	2.8

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	87.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-974	-5.2	-3.05
Present Value Stage II	1,407	7.5	4.40
Present Value Stage III	18,225	97.7	57.04
Total Firm Value	**18,657**	**100.0**	**58.39**
Cash and Equivalents	70	—	0.22
Debt	-8,834	—	-27.65
Preferred Stock	—	—	—
Other Adjustments	35	—	0.11
Equity Value	**9,928**	**—**	**31.07**
Projected Diluted Shares	320		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2011	2012	2013	Forecast 2014	Forecast 2015
Revenue	**6,019**	**5,061**	**5,657**	***6,169***	***6,573***
Cost of Goods Sold	2,556	1,542	1,816	*2,044*	*2,129*
Gross Profit	**3,463**	**3,520**	**3,842**	***4,125***	***4,445***
Selling, General & Administrative Expenses	1,723	1,663	1,874	*1,976*	*2,115*
Other Operating Expense (Income)	295	288	301	*297*	*307*
Other Operating Expense (Income)	-15	-32	-36	*-45*	*-49*
Depreciation & Amortization (if reported separately)	538	562	577	*603*	*658*
Operating Income (ex charges)	**922**	**1,039**	**1,126**	***1,294***	***1,413***
Restructuring & Other Cash Charges	17	-4	-18	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**905**	**1,043**	**1,143**	***1,294***	***1,413***
Interest Expense	377	418	415	*465*	*513*
Interest Income	-61	2	24	*5*	*5*
Pre-Tax Income	**467**	**626**	**753**	***834***	***906***
Income Tax Expense	163	216	262	*292*	*317*
Other After-Tax Cash Gains (Losses)	-5	6	6	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	35	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**299**	**416**	**532**	***542***	***589***
Weighted Average Diluted Shares Outstanding	289	300	314	*319*	*321*
Diluted Earnings Per Share	**1.03**	**1.39**	**1.70**	***1.70***	***1.83***
Adjusted Net Income	389	437	494	*542*	*589*
Diluted Earnings Per Share (Adjusted)	**1.35**	**1.46**	**1.58**	***1.70***	***1.83***
Dividends Per Common Share	0.92	0.94	0.98	*1.02*	*1.06*
EBITDA	**1,443**	**1,605**	**1,721**	***1,897***	***2,071***
Adjusted EBITDA	**1,460**	**1,601**	**1,703**	***1,897***	***2,071***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Cash and Equivalents	172	83	35	*209*	*151*
Investments	—	—	—	—	—
Accounts Receivable	855	907	1,006	*1,099*	*1,171*
Inventory	566	496	500	*560*	*583*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	655	866	618	*750*	*750*
Current Assets	**2,248**	**2,352**	**2,159**	***2,617***	***2,655***
Net Property Plant, and Equipment	11,800	12,916	14,365	*15,843*	*17,310*
Goodwill	3,677	3,677	3,666	*3,666*	*3,666*
Other Intangibles	298	287	276	*276*	*276*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,685	2,613	2,188	*2,561*	*2,689*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**20,708**	**21,845**	**22,654**	***24,963***	***26,595***
Accounts Payable	435	539	619	*697*	*726*
Short-Term Debt	1,687	1,284	1,241	*1,250*	*1,250*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,525	1,479	1,319	*1,500*	*1,500*
Current Liabilities	**3,646**	**3,302**	**3,178**	***3,447***	***3,476***
Long-Term Debt	6,267	6,819	7,593	*8,500*	*9,500*
Deferred Tax Liabilities (Long-Term)	2,542	2,953	3,278	*3,632*	*3,972*
Other Long-Term Operating Liabilities	3,256	3,216	2,718	*3,252*	*3,236*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**15,711**	**16,290**	**16,767**	***18,830***	***20,184***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,168	4,598	4,690	*4,725*	*4,760*
Retained Earnings (Deficit)	917	1,060	1,286	*1,502*	*1,750*
(Treasury Stock)	-31	-41	-49	*-49*	*-49*
Other Equity	-60	-66	-44	*-49*	*-54*
Shareholder's Equity	**4,997**	**5,554**	**5,887**	***6,133***	***6,411***
Minority Interest	—	—	—	—	—
Total Equity	**4,997**	**5,554**	**5,887**	***6,133***	***6,411***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Net Income	299	416	532	*542*	*589*
Depreciation	538	562	577	*603*	*658*
Amortization	—	—	—	—	—
Stock-Based Compensation	39	45	51	*49*	*53*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	178	305	287	*354*	*340*
Other Non-Cash Adjustments	217	25	-65	—	—
(Increase) Decrease in Accounts Receivable	220	-51	-95	*-93*	*-72*
(Increase) Decrease in Inventory	-142	62	-9	*-60*	*-23*
Change in Other Short-Term Assets	-274	-157	81	*-132*	—
Increase (Decrease) in Accounts Payable	-155	57	68	*78*	*29*
Change in Other Short-Term Liabilities	—	—	—	*181*	—
Cash From Operations	**920**	**1,264**	**1,427**	***1,523***	***1,574***
(Capital Expenditures)	-1,125	-1,499	-1,880	*-2,081*	*-2,125*
Net (Acquisitions), Asset Sales, and Disposals	9	26	18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-34	51	-148	*160*	*-143*
Cash From Investing	**-1,149**	**-1,422**	**-2,010**	***-1,921***	***-2,268***
Common Stock Issuance (or Repurchase)	21	374	36	*35*	*35*
Common Stock (Dividends)	-258	-273	-306	*-326*	*-341*
Short-Term Debt Issuance (or Retirement)	-23	-582	-78	*9*	—
Long-Term Debt Issuance (or Retirement)	541	656	794	*907*	*1,000*
Other Financing Cash Flows	—	—	—	*-49*	*-53*
Cash From Financing	**281**	**175**	**445**	***576***	***641***
Exchange Rates, Discontinued Ops, etc. (net)	-50	8	129	*-5*	*-5*
Net Change in Cash	**2**	**25**	**-10**	***174***	***-58***

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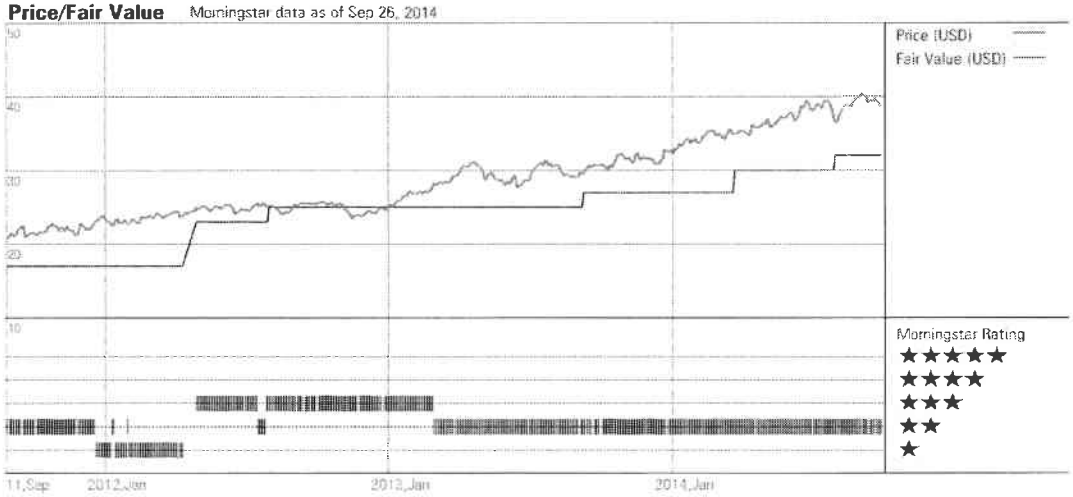
Price/Fair Value Morningstar data as of Sep 26, 2014



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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Underweight
Integrateds – Market Weight
IPPs – Market Overweight

September 29, 2014

NISOURCE INC.

(NI US Equity – $ 40.84 – Outperform)

NI-ce response to the MLP and split

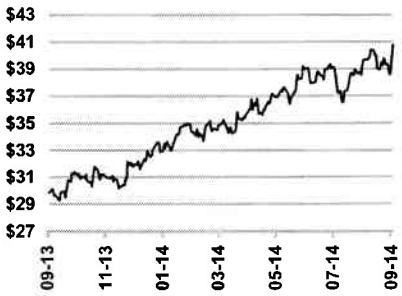
- **Positive response to split and MLP even without new guidance**
  Shares of NI rose nearly 6% on Monday following the announcement of the pipeline spin and MLP formation. While the MLP S-1 filing limited the amount of detail management gave at the analyst meeting, the long growth runway for both the pipeline and utility operations were clear themes. Overall the analyst meeting bolstered our confidence in the outlook for NI, and we believe NI remains a key way to play the gas infrastructure growth theme.

- **Columbia will be a core midstream holding; plus premium utilities**
  Management highlighted mid-teens annual growth potential for the pipeline business over the next six years, which will triple in size from $4B in net investment today to $12.5B by 2020. We believe that this growth potential, along with the upside from the MLP and likely strategic interest over time will support a robust valuation once Columbia Pipeline Group spins off next year. While the utility growth potential is not as high as midstream, the high quality growth and regulatory environments continue to warrant premiums.

- **Maintaining estimates but boosting target to $49 to reflect the split**
  The outlook for both the utility and pipeline operations appear to largely reflect our financial forecasts, though we will have to wait until after the MLP offering for formal guidance and an updated growth rate. That said, we have greater confidence in the outlook and the long glide path of high growth at the pipeline and utilities. We are boosting our price target to $49 based on an updated sum of parts valuation.

Trading and Fundamental Data	
Target Price	**$ 49**
Current Price	$ 40.84
52 Week Range	$ 30 - $ 41
Market Cap. ($MM)	$ 12,878
Share Out. (MM)	315.3
Dividend Yield	2.47%
Dividend Payout Ratio	62.4%
ROE	9%
Debt to Cap	60%
Avg Daily Vol (ooo)	3,562

Price Performance	YTD	LTM
NI US Equity	24%	32%
Utility Index	10%	11%
S&P 500	7%	18%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
Target Price	$49	$44

Estimates / Valuation				
(US$)	2014E	2015E	2016E	2017E
EPS	$1.69	$1.89	$2.03	$2.21
Consensus	$1.71	$1.84	$1.99	$2.07
P/E	24.1x	21.6x	20.1x	18.4x
Dividend Per Share	$1.02	$1.11	$1.21	$1.32
Dividend Yield	2.5%	2.7%	3.0%	3.2%

Steven Fleishman
(646) 582-9241
SFleishman@WolfeResearch.com

Alex Kania
(646) 582-9244
AKania@WolfeResearch.com

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September 29, 2014

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2014E	2015E	2016E	2017E
EPS	$1.69	$1.89	$2.03	$2.21
Diluted Shares Outstanding	314	319	326	330
Dividends Per Share	$1.02	$1.11	$1.21	$1.32
Dividend Yield	2.5%	2.7%	3.0%	3.2%
Dividend Payout Ratio	60%	59%	60%	60%
Equity Ratio	39%	39%	39%	37%
FFO/Net Debt	14%	14%	13%	13%
Valuation Metrics				
P/E	24.1x	21.6x	20.1x	18.4x
Price/Book	2.1x	1.8x	1.7x	1.6x
Segment EPS				
Gas Distribution	$0.75	$0.83	$0.89	$0.95
Transmission & Storage	0.60	0.72	0.81	0.94
Electric	0.55	0.57	0.59	0.61
Parent & Other	(0.21)	(0.23)	(0.26)	(0.29)
Total EPS	**$1.69**	**$1.89**	**$2.03**	**$2.21**
EBITDA by Segment				
Gas Distribution	$701	$776	$845	$907
Transmission & Storage	$565	$676	$792	$931
Electric	$588	$615	$641	$667
Parent	$16	$16	$16	$16
Total EBIT	**$1,869**	**$2,082**	**$2,294**	**$2,520**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2014E	2015E	2016E	2017E
Total Capital Spending by Segment ($M)				
Gas Distribution	$790	$790	$760	$730
Transmission & Storage	825	1,255	1,542	1,474
Electric	440	593	593	593
Parent	125	50	50	50
Total Capex	**$2,180**	**$2,688**	**$2,945**	**$2,847**
Financings ($M)				
Total Equity Issued/(Repurchased)	$45	$300	$275	$45
Total Debt Issued/(Repurchased)	$1,078	$1,180	$1,448	$1,338

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates three separate business lines: electric utility, gas distribution, and midstream natural gas. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.4 million customers in Ohio, Pennsylvania, Kentucky, Virginia, and Massachusetts. Finally, the midstream segment, Columbia Pipeline Group, operates 15,000 miles of interstate gas pipelines and has a large set of storage assets across its footprint.

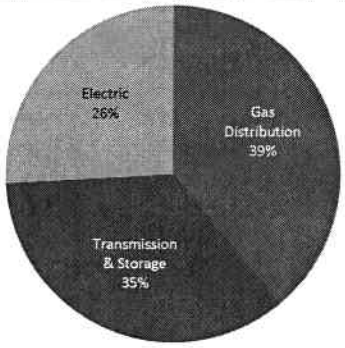
Investment Thesis

We believe that the significant investment opportunities in the midstream space will serve to boost NI's long term growth rate close to double digits over the next five years, up from the current 5%-7%. We see well over $5B of known investment opportunities in the gas infrastructure segment over the next five years with a substantial likelihood of upside, plus the cost of capital benefits of forming an MLP.

Valuation

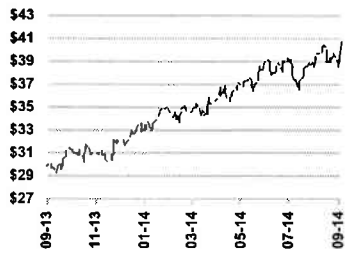
Our $49 price target is from our sum of parts valuation. We apply a16x multiple to 2016E electric utility earnings and a 16.5x multiple to 2016E gas distribution earnings, and 16.5x parent drag. We value midstream on an MLP basis targeting a 5% yield. Downside risks for NiSource are execution on project development, economic conditions and long-term performance of an MLP. Upside risks are additional growth projects in midstream.

Exhibit 3. 2016 EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: Bloomberg

Investment Conclusion

NI remains one of the best ways to play the gas infrastructure theme, and the analyst day underscored the significant value of both the utilities and midstream segments. In particular, we believe that Columbia Pipeline Group will garner a very high valuation post corporate split owing to the tripling of the size of the midstream operation, the cost of capital upside from the MLP, and the strategic interest in it from other players. The utility has solid growth potential over the very long term in strong regulatory environments and should also attract a premium. We reiterate our Outperform rating.

Valuation: higher target price on treatment of utility parent drag

We are boosting our target price on NiSource to $49 from $44. There two key drivers for the increase. First, we have higher confidence in the long-term EPS growth potential for the business through our forecast period (2019) but also in 2020 and beyond. Second, while our valuation approach to the midstream operation is largely unchanged (long-term MLP value discounted back to 2016), we are now valuing the "NiSource classic" earnings more in line with the valuation of other utilities that have a parent debt load, i.e., on simple P/E. The implication of this is a shift on valuing the parent from an enterprise value of the debt compared to a P/E multiple on the parent drag. See Exhibit 5 for our updated sum of parts valuation.

Exhibit 5:NiSource valuation

Regulated Operations	Valuation Metric	Estimate	Valuation Multiple	$MM Value
Electric Utility	P/E	193	16.0	3,082
Gas Distribution	P/E	289	16.5	4,775
Parent Drag	P/E	(83)	16.5	(1,372)
Equity Value of Utility				**6,485**

MLP Valuation	2019E	
LP Stake		
Total LP Distributions	449	
Less Taxes on Distributions	(99)	Assume 20% tax rate
Net After Tax Distributions	350	
Target Equity Yield	5.00%	
Equity Value of MLP LP	**5,884**	Discounted back 3 years
GP Stake		
Total GP Distributions	241	
Less Taxes on Distributions	(84)	Assume 35% tax rate
Net After Tax Distributions	157	
Target Equity Yield of GP	4.00%	
Equity Value of MLP GP	**3,290**	Discounted back 3 years
Total Equity Value of MLP to NiSource		**9,174**
NiSource Equity Value		**$15,659**
Fully Diluted Outstanding Shares		318.7
NI Equity Value per Share		**$49**

Source: NI, Wolfe Research

September 29, 2014

Highlights from the analyst day

- **MLP S-1 within expectations.** The S-1 for Columbia Pipeline Partners was filed early this morning. The specifics of the filing are largely in line with our expectations. Initial EBITDA of the MLP for the year ended 9/30/2015 will be about $90M, with initial cash available for distribution of $65.7M. This level should easily be able to support 15%+ annual distribution growth for a very long period of time. Additionally the S-1 indicated that total pipeline segment EBITDA of about $620M for that time period. Given the number of projects going into service in late 2015 (Big Pine, Washington County Gathering, East Side Expansion) 2015 we believe that this figure largely agrees with our full-year 2015 pipeline EBITDA estimate of $675M.

- **Separation and capitalization of pipeline segment**. The tax-free spin of the pipeline and electric/gas distribution segments is on track for mid-2015, and there are no regulatory approvals necessary beyond the filing of the Form 10 with the SEC. Prior to the separation, NI will start the recapitalization process. This starts with issuing $3B of debt at Columbia Pipeline Group (roughly 5x EBITDA to start). Proceeds would then be used to reduce debt at NI – about $1B would be used to pay down commercial paper, about another billion to pay off a term loan (this and CP can be repurchased with no premium), and the rest would pay off long term debt via a tender (at a premium). Finally, the company noted that while M&A is not a strategy it is actively following, the tax-free spin does have some timing restrictions on when a sale of either segment could happen – at most two years.

- **Pipeline net investment set to triple by 2020, self-financing**. NI management sees net investment in the pipeline business growing from $4B as of the start of 2014 to more than $12.5B in 2020. The majority of this investment is driven by specifically identified projects and the system modernization with $3B of upside projects under development though with high confidence in completion. These would include the Mountaineer Xpress project, a 1-1.5Bcf/d pipeline which is wrapping up an open season shortly. Importantly, management noted that no external equity beyond units issued by the MLP would be needed to fund this growth.

- **Utility growth of 4%-6% appears conservative**. Management outlined long-term rate base growth for both utilities approaching 8% annually, though suggested that this supported EPS growth of 4%-6%. The key reasons for the difference cited by NI was the need for new equity over time (primarily the DRIP), as well as some room for any regulatory lag, particularly on non-tracked investment. Despite this the company also stressed that its track record in the past has been to exceed its targets on the regulated side. We believe that the EPS growth potential from and underlying 8% rate base growth story could in fact be higher than 4%-6%. Our estimates imply utility growth a little higher than the top end of the range.

- **Growth does not disappear in 2020**. A key takeaway from the analyst day from our perspective is that the growth investment does not simply go away in 2020. Even with $8B of net investment in the pipeline business through 2020, management sees another $4-7B of investment opportunities in the long run. On the utility side, the visibility on growth is even longer dated. NI identified about $1.2B of utility investment through 2020 – but there is a full $30B inventory of rate base investment over the next 20 years. This underscores our belief that both segments are premium properties with attractive long term outlooks.

- **Dividend to be boosted by midyear**. The total dividend from both entities will be unchanged post-split relative to pre-split. That said, the utility will likely target a 60%-70% payout, with growth mirroring the level of EPS growth. On the midstream side, NI had less to say on the dividend policy of either the pipeline C-Corp or the MLP given the S-1. However, with the growth potential of the pipeline business and the capacity of 15% distribution growth of the MLP we expect overall dividend growth to be robust.

September 29, 2014

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Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Sum of parts: P/E on utility, EV/EBITDA on midstream

Wolfe Research, LLC Fundamental Target Price Risks:

Company:	Fundamental Target Price Risks:
NI US Equity	Economy, regulatory outcomes, project execution

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

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September 29, 2014

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North American Pipelines

May 21, 2014

Carl Kirst, CFA 713-546-9756
BMO Capital Markets Corp.
carl.kirst@bmo.com

Danilo Juvane, CFA / Leah Jordan, CFA
BMO Capital Markets Corp.
713-546-9741 / 713-546-9707
danilo.juvane@bmo.com/leah.jordan@bmo.com

Industry Rating: Market Perform

Natural Gas IQ: Notes from Miami-AGA Conference

The Natural Gas IQ is aimed at developments in the natural gas infrastructure space, and importantly, the implications for our pipeline equities.

2014 AGA Conference. Perhaps it's the 10% rally in US utility equities year to date, perhaps it's the 17% rally in the 10-year bond market, or perhaps it's just the draw of Miami in spring time after a severely colder than normal winter, but this year's American Gas Association (AGA) conference was certainly better attended then the last several years. We took the opportunity to meet with close to 10 names, including Outperform-rated TransCanada (TRP) and Spectra (SE), as well as Market Perform-rated AGL Resources (GAS), Centerpoint (CNP), National Fuel (NFG), NiSource (NI), Questar (STR), UGI (UGI) and One Gas (OGS, Not Rated). While our incremental take-aways on each are bulleted beginning page 2, we'd also note from a high level a couple of dominant themes that echoed in several of the meetings and investor conversations:

Theme 1—winter demand underscoring greater need for infrastructure. The primary lesson from this winter is the value of firm capacity, particularly, but not solely directed to the Northeast. Several utilities also noted distribution systems reached higher peak-day demand above design capacity, and in some cases greater than what the underlying weather/degree-day data would have suggested. In short, baseline demand appears higher, and this in turn is creating opportunities for additional pipeline capacity/demand services to supply the utility and/or its C&I customers, as well as for new load management/peak-shaving investment; those with particular positive exposure here are AGL and UGI.

Theme 2—M&A. While M&A inquiry is always present at such events to one degree or another, a recent spate of LDC transactions over the last six months done in the healthy 11x-12x EBITDA range, had this topic more front and center than usual. Chatter appears to be high both on possible buyers and sellers. While nothing so developed as becoming a rumor mill, the standard management refrain appears to be a) yes, we're looking/open to acquisitions for the right opportunity, but b) 11-12x EBITDA is too healthy, yet c) given unsuccessful bidders involved in recent transactions may still be in the hunt, M&A multiples (especially in context of 2.5% 10-year Treasury yields) may not be scaling back anytime soon. Potential buyers of assets are CNP, UGI, and AGL; by the same token, of those who have utilities but we believe are not contemplating utility M&A are NI, SE, and OGS.

Gas Industry Snapshot

NYMEX Natural Gas 12-Mo. Strip ($/mmbtu):	$4.50
Weekly Change	*3.3%*
YTD Change	*7.6%*
NYMEX Crude Oil 12-Mo. Strip ($/bbl):	$98.22
Weekly Change	*1.2%*
YTD Change	*2.5%*
Natural Gas Liquids (40% ethane, $/gal):	$0.87
Current $ Correlation to Spot Crude Oil	38%
Weekly Change	*0.6%*
YTD Change	*-9.7%*
Processing Frac-Spread (Gulf Coast, $/gal):	$0.49
Weekly Change	*0.0%*
YTD Change	*-18.2%*
LNG U.S. Imports (monthly avg, Bcf/d):	0.09
Monthly Change	*-10.0%*
Y-o-Y Change	*-50.0%*
Natural Gas in Storage (Bcf):	+105 to 1160
Vs. this week last year	+99 to 1,964
Vs. this week 5-yr avg	+88 to 2,128
Natural Gas Directed Rig Count:	+3 to 326
Weekly Change	*0.9%*
Y-o-Y Change	*-7.9%*
Stock Performance: Weekly	
US Gas Diversifieds	*0.9%*
US Gas Utilities	*0.9%*
Canadian Pipelines	*-0.1%*
Canadian Income	*0.0%*
UTY (Philadelphia Utility Index)	*-1.6%*
XOP (S&P E&P SPDR)	*-1.9%*
OSX (Oil Service Index)	*-0.8%*
S&P 500 (SPX)	*-1.3%*
10-Year US Treasury Yield	*-3.7%*
Stock Performance: YTD	
US Gas Diversifieds	*11.2%*
US Gas Utilities	*6.2%*
Canadian Pipelines	*8.8%*
Canadian Income	*12.7%*
UTY (Philadelphia Utility Index)	*7.6%*
XOP (S&P E&P SPDR)	*8.5%*
OSX (Oil Service Index)	*1.2%*
S&P 500 (SPX)	*1.3%*
10-Year US Treasury Yield	*-17.0%*

All data priced as of close May 20, 2014 in US$.
Source: Bloomberg, EIA, Waterborne, Baker Hughes, Platts, Company data.

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AGL Resources (GAS, Market Perform, $50 PT)—John Sommerhaulder (CEO), Drew Evans (CFO), Steve Cave (Treasurer), Hank Lingingfelter (EVP, Distribution Operations)

- Reserve Investments in Virginia advance. Recent Virginia legislation allows for AGL to invest in natural gas assets (reserves, pipes) and earn a rate base return. Specifically, AGL is looking to secure 25% (max allowed) of its Virginia supply (via at least two contracts) with producers where AGL would own the reserves and earn on that investment, as well as secure a fixed gas cost for its LDC. Discussions are ongoing, and while we don't expect anything imminent (i.e., day one on July 1), we think a transaction is still possible by year end. Such an investment is small in the grand scheme perhaps, but nonetheless helps secure the targeted 4-6% EPS growth rate; additional leverage could be possible if AGL can translate this opportunity into other jurisdictions (Florida, New Jersey).
- Potential Virginia pipeline investment. AGL is in discussion with Dominion (D, $68.92, Market Perform, covered by Mike Worms) regarding its proposed pipeline extending from Marcellus/Utica production to markets in Virginia and North Carolina, with an estimated in service of late 2018.
- Potential IL pipeline investment. Driven by higher-than-expected peak demand during this past winter's severe weather, AGL is in discussion with Tallgrass (TEP, $36.80, Not Rated) regarding a proposed 75-mile lateral off of REX into northern Illinois in order to serve Nicor. Similar to the Dalton project with WMB, AGL would like to be a shipper as well as own an equity share in the new lateral, which represents upside. We anticipate an announcement by early 2015.
- A longer-term investment opportunity is LNG peaking in Florida, which is needed concurrently with the in service of SE's Sable Trail (expected May 2017) to balance the load and provide system reliability, noting storage is not accessible/practical. For the entire market, the total investment need is ~$500mm (multiple trains, tanks), and AGL could get a portion of that given its experience with LNG peaking in Georgia and Tennessee. No specific project is known yet, but AGL remains in active discussions, noting all Florida LDCs need to be aligned.
- AGL remains interested in future M&A, although it does not see attractive deals at current multiples, affirming its prudence.

CenterPoint Energy (CNP, Market Perform, $26 PT)—Scott Prochazska (CEO), Gary Whitlock (CFO), Joe McGoldrick (EVP, Gas), Scott Doyle (SVP, Regulatory Affairs)

- Oncor M&A remains on the watch list. With bankruptcy proceedings for Energy Future Holdings currently underway, management reaffirmed its long-known interest in Oncor, if 1) the package included primarily transmission and distribution assets rather than non-core assets, and 2) it would be accretive to shareholder value (i.e., depends on the multiple). Given only modest operating and back office synergies, current M&A multiples (at least those on the gas side in the 12x EBITDA range) could make such accretion challenging. Importantly, management underscored that regulators viewed the potential for broader standardization of T&D services across ERCOT as a positive, and it expected minimal regulatory pushback from its potential increase in ERCOT market share, which we understand could reach 80% of the Texas T&D market, pro forma.
- ERCOT transmission. CNP is currently in discussions with regulators to purse a $600 million project within its CEHE service territory. While ERCOT is currently pushing for a 50/50 joint venture with a partner, CNP believes it has adequate justification to be awarded the full project. A decision on the project's ultimate ownership split will be made sometime in July, with a decision to construct sometime in 2015. This project is in addition to the company's $6B budget outlook.
- Dividend policy. Management reaffirmed its dividend will be bolstered by 90%-100% of Enable Midstream cash flows and 60%-70% of utility earnings. While a more fulsome dividend policy

will be articulated at its June 30 analyst day, management stated it would likely provide a range of growth for its five-year budget horizon. As we have stated previously, we believe CNP can sustain an 8% dividend CAGR, the midpoint of our estimated 6%-10% range.

- Minnesota rate case update. As part of its recent rate case within the Minnesota LDC jurisdiction, CNP recently received ALJ approval for $17 million rate increase versus its initial $29 million request; we have modeled in $23 million, creating a penny drag to expectations. Also of note, CNP was awarded three-years of volume decoupling to commence in July of 2015, which should eliminate the need to enter into weather hedging, with roughly the same level of protection.

National Fuel Gas (NFG, Market Perform, $75 PT)—Ron Tanski (CEO), Dave Bauer (CFO), Anna Marie Cellino (President, LDC), John McGinnis (SVP, Seneca)

- Corporate restructure. NFG reiterated that while its board remains open to ideas, its integrated model (highlighting a host of operational and financial synergies between its LDCs and other businesses) has created tangible value over the years. Our own view is that given its utility history, we don't expect any change in the company's structure, beyond the eventual creation of an MLP.
- Marketed capacity. NFG stated it has received significant marketer interest for its 190 mmcf/d of capacity on the Atlantic Sunrise project. The company is currently evaluating several offers on a portion of the capacity that could serve as a bridge (likely on a portion of the committed capacity) to protect basis in 2016 (and possibly even 2015) with hopes of finalizing agreements soon.
- EDA basis outlook. With respect to its outlook on EDA basis, management believes that fear of even small outages causing significant ripple effects on price is the primary reason marketers around central Marcellus (Leidy) are offering significant basis discounts, and as such, NFG has faced challenges in locking in basis contracts longer than a month. While management believes that Atlantic Sunrise and the proposed Dominion pipeline will ultimately provide basis relief to the east, this is unlikely to come to pass before 2018.
- WDA basis outlook. On WDA basis, NFG expects Dawn to trade roughly at parity to NYMEX (as do we) within the next three to five years as new supply comes into the Canadian market, particularly as the larger REX reversal and proposed NEXUS come into fruition. Importantly, management stated it was amenable to $0.50/mcf discount to NYMEX to flow its production west on REX, but less willing to pay discounts up to $1/mcfe that come with newer, greenfield pipelines.

NiSource (NI, Market Perform, $36 PT)—Bob Skaggs (CEO), Steve Smith (CFO), Glen Kettering (Pipeline CEO), Joseph Hamrock (Gas Distribution CEO), Jim Stanley (NIPSCO CEO)

- We still anticipate an MLP announcement in 3Q14, likely in conjunction with its September analyst day. Given the robust amount of work done over the years, we would also not be surprised to see a concurrent S1 filing once the green light is given. While the SEC review is always a wildcard, we believe this sets up a possible IPO timing in 1Q15, a few months earlier than expected. As we've outlined in the past, we anticipate any such move would be small initially, perhaps with annual EBITDA in the $50-75mm range, or ~10% of the $600-$700mm total EBITDA from qualifying assets. But, through asset drop downs and organic growth projects (below), the MLP could hypothetically grow distributions at a 15-20% CAGR. The formation of an MLP would forego NI's ~$300mm equity need in 3Q15 as well as create the primary equity funding vehicle for NI going forward; as such, NI would also likely turn off its DRIP.
- The proposed Leach and Rayne expansion projects continue to progress well. We still anticipate firm contracts and an official announcement detailing the projects around late summer/early fall,

setting the stage for 4Q17 in service. Although cost assessments are ongoing, the combined projects could exceed our previous $1.5B estimate (majority for Leach), further strengthening our $2/sh NAV add (included in our $36 price target). Given the strong demand for the projects (3-4x oversubscribed in the non-binding open season), anticipated contract terms range 15-20 years for the 1.5 Bcf/d of capacity at the header (Leach) and 800-900 mmcf/d to the Gulf (Rayne).

- WB Express continues to develop with likely gas flows becoming clearer. While in a very nascent stage, sourcing gas from the middle of West Virginia WB Express is targeting ~800 mmcf/d of westward flow (potentially to Leach) and ~500 mmcf/d going east (potentially to Transco among others) with an estimated 4Q18 in service. Given only right of way work (e.g., looping, compression) is needed, WB Express should cost much less than Leach/Rayne; we estimate ~$1B, or an incremental ~$1/sh, which is upside to our valuation. Although the project is commercially coming together faster than anticipated, firm contracts and an official project announcement are still not likely until 4Q14.
- More midstream investments to come. While we still anticipate another phase of the Pennant Midstream JV with Hilcorp, we note NI is in discussion with other Utica producers in the area that could lead to additional midstream investments in and out of the Pennant Midstream JV. Each project would likely be in the $100mm-$300mm range, which would continue to strengthen NI's long term 5-7% EPS CAGR.

Questar (STR, Market Perform, $25 PT)—Ron Gibson (CEO), Kevin Hadlock (CFO), Craig Wagstaff (COO, Questar Gas), Allen Bradley (CEO, Pipes)

- CNG catching investor attention. Management noted increased investor interest in the fledging CNG fueling initiative. As well, it also reiterated that growth of this business would continue on a cautious, customer-driven approach supported by contract commitments (or stations anchored by base customers, but then open to the public). To this end, STR expects to maintain its present pace of $25 million in annual spend (~7-8 fueling stations per year), which we expect will translate into a nickel of EPS (~3-4% of earnings power) by 2018.
- Other LDCs also entering CNG business. Interest in CNG related infrastructure has not only gained steam with other LDCs across the nation, but also with various state legislating bodies and utility commissions. In fact, management stated having conversations with various utilities trying to leverage STR's 25 years of experience in the CNG business to implement a similar model, albeit under a regulated framework.
- Southern Trails repurpose tracking as expected. The Inland Express joint venture with Spectra continues to advance. Refiners remain supportive of the project, but we expect won't sign contracts until a loading facility is permitted and approved (i.e., project certainty). To this end, STR expects to make a decision on a site soon, followed by biological assessments and filing in the next couple of months (although that time frame could be tight). Coupled with commercial commitments, still targeted by year end 2014, the project remains targeted for in service late 2016.

Spectra Energy (SE, OP, $40 PT)—Pat Reddy (CFO)

- Positive bias to future dividend growth. Management reaffirmed its intent to grow its annual dividend at least $0.12 per annum. Higher growth above the implied 9%/yr could be possible if assets continue to perform at a higher than expected rate (e.g., of the $175mm SE beat 2013 guidance, roughly 50% was due to weather and commodity prices, while 50% was due to higher sustainable asset performance), or if NGL prices find a new baseline in their current $0.95/gal range, then a moderate bump to the long term growth rate remains a distinct possibility.

- Nexus is still in the running. The three utilities backstopping Nexus account for ~50% of capacity, and while as an organic pipeline the rate is greater than some of the re-plumbing brownfield expansions, market diversification remains important (especially to a high storage area like Dawn), and management notes that in getting close with a couple of large producers, it remains on track to commercially securing this project by year end.
- BC midstream opportunity. SE continues to target $1-$1.5B in midstream growth opportunity beginning in 2015; while the company is specifically chasing non-LNG linked producers, should Petronas achieve a final investment decision (FID) on its LNG project by year end as it has publicly indicated, then that event would greatly de-risk this level of investment being targeted (versus adding to the likely 2015 spend).
- SE is assessing a pipeline expansion into the mid-Atlantic. Two utilities (DUK/PNY) have an RFP for additional capacity into the North Carolina market. We estimate such a project would likely mimic Sabal Trail in size, implying a project cost north of $3B to deliver an incremental 1 Bcfd of capacity. Such a competitive process is likely to be dominated by those that can leverage assets around the region, namely Spectra, Williams (WMB) and Dominion (D), with a joint-venture (including shippers) definitely a possibility.

TransCanada (TRP, OP, $40 PT)—Karl Johannson (President of Natural Gas Pipelines)

- MLP drop downs still expected. TRP's MLP, TC Pipelines, remains a prime financing vehicle, and while the delay of XL has pushed back the timing of asset drops (speaking to the timing of use of proceeds aligning with cap ex), with a total portfolio of C$38B such drops are just a matter of time we think. We expect the next asset package ($500mm-$1B) in likely late 2014/early 2015, and if XL does get approval at year end as we believe, we think TRP could engage in 1-2 asset drops per year the next 3-4 years.
- Great Lakes is expected to recover partially, but big test may not be until winter 2016/2017. The recent contracting of ANR and the movement of some Marcellus volumes north could help Great Lakes, but the single dynamic most likely to spark a return to profitability is the debottlenecking of the Dawn market into Canada. This would in effect allow for more Canadian gas to flow south into Great Lakes before heading back into Canada. While the King's North expansion will come into service 4Q15, contracts in place keeping Canadian volume going "over the top" are in place through late 2016, thus implying Great Lakes is not likely to see a true vibrant winter market until 2016/2017.
- Next gas pipe expansion is looking to Chicago. Given NGPL at peak capacity this past winter, TRP is seeking to expand ANR's capacity into Chicago. That said, should the market not prove ready, we expect the company to start assessing a second major expansion down to the Gulf Coast (in effect making both of its trunklines from the Gulf of Mexico bidirectional).
- Mexico to see additional growth opportunity. There are approximately 5 projects being bid, both on the US and Mexican side of the border. While TRP is unlikely to bid for all five, projects that are next to TRP assets make sense, and we see them as the natural bidder on at least two new pipelines, one of which could be known this Sep/Oct. A larger prize may be the potential to become involved in liquids pipelines depending on how energy deregulation unfolds, which heretofore had been solely the realm of PEMEX.

UGI Corp. (UGI, Market Perform, $45 PT)—John Walsh (CEO), Kirk Oliver (CFO), Bob Beard (Utility CEO), Dan Platt (Treasurer)

- Rebounding natural gas demand. UGI reiterated that the strength of natural gas demand is on the upswing, driven by the confluence of residential conversions along with small and large

commercial growth. This increased demand is under-appreciated by the market, and will likely result in ongoing price volatility in the 2014/2015 heating season (albeit not to the same degree), which will in turn spur support for additional Marcellus infrastructure takeaway solutions.

- Long-haul pipelines remain a priority. Although UGI continues to evaluate additional opportunities to grow its Marcellus gathering presence, management underscored that given the opportunities they are seeing, building a long-haul pipeline remains a strategic priority. The Marcellus area will see significant debottlenecking projects over the next several years, but UGI sees a long-term window of opportunity for multiple pipeline solutions. That said, management emphasized it will continue to stick with a disciplined approach prior to advancing a proposal.
- Majority of utility gas already being sourced from the Marcellus; regulators supportive. While not all directly connected, UGI is now sourcing approximately 70% of its gas supply needs from the Marcellus. Given the abundance of regional gas supplies, UGI believes that regulators are not only agnostic to the LDC's use of directly connected Marcellus supply, but that the leverage of shale economics and benefit to rate payers of cheaper gas make them supportive to doing more.
- Utility M&A remains on the table. Management expressed interest in continuing to expand its LDC presence through the acquisition of a Mid-Atlantic utility. Notably, UGI in the past has had a history of paying healthy multiples (as seen from the outside), but in making the acquisitions work to plan through successful integration; as such, we believe currently high take-out multiples would not be a deterrent if it found enough value within the opportunity.

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Company Data & Valuation

Exhibit 1: North American Pipelines Coverage Universe

Company	Ticker	FYE	Rating	Price Target	Price 05/20/14	Shares O/S (mm)	Market Cap (mm)	Enterprise Value (mm)	Indicated Dividend $	Indicated Dividend 2015e EPS Payout	Indicated Dividend Yield	Net Tot Debt/ Cap	S&P Rating	Potential Price Appr	Indicated Div Yield	Potential Total Return
BMO North American Pipeline Coverage Universe																
U.S. Commodity Sensitive																
National Fuel Gas Company	NFG	Sep	MKT	$75	75.10	84.0	$6,309	$7,934	$1.50	48.2%	2.0%	38.4%	BBB	-0.1%	2.0%	1.9%
Oneok Inc	OKE	Dec	MKT	$66	63.21	207.9	$13,139	$20,671	$2.24	123.6%	3.5%	72.2%	BB+	4.4%	3.5%	8.0%
Spectra Energy	SE	Dec	OP	$42	39.69	670.7	$26,619	$41,116	$1.34	78.8%	3.4%	56.4%	BBB	5.8%	3.4%	9.2%
Williams Cos	WMB	Dec	OP	$46	46.33	685.5	$31,760	$48,761	$1.70	110.9%	3.7%	69.7%	BBB-	-0.7%	3.7%	3.0%
Average										**90.4%**	**3.1%**	**59.2%**		**2.3%**	**3.1%**	**5.5%**
U.S. Gas Utilities																
AGL Resources Inc	GAS	Dec	MKT	$50	52.29	119.3	$6,236	$10,464	$1.88	61.3%	3.6%	53.8%	A-	-4.4%	3.6%	-0.8%
CenterPoint Energy	CNP	Dec	MKT	$26	23.64	429.7	$10,159	$15,178	$0.95	78.8%	4.0%	59.5%	A-	10.0%	4.0%	14.0%
NiSource Inc	NI	Dec	MKT	$36	36.69	314.9	$11,553	$21,030	$0.96	54.3%	2.6%	60.3%	BBB-	-1.9%	2.6%	0.7%
Questar Corp	STR	Dec	MKT	$25	23.52	175.1	$4,119	$5,731	$0.72	56.7%	3.1%	55.7%	A	6.3%	3.1%	9.4%
UGI Corp	UGI	Sep	MKT	$45	47.81	115.1	$5,502	$8,894	$1.13	36.7%	2.4%	58.4%	A-	-5.9%	2.4%	-3.5%
Average										**57.6%**	**3.1%**	**57.6%**		**0.8%**	**3.1%**	**4.0%**
Canadian Pipes*																
Enbridge Inc	ENB	Dec	OP	$57	52.10	834.6	$43,482	$82,280	$1.40	65.0%	2.7%	65.1%	A-	9.4%	2.7%	12.1%
TransCanada Corp	TRP	Dec	OP	$57	51.09	707.7	$36,157	$66,482	$1.92	75.0%	3.8%	55.1%	A-	11.6%	3.8%	15.3%
Average										**70.0%**	**3.2%**	**60.1%**		**10.5%**	**3.2%**	**13.7%**
Canadian Income*																
AltaGas	ALA	Dec	OP	$50	48.50	122.9	$5,963	$9,838	$1.50	67.9%	3.1%	48.2%	BBB	3.1%	3.1%	6.2%
Enbridge Income Fund	ENF	Dec	MKT	$27	27.13	56.5	$1,533	$1,533	$1.34	118.5%	4.9%	0.0%	-	-0.5%	4.9%	4.4%
Gibson Energy	GEI	Dec	OP	$34	30.85	123.0	$3,796	$4,665	$1.20	90.7%	3.9%	37.6%	-	10.2%	3.9%	14.1%
Inter Pipeline	IPL	Jan	OP	$31	30.22	320.3	$9,678	$13,829	$1.29	85.7%	4.3%	65.5%	BBB+	2.6%	4.3%	6.8%
Keyera	KEY	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Pembina Pipeline Corp	PPL	Dec	MKT	$46	44.45	319.8	$14,214	$17,385	$1.74	123.5%	3.9%	35.6%	BBB	3.5%	3.9%	7.4%
Valener	VNR	Sep	MKT	$17	15.69	38.0	$596	$761	$1.00	95.2%	6.4%	-1.9%	BBB+	8.3%	6.4%	14.7%
Veresen	VSN	Dec	MKT	$17	16.43	219.5	$3,606	$5,023	$1.00	395.3%	6.1%	45.7%	BBB	3.5%	6.1%	9.6%
Average										**139.5%**	**4.6%**	**33.0%**		**4.4%**	**4.6%**	**9.0%**

Source: BMO Capital Markets estimates, Company Data.

Exhibit 2: BMO North American Pipeline Comparative Valuation - Estimates

Company	Ticker	Price 05/20/14	Dividend Yield	Operating EPS 2013A	2014E	2015E	2016E	Operating CFPS 2013A	2014E	2015E	2016E	EBITDA 2013A	2014E	2015E	2016E	Estimate ROE 2013A	2014E	2015E	2016E
BMO North American Pipeline Coverage Universe																			
U.S. Commodity Sensitive																			
National Fuel Gas Company	NFG	75.10	2.0%	$3.14	$3.42	$3.11	$3.11	$9.27	$9.90	$9.91	$11.19	$845	$988	$1,038	$1,171	12.1%	12.3%	10.9%	10.6%
Oneok Inc.	OKE	63.21	3.5%	$1.76	$1.68	$1.81	$1.81	$3.92	$2.89	$2.82	$2.80	$1,625	$1,626	$1,798	$1,798	15.8%	35.8%	28.7%	33.8%
Spectra Energy	SE	39.69	3.4%	$1.64	$1.67	$1.70	$1.85	$3.35	$3.48	$3.33	$3.47	$3,367	$3,196	$3,351	$3,623	12.9%	11.3%	11.2%	11.9%
Williams Cos	WMB	46.33	3.7%	$0.81	$1.16	$1.53	$2.11	$2.87	$3.24	$4.44	$4.99	$2,769	$3,320	$4,292	$4,911	11.5%	17.3%	22.3%	30.0%
Average			**3.1%**													**13.1%**	**19.2%**	**18.3%**	**21.6%**
U.S. Utilities																			
AGL Resources Inc	GAS	52.29	3.6%	$2.64	$4.39	$3.06	NM	$6.39	$7.62	$6.67	NM	$1,104	$1,259	$1,172	NM	8.8%	13.6%	9.2%	N/A
CenterPoint Energy	CNP	23.64	4.0%	$1.20	$1.18	$1.20	$1.21	$3.39	$3.69	$3.89	$4.00	$1,499	$1,804	$1,773	$1,787	11.9%	11.5%	11.5%	11.4%
NiSource Inc	NI	36.69	2.6%	$1.57	$1.69	$1.77	NM	$4.37	$4.45	$4.25	NM	$1,740	$1,933	$2,037	NM	8.6%	8.8%	8.9%	N/A
Questar Corp	STR	23.52	3.1%	$1.21	$1.26	$1.27	$1.32	$2.83	$2.52	$2.60	$2.67	$429	$612	$621	$643	17.9%	17.3%	16.5%	16.2%
UGI Corp.	UGI	47.81	2.4%	$2.44	$3.02	$3.08	$3.01	$4.77	$5.73	$5.55	$5.52	$1,197	$1,352	$1,334	$1,317	7.6%	9.3%	9.7%	10.2%
Average			**3.1%**													**10.9%**	**12.1%**	**11.2%**	**12.6%**
Canadian Pipes*																			
Enbridge Inc.	ENB	52.10	2.7%	$1.78	$1.91	$2.15	$2.36	$4.42	$5.00	$5.02	$5.01	$4,269	$5,030	$5,719	$6,038	17.4%	16.9%	17.5%	17.8%
TransCanada Corp	TRP	51.09	3.8%	$2.24	$2.50	$2.56	$2.68	$5.65	$5.76	$5.57	$5.71	$4,793	$5,524	$5,475	$5,651	9.7%	10.6%	10.5%	10.8%
Average			**3.2%**													**13.6%**	**13.8%**	**14.0%**	**14.3%**
Canadian Income*																			
AltaGas	ALA	48.50	3.1%	$1.51	$1.77	$2.21	$2.15	$3.35	$3.84	$4.66	$4.32	$499	$609	$720	$726	8.2%	9.6%	11.7%	11.2%
Enbridge Income Fund	ENF	27.13	4.9%	$1.55	$1.13	$0.74	$0.75	$1.56	$1.46	$1.37	$1.30	$91	$92	$93	$95	6.6%	4.4%	3.0%	3.1%
Gibson Energy	GEI	30.85	3.9%	$1.06	$1.11	$1.32	NM	$2.85	$2.64	$3.10	NM	$427	$446	$499	NM	6.4%	6.0%	7.1%	N/A
Inter Pipeline	IPL	30.22	4.3%	$1.05	$1.17	$1.51	$1.43	$1.65	$1.65	$2.52	$2.47	$1,089	$754	$972	$1,029	12.6%	12.8%	15.6%	15.1%
Keyera	KEY	75.43	3.4%	$1.87	$2.79	$3.27	$3.57	$4.55	$5.15	$6.50	$6.99	$407	$508	$585	$625	15.9%	22.5%	25.3%	26.3%
Pembina Pipeline Corp	PPL	44.45	3.9%	$1.12	$1.28	$1.41	$1.76	$2.36	$2.35	$2.55	$3.07	$832	$985	$1,090	$1,349	7.2%	8.2%	8.8%	10.5%
Valener	VNR	15.69	6.4%	$0.89	$1.04	$1.05	$1.02	$1.16	$1.00	$1.13	$1.10	$46	$56	$61	$60	5.6%	6.4%	6.5%	6.3%
Veresen	VSN	16.43	6.1%	$0.26	$0.29	$0.25	$0.25	$1.04	$1.09	$1.11	$1.06	$297	$311	$308	$309	5.5%	5.4%	5.6%	6.6%
Average			**4.5%**													**8.5%**	**9.4%**	**10.4%**	**11.3%**

Source: BMO Capital Markets estimates, Company Data.

Exhibit 3: BMO North American Pipeline Comparative Valuation – Metrics

Company	Ticker	P/E				TEV/EBITDA				P/CFPS				Distributable Cash Flow Yield**			
		2013A	2014E	2015E	2016E	2013A	2014E	2015E	2016E	2013A	2014E	2015E	2016E	2013A	2014E	2015E	2016E
BMO North American Pipeline Coverage Universe																	
U.S. Commodity Sensitive																	
National Fuel Gas Company	NFG	23.9x	22.0x	24.1x	24.2x	9.3x	8.1x	8.1x	7.6x	8.1x	7.6x	7.6x	6.7x	5.6%	6.0%	6.1%	5.5%
Oneok Inc	OKE	35.9x	37.7x	34.9x	34.9x	12.8x	12.8x	12.1x	12.5x	16.1x	23.5x	22.4x	22.6x	3.5%	4.3%	4.5%	4.9%
Spectra Energy	SE	24.2x	23.8x	23.3x	21.4x	12.2x	12.9x	12.4x	11.7x	11.9x	11.4x	11.9x	11.4x	4.7%	5.1%	4.5%	4.5%
Williams Cos	WMB	56.8x	40.0x	30.2x	21.9x	16.5x	14.7x	12.0x	10.9x	16.1x	14.3x	10.4x	9.3x	4.9%	4.4%	5.7%	7.4%
Average		**35.2x**	**30.8x**	**28.1x**	**25.6x**	**12.7x**	**12.1x**	**11.2x**	**10.7x**	**13.1x**	**14.2x**	**13.1x**	**12.5x**	**5.4%**	**5.4%**	**5.2%**	**5.6%**
U.S. Utilities																	
AGL Resources Inc	GAS	19.8x	11.9x	17.1x	NM	9.6x	8.3x	9.1x	NM	8.2x	6.9x	7.8x	NM	5.5%	8.3%	6.5%	NM
CenterPoint Energy	CNP	19.8x	19.9x	19.6x	19.5x	10.0x	8.4x	8.7x	8.7x	7.0x	6.4x	6.1x	5.9x	8.7%	10.7%	11.6%	12.1%
NiSource Inc	NI	23.3x	21.7x	20.7x	NM	11.4x	10.9x	10.8x	NM	8.4x	8.2x	8.6x	NM	7.6%	7.8%	7.2%	NM
Questar Corp	STR	19.4x	19.0x	18.5x	17.9x	13.0x	9.6x	9.6x	9.5x	8.3x	9.5x	9.3x	9.1x	7.8%	6.4%	6.6%	7.0%
UGI Corp.	UGI	19.6x	15.8x	15.5x	15.9x	7.4x	6.6x	6.5x	6.4x	10.0x	8.3x	8.6x	8.7x	5.3%	6.2%	8.6%	8.3%
Average		**20.4x**	**17.7x**	**18.3x**	**17.7x**	**10.3x**	**8.8x**	**8.9x**	**8.2x**	**8.4x**	**7.9x**	**8.1x**	**7.9x**	**7.0%**	**7.9%**	**8.1%**	**9.1%**
Canadian Pipes*																	
Enbridge Inc.	ENB	29.3x	27.3x	24.2x	21.8x	16.6x	16.3x	15.7x	15.1x	11.8x	10.4x	10.4x	10.4x	5.4%	6.6%	6.6%	6.7%
TransCanada Corp.	TRP	22.8x	20.4x	20.0x	19.0x	13.1x	12.1x	12.6x	12.5x	9.0x	8.9x	9.2x	8.9x	9.4%	9.6%	9.2%	9.5%
Average		**26.0x**	**23.9x**	**22.1x**	**20.4x**	**14.8x**	**14.2x**	**14.1x**	**13.8x**	**10.4x**	**9.7x**	**9.8x**	**9.7x**	**7.4%**	**8.1%**	**7.9%**	**8.1%**
Canadian Income*																	
AltaGas	ALA	32.0x	27.4x	21.9x	22.6x	18.5x	16.3x	13.7x	13.4x	14.5x	12.6x	10.4x	11.2x	6.2%	7.2%	8.8%	8.1%
Enbridge Income Fund	ENF	17.5x	24.1x	36.8x	36.0x	16.6x	16.7x	16.5x	16.2x	17.4x	18.5x	19.8x	20.8x	5.7%	5.4%	5.0%	4.8%
Gibson Energy	GEI	29.1x	27.7x	23.3x	NM	10.3x	10.7x	9.7x	NM	10.8x	11.7x	10.0x	NM	7.4%	6.9%	8.2%	NM
Inter Pipeline	IPL	28.6x	25.7x	20.1x	21.1x	11.3x	18.6x	14.5x	13.5x	18.3x	16.3x	12.0x	12.2x	5.1%	5.8%	8.0%	7.8%
Keyera	KEY	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Pembina Pipeline Corp	PPL	39.8x	34.8x	31.6x	25.3x	19.4x	18.0x	18.1x	15.5x	18.9x	18.9x	17.4x	14.5x	5.2%	5.2%	5.6%	6.8%
Valener	VNR	17.6x	15.1x	14.9x	15.4x	16.0x	13.6x	12.4x	12.6x	13.5x	15.6x	13.9x	14.3x	7.6%	7.3%	7.2%	7.0%
Veresen	VSN	63.3x	56.8x	65.0x	66.3x	16.2x	16.2x	16.3x	16.2x	15.8x	15.0x	14.9x	15.5x	6.2%	6.4%	6.5%	6.2%
Average		**32.6x**	**30.2x**	**30.5x**	**31.1x**	**15.5x**	**15.7x**	**14.5x**	**14.6x**	**15.6x**	**15.5x**	**14.1x**	**14.8x**	**6.2%**	**6.3%**	**7.1%**	**6.8%**

* All Data in C$ unless otherwise indicated

** Operating cash flow less maintenance capital; shareholder cash available for dividend or growth reinvestment

INDUSTRY COMPS																	
Industry Comps																	
U.S. Commodity Sensitive																	
Average		**41.6x**	**23.8x**	**21.0x**	**17.5x**	**12.5x**	**10.0x**	**8.8x**	**7.8x**	**13.1x**	**9.2x**	**7.7x**	**7.1x**				
U.S. Gas Utilities																	
Average		**18.7x**	**16.9x**	**16.3x**	**15.3x**	**9.3x**	**9.3x**	**8.2x**	**7.6x**	**8.9x**	**6.2x**	**8.9x**	**8.0x**				
U.S. Master Limited Partnerships																	
Average		**28.8x**	**22.6x**	**21.0x**	**19.8x**	**11.6x**	**9.1x**	**8.3x**	**7.5x**	**10.9x**	**11.1x**	**11.0x**	**9.3x**				
U.S. Regulated Electric Utilities																	
Average		**16.7x**	**15.6x**	**15.0x**	**14.3x**	**8.6x**	**8.1x**	**7.6x**	**7.3x**	**6.9x**	**7.5x**	**7.2x**	**6.9x**				
Canadian Income*																	
Average		**0.0x**	**13.9x**	**19.9x**	**26.0x***	**10.6x**	**12.6x**	**13.6x**	**24.4x**	**4.3x**	**13.5x**	**13.6x**	**23.3x**				
Other Canadian Pipelines & Utility*																	
Average		**46.5x**	**31.4x**	**24.7x**	**27.2x***	**9.2x**	**7.7x**	**7.1x**	**6.0x***	**9.1x**	**7.6x**	**7.0x**	**N/A**				

Source: BMO Capital Markets estimates, Company Data.

Exhibit 4: N. America Pipeline Short Interest

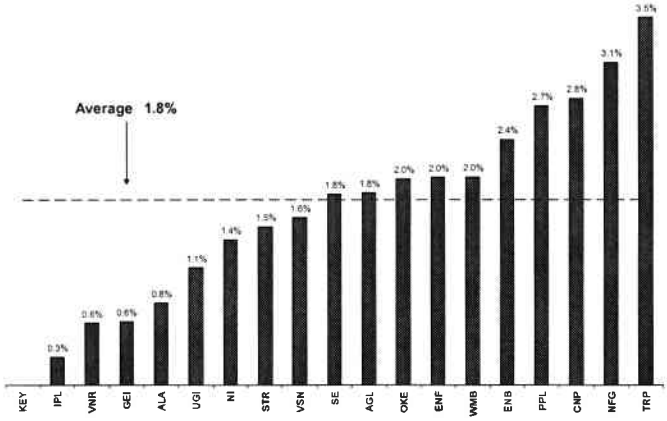


Exhibit 5: N. America Pipeline Days To Cover

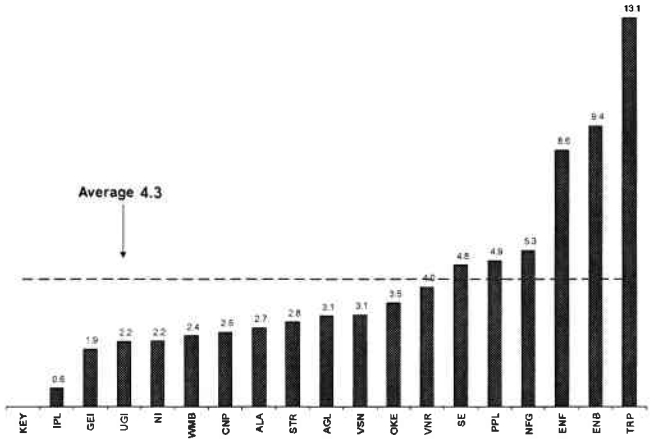


Exhibit 6: 2-Week Absolute Change in SI

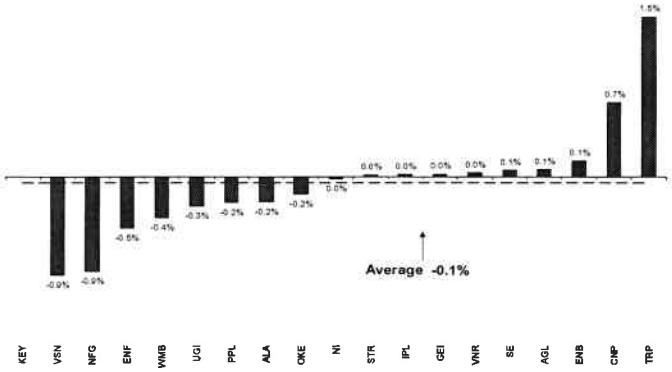


Exhibit 7: 2-Week Absolute Change in Days

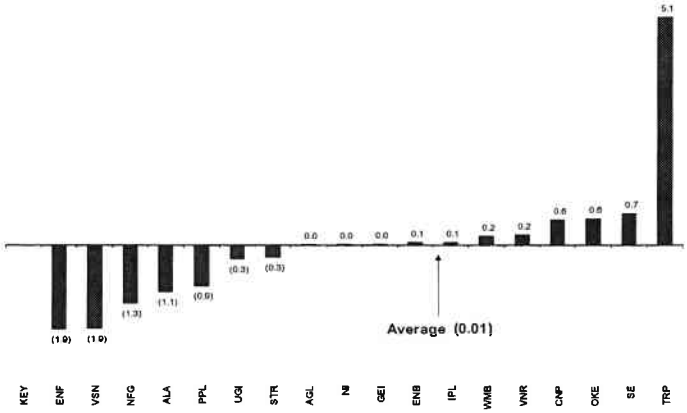


Exhibit 8: 2-Week Relative Change in SI

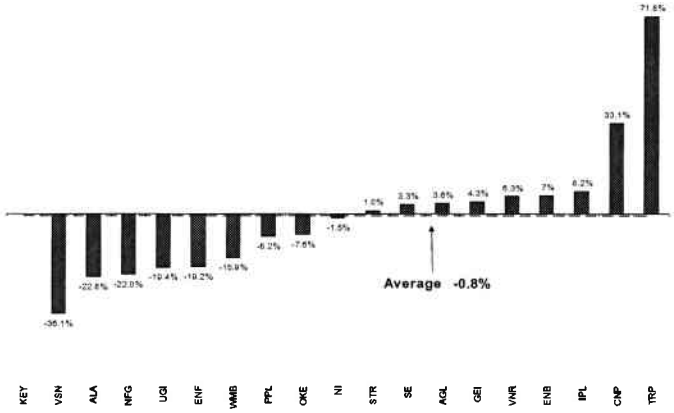
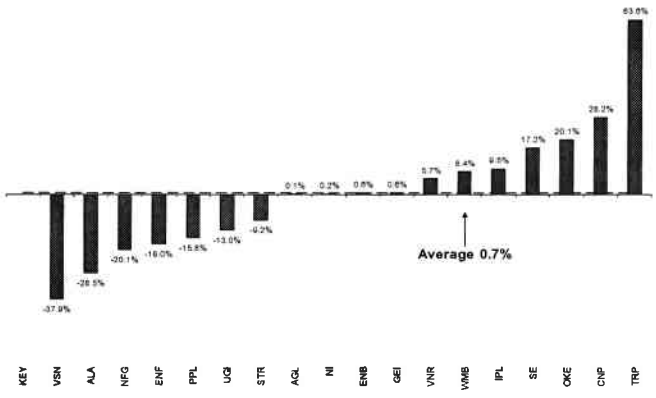


Exhibit 9: 2-Week Relative Change in Days



Source: BMO Capital Markets estimates, Bloomberg.

* Last available update: May 20, 2014. Short interest is defined as absolute short volume divided by public float.

Earnings

Exhibit 10: BMO Capital Estimates vs. Consensus

	2013A	2014E 1Q	2014E 2Q	2014E 3Q	2014E 4Q	2014E	2015E	Year-Over-Year Growth '13 vs.'14	Year-Over-Year Growth '14 vs.'15
U.S. Commodity Sensitive									
NFG	$3.14	$0.92	$1.15	$0.70	$0.64	$3.42	$3.11	8.8%	-9.1%
Consensus				*$0.75*	*$0.63*	*$3.42*	*$3.57*	*8.9%*	*4.3%*
OKE	$1.76	$0.42	$0.35	$0.44	$0.47	$1.68	$1.81	-4.7%	8.0%
Consensus			*$0.38*	*$0.41*	*$0.47*	*$1.64*	*$2.01*	*-6.7%*	*19.9%*
SE	$1.64	$0.62	$0.31	$0.31	$0.43	$1.67	$1.70	1.9%	2.0%
Consensus			*$0.31*	*$0.29*	*$0.39*	*$1.55*	*$1.63*	*-5.5%*	*-2.4%*
WMB	$0.81	$0.28	$0.25	$0.31	$0.32	$1.16	$1.53	42.3%	32.2%
Consensus			*$0.25*	*$0.30*	*$0.33*	*$1.12*	*$1.52*	*37.8%*	*31.2%*
U.S. Utilities									
GAS	$2.64	$2.86	$0.41	$0.26	$0.86	$4.39	$3.06	66.2%	-30.1%
Consensus			*$0.41*	*$0.30*	*$0.84*	*$3.91*	*$3.10*	*48.2%*	*-29.4%*
CNP	$1.20	$0.40	$0.21	$0.31	$0.26	$1.18	$1.20	-0.9%	1.7%
Consensus			*$0.26*	*$0.32*	*$0.23*	*$1.19*	*$1.26*	*-0.8%*	*6.1%*
NI	$1.57	$0.82	$0.23	$0.16	$0.48	$1.69	$1.77	7.1%	4.8%
Consensus			*$0.25*	*$0.15*	*$0.50*	*$1.69*	*$1.81*	*7.3%*	*7.3%*
STR	$1.21	$0.48	$0.22	$0.18	$0.37	$1.26	$1.27	3.4%	1.2%
Consensus			*$0.22*	*$0.18*	*$0.37*	*$1.27*	*$1.32*	*4.6%*	*5.3%*
UGI	$2.44	$1.06	$1.90	$0.14	-$0.08	$3.02	$3.08	23.7%	2.0%
Consensus				*$0.17*	*-$0.08*	*$2.93*	*$2.92*	*19.9%*	*-3.5%*
Canadian Pipes*									
ENB	$1.78	$0.60	$0.41	$0.41	$0.50	$1.91	$2.15	7.2%	12.9%
Consensus			*$0.39*	*$0.42*	*$0.56*	*$1.96*	*$2.28*	*10.1%*	*19.7%*
TRP	$2.24	$0.60	$0.56	$0.64	$0.71	$2.50	$2.56	11.8%	2.2%
Consensus			*$0.54*	*$0.64*	*$0.69*	*$2.43*	*$2.55*	*8.6%*	*1.9%*
Canadian Income*									
ALA	$1.51	$0.60	$0.26	$0.35	$0.55	$1.77	$2.21	17.0%	24.8%
Consensus			*$0.25*	*$0.38*	*$0.53*	*$1.69*	*$2.09*	*11.9%*	*18.0%*
ENF	$1.55	$0.38	$0.38	$0.18	$0.18	$1.13	$0.74	-27.5%	-34.5%
Consensus			*$0.38*	*$0.33*	*$0.33*	*$1.33*	*$1.29*	*-14.1%*	*14.5%*
GEI	$1.06	$0.42	$0.12	$0.26	$0.30	$1.11	$1.32	4.9%	18.8%
Consensus			*$0.11*	*$0.27*	*$0.31*	*$1.12*	*$1.20*	*5.4%*	*7.7%*
IPL	$1.05	$0.27	$0.25	$0.32	$0.33	$1.17	$1.51	11.7%	28.3%
Consensus			*$0.38*	*$0.33*	*$0.33*	*$1.33*	*$1.29*	*27.0%*	*9.9%*
KEY	$1.87	$0.70	$0.63	$0.74	$0.72	$2.79	$3.27	49.3%	17.1%
Consensus			*$0.59*	*$0.70*	*$0.79*	*$2.71*	*$3.16*	*45.0%*	*13.4%*
PPL	$1.12	$0.41	$0.25	$0.29	$0.32	$1.28	$1.41	14.3%	10.4%
Consensus			*$0.28*	*$0.30*	*$0.33*	*$1.36*	*$1.45*	*21.7%*	*13.8%*
VNR	$0.89	$0.42	$0.77	$0.00	-$0.19	$1.04	$1.05	16.6%	0.8%
Consensus				*-$0.01*	*-$0.20*	*$0.98*	*$1.02*	*10.1%*	*-1.7%*
VSN	$0.26	$0.10	$0.06	$0.06	$0.07	$0.29	$0.25	11.4%	-12.6%
Consensus			*$0.04*	*$0.04*	*$0.05*	*$0.23*	*$0.26*	*-13.4%*	*-10.1%*

(1) Estimates are Bloomberg Consensus
* All Data in C$ unless otherwise indicated

Source: BMO Capital Markets estimates, Company Data, Bloomberg.

Exhibit 11: EPS Commodity Sensitivity

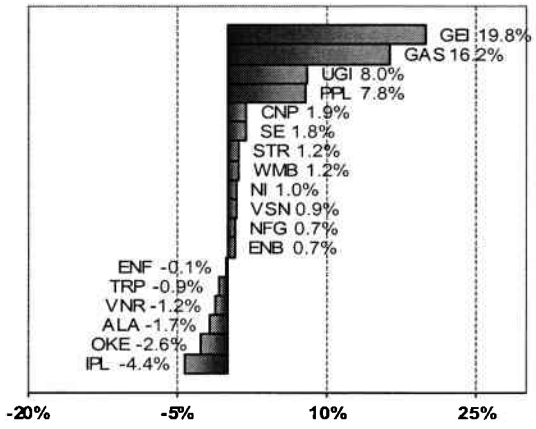
		ALA		IPL		KEY		NFG		OKE		PPL		SE		TRP		VSN		WMB	
Base Case 2014 EPS	***hedged***	**$1.77**		**$1.17**		**R**		**$3.42**		**$1.68**		**$1.28**		**$1.67**		**$2.50**		**$0.29**		**$1.16**	
NATURAL GAS																					
-$1 nat gas ($/MMBtu)	*hedged*	(0.02)	*-1.1%*					(0.33)	*-9.6%*	(0.04)	*-2.4%*	0.10	*7.8%*			(0.14)	*-5.6%*				
	unhedged	(0.14)	*-8.1%*	0.03	*2.6%*			-$0.95	*-36.6%*	(0.05)	*-2.5%*	0.15	*19.7%*	(0.04)	*-2.1%*	(0.25)	*-12.2%*	0.02	*1.9%*	0.09	*8.6*
+$1 nat gas ($/MMBtu)	*hedged*	0.02	*1.1%*					0.33	*9.6%*	0.04	*2.4%*	(0.10)	*-7.8%*			0.14	*5.6%*				
	unhedged	0.14	*8.1%*	(0.03)	*-2.6%*			$0.95	*36.6%*	0.05	*2.5%*	(0.15)	*-19.7%*	0.04	*2.1%*	0.25	*12.2%*	(0.02)	*-1.9%*	-$0.09	*-8.6*
NATURAL GAS LIQUIDS																					
-$.05 NGL ($/gal)	*hedged*	(0.04)	*-2.3%*							(0.02)	*-1.2%*	(0.01)	*-0.8%*								
	unhedged	(0.06)	*-3.5%*	(0.01)	*-0.9%*					(0.02)	*-0.7%*	(0.04)	*-5.3%*	(0.06)	*-3.2%*			(0.01)	*-1.0%*	(0.04)	*-3.8*
+$.05 NGL ($/gal)	*hedged*	0.04	*2.3%*							0.02	*1.2%*	0.01	*0.8%*								
	unhedged	0.06	*3.5%*	0.01	*0.9%*					0.02	*0.7%*	0.04	*5.3%*	0.06	*3.2%*			0.01	*1.0%*	0.04	*3.8*
CRUDE OIL**																					
-$10 OIL ($/Bbl)	*hedged*					R	*R*	(0.06)	*-1.8%*	(0.01)	*-0.6%*										
	unhedged					R	*R*	-$0.19	*-7.5%*	(0.02)	*-1.0%*										
+$10 OIL ($/Bbl)	*hedged*					R	*R*	0.06	*1.8%*	0.01	*0.6%*										
	unhedged					R	*R*	$0.19	*7.5%*	0.02	*1.0%*										

**All unhedged positions shown assume BMO 2014 commodity forecast of $3.85 nat gas, $93.58 oil and $0.99 NGLs.*

Source: BMO Capital Markets estimates, Company Data, Bloomberg.

Exhibit 12: Consensus EPS Revisions – Trailing 4 Weeks

2014E



2015E

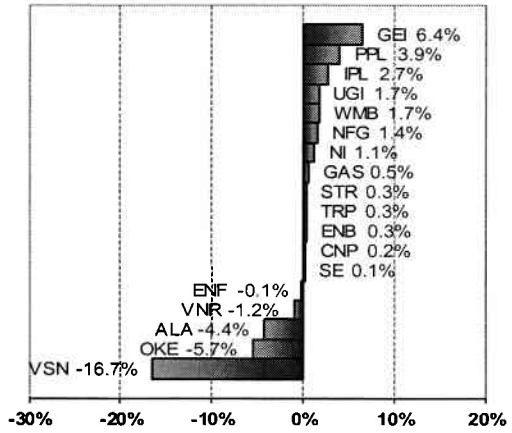
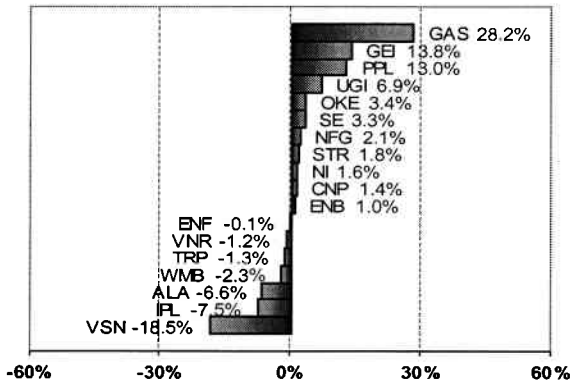
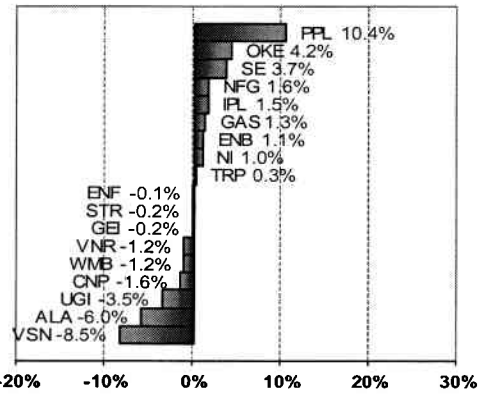


Exhibit 13: Consensus EPS Revisions – Trailing 3 Months

2014E



2015E



Source (all Exhibits): BMO Capital Markets estimates, Company Data, Bloomberg.

Stock Performance

Exhibit 14: 5-Day Performance (May 14 thru May 20)

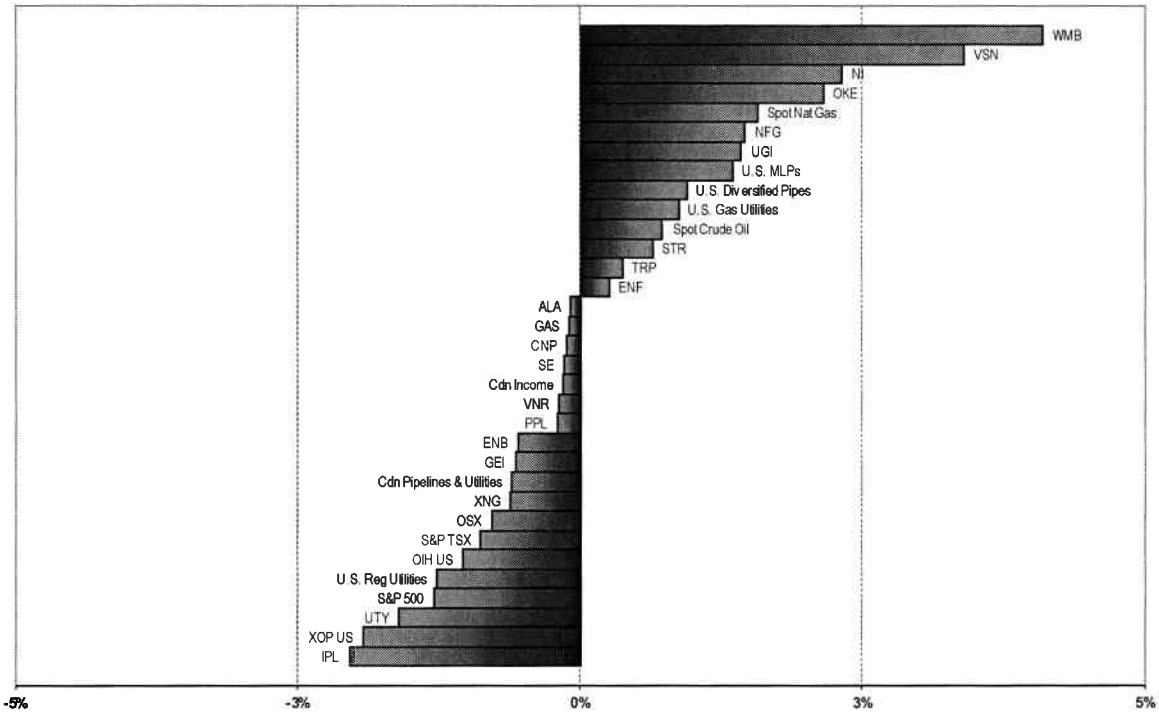
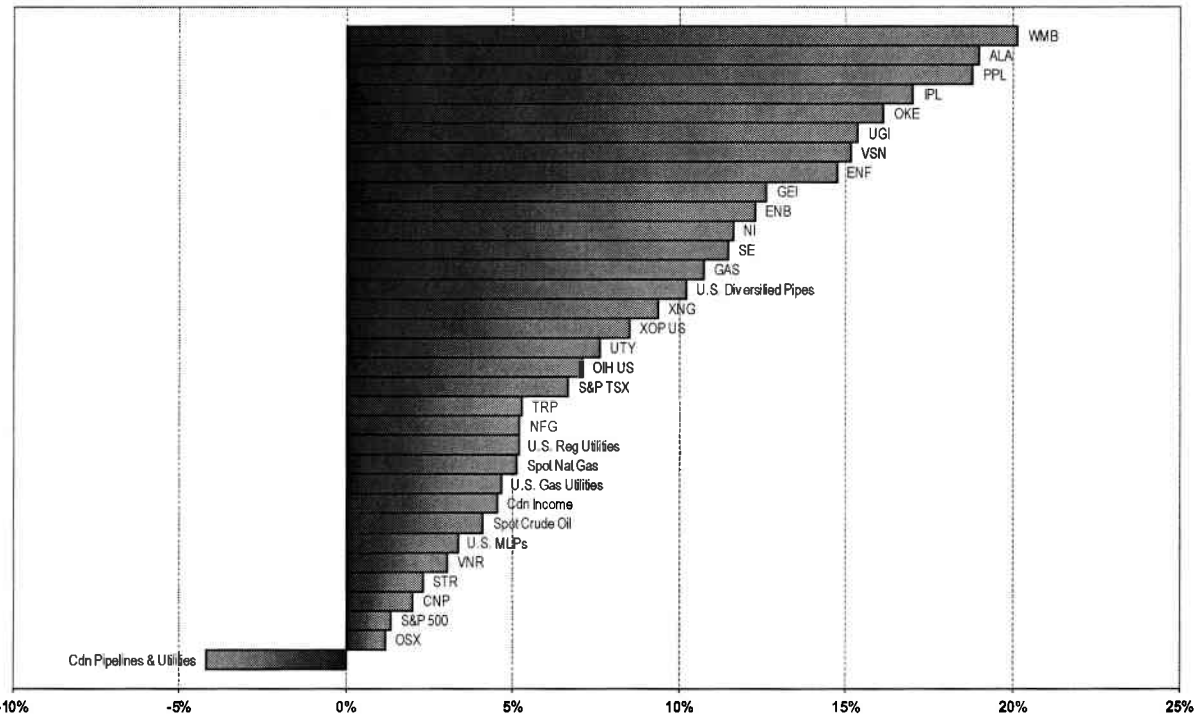


Exhibit 15: Year-to-Date Performance



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 16: Price Performance – United States

	Ticker	Rating	Price	Price Performance**** 1 Day	5 Day	1 Month	QTD	Three Months	YTD	1 Year	% from 52 Wk High	Date of High	% from 52 Wk Low	Date of Low
BMO North American Pipeline Coverage Universe														
U.S. Commodity Sensitive														
National Fuel Gas Company	NFG	MKT	75.10	0.8%	1.5%	7.3%	7.2%	-1.7%	5.2%	17.5%	-2.5%	2/19/2014	32.1%	6/24/2013
Oneok Inc.	OKE	MKT	63.21	1.6%	2.1%	3.6%	6.7%	3.7%	16.1%	46.1%	-3.2%	5/20/2013	83.3%	7/5/2013
Spectra Energy	SE	OP	39.69	0.2%	-0.2%	0.9%	7.4%	5.2%	11.4%	24.7%	-1.1%	4/30/2014	34.0%	6/6/2013
Williams Cos	WMB	OP	46.33	0.8%	4.1%	10.9%	14.2%	10.3%	20.1%	22.3%	-0.2%	5/20/2014	48.3%	6/24/2013
Average				**0.9%**	**1.9%**	**5.7%**	**8.9%**	**4.4%**	**13.2%**	**27.7%**	**-1.8%**		**49.4%**	
U.S. Utilities														
AGL Resources Inc	GAS	MKT	52.29	0.0%	-0.1%	1.0%	6.8%	12.5%	10.7%	18.5%	-3.5%	5/1/2014	26.1%	6/21/2013
CenterPoint Energy	CNP	MKT	23.64	0.6%	-0.1%	-3.9%	-0.2%	-2.6%	2.0%	-2.6%	-7.8%	8/1/2013	6.4%	6/21/2013
NiSource Inc	NI	MKT	36.69	-0.4%	2.3%	2.1%	3.3%	3.9%	11.6%	23.8%	-1.7%	5/19/2014	35.3%	6/21/2013
Questar Corp	STR	MKT	23.52	0.7%	0.6%	0.1%	-1.1%	-0.8%	2.3%	-9.0%	-9.6%	5/20/2013	9.7%	9/4/2013
UGI Corp.	UGI	MKT	47.81	0.9%	1.4%	4.6%	4.8%	8.8%	15.3%	15.4%	-1.1%	5/8/2014	31.2%	6/21/2013
Average				**0.3%**	**0.8%**	**0.8%**	**2.7%**	**4.3%**	**8.4%**	**9.2%**	**-4.7%**		**21.8%**	
Industry Comps														
U.S. Commodity Sensitive														
Equitable Resources***	EQT	OP	103.12	0.0%	-1.3%	-1.5%	6.3%	3.1%	14.9%	26.6%	-7.5%	4/24/2014	34.0%	6/6/2013
Sempra Energy**	SRE	MKT	97.16	0.1%	-0.5%	0.0%	0.4%	4.6%	8.2%	14.8%	-3.5%	5/8/2014	25.4%	6/21/2013
Average				**0.1%**	**-0.9%**	**-0.7%**	**3.4%**	**3.8%**	**11.6%**	**20.7%**	**-5.5%**		**29.7%**	
U.S. Gas Utilities														
Atmos Energy	ATO	NR	50.43	0.6%	0.6%	1.1%	7.0%	11.3%	11.0%	12.4%	-4.9%	5/8/2014	32.7%	6/21/2013
Integrys Energy Group	TEG	NR	57.34	0.1%	-0.1%	-6.6%	-3.9%	1.9%	5.4%	-6.9%	-9.8%	8/1/2013	10.1%	2/6/2014
The Laclede Group	LG	NR	45.64	0.1%	-0.6%	-2.6%	-3.2%	1.2%	0.2%	-2.6%	-5.9%	6/4/2013	6.5%	9/17/2013
New Jersey Resources	NJR	NR	52.63	0.4%	5.3%	8.0%	5.7%	16.1%	13.8%	12.1%	-0.3%	5/20/2014	29.6%	7/1/2013
Northwest Natural Gas Company	NWN	NR	43.97	-0.3%	0.4%	-1.3%	-0.1%	5.0%	2.7%	-3.8%	-3.9%	5/21/2013	10.0%	9/5/2013
Piedmont Natural Gas	PNY	NR	34.89	-0.3%	1.2%	-2.5%	-1.4%	4.4%	5.2%	-0.2%	-4.5%	4/29/2014	10.6%	9/6/2013
South Jersey Industries	SJI	NR	56.29	-0.1%	1.0%	0.5%	0.4%	1.2%	0.6%	-8.0%	-9.6%	7/25/2013	8.7%	2/5/2014
Vectren	VVC	NR	38.49	-0.4%	-0.2%	-4.2%	-2.3%	1.8%	8.4%	5.2%	-6.4%	4/29/2014	20.9%	9/4/2013
Washington Gas Light	WGL	NR	39.76	0.0%	1.1%	0.9%	-0.7%	5.5%	-0.7%	-12.9%	-15.3%	8/1/2013	12.5%	2/5/2014
Average				**0.0%**	**0.9%**	**-0.7%**	**0.1%**	**4.9%**	**4.7%**	**-0.5%**	**-6.1%**		**14.2%**	
U.S. Master Limited Partnerships														
Amerigas Partners	APU	NR	46.96	0.4%	3.6%	5.7%	11.1%	10.8%	5.4%	-1.2%	-6.9%	6/27/2013	14.6%	3/21/2014
Enbridge Energy Partners	EEP	NR	30.27	0.8%	2.1%	4.6%	10.4%	13.3%	1.3%	0.9%	-9.6%	7/15/2013	16.4%	4/4/2014
Enbridge Energy Management	EEQ	NR	29.81	-0.4%	2.1%	5.7%	9.6%	14.3%	7.9%	5.8%	-2.4%	7/15/2013	16.0%	2/21/2014
El Paso Pipeline Partners	EPB	NR	32.41	-0.4%	-1.7%	-2.3%	6.6%	6.6%	-10.0%	-25.1%	-28.0%	6/27/2013	12.3%	3/12/2014
Cheniere Energy Partners	CQP	NR	32.53	-0.9%	-1.6%	-3.8%	8.4%	12.9%	13.5%	13.3%	-5.5%	4/17/2014	33.6%	6/24/2013
Targa Resource Partners	NGLS	NR	65.40	1.4%	5.5%	6.6%	16.2%	21.9%	25.0%	34.5%	-0.2%	5/20/2014	50.2%	6/24/2013
Williams Partners	WPZ	NR	51.51	0.9%	-1.6%	0.5%	1.1%	5.9%	1.3%	-1.5%	-4.6%	10/22/2013	13.5%	6/24/2013
Spectra Energy Partners	SEP	NR	50.37	-0.2%	-1.4%	-6.1%	2.9%	4.6%	11.1%	39.1%	-12.5%	5/5/2014	46.3%	6/4/2013
DCP Midstream Partners	DPM	NR	54.52	0.8%	0.6%	5.2%	8.8%	12.9%	8.3%	8.6%	-6.8%	7/11/2013	21.1%	12/12/2013
Oneok Partners	OKS	NR	55.06	0.9%	2.2%	-2.9%	2.8%	-0.8%	4.6%	5.4%	-4.8%	2/18/2014	21.3%	6/24/2013
Kinder Morgan Energy Partners	KMP	NR	76.12	0.2%	2.2%	-1.8%	2.9%	-3.1%	-5.6%	-13.7%	-14.6%	5/22/2013	6.7%	3/20/2014
Enterprise Product Partners	EPD	NR	73.27	0.5%	0.3%	0.4%	5.6%	11.4%	10.5%	19.0%	-2.2%	5/6/2014	30.6%	6/24/2013
Boardwalk Pipeline Partners	BWP	NR	16.50	5.3%	3.4%	5.0%	23.0%	26.9%	-35.3%	-46.3%	-50.0%	7/15/2013	37.6%	3/14/2014
Average				**0.3%**	**0.8%**	**0.9%**	**6.7%**	**8.4%**	**4.8%**	**5.7%**	**-8.2%**		**21.4%**	
U.S. Regulated Electric Utilities														
American Electric Power**	AEP	OP	50.96	-0.1%	-2.4%	-1.5%	0.6%	1.2%	9.0%	3.0%	-6.7%	4/29/2014	21.8%	9/4/2013
Dominion Resources**	D	MKT	68.92	-0.2%	-1.3%	-2.5%	-2.9%	-3.6%	6.5%	13.4%	-6.5%	4/30/2014	28.1%	6/21/2013
Duke Energy**	DUK	OP	70.09	-0.3%	-2.3%	-3.4%	-1.6%	-2.3%	1.6%	-1.7%	-6.7%	4/29/2014	9.2%	9/4/2013
Ameren	AEE	NR	38.43	-0.3%	-1.0%	-6.2%	-6.7%	-1.0%	6.3%	6.2%	-9.0%	2/21/2014	18.8%	6/21/2013
Consolidated Edison**	ED	MKT	54.08	-0.4%	-1.4%	-4.3%	0.8%	-2.2%	-2.2%	-11.2%	-11.6%	5/21/2013	3.5%	3/20/2014
PG&E Corp.**	PCG	MKT	43.63	0.3%	1.0%	-2.8%	1.0%	-0.1%	8.3%	-7.5%	-9.1%	5/22/2013	10.7%	1/3/2014
Southern Company**	SO	MKT	42.77	-0.1%	-1.2%	-5.2%	-2.7%	0.9%	4.0%	-7.8%	-8.7%	5/22/2013	6.8%	12/12/2013
Xcel Energy**	XEL	MKT	30.09	0.1%	-1.6%	-4.0%	-0.9%	0.9%	7.7%	-0.5%	-7.0%	5/1/2014	11.9%	9/18/2013
Average				**-0.1%**	**-1.3%**	**-3.7%**	**-1.5%**	**-0.8%**	**5.2%**	**-0.8%**	**-8.2%**		**13.9%**	
Indices/Treasury														
Spot Henry Hub Natural Gas	NGUSHHUB		4.53	1.6%	1.6%	4.4%	5.1%	-23.9%	5.1%	10.0%	NA	NA	NA	NA
Spot WTI	USCRWTIC		102.44	-0.2%	0.7%	-1.8%	0.9%	-0.5%	4.1%	5.9%	NA	NA	NA	NA
OIL SERVICE HOLDRS TRUST	OIH US		51.47	-0.2%	-1.0%	0.7%	2.3%	7.5%	7.1%		-2.9%	5/8/2014	25.0%	6/24/2013
OIL SERVICE SECTOR INDEX	OSX		284.27	-0.1%	-0.8%	-4.3%	-1.6%	3.0%	1.2%	6.6%	-6.3%	4/23/2014	NA	NA
AMEX NATURAL GAS INDEX	XNG		893.39	0.0%	-0.6%	0.0%	6.3%	6.8%	9.3%	13.8%	-2.3%	5/8/2014	333.3%	12/3/2013
SPDR S&P OIL & GAS EXPLORATI	XOP US		74.34	-0.8%	-1.9%	-3.3%	3.5%	7.9%	8.5%	18.7%	-5.5%	4/24/2014	32.8%	6/24/2013
PHILA UTILITY INDEX	UTY		525.78	0.0%	-1.6%	-3.3%	-1.1%	1.2%	7.6%	0.9%	-6.1%	4/30/2014	NA	NA
S&P 500 INDEX	SPX		1,872.83	-0.6%	-1.3%	0.4%	0.0%	1.8%	1.3%	12.4%	-1.5%	5/13/2014	NA	NA
US Generic Govt 10 Year Yield	USGG10YR		2.51	-1.3%	-3.7%	-7.7%	-7.6%	-8.7%	-17.0%	27.9%	NA	NA	NA	NA
S&P/TSX COMPOSITE INDEX	SPTSX		14,525.19	0.1%	-0.9%	0.2%	1.3%	2.9%	6.6%	15.2%	-1.6%	5/2/2014	NA	NA
Canadian Govt Bonds 10 Year No	GCAN10YR		2.28	0.7%	-3.3%	-6.8%	-7.3%	-10.5%	-17.4%	18.6%				

* All Data in C$ unless otherwise indicated

** Covered by Michael Worms, BMO Capital Markets' Electric Utilities and Independent Power analyst

*** Covered by Philip Jungwirth, BMO Capital Markets' Energy Exploration and Production analyst

****1-Day / 5-Day / 1-Month / 1-Year measures mentioned period performance from 05.20.14/05.14.14/05.20.14/05.20.13

Mkt= Market Perform; OP= Outperform; Und= Underperform; R=Restricted

Source: BMO Capital Markets estimates, Bloomberg.

Exhibit 17: Price Performance – Canada

	Ticker	Rating	Price	Price Performance** 1 Day	5 Day	1 Month	QTD	Three Months	YTD	1 Year	% from 52 Wk High	Date of High	% from 52 Wk Low	Date of Low
BMO North American Pipeline Coverage Universe														
Canadian Pipes*														
Enbridge Inc.	ENB	OP	52.10	0.2%	-0.6%	0.7%	3.8%	9.4%	12.3%	225.6%	-3.1%	5/1/2014	24.9%	10/7/2013
TransCanada Corp.	TRP	OP	51.09	0.2%	0.4%	-0.4%	1.7%	4.6%	5.3%	2.2%	-1.5%	4/3/2014	16.3%	10/7/2013
Average				**0.2%**	**-0.1%**	**0.1%**	**2.7%**	**7.0%**	**8.8%**	**113.9%**	**-2.3%**		**20.6%**	
Canadian Income*														
AltaGas	ALA	OP	48.50	-0.4%	-0.1%	2.0%	7.1%	15.0%	19.0%	20.7%	-2.8%	5/2/2014	39.9%	6/24/2013
Enbridge Income Fund	ENF	MKT	27.13	-0.3%	0.3%	2.1%	2.4%	7.4%	14.7%	3.0%	-2.6%	5/5/2014	22.1%	6/24/2013
Gibson Energy	GEI	OP	30.85	0.2%	-0.6%	9.3%	7.6%	15.1%	12.6%	16.0%	-1.3%	5/14/2014	43.3%	8/26/2013
Inter Pipeline	IPL	OP	30.22	-0.7%	-2.0%	3.4%	3.5%	4.9%	17.0%	24.1%	-2.0%	5/12/2014	60.7%	6/24/2013
Keyera	KEY	R	R	R	R	R	R	R	R	R	R	R	R	R
Pembina Pipeline	PPL	MKT	44.45	-0.3%	-0.2%	3.3%	5.9%	11.3%	18.6%	27.2%	-4.5%	5/13/2014	46.4%	6/24/2013
Valener	VNR	MKT	15.69	-0.4%	-0.2%	0.1%	0.8%	0.1%	3.0%	-3.0%	-4.6%	6/4/2013	3.4%	11/20/2013
Veresen	VSN	MKT	16.43	0.7%	3.4%	-0.2%	-1.5%	1.4%	15.1%	21.8%	-3.2%	3/24/2014	44.5%	8/7/2013
Average				**-0.2%**	**0.1%**	**2.9%**	**3.7%**	**7.9%**	**14.3%**	**15.7%**	**-3.0%**		**37.2%**	
Industry Comps														
Canadian Income*														
Atlantic Power Corp.**	ATP	UND	3.50	1.7%	-0.6%	2.6%	9.4%	19.0%	-5.7%	-29.3%	-36.5%	10/18/2013	48.9%	2/6/2014
Average				**1.7%**	**-0.6%**	**2.6%**	**9.4%**	**19.0%**	**-5.7%**	**-29.3%**	**-36.5%**		**48.9%**	
Other Canadian Pipelines & Utility*														
Algonquin Power**	AQN	OP	8.12	-0.4%	1.5%	5.5%	4.1%	10.0%	10.6%	1.4%	-1.5%	5/23/2013	36.2%	10/11/2013
Canadian Utilities**	CU	OP	39.25	-0.6%	-2.3%	-4.3%	-4.6%	-0.9%	10.0%	-1.1%	-5.8%	4/9/2014	17.3%	8/27/2013
Emera Incorporated**	EMA	MKT	33.79	-0.1%	-1.0%	-4.7%	-1.8%	3.0%	10.5%	-7.8%	-8.6%	5/22/2013	17.4%	9/11/2013
Fortis Inc.**	FTS	MKT	32.41	0.2%	-0.7%	0.9%	2.8%	5.7%	6.4%	-4.6%	-5.5%	5/21/2013	9.8%	12/12/2013
Innergex Renewable Energy Inc.**	INE	MKT	10.32	-0.2%	-3.2%	-1.7%	3.5%	1.1%	-2.6%	1.1%	-9.7%	12/20/2013	23.3%	7/11/2013
TransAlta Corporation**	TA	MKT	13.28	-0.6%	2.1%	1.1%	3.4%	-3.5%	-1.5%	-14.1%	-15.5%	5/28/2013	6.8%	2/28/2014
Average				**-0.3%**	**-0.6%**	**-0.5%**	**1.2%**	**2.6%**	**5.6%**	**-4.2%**	**-7.6%**		**18.5%**	
Indices/Treasury														
Spot Henry Hub Natural Gas	NGUSHHUB		4.53	1.6%	1.6%	4.4%	5.1%	-23.9%	5.1%	10.0%	NA	NA	NA	NA
Spot WTI	USCRWTIC		102.44	-0.2%	0.7%	-1.8%	0.9%	-0.5%	4.1%	5.9%	NA	NA	NA	NA
OIL SERVICE HOLDRS TRUST	OIH US		51.47	-0.2%	-1.0%	0.7%	2.3%	7.5%	7.1%		-2.9%	5/8/2014	25.0%	6/24/2013
OIL SERVICE SECTOR INDEX	OSX		264.27	-0.1%	-0.8%	-4.3%	-1.6%	3.0%	1.2%	6.6%	-6.3%	4/23/2014	NA	NA
AMEX NATURAL GAS INDEX	XNG		893.39	0.0%	-0.6%	0.0%	6.3%	6.6%	9.3%	13.8%	-2.3%	5/8/2014	333.3%	12/3/2013
SPDR S&P OIL & GAS EXPLORATI	XOP US		74.34	-0.8%	-1.9%	-3.3%	3.5%	7.9%	8.5%	18.7%	-5.5%	4/24/2014	32.8%	6/24/2013
PHILA UTILITY INDEX	UTY		525.78	0.0%	-1.6%	-3.3%	-1.1%	1.2%	7.6%	0.9%	-6.1%	4/30/2014	NA	NA
S&P 500 INDEX	SPX		1,872.83	-0.6%	-1.3%	0.4%	0.0%	1.8%	1.3%	12.4%	-1.5%	5/13/2014	NA	NA
US Generic Govt 10 Year Yield	USGG10YR		2.51	-1.3%	-3.7%	-7.7%	-7.6%	-8.7%	-17.0%	27.9%	NA	NA	NA	NA
S&P/TSX COMPOSITE INDEX	SPTSX		14,525.19	0.1%	-0.9%	0.2%	1.3%	2.9%	6.6%	15.2%	-1.6%	5/2/2014	NA	NA
Canadian Govt Bonds 10 Year No	GCAN10YR		2.28	0.7%	-3.3%	-6.8%	-7.3%	-10.5%	-17.4%	18.6%	NA	NA	NA	NA

* All Data in C$ unless otherwise indicated

** Covered by Ben Pham at our Canadian Affiliate, BMO Nesbitt Burns Inc.

***1-Day / 5-Day / 1-Month / 1-Year measures mentioned period performance from 05.20.14/05.14.14/05.20.14/05.20.13

Mkt= Market Perform; OP= Outperform; Und= Underperform; R=Restricted

Source: BMO Capital Markets estimates, Bloomberg.

Commodity Review

Exhibit 18: Commodity Outlook

	QUARTERLY								ANNUAL									
	2013A					2014TD											BMO Estimate	
	1Q	2Q	3Q	4Q	2013A	1Q	2QTD	2014TD	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014TD	2014E	2015E
Commodity Price Summary																		
Henry Hub Natural Gas ($/mmbtu)	$3.49	$4.02	$3.55	$3.85	$3.73	$5.14	$4.62	$4.95	$6.96	$8.85	$3.94	$4.38	$3.99	$2.76	$3.73	$4.95	$4.67	$4.00
Y/Y % Change	-32%	-7%	-17%	1%	-15%	47%	15%	33%	3%	27%	-55%	11%	-9%	-31%	35%	80%	-6%	-14%
WTI Crude Oil ($/bbl)	$94.35	$94.13	$105.78	$97.51	$97.98	$98.61	$101.68	$99.71	$72.12	$99.53	$61.85	$79.49	$95.08	$94.12	$97.98	$99.71	$100.18	$92.00
Y/Y % Change	20%	21%	39%	14%	23%	5%	8%	2%	9%	38%	-38%	29%	20%	-1%	4%	6%	0%	-8%
NGL Composite (40% ethane)	$0.89	$0.82	$0.87	$0.95	$0.88	$1.00	$0.89	$0.96	$1.13	$1.33	$0.80	$1.07	$1.35	$1.00	$0.88	$0.96	$0.96	$0.97
Y/Y % Change	-23%	-19%	-6%	-18%	-17%	12%	9%	9%	19%	17%	-40%	34%	27%	-26%	-12%	-4%	1%	0%
NGL / WTI (% $ basis)	40%	37%	35%	41%	38%	42%	37%	40%	66%	56%	54%	56%	60%	45%	38%	40%	40%	44%
Y/Y % Change	-35%	-33%	-35%	-29%	-33%	7%	1%	7%	10%	-15%	-3%	4%	6%	-25%	-16%	-10%	0%	9%
Frac Spread (Gulf Coast, $/gal)	$0.59	$0.48	$0.57	$0.62	$0.57	$0.56	$0.50	$0.54	$0.54	$0.58	$0.46	$0.70	$1.02	$0.77	$0.57	$0.54	$0.57	$0.63
Y/Y % Change	-17%	-26%	-3%	-25%	-19%	-5%	4%	-5%	43%	6%	-20%	50%	46%	-24%	-26%	-30%	5%	10%
Natural Gas Liquids																		
Mont Belvieu (Gulf Coast)																		
Ethane	$0.26	$0.27	$0.25	$0.26	$0.26	$0.33	$0.29	$0.32	$0.79	$0.90	$0.48	$0.60	$0.77	$0.40	$0.26	$0.32	$0.32	$0.27
Propane	$0.87	$0.91	$1.03	$1.20	$1.00	$1.30	$1.08	$1.22	$1.20	$1.42	$0.84	$1.16	$1.47	$1.00	$1.00	$1.22	$1.24	$1.28
Butane	$1.53	$1.21	$1.31	$1.41	$1.37	$1.34	$1.22	$1.30	$1.42	$1.68	$1.07	$1.46	$1.79	$1.59	$1.37	$1.30	$1.33	$1.38
Iso-Butane	$1.65	$1.28	$1.35	$1.45	$1.43	$1.41	$1.28	$1.37	$1.51	$1.73	$1.19	$1.58	$2.05	$1.80	$1.43	$1.37	$1.36	$1.40
Natural Gasoline	$2.23	$2.05	$2.16	$2.11	$2.13	$2.12	$2.22	$2.16	$1.66	$2.10	$1.31	$1.84	$2.34	$2.15	$2.13	$2.16	$2.11	$2.10
MB Composite ($/gal)	$0.89	$0.82	$0.87	$0.95	$0.88	$1.00	$0.89	$0.96	$1.13	$1.33	$0.80	$1.07	$1.35	$1.00	$0.88	$0.96	$0.96	$0.97
MB Composite ($/mmbtu)	$10.53	$9.71	$10.32	$11.20	$10.44	$11.79	$10.56	$11.35	$13.40	$15.70	$9.44	$12.64	$16.03	$11.87	$10.44	$11.35	$11.42	$11.43
Conway (Midcontinent)																		
Ethane	$0.24	$0.21	$0.21	$0.22	$0.22	$0.25	$0.26	$0.25	$0.73	$0.81	$0.34	$0.40	$0.45	$0.18	$0.22	$0.25	$0.26	$0.22
Propane	$0.82	$0.86	$1.00	$1.22	$0.98	$1.60	$1.07	$1.41	$1.19	$1.40	$0.81	$1.12	$1.35	$0.82	$0.98	$1.41	$1.28	$1.23
Butane	$1.56	$1.18	$1.30	$1.44	$1.37	$1.33	$1.20	$1.29	$1.36	$1.55	$0.97	$1.42	$1.67	$1.49	$1.37	$1.29	$1.32	$1.38
Iso-Butane	$1.62	$1.23	$1.42	$1.46	$1.43	$1.45	$1.70	$1.54	$1.55	$1.70	$1.14	$1.52	$1.95	$1.71	$1.43	$1.54	$1.37	$1.40
Natural Gasoline	$2.23	$2.06	$2.10	$2.05	$2.11	$2.16	$2.24	$2.19	$1.72	$2.05	$1.33	$1.78	$2.18	$2.09	$2.11	$2.19	$2.15	$2.15
CW Composite ($/gal)	$0.87	$0.77	$0.85	$0.94	$0.86	$1.06	$0.92	$1.01	$1.10	$1.27	$0.72	$0.96	$1.16	$0.83	$0.86	$1.01	$0.96	$0.93
CW Composite ($/mmbtu)	$10.29	$9.11	$10.06	$11.11	$10.14	$12.50	$10.86	$11.92	$13.07	$14.99	$8.48	$11.37	$13.70	$9.87	$10.14	$11.92	$11.31	$11.06
NGL Basis Differential																		
Mont Belvieu-Conway ($/gal)	($0.02)	($0.05)	($0.02)	($0.01)	($0.03)	$0.06	$0.03	$0.05	($0.03)	($0.06)	($0.08)	($0.11)	($0.20)	($0.17)	($0.03)	$0.05	($0.01)	($0.03)
Frac Spread Margin																		
Gulf Coast ($/gal)	$0.59	$0.48	$0.57	$0.62	$0.57	$0.56	$0.50	$0.54	$0.54	$0.58	$0.46	$0.70	$1.02	$0.77	$0.57	$0.54	$0.57	$0.63
Conway ($/gal)	$0.56	$0.43	$0.55	$0.60	$0.54	$0.46	$0.53	$0.49	$0.55	$0.63	$0.41	$0.59	$0.82	$0.60	$0.53	$0.49	$0.57	$0.61
Correlations																		
NGL / WTI (% $ basis)	40%	37%	35%	41%	38%	42%	37%	40%	66%	56%	54%	56%	60%	45%	38%	40%	40%	44%
Ethane / Nat Gas (btu basis)	112%	104%	106%	103%	106%	99%	96%	98%	173%	154%	186%	208%	292%	220%	106%	98%	104%	103%
Ethane / WTI (% $ basis)	11%	12%	10%	11%	11%	14%	12%	13%	46%	38%	33%	32%	34%	18%	11%	13%	13%	12%
Propane / WTI (% $ basis)	39%	41%	41%	51%	43%	55%	44%	51%	70%	60%	57%	62%	65%	45%	43%	51%	52%	58%
Butane / WTI (% $ basis)	66%	54%	52%	61%	59%	57%	51%	55%	83%	71%	72%	77%	79%	71%	59%	55%	56%	63%
Iso-Butane / WTI (% $ basis)	73%	57%	53%	62%	61%	60%	53%	58%	88%	73%	81%	83%	91%	80%	61%	58%	57%	64%
Natural Gasoline / WTI (% $ basis)	99%	91%	86%	91%	92%	90%	92%	91%	98%	88%	89%	97%	103%	96%	92%	91%	88%	96%

Exhibit 19: BMO Crude Oil Forecast

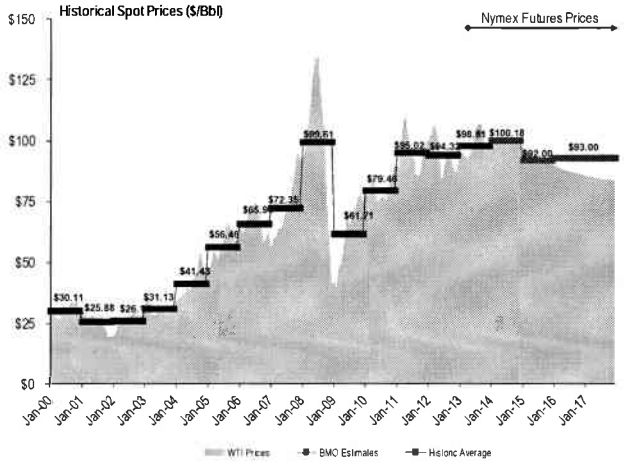
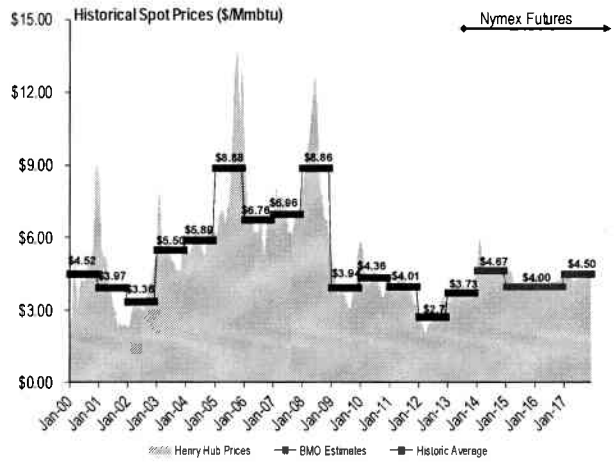


Exhibit 20: BMO Natural Gas Forecast



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 21: BMO EIA Natural Gas Supply-Demand Data

	US Natural Gas Supply (Bcf/d)						US Natural Gas Demand (Bcf/d)								Storage		"Error"	
	Domestic Dry Gas Production	Pipeline Imports	LNG Imports	Pipeline Exports	LNG Exports	Total Supply	Residential Consumption	Commercial Consumers	Industrial	Power	Lease, Pipe & Other	Total Implied Demand	Balancing "Other"	Storage	Monthly	Weekly	Other (% Dmd)	Storage (Bcf/d)
2013A																		
Jan	65.2	8.5	0.3	5.0	0.0	69.1	28.4	15.4	21.9	20.3	6.5	92.5	(0.1)	(23.3)	(720.9)	(730.0)	-0.1%	(0.3)
Feb	65.9	8.1	0.4	4.7	0.0	69.6	27.0	15.3	22.4	20.2	6.5	91.4	(0.3)	(21.6)	(603.7)	(597.0)	-0.3%	0.2
Mar	65.4	7.7	0.3	4.8	0.0	68.6	21.6	12.7	21.2	19.4	6.2	81.0	(0.2)	(12.3)	(380.4)	(420.9)	-0.2%	(1.3)
Apr	66.0	7.2	0.2	4.2	0.0	69.1	12.3	8.2	20.1	18.7	5.8	65.1	(0.5)	4.5	136.4	144.3	-0.8%	0.3
May	66.3	7.4	0.2	4.6	0.0	69.3	6.3	5.4	19.2	19.8	5.5	56.2	(0.4)	13.5	417.8	424.7	-0.7%	0.2
Jun	66.3	7.6	0.3	4.5	0.0	69.8	4.3	4.5	18.9	24.5	5.6	57.7	(0.3)	12.4	371.8	376.4	-0.6%	0.2
Jul	67.0	7.4	0.3	4.1	0.0	70.4	3.6	4.4	18.9	29.2	5.7	61.9	(0.3)	8.9	275.2	285.1	-0.5%	0.3
Aug	67.0	7.3	0.3	4.2	0.0	70.4	3.5	4.4	19.2	29.0	5.8	61.8	(0.1)	8.7	270.4	283.7	-0.2%	0.4
Sep	66.3	7.6	0.5	4.1	0.0	70.3	4.0	4.7	19.2	25.0	5.6	58.5	(0.0)	11.8	354.5	328.3	-0.1%	(0.9)
Oct	67.2	6.9	0.1	3.9	0.0	70.2	7.3	6.7	19.9	20.5	5.7	60.0	2.0	8.2	254.7	283.4	3.3%	0.9
Nov	68.3	7.2	0.1	3.7	0.0	71.9	17.3	11.5	21.8	19.9	6.3	76.8	2.1	(7.0)	(210.8)	(206.6)	2.7%	0.1
Dec	67.5	8.7	0.0	3.8	0.0	72.4	27.6	15.3	22.9	21.3	6.7	93.9	1.5	(23.0)	(713.9)	(718.1)	1.6%	(0.1)
FY	66.5	7.6	0.2	4.3	0.0	70.1	13.5	9.0	20.4	22.3	6.0	71.3	0.3	(1.5)	(548.9)	(546.6)	0.4%	0.0
2014E Deltas																		
Jan	2.5	0.7	(0.1)	(0.7)	0.0	3.7	5.2	3.0	1.5	1.1	0.5	11.3	0.3	(7.9)				
Feb	1.9	0.6	(0.3)	(0.1)	0.0	2.3	3.7	2.2	1.3	(0.4)	0.3	7.1	(0.4)	(4.4)				
Mar	0.0	0.0	0.0	0.0	0.0	0.0	2.2	0.0	0.0	0.0	0.0	2.2	0.0	(2.2)				
Apr	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
May	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Jun	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Jul	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Aug	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Sep	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Oct	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Nov	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Dec	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
FY	0.4	0.1	(0.0)	(0.1)	0.0	0.5	0.9	0.4	0.2	0.1	0.1	1.7	(0.0)	(1.2)				
Jan	3.8%	8.4%	-42.4%	-13.1%	133.8%	5.4%	18.3%	19.7%	6.9%	5.2%	7.4%	12.2%	-360.3%	34.1%				
Feb	2.8%	7.8%	-66.8%	-1.8%	33.8%	3.3%	13.6%	14.5%	5.6%	-1.9%	5.0%	7.8%	162.1%	20.3%				
Mar	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	0.0%	0.0%	0.0%	0.0%	2.7%	0.0%	17.6%				
Apr	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
May	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Jun	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Jul	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Aug	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Sep	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Oct	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Nov	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Dec	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
FY	0.5%	1.5%	-14.9%	-1.4%	12.5%	0.7%	6.8%	4.9%	1.1%	0.3%	1.1%	2.4%	-1.9%	80.2%				
2014E																		
Jan	67.7	9.2	0.2	4.3	0.0	72.8	33.6	18.5	23.4	21.3	7.0	103.7	0.2	(31.2)	(966.6)	(961.3)	0.2%	0.2
Feb	67.7	8.7	0.1	4.7	0.0	71.9	30.7	17.5	23.7	19.8	6.8	98.5	(0.7)	(25.9)	(726.5)	(727.0)	-0.7%	(0.0)
Mar	65.4	7.7	0.3	4.8	0.0	68.6	23.7	12.7	21.2	19.4	6.2	83.2	(0.2)	(14.4)	(447.3)	(429.3)	-0.2%	0.6
Apr	66.0	7.2	0.2	4.2	0.0	69.1	12.3	8.2	20.1	18.7	5.8	65.1	(0.5)	4.5	136.4	210.1	-0.8%	2.5
May	66.3	7.4	0.2	4.6	0.0	69.3	6.3	5.4	19.2	19.8	5.5	56.2	(0.4)	13.5	417.8	202.4	-0.7%	(6.9)
Jun	66.3	7.6	0.3	4.5	0.0	69.8	4.3	4.5	18.9	24.5	5.6	57.7	(0.3)	12.4	371.8		-0.6%	(12.4)
Jul	67.0	7.4	0.3	4.1	0.0	70.4	3.6	4.4	18.9	29.2	5.7	61.9	(0.3)	8.9	275.2		-0.5%	(8.9)
Aug	67.0	7.3	0.3	4.2	0.0	70.4	3.5	4.4	19.2	29.0	5.8	61.8	(0.1)	8.7	270.4		-0.2%	0.0
Sep	66.3	7.6	0.5	4.1	0.0	70.3	4.0	4.7	19.2	25.0	5.6	58.5	(0.0)	11.8	354.5		-0.1%	0.0
Oct	67.2	6.9	0.1	3.9	0.0	70.2	7.3	6.7	19.9	20.5	5.7	60.0	2.0	8.2	254.7		3.3%	0.0
Nov	68.3	7.2	0.1	3.7	0.0	71.9	17.3	11.5	21.8	19.9	6.3	76.8	2.1	(7.0)	(210.8)		2.7%	0.0
Dec	67.5	8.7	0.0	3.8	0.0	72.4	27.6	15.3	22.9	21.3	6.7	93.9	1.5	(23.0)	(713.9)		1.6%	0.0
FY	66.9	7.7	0.2	4.2	0.0	70.6	14.5	9.4	20.7	22.4	6.1	73.0	0.3	(2.8)	(984.2)		0.4%	0.0

Storage @ 05/09/14	1,160
Est. Storage @ 03/31/14	824
Est. Storage @ 10/31/14	2,902

Source: BMO Capital Markets estimates, EIA.

Exhibit 22: U.S. Natural Gas Storage

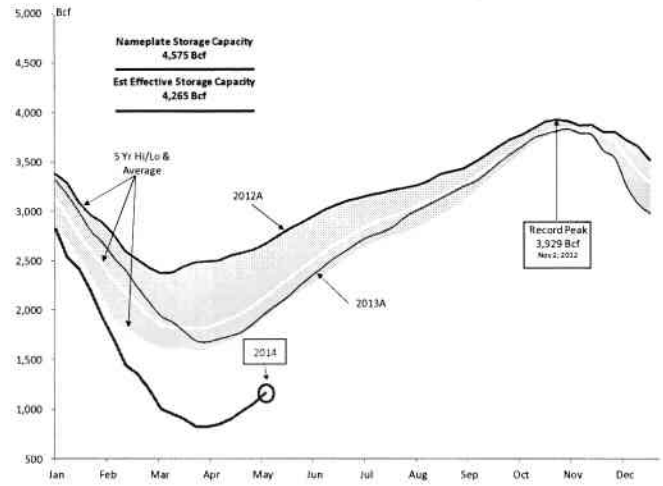


Exhibit 23: Canadian Natural Gas Storage

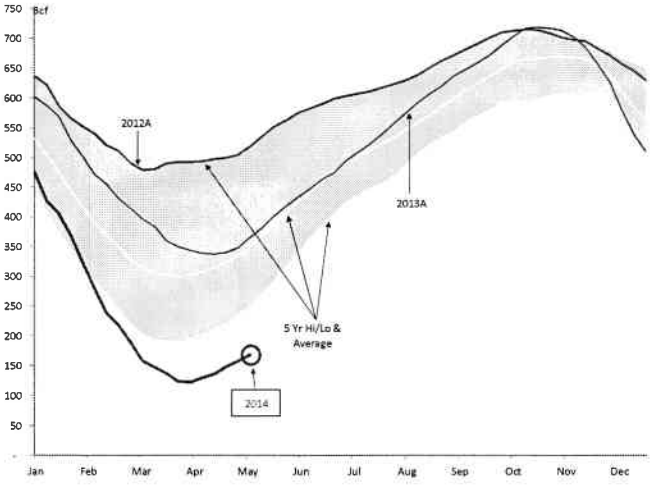


Exhibit 24: U.S. Onshore Production

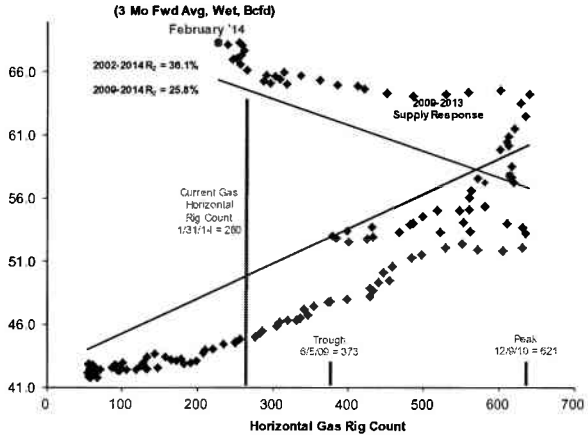


Exhibit 25: Alberta Gathering Receipts

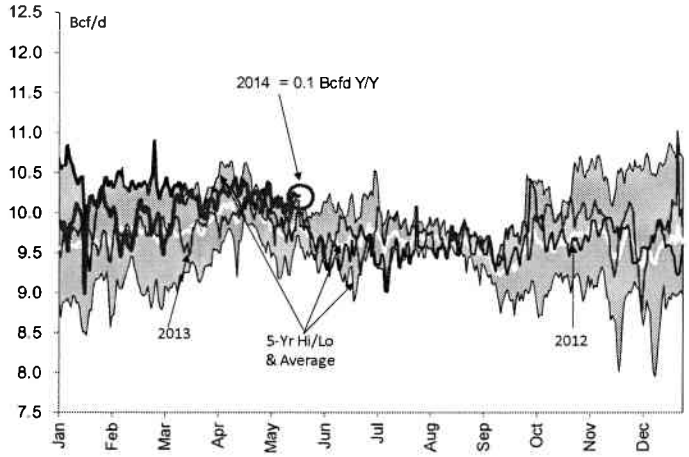


Exhibit 26: Degree Day Variance

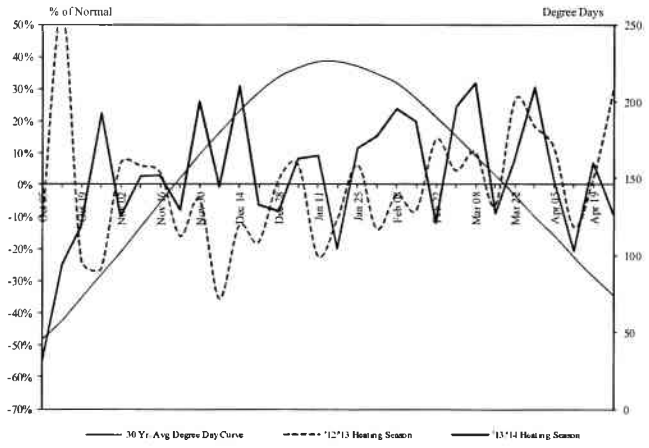
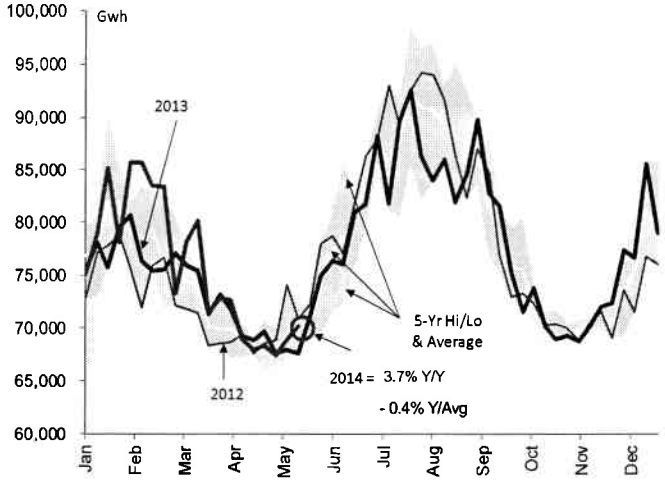


Exhibit 27: U.S. Electricity Output



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg, EIA.

Midstream/Natural Gas Liquids

Exhibit 28: Historic NGL Prices

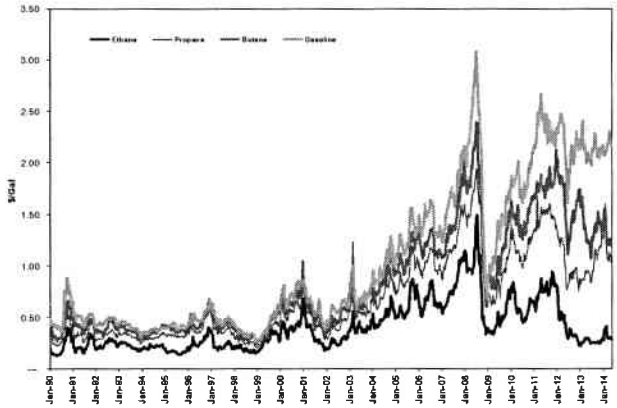


Exhibit 29: Average NGL Barrel % WTI Crude

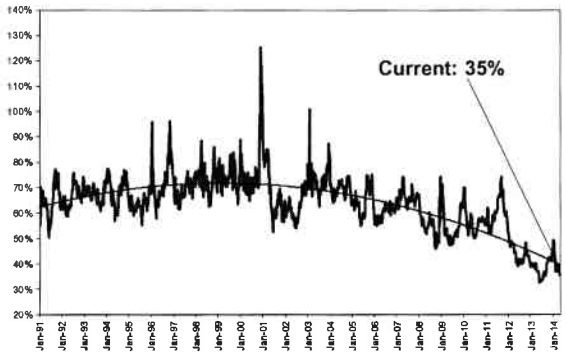


Exhibit 30: Keep-Whole "Frac" Spreads

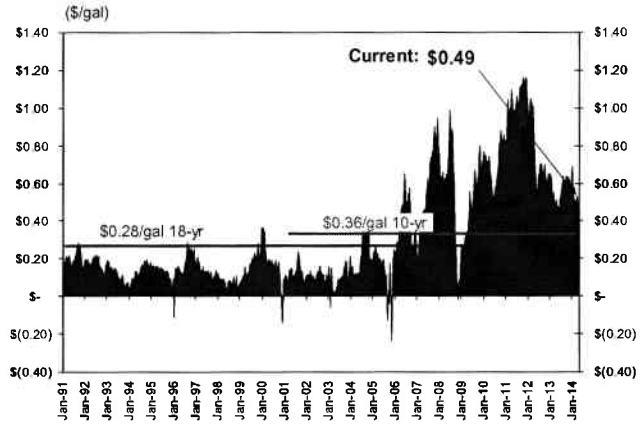


Exhibit 31: Oil – Gas Ratio

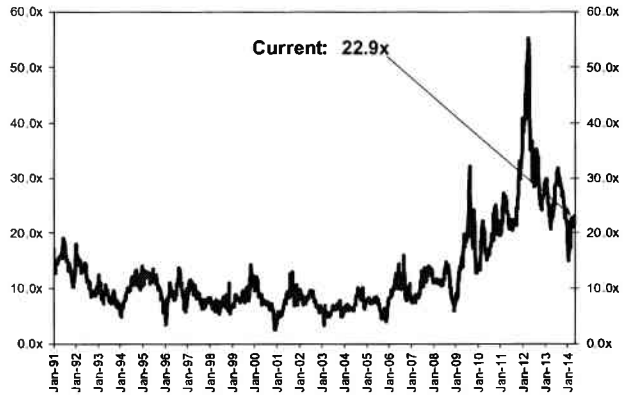


Exhibit 32: Ethane % Henry Hub Natural Gas

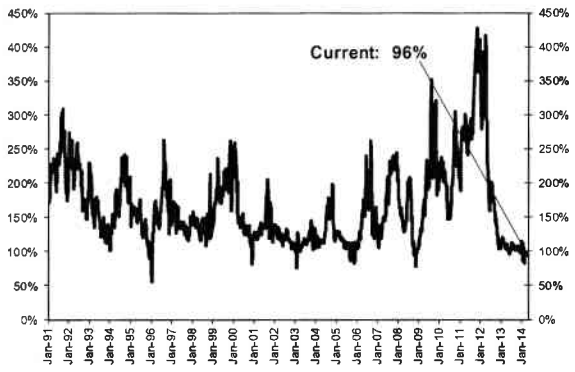
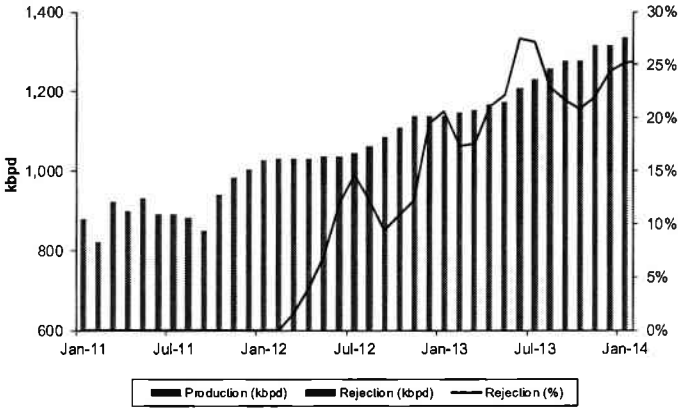


Exhibit 33: U.S. Monthly Ethane Production



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 34: Mt. Belvieu Premium to Conway

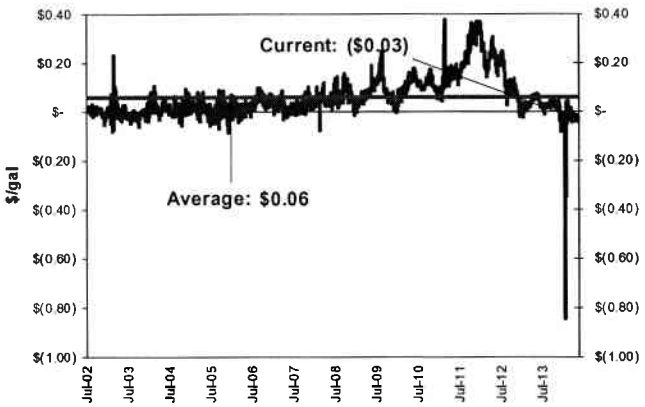


Exhibit 35: NGL Storage

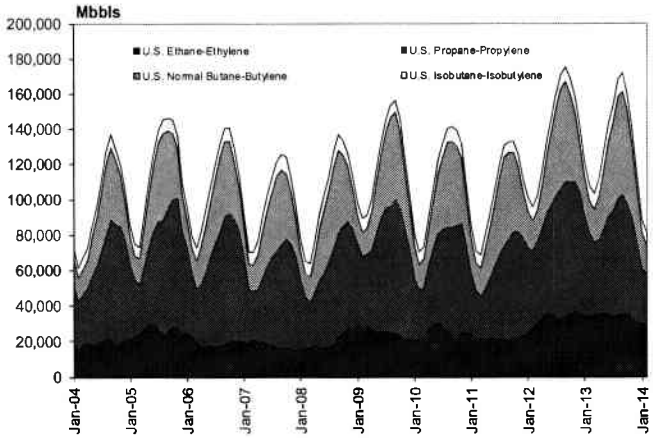


Exhibit 36: Chemical Rail Car Loadings

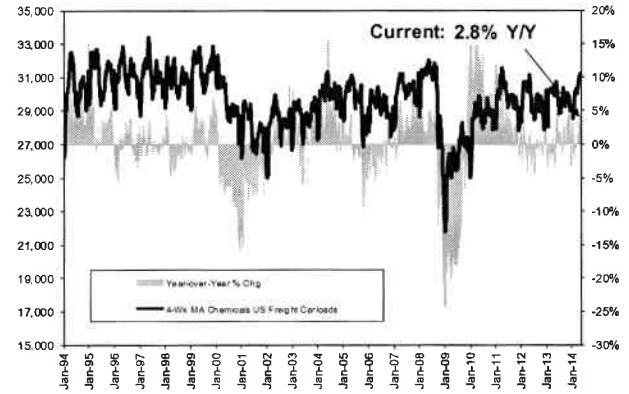


Exhibit 37: Ethane vs. Naphtha (Gulf Coast)

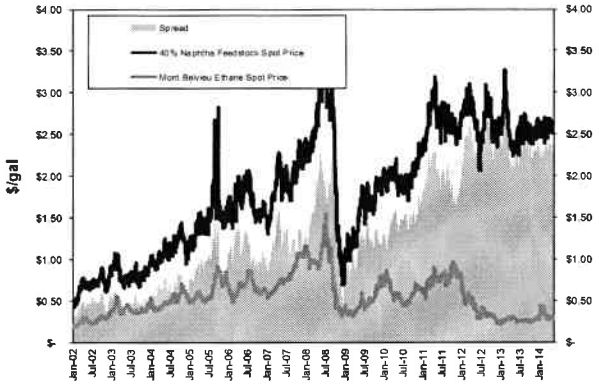


Exhibit 38: Petrochemical Price Trends

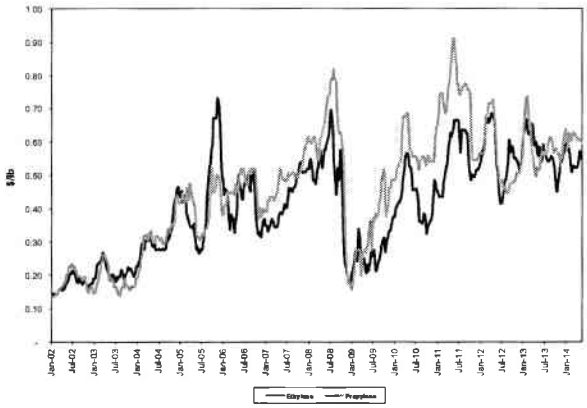
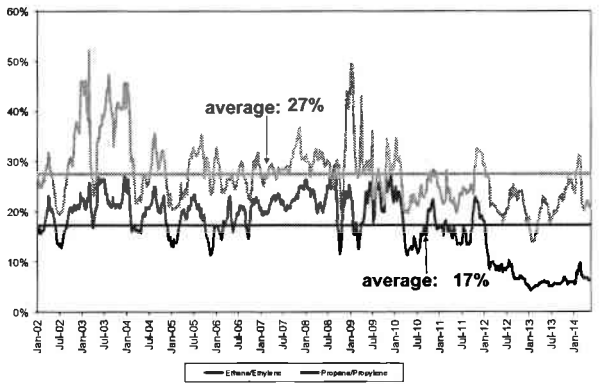


Exhibit 39: NGL/Petchem Price Correlation



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

LNG Update

Exhibit 40: US LNG Imports

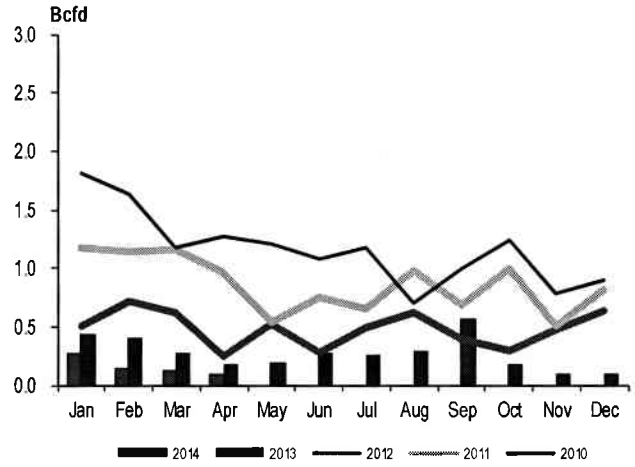


Exhibit 41: 2012 US LNG Imports by Terminal

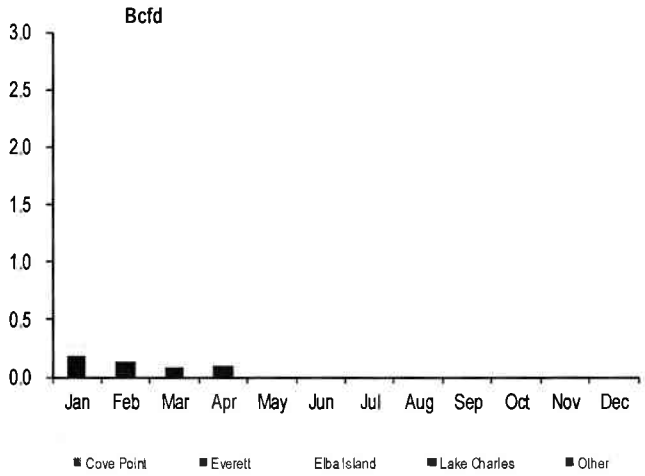


Exhibit 42: U.S. DOE Applications for LNG Exports

U.S. DOE Applications for LNG Exports

Expected Order to be Processed	Company	Date Applicant Received FERC Approval to Begin Pre-Filing Process	Quantity (Bcf/d)	Date Non-FTA Received	FERC
1	Cheniere Sabine Pass T1-T4	8/4/2010	2.2	5/20/2011	FERC scheduling notice issued
2	Freeport LNG Expansion, LP and FLNG Liquefaction	1/5/2011	1.4	5/17/2013	FERC scheduling notice issued
3	Lake Charles Exports, LLC	4/6/2012	2.0	8/7/2013	
4	Dominion Cove Point LNG, LP	6/26/2012	1.0	9/11/2013	Received environmental approval
5	Freeport LNG Expansion, LP and FLNG Liquefaction	1/5/2011	1.4	11/15/2013	
6	Cameron LNG, LLC	5/9/2012	1.7	2/11/2014	FERC scheduling notice issued
7	Jordan Cove Energy Project, LP	3/6/2012	0.8	3/24/2014	Application filed
8	LNG Development Company, LLC (d/b/a Oregon LNG)	7/16/2012	1.3		Application filed
9	Cheniere Marketing, LLC (Corpus Christi)	12/22/2011	2.1		Application filed
10	Excelerate Liquefaction Solultions	11/20/2012	1.4		
11+	All Others		10.1		
			25.3		

Exhibit 43: Global LNG Price Comparison

	Altamira	Argentina	Spain	Canaport	Cove Point	India	China	Korea	UK	Taiwan	Lake Charles	Manzanillo	France	Brazil	Japan	Belgium
Market**	$14.90	$15.22	$11.15	$4.42	$3.89	$14.30	$14.85	$15.25	$7.73	$14.75	$4.00	$16.05	$11.18	$15.16	$15.25	$7.76
Algeria	$13.59	$13.70	$10.94	$3.56	$2.85	$12.78	$12.37	$12.58	$7.30	$12.31	$2.69	$12.82	$10.79	$14.09	$12.50	$7.28
Australia	$11.61	$12.90	$8.87	$1.29	$0.76	$13.29	$14.05	$14.29	$5.08	$14.00	$0.71	$13.97	$8.57	$12.92	$14.27	$5.06
Egypt	$13.19	$13.28	$10.66	$3.14	$2.44	$13.19	$12.80	$13.01	$6.91	$12.74	$2.29	$12.40	$10.39	$13.72	$12.93	$6.89
Malaysia	$11.25	$12.82	$8.84	$1.26	$0.55	$13.33	$14.25	$14.58	$5.06	$14.25	$0.35	$14.25	$8.55	$12.63	$14.56	$5.03
Nigeria	$13.29	$13.99	$10.13	$3.13	$2.52	$12.47	$12.35	$12.55	$6.64	$12.29	$2.39	$13.19	$10.13	$14.32	$12.47	$6.62
Norway	$13.54	$13.21	$10.31	$3.56	$2.77	$12.07	$11.62	$11.82	$7.27	$11.56	$2.64	$12.29	$10.64	$13.69	$11.73	$7.33
Peru	$12.32	$14.28	$8.84	$1.97	$1.45	$11.32	$12.23	$12.85	$5.17	$12.23	$1.42	$15.07	$8.61	$13.72	$13.05	$5.20
Qatar	$12.12	$12.97	$9.66	$2.11	$1.41	$13.89	$13.41	$13.65	$5.88	$13.35	$1.22	$13.09	$9.37	$13.01	$13.56	$5.86
Russia	$10.62	$12.49	$8.26	$0.65	($0.06)	$12.74	$14.31	$14.83	$4.46	$14.23	($0.28)	$14.86	$7.95	$11.89	$14.93	$4.44
Trinidad	$14.26	$14.03	$10.08	$3.80	$3.34	$11.84	$11.56	$11.76	$6.74	$11.51	$3.36	$13.19	$10.17	$14.47	$11.67	$6.69
Yemen	$12.54	$13.23	$10.05	$2.53	$1.83	$13.80	$13.41	$13.65	$6.29	$13.35	$1.64	$13.08	$9.78	$13.23	$13.56	$6.27

** Estimated June 2014 landed price
Outlined square denotes highest netback location to origin country

Source (all Exhibits): Waterborne, U.S. DOE, U.S. FERC, Company data, BMO Capital Markets estimates.

Basis and Transportation Update

Exhibit 44: US Gas Prices and Basis Differentials to Henry Hub ($/Mmbtu) – May 20, 2014

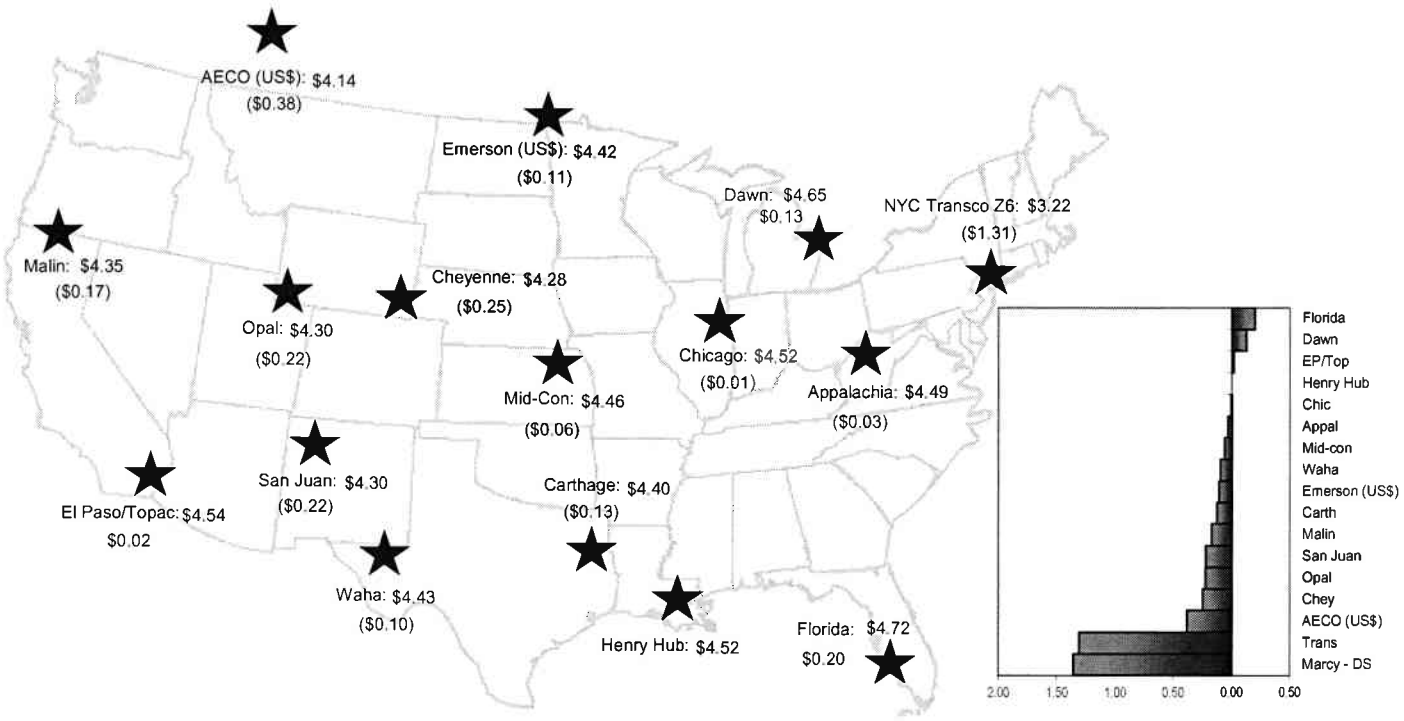
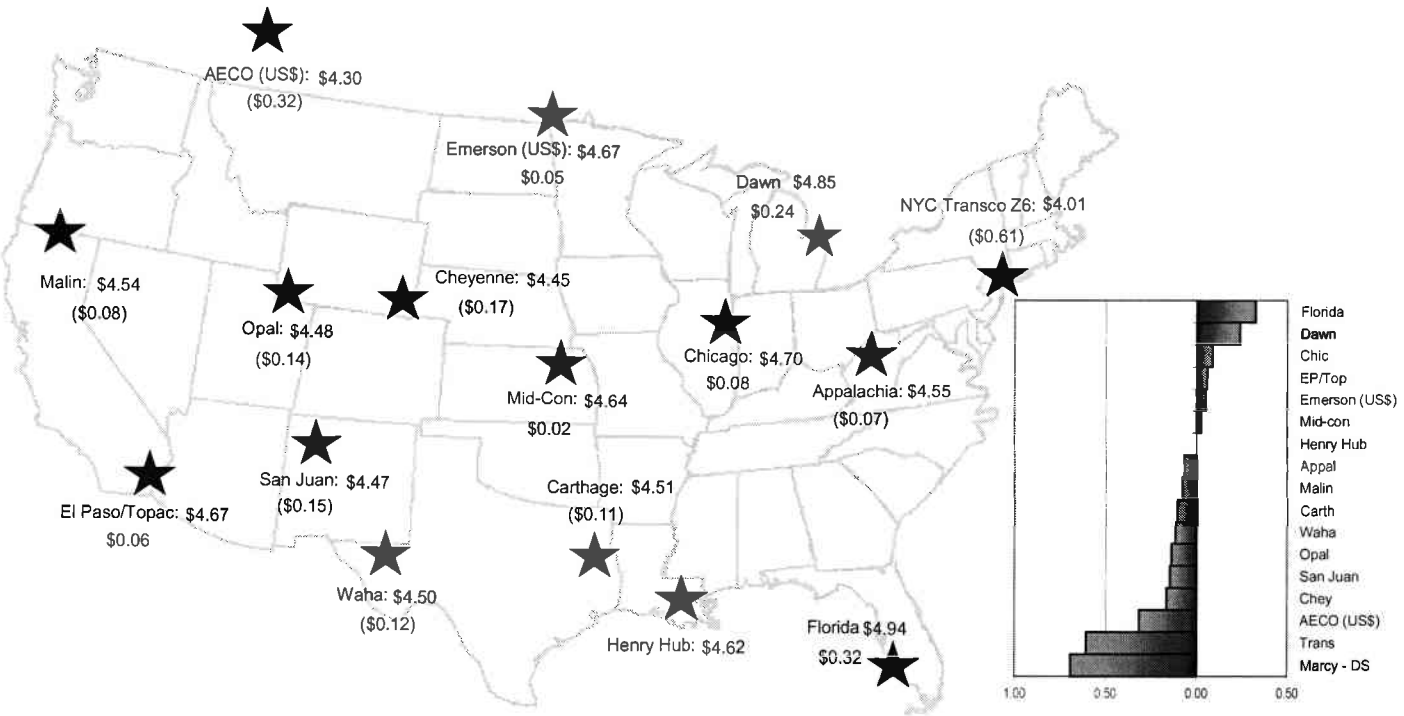


Exhibit 45: US Gas Prices and Basis Differentials to Henry Hub ($/Mmbtu) – 2nd Quarter to Date



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 46: NY Transco Zone 6 Basis

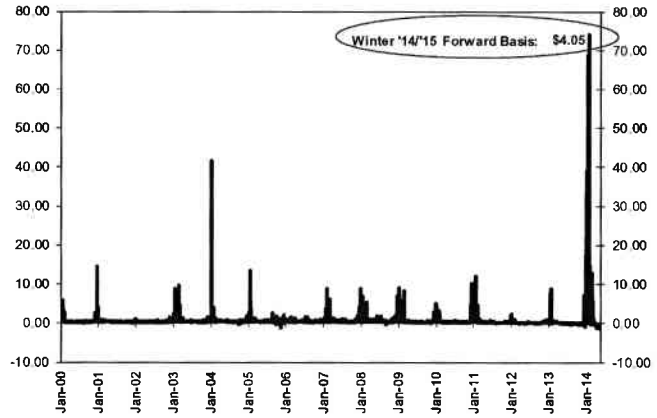


Exhibit 47: Marcellus Basis – Dominion South

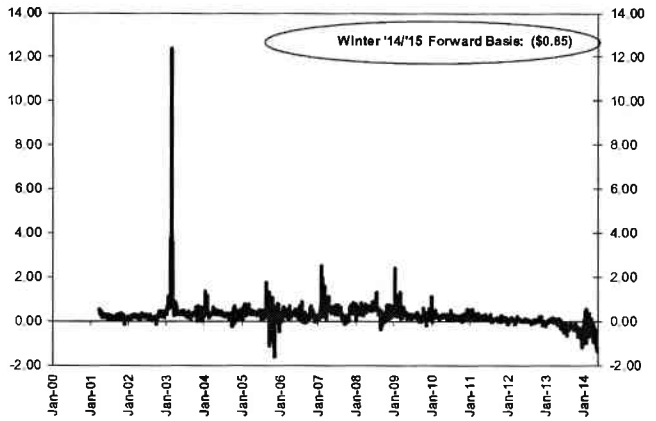


Exhibit 48: Mid Continent Basis

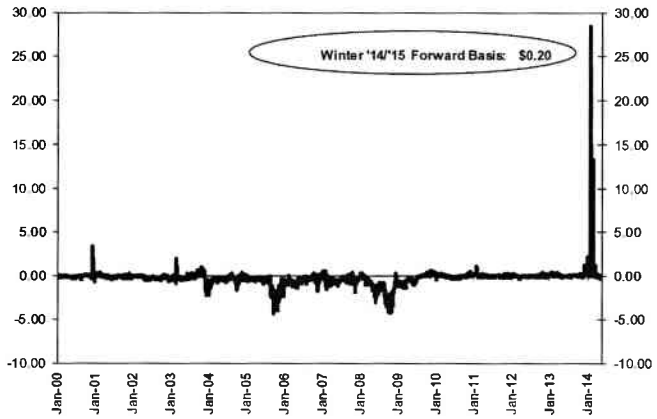


Exhibit 49: AECO Basis

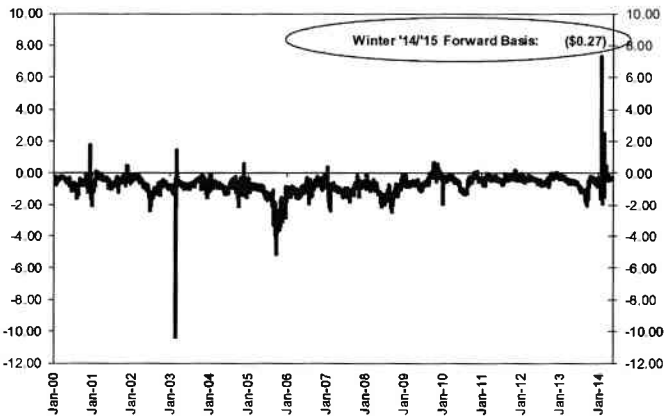


Exhibit 50: Rockies Basis

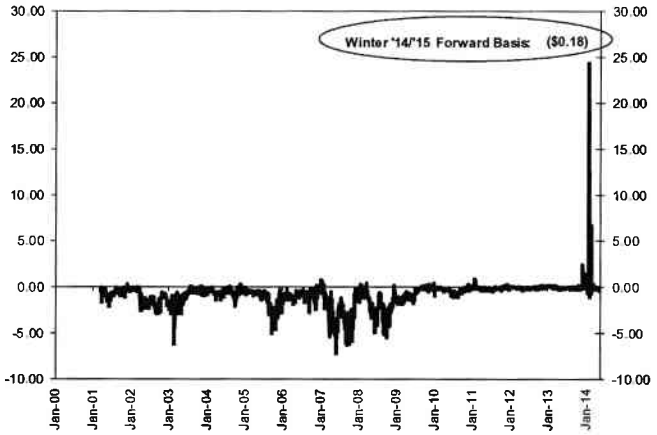
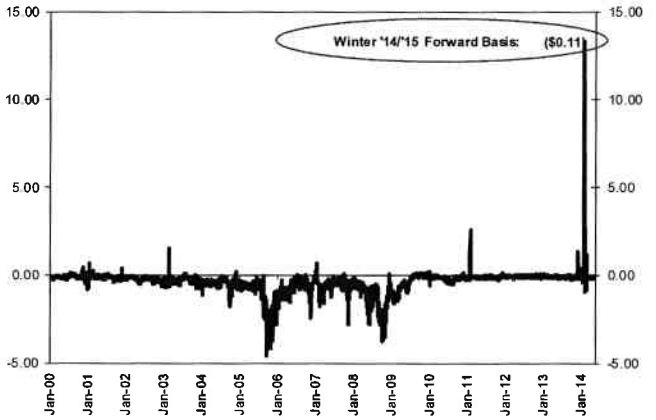


Exhibit 51: Waha Basis



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Relative Coal / Natural Gas Thermal Comparisons

Exhibit 52: Weighted Avg Coal vs. Natural Gas

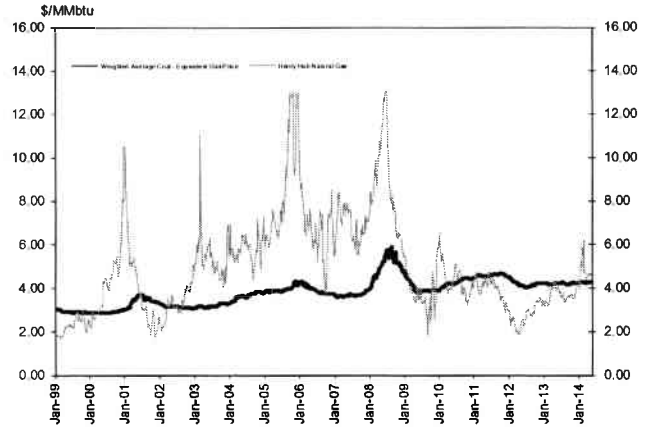


Exhibit 53: NAPP Coal vs. Natural Gas

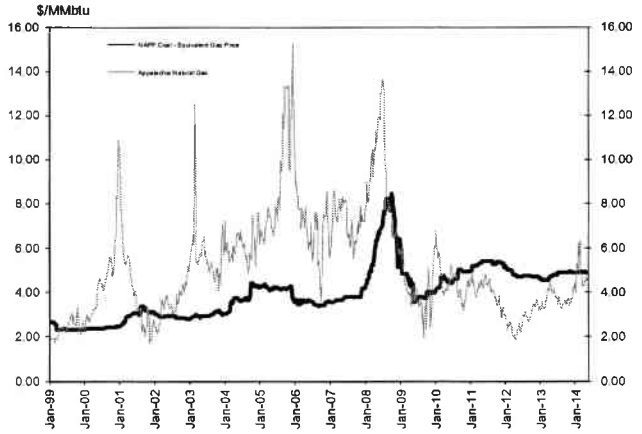


Exhibit 54: CAPP Coal vs. Natural Gas

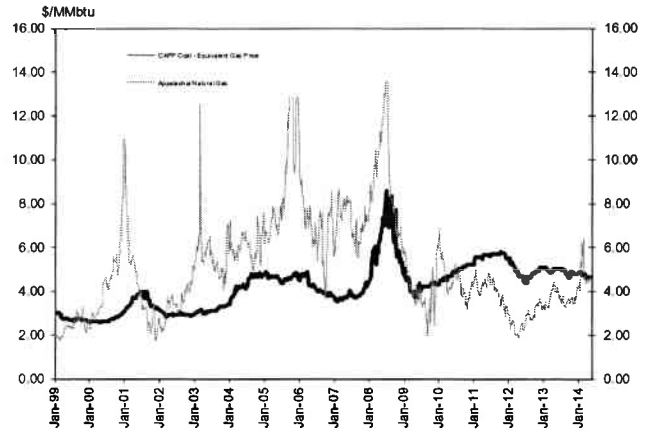


Exhibit 55: Interior Coal vs. Natural Gas

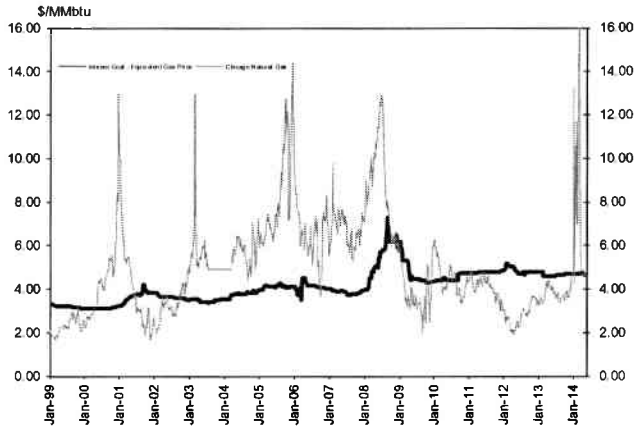


Exhibit 56: Southwest Coal vs. Natural Gas

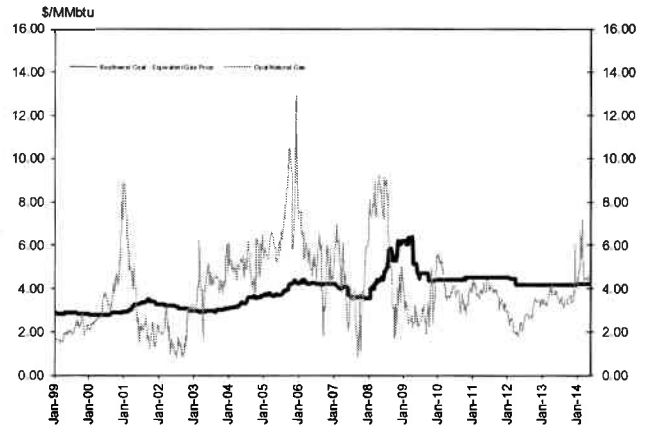
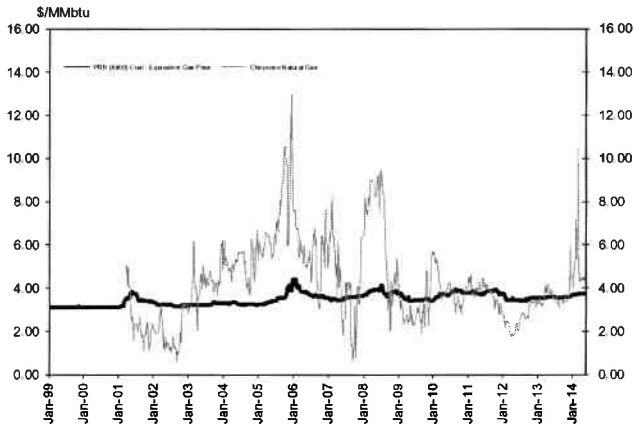


Exhibit 57: PRB Coal vs. Natural Gas



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 58: BMO Natural Gas-Coal Switching Parity

Industry Assumptions:	NAPP	CAPP	Interior	Southwest	PRB
Heat Content (Btu/lb)	13,000	12,500	11,800	11,500	8,800
Heat Content (MMBtu/ton)	26.0	25.0	23.6	23.0	17.6
SO_2 Content (lb/Mmbtu)	3.0	1.2	5.0	1.0	0.8
SO_2 Content (% coal)	3.9%	1.6%	6.5%	1.3%	1.0%
NO_2 Content (lb/Mmbtu)	0.37	0.37	0.37	0.37	0.37
NO_2 Content (% coal)	0.5%	0.5%	0.5%	0.5%	0.5%
CO_2 Content (lb/Mmbtu)	210	210	210	210	205
Coal Plant Heat Rate (btu/kwh)	10,000	10,000	10,000	10,000	10,000
CCGT Heat Rate (btu/kwh)	7,500	7,500	7,500	7,500	7,500
Pricing Assumptions:	NAPP	CAPP	Interior	Southwest	PRB
Minehead Coal Spot Price ($/ton)	$68.17	$62.17	$46.02	$36.73	$13.02
Transportation Expense	$20.00	$20.00	$13.00	$25.00	$25.00
Delivered Coal ($/ton)	$88.17	$82.17	$59.02	$61.73	$38.02
SO_2 Price ($/ton)	$0.75	$0.75	$0.75	$0.75	$0.75
SO_2 Cost ($/coal ton)	$0.03	$0.01	$0.04	$0.01	$0.01
SO_2 Cost ($/MMbtu)	$0.00	$0.00	$0.00	$0.00	$0.00
NO_2 Price ($/ton)	$400.00	$400.00	$400.00	$400.00	$400.00
NO_2 Cost ($/coal ton)	$1.92	$1.85	$1.75	$1.70	$1.30
NO_2 Cost ($/MMbtu)	$0.07	$0.07	$0.07	$0.07	$0.07
CO_2 Price ($/ton)	$0.00	$0.00	$0.00	$0.00	$0.00
CO_2 Cost ($/coal ton)	$0.00	$0.00	$0.00	$0.00	$0.00
CO_2 Cost ($/MMbtu)	$0.00	$0.00	$0.00	$0.00	$0.00
Total Coal Cost ($/ton)	$90.12	$84.03	$60.81	$63.44	$39.33
Total Coal Cost ($/MMbtu)	$3.47	$3.36	$2.58	$2.76	$2.23
Coal Plant Fuel Cost ($/Mwh)	$34.66	$33.61	$25.77	$27.58	$22.35
Plus: Variable O&M ($/Mwh)	$3.00	$3.00	$3.00	$3.00	$4.00
Total Variable Coal Cost ($/Mwh)	$37.66	$36.61	$28.77	$30.58	$26.35
Gas Equivalence					
CCGT Total Variable Fuel Cost ($/Mwh)	$37.66	$36.61	$28.77	$30.58	$26.35
Less: Variable O&M ($/Mwh)	($1.00)	($1.00)	($1.00)	($1.00)	($1.00)
CCGT Fuel Cost ($/Mwh)	$36.66	$35.61	$27.77	$29.58	$25.35
Equivalent Gas Price ($/Mmbtu, at the CCGT)	**$4.89**	**$4.75**	**$3.70**	**$3.94**	**$3.38**
Coal Weightings Across United States	14%	23%	10%	8%	45%
Weighted Average					$3.98
Marginal Coal Capacity MW (11,000+ heat rate)					7,765
Total US Coal Capacity (MW)					336,291
% Marginal Coal Capacity					2.3%
Normal Capacity Factor					65%
Annual Power Volumes Generated (MW)					44,213,910
Coal Displaced (Mmbtu)					442,139,100
Wtd Avg Coal Heat Content (Mmbtu/ton)					21.5
Coal Tons Displaced Anually					20,555,049
"Normalized" Natural Gas Switchable Demand Potential (MMcf/d)					908.5

Source: BMO Capital Markets estimates, SNL, EIA.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.5%	60.7%	40.8%	53.6%	53.6%
Hold	Market Perform	52.8%	10.8%	38.2%	52.8%	43.8%	40.8%
Sell	Underperform	5.2%	3.2%	1.1%	6.3%	2.7%	5.6%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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(S) = speculative investment;
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COMPANY NOTE

Target | Estimate Change

USA | Energy | Natural Gas

September 22, 2014

Jefferies

NiSource Inc. (NI)

Let's Talk Capex Baby, Let's Talk About M-L-P

HOLD
Price target $40.00
(from $37.00)
Price $39.76

EQUITY RESEARCH AMERICAS

Key Takeaway

On Sept. 29th, NI will hold an Investor Day in NYC to review business operations & discuss strategic plans. We expect investors will seek color on large-ticket initiatives such as Rayne/Leach & WB XPress, project status updates & indications of incremental growth opportunities, and revisions to EPS & dividend growth targets. Moreover, after years of mounting MLP speculation, we believe mgmt is poised to formally commit to an MLP creation in 2015.

Potential guidance updates. At its last Investor Day in 2012 (NI historically hosts these events biennially), the company unveiled 5-7% EPS & 4-6% dividend growth targets, outlooks to which it has since held fast. However, with the ongoing ramp-up of existing operations, an expanding inventory of high-quality midstream investment opportunities, and the potential for an MLP structure to provide a lower cost of capital, we believe mgmt may revise these targets higher. Specifically, we project a 2014-19 EPS CAGR of ~8.5% and a dividend CAGR of ~9.0% over the same period. We also anticipate initial 2015 non-GAAP EPS guidance range of $1.80-$1.90 ($1.87 JEFe).

Key projects & investments. With NI's much-anticipated Rayne/Leach XPress project now formally in execution, we look to the Investor Day for additional discussion regarding its size, timing, and return profile. We also anticipate more detail regarding the WB XPress initiative, which remains under development. Finally, we note the potential for new investment announcements and would expect a positive response to such news given the market's recent conditioning to value backlog opportunities.

Anticipating a formal MLP decision. With a projected ~$400-500mm equity / equity-alternative financing need next year, we expect NI to announce formal plans to create an MLP in 2015. In addition to its FERC-approved modernization investments & market-driven expansions, CPG has a large & low-risk backlog of drop-down suitable assets which we believe will enable an NI-MLP to articulate a competitive growth story. We view a midstream MLP as the most attractive alternative financing solution for NI and detail our analysis on pages 5-7.

Valuation/Risks

We are lifting our PT to $40, from $37, due to higher projected 2016 CPG EBITDA and other model adjustments; our PT is derived via a combination of DCF, SOP, and target yield approaches. Deviations in assumptions regarding rate case outcomes, interest rates, capital costs, and project execution could alter our cash flow projections and price target.

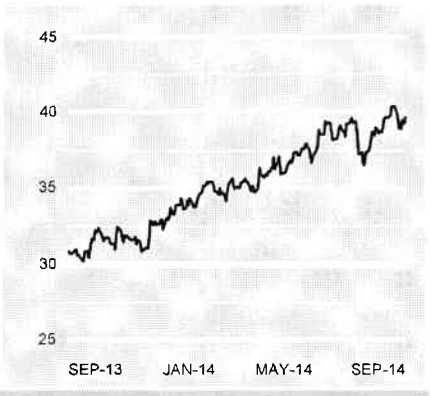
Financial Summary	
Net Debt (MM):	$8,723.7
Net Debt/Capital:	59.1%
Long-Term Debt (MM):	$7,640.6
Dividend Yield:	2.6%

Market Data	
52 Week Range:	$40.66 - $30.09
Total Entprs. Value (MM):	$21,260.0
Market Cap. (MM):	$12,536.3
Shares Out. (MM):	315.3
Float (MM):	312.7
Avg. Daily Vol.:	1,827,357

Christopher Sighinolfi, CFA *
Equity Analyst
(212) 707-6420 csighino@jefferies.com
Christopher Tillett *
Equity Associate
(212) 284-4697 ctillett@jefferies.com
Corey Goldman *
Equity Associate
(212) 284-3411 cgoldma1@jefferies.com
* Jefferies LLC

USD	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	2016E
Cons. EPS	--	--	*1.68*	1.70	*1.80*	1.84	*1.97*	2.00
DPS	--	0.98	--	1.02	*1.07*	1.08	*1.14*	1.17
EBITDA (MM)	--	1,729.4	*1,885.9*	1,891.5	*2,093.2*	2,097.6	*2,235.3*	2,250.7
EV/EBITDA		12.3x		11.2x		10.1x		9.4x
EPS								
Mar	--	0.69	--	0.79A	--	--	--	--
Jun	--	0.23	--	0.25A	--	--	--	--
Sep	--	0.16	--	0.17	--	--	--	--
Dec	--	0.46	--	0.50	--	--	--	--
FY Dec	--	1.54	--	1.70	*1.88*	1.87	*1.96*	1.98
FY P/E		25.8x		23.4x		21.3x		20.1x

Price Performance



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NI

Target | Estimate Change

September 22, 2014

NiSource, Inc. (NI)

Hold: $40 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Infrastructure modernization programs to generate steady growth & returns across all segments over the next decade
- NI will IPO a midstream MLP in mid-2015, to be announced in 3Q14
- Multiple growth projects in midstream segment add to overall Utica/Marcellus takeaway capacity; projects are delivered on time and on budget
- 2015 EPS: $1.87; 3Q15 dividend: $0.28/share; Target Price $40

Upside Scenario

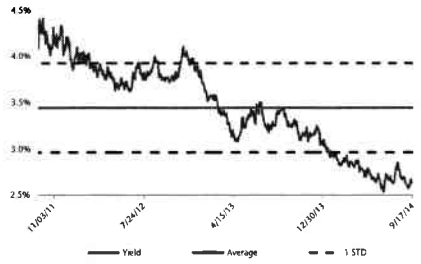
- Midstream growth projects come online ahead of schedule, under budget, and with above-forecast initial utilization rates, booting return characteristics
- MLP trades with a yield below ~2.0%
- Population growth in LDC service territories trends above our forecasts
- Extreme winter (cold) and summer (hot) weather patterns create conditions for added cash flow generation
- 2015 EPS: $1.95; 3Q15 dividend: $0.29/share; Target Price: $45

Downside Scenario

- Expansion projects presently in execution incur cost overruns & implementation delays, crimping returns
- MLP growth rate stunted by poor performance or market conditions
- Adverse rate case outcomes and an inability to earn authorized ROE levels
- Rising interest rates crimp cost of capital, & target yield expectations; inability to secure additional investment projects
- 2015 EPS: $1.80; 3Q15 dividend: $0.27/share; Target Price: $31

Long Term Analysis

Historical Dividend Yield (3-year)



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

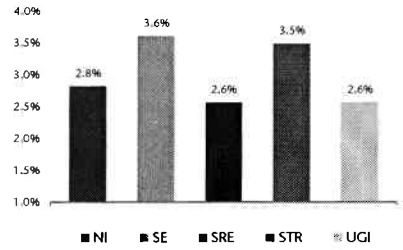
LT Earnings CAGR	~8.5%
5-Year Dividend CAGR	~9.0%
Earnings Payout Ratio	~60%
Terminal Cash Flow Growth Rate	2.0%

Other Considerations

We have assumed dropdowns to an NI-MLP occur at an escalating scale through the end of the forecast period and are completed on terms to enable distribution growth at a rate of ~20%/year. We note that EBITDA may not be dropped at exactly this rate, but we are comfortable with the distribution growth assumption given additional levers (coverage, maintenance capex, equity/debt raises) available to mgmt.

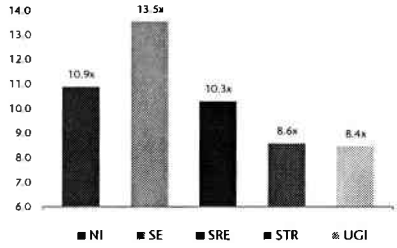
Peer Group

3Q15 Dividend Yield



Source: FactSet, Jefferies estimates

Group EV / 2015E EBITDA



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
NI	**Hold**	**$40**
SE	Hold	$39
SRE	NC	NC
STR	Hold	$25
UGI	Hold	$48

Catalysts

- Formal announcement of MLP formation
- Project in-service announcements and the repopulation of expansion growth backlog
- Periodic regulatory decisions; extension of midstream modernization programs to 10+ years
- Dividend raises (we anticipate increases in paid dividends will occur in 3Q each year)

Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Key Investor Day Discussion Topics

The upcoming Investor Day presents management with a forum to review its operations & illustrate strategic growth initiatives. We expect many executives to be present at the event and anticipate the day's discussion to principally focus on the following topic areas:

MLP decision. After illustrating a sustainable capex plan of ~$2B/year, annual funding requirement of $500-$700mm, and the likelihood of a 2015 equity issuance at its Sept. 2012 Investor Day, the market has weighed NI's alternative financing options and endlessly discussed the potential for a midstream MLP formation. In recent conference calls, NI has sought to table the MLP question until its 2014 Investor Day and, as we have previously stated, we expect plans for a 2015 MLP IPO to be communicated at the event.

In total, Columbia Pipeline Group's inventory of identified expansion & modernization projects totals $8-$10B over the next five-to-ten years. We believe this sizable, low-risk investment opportunity, along with a large stable of existing drop-down suitable assets, will enable an NI-MLP to offer a highly competitive MLP growth story. In fact, with drop-downs used to fund organic growth projects, we think the MLP model offers strategic benefits to NI and represents its most attractive alternative financing solution. Our specific MLP analysis is featured on pages 5-7; however, we believe it will be structured similar to other recent drop-down driven MLPs and capable of sustainably offering 20% annual distribution growth. Moreover, we expect the regulated nature of CPG's growth backlog to assuage investors' concerns about the stability of the MLP's growth profile.

Guidance for 2015 & beyond. Management has maintained its respective 5-7% EPS & 4-6% dividend growth guidance since its 2012 Investor Day; however, with a host of newly announced organic growth projects, a continued ramp of existing expansions, several favorable regulatory outcomes since that date, and the potential for an MLP to provide for a lower cost of capital than initially contemplated, we believe management is likely to update both its earnings and dividend growth expectations. We anticipate modest upward revisions to these forecasts and project the new EPS and dividend growth guidance to both range 7-9%. We also expect management will unveil 2015 non-GAAP EPS guidance of $1.80-$1.90; our formal 2015 EPS estimate is $1.87.

Capital investment update. As the anticipated MLP will be utilized principally to fund NI's growing backlog of midstream investments, we expect management to spend a fair amount of time discussing new and ongoing projects. For example, last month, NI formally announced the Rayne & Leach XPress projects, a combined $1.75B investment which will provide up to 1.5 Bcf/d of natural gas transportation capacity from Marcellus & Utica production areas to markets served by Columbia Gulf & Columbia Transmission. Given the size/scale of these projects, we expect more color on their timing/return profiles and anticipate additional detail on the WB XPress project, which remains in development.

Valuation

We have lifted our PT to $40, from $37, due to higher projected 2016 CPG EBITDA and other model adjustments; our target is derived via a combination of DCF, SOP, and target yield approaches. With modernization projects, environmental upgrades, and midstream investments we project 5-year EPS & dividend CAGRs of ~8.5% and ~9.0%, respectively. However, at current levels we believe shares are fairly valued and maintain a Hold rating.

Risks

Deviations in our assumptions regarding regulatory outcomes, interest rates, capital costs, and project execution could alter our cash flow assumptions. Similarly, differences in MLP decisions could alter our valuation analysis and price target.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Expecting a Formal MLP Announcement

In our initiation on NI (Pricing in Perfection), we commented extensively on the possibility of a NiSource MLP. NI management has publicly stated it needs an equity infusion of $400-$500mm in mid-2015 to fund its growth & has acknowledged it is investigating a midstream MLP IPO as an alternative means of providing that financing. Since initiating coverage in April, we have continued to discuss the MLP option with management and investors, and now firmly believe a NI-MLP will exist by early/mid 2015; we expect a formal MLP announcement at the analyst day next week. However, given NI's YTD performance, its current share price, and the negative performance of yieldco sponsors following their recent yieldco IPOs, we remain neutral on the shares despite the Company's strong fundamental positioning.

Updates to Capital Plan

Rayne/Leach XPress

In mid-August NI announced that it had moved its much-anticipated Rayne/Leach XPress project into execution. The $1.75B, 1.5 Bcf/d project will provide northeastern producers with critical additional access to Midwest and Gulf Coast markets. The project involves construction of 160 miles of pipeline, additional compression, and related facilities on NI's Columbia Transmission & Columbia Gulf systems and is supported by long-term firm shipping contracts with Range Resources, Noble Energy, Kaiser Marketing Appalachian, and American Energy Partners.

WB XPress

We also look to the Investor Day for information on NI's WB XPress project, which remains in development. We estimate the project to cost ~$750mm and management has noted an expected completion date for the 1.3 Bcf/d pipeline in 4Q18. The project will provide additional takeaway capacity to Marcellus producers with access to major pipeline interconnects in both eastward and westward directions.

Capital Expenditure Guidance

In prior presentations, management has guided a ~$2B+ yearly capex plan, a level which we expect will continue, or be revised only modestly upward. Additional opportunities for capital expenditures could include incremental pipeline enhancements, expansion of NI's gathering & processing JV, Pennant Midstream, additional northeast G&P projects or JV's, and/or development of LNG opportunities associated with NI's Columbia Gulf pipeline and Cameron Access projects. In addition, we highlight the modernization programs present at all three NI subsidiaries and note the potential for additional expansion projects at the gas and electric distribution businesses.

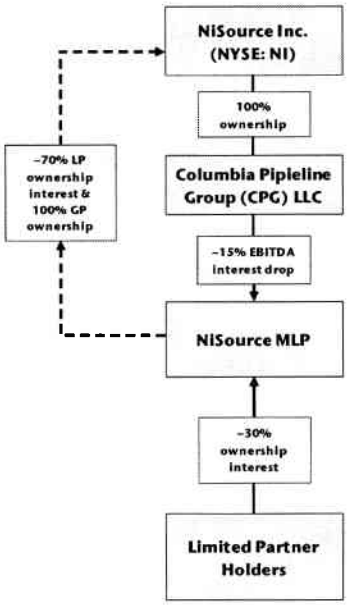
The NI Approach to Midstream Growth

NI mgmt's extensive experience with regulated gas and electric utilities has fostered a differentiated strategy when it comes to the company's midstream assets.

NI's approach to growth is unique, even among other midstream players; management's extensive experience with regulated gas and electric utilities has fostered a differentiated strategy when it comes to the company's pipeline & storage assets. In January 2013, NI and the FERC agreed to a 5-year settlement on a systematic infrastructure replacement program for the Columbia Gulf Transmission system, amounting to $300mm/year in capital spending beginning in 2013. Management has also noted that it is actively seeking to expand this program to 10+ years and it believes such an agreement is likely. The relative age of this pipeline system and its prime positioning atop the prolific Appalachian gas basins make this system an ideal candidate for such a modernization program. The program represents $300mm/year of tracked, regulated infrastructure investment over the next five years, which is in addition to any growth generated by a number of pipeline expansion and greenfield projects NI has already laid out over the next decade. NiSource is the only midstream name to have a regulated modernization program of this kind.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Exhibit 1: Potential MLP Structure



Source: Jefferies estimates

Exhibit 2: NI MLP Assumptions

Model Inputs
2015 Market Cap to DCF
18.5x
IPO Price
$22.00
Target Interest Rate
5.0%
Total Units Outstanding @ IPO
74.72
Float Year 2015
15.0%
2016 Dropdown
20.0%
2017 Dropdown
27.5%
2018 Dropdown
30.0%
2019 Dropdown
37.5%
Project Finance Equity
50.0%
Maintenance Capex as % EBITDA
15.0%
Incremental MLP Value to NiSource
Assumed MLP 2016 Yield when Trading
2.50%
Total MLP Market Cap
$4,092
2016 NI Ownership
61.3%
Net Market Cap to NiSource
$2,510

Source: Jefferies estimates

In total, CPG's inventory of identified expansion & modernization projects totals $8-$10B over the next five to ten years. With such a large & low-risk opportunity, we view the midstream growth prospects of an NI-MLP as best-in-class and think achieving a sustained ~20%+ distribution CAGR over the first few years is a realistic goal. We would also expect the regulated nature of this growth to assuage any investors' concerns about the stability of the potential distribution growth & to draw a premium valuation relative to MLP peers.

Valuing an NI-MLP

How Might a NiSource MLP be structured?

Given the projected $400-$500mm mid-2015 equity need, we believe NI will initially seed its MLP with ~$110mm in annual EBITDA and sell an approximate 30% interest in it to the public. While we expect NI-MLP to trade at a premium valuation given the caliber of its assets & drop-down inventory, we assume that its initial sale to the public will price at an implied ~15.0x FY EV/LP-EBITDA multiple, a ~2.0x discount to the current midstream MLP group average, in order to ensure robust demand & strong, supportive initial trading behavior. In addition, to limit market confusion regarding its future drop-down inventory, we believe NI will first consolidate its pipeline interests into a single LLC entity, then drop-down an increasing ownership interest in the LLC to NI-MLP. It is our belief that NI would need to initially drop ~15% of total CPG 2015E EBITDA (~$110mm) into the MLP & could retain a ~70% limited partner (LP) interest, to generate ~$450-500mm in targeted proceeds and mitigate any potential tax leakage from the deal (see Exhibit 2).

The Devil in the Details

Since NI has not yet formally announced an MLP, our calculations of any potential value are based on historical precedents as well as our best estimate of what would be strategically most beneficial to NI in terms of structure, timing, and cash flow. We have assumed an IPO price of $22/unit, no initial MLP debt, and an IPO date at the mid-point of 2015. From these base assumptions we are able to build a crude MLP model with three primary goals: 1) raise approximately $450-$500mm in retained IPO proceeds for NI, 2) target an initial ~20% distribution CAGR, and 3) target a net debt/EBITDA ratio of ~4.0x by YE2019. It is through achieving these goals that we believe NI will be able to maximize the value of its MLP as well as the value of its GP & IDR interests.

- At an IPO price of $22/unit, NI would need to sell ~19-24mm LP units to raise its targeted $400-$500mm in retained proceeds; given its extensive organic growth opportunities, we have assumed 22mm units are sold & ~$475mm is retained.
- At the $22 IPO price, we have assumed a target yield of ~4.0% based on SEP's implied 3Q15 yield of ~4.7% & VLP's implied 3Q15 yield of ~2.5%. This target yield is not a trading yield, but is simply used to determine an initial quarterly distribution assumption at the IPO, which we estimate at ~22¢/unit.
- Our assumptions for the quarterly distributions & dropdowns are codependent:
  - As previously stated, we have assumed ~15% of Columbia Pipeline Group's (CPG's) 2015E EBITDA will be dropped into the MLP upon IPO
  - To achieve desired distribution growth without sacrificing LP coverage, we have assumed incremental drops of escalating EBITDA size, ranging from ~$60mm (annual EBITDA) in 2016 to ~$130mm in 2019
  - We assume drop-downs are funded 50/50 debt/equity & that LT debt is raised at a static average coupon of 5.0%. As VLP currently implies a 3Q15 distribution yield of ~2.5%, we assume that NI-MLP will trade to that range post-IPO (~2.5%) & we've formally modeled a ~2.6% 1Q16 target yield for equity raises (~3.8% discount to market price), with an assumption the target yield rises by ~0.35%/year through 2018.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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- We assume distribution raises of 1.25¢/unit begin immediately after the IPO and accelerate in 2016-2019 at a pace which allows NI-MLP to achieve an approximate 20% annual growth rate.

- Maintenance capex represents 15% of the MLP EBITDA. We note that on a TTM basis, CPG depreciation has approximated 20% of its EBITDA so, in effect, our assumption is that maintenance capex will run roughly 75% of depreciation. We expect this ratio will decline over time as many MLPs run closer to ~50% and have modeled it to fall to roughly 10% of EBITDA by 2019.

Under these assumptions, we estimate NI-MLP would have ~$500mm in 2019 EBITDA, DCF of ~$390mm, and LP coverage of ~1.2x. *While this LP coverage may appear too lofty to some, we note that EPB carried an average LP coverage ratio of ~1.5x from 2008-2012, a period in which it acquired ~$820mm in annual EBITDA via drop-downs at a total cost of ~$7.4B*. The drop-down/distribution growth scenario we have modeled would also allow the MLP to power through its IDRs, cresting our assumed 50% split level within just nine quarters following the IPO, thereby maximizing the value of NI's GP ownership position.

As rates rise, it will likely become more expensive for MLPs to raise the equity & debt necessary to fund expansions, squeezing project returns and potentially curtailing market perceptions of the sector's growth backlog. NI MLP's assumed debt free beginnings will help insulate it from this capital market risk.

It is worth noting the advantage to a young MLP of IPOing with no initial debt, as we have assumed for NI MLP. In the present rate environment, access to capital is unrestricted and capital itself is cheap, which has aided MLPs as they pursue organic growth initiatives and acquisitions. Fed Chairman Janet Yellen has been known as a supporter of easy monetary policy, but if (and when) that situation reverses, funds may begin to flow elsewhere as investors seek higher yields and MLPs struggle to grow distributions commensurate with inflation. MLPs are largely evaluated upon their growth prospects, which have multiplied since the crisis as domestic oil & gas supplies have been discovered and low interest rates have enabled inexpensive forms of financing. As rates rise, however, it will likely become more costly for MLPs to raise the equity & debt necessary to fund such expansions, squeezing project returns & curtailing market perceptions of the sector's investable backlog. NI-MLP's assumed debt-free beginnings will help insulate it from this capital market risk and minimize headwinds to its drop-down strategy as leverage gradually grows to a 3x-4x net debt / EBTIDA level.

So, what's it worth?

To find the value of the MLP to NI, we have assumed that the units of the partnership trade at a 2.5% yield following the IPO. Though this is less than half the average yield of our MLP coverage universe, we note that EQM, MPLX, PSXP, and VLP all trade with implied 3Q yields of ~2.0%-2.5%. Given the caliber of NI-MLP's assets & drop-down inventory, and our estimate of a ~20% distribution CAGR from IPO through 2019, we believe a ~2.5% trading yield is a defensible assumption for post-IPO equity value.

We estimate NI will own ~61% of all outstanding LP units as of the end of 2016, implying a $1.8B net market cap to NiSource after consideration for a 20% LT cash tax rate and a 10% liquidity discount.

We calculate a NI MLP market cap of roughly $4.1B as of the end of 2016 (presumed first full calendar year in operation) based on a 2.5% projected yield, a $1.19/unit annualized 4Q16 distribution rate, and ~86.0mm LP units given the aforementioned variables. Our model assumes NI does not make incremental sales of its own LP unit interests (i.e. NI permanently holds the units it retains at the IPO), but we note that should NI require a cash infusion at some later date (beyond what it will raise via drop-downs), selling those units would be a realistic funding option. But assuming no sale, we estimate NI will own ~61% of all outstanding LP units as of YE2016, implying a $1.8B net market cap to NI after accounting for a assumed ~20% long-term cash tax rate and a 10% liquidity discount.

With the potential for such strong distribution growth, NI's MLP could quickly ramp through its IDR structure; we currently estimate the 50% splits are reached within nine quarters.

Longer-term, the most valuable aspect of sponsoring an MLP comes from the ability to receive Incentive Distribution Rights (IDRs). As previously stated, our NI-MLP drop-down & distribution assumptions result in quarterly distributions that trigger the 50% IDR splits in 3Q17. The value of these GP cash flows is compounded by the fact that they continue to grow at a much faster rate than LP unit distributions and require only minimal future

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

equity infusions from the GP (just enough to maintain the 2% book equity GP position). For NI-MLP, we value the GP payments based on projected 2018 GP distributions of $45mm, tax effected at the statutory 35% rate, and ascribe a 25x multiple to find an implied equity value. The GP multiple selected represents an approximate 5x premium to PAGP's ~20x marketcap / 2018E GP DCF multiple, which we believe is appropriate given NI's faster pace of GP cash flow growth. PAGP's sole assets are ownership rights in Plains All American's (PAA) GP, and it offers the purest comp in the group.

Our SOP analysis yields a ~$40 price for NI, including ownership of LP units and GP IDR cash flows.

With these considerations, we calculate a ~$40/share value for NI via a Sum-of-the-Parts valuation analysis (see Exhibit 3 below). This SOP approach incorporates a ~$1.8B equity value for NI's assumed LP ownership position & a ~$735mm equity value for its GP ownership. We ascribe a 9.25x EV/EBITDA multiple to NI's Gas Distribution business (a premium to peers), a 12x EV/EBITDA multiple to CPG's remaining (non-dropped) EBITDA as this is the multiple at which we assume the remaining asset will be dropped, and we use an 8.75x EV/EBITDA multiple for NI's Electric utility. Please carefully read the footnotes to Exhibit 3 for additional detail on our analysis & explanation of our valuation assumptions. Of note, at management's direction, we do not ascribe any value to the ~14,000 net acres NI owns in Ohio given no near-term plans to develop (drill) the area nor any current plans to monetize the position. In addition, as our SOP ascribes multiples to projected 2016 EBITDA & the estimated growth in EBITDA over the next few years will be partially funded by additional leverage, we incorporate a projected YE2016 Balance Sheet, excluding any debt transferred to the MLP, when translating our enterprise value estimation into an equity value projection.

Exhibit 3: NI Sum-of-the-Parts

Sum-of-the-Parts Valuation			
Operating Segment	**2016E EBITDA**	**Multiple**	**Implied EV**
Gas Distribution	$816	9.25x	$7,547
Columbia Pipeline Group (less MLP)	$686	12.00x	$8,234
MLP Market Cap net to NI			$1,807
2018 GP Distributions	$45	25.00x	$735
Electric Distribution	$543	8.75x	$4,755
Corporate & Other	$13	5.00x	$63
		Enterprise Value	$23,141
		(Net Debt)	($10,693)
		(Pension & Operating Lease Obligations)	($160)
		Plus Inventory	$425
		Implied Market Cap	$12,713
		Shares Outstanding	316.1
		Implied 12-Month Price Target	**$40.20**

Source: NI reports and Jefferies estimates

Note: We ascribe a 0.75x premium to the gas utility peer group multiple given the large service territory, modernization programs, and generally favorable regulatory climate. The CPG EBITDA excludes EBITDA dropped to NI-MLP by 2016 and 12.0x is the FY multiple we assume for drop-downs. For LP valuation, we assume NI-MLP trades with a distribution yield of 2.5% in 2016 and NI retains a ~60% LP position; we've tax effected this at a 20% LT cash tax rate & assumed a 10% liquidity discount given NI's sizable retained LP position. The 25.0x multiple ascribed to 2018 GP distributions is a 5.0x premium to PAGP's current 2018 GP multiple which we believe is appropriate given its much faster rate of GP cash flow growth; we tax-effect GP distribution by the 35% statutory rate. As we have employed 2016 EBITDA in this analysis, we have rolled the Balance Sheet to YE2016 expectations and excluded the debt held by the MLP. In addition, we only hit NI for 25% of estimated pension shortfall as we view it longer-term as a rate payer issue. Finally, our PT has been rounded to the nearest 10¢.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Where's the Initial Value?

Exhibit 4 details the performance of high profile yieldco & MLP entities recently IPOed, as well as the performance of their respective sponsors. Despite opening on average >22% over their IPO price, new YTD yieldco/MLP entities have continued to showcase strength, outperforming their parent sponsors by an average of roughly 35% since the IPO. *Meanwhile, we highlight that the sponsor of the latest yieldcos & MLPs (ABG, NEE, SUNE, WLK, RIG) have nearly all sold off since the IPOs, declining an average of ~6%.* We believe there are several explanations for the relative performance delta between yieldcos/MLPs and sponsors, including 1) event selling, 2) rotation into higher yields, 3) rotation into *presently* faster growing dividends, 4) tax-exempt status, and 5) IDR read through.

With IDR structures, GPs are entitled to receive an increasing amount of MLP/yieldco cash flow after satisfying certain preset payout targets to their LPs. IDRs align the interests of the GP with those of the LP as they incent the GP to improve operating performance and increase cash flows to the Limited Partners. The target levels (also referred to as splits) are typically set according to a predefined formula, the most common of which is a fixed percentage above the MQD on all units (15%, 25%, and 50%). However, IDRs can also produce a longer-term misalignment in GP vs. LP incentives.

In the early stages of a yieldco/MLP (~1-3 years), we believe the Partnership benefits more from the IDR framework than the parent as the parent is highly incentivized to grow distributions as fast as possible in order to reach the high splits, but is not mature enough to act as a cost of capital drag. Once the highest split (typically 50%) is reached, we believe the IDR benefits swiftly and permanently shifts in favor of the GP.

Exhibit 4: Yieldco & MLP Comparative Table

Yield Co / MLP Name	Ticker	Parent Name	Ticker	IPO Date	IDRs	IPO Range Price	IPO Price	Opening Price	Premium	Yieldco / MLP Performance Since IPO	Parent Performance Since Yieldco / MLP IPO
NRG Yield	NYLD	NRG Energy	NRG	7/18/2013	No	$19-$21	$22.00	$26.75	21.6%	129.9%	8.5%
Abengoa Yield	ABY	Abengoa	ABG	6/13/2014	No	$23-$25	$29.00	$35.16	21.2%	29.9%	(1.9%)
NextEra Energy Partners	NEP	NextEra Energy	NEE	6/27/2014	Yes	$23-$25	$25.00	$32.55	30.2%	45.8%	(6.2%)
TerraForm Power	TERP	SunEdison	SUNE	7/18/2014	Yes	$23-$25	$25.00	$33.25	33.0%	20.3%	(11.3%)
Westlake Energy Partners	WLKP	Westlake	WLK	7/30/2014	Yes	$19-$21	$24.00	$30.28	26.2%	28.1%	5.9%
Transocean Partners	RIGP	Transocean	RIG	7/31/2014	Yes	$19-$21	$22.00	$22.00	0.0%	19.5%	(17.4%)
YTD Average									**22.1%**	**28.7%**	**(6.2%)**

Source: FactSet

Note: Averages are only for entities which have undergone structural change in 2014.

The negative performance of YTD yieldco & MLP sponsors offers a cautionary note, we believe, for investors bidding up C-corp. shares ahead of affiliated MLP or yieldco IPOs. Recent examples indicate the early opportunity is in the LP itself and not its GP sponsor.

While it is difficult to decipher exactly how much value is currently imbedded within NI shares for its MLP opportunity given 1) a deepening midstream investment inventory, 2) supportive YTD regulatory outcomes, and 3) persistent takeout speculation, we highlight that Dominion (D, $68.92, Hold), a close competitor of NI, has traded roughly flat since it filed an MLP S-1 in March, underperforming its utility peer index by ~7% over that period. Furthermore, we note that NI shares have run ~11.3% since our April 2nd initiation, sizably outperforming the utility index (XLU) by ~780 bps but closely tracking the MLP index (AMZ), which is up ~13.9% over the period. Accordingly, we believe the market has already imputed the increasing likelihood of an NI-MLP into the company's valuation. For utility investors with overweight positions in the name, this has led to significant relative outperformance; however, we caution that it also renders NI more susceptible to MLP market behavior (vs. utilities) going forward and heightens the trading risk illustrated in Exhibit 4 above.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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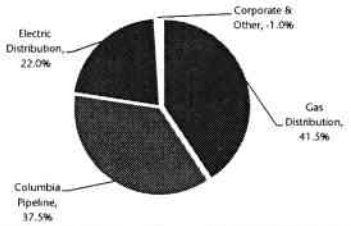
Company Background & Asset Profile

Chart 1: F14E EBIT Composition

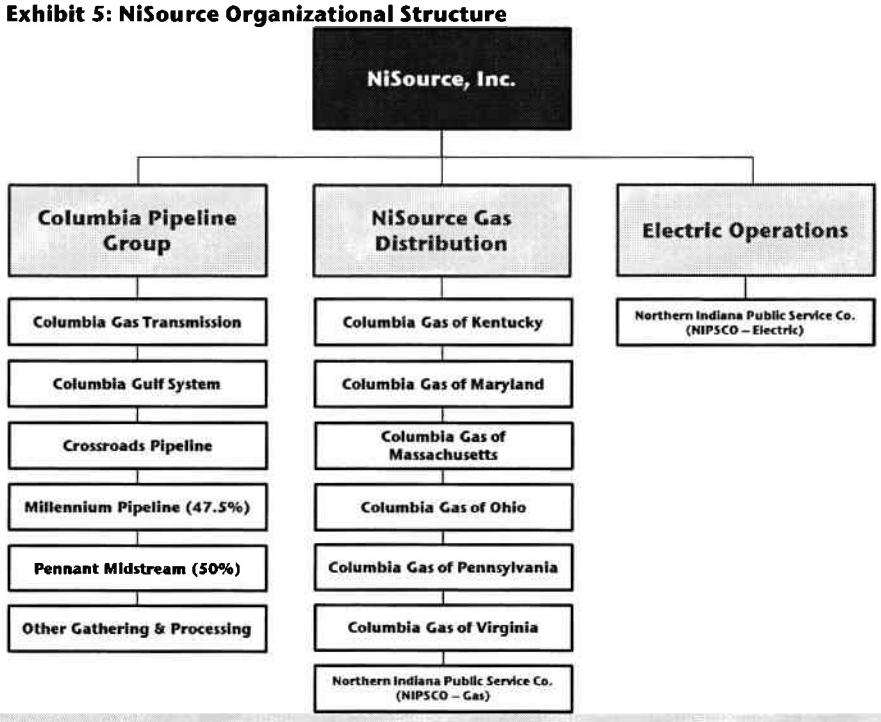


Source: Jefferies estimates

NiSource, Inc. (NYSE: NI) is an energy holding company whose subsidiaries consist of regulated energy providers serving the Midwest and Mid-Atlantic regions as well as a natural gas midstream operator with a large pipeline footprint across the Marcellus and Utica shales. Organized under the name NIPSCO Industries, Inc. in 1987, NiSource changed its name in 1999 and now serves some of the nation's most dynamic energy markets with services in natural gas transmission, storage, and distribution as well as electricity generation, transmission, and distribution. NiSource serves over 3.8 million customers in the eastern United States.

NiSource reports results in three segments: Columbia Pipeline Group, NiSource Gas Distribution, and NiSource Electric Operations. The company's headquarters are in Merrillville, IN.

Exhibit 5: NiSource Organizational Structure



Source: NI, Jefferies

Exhibit 6: CPG

Source: NiSource

Segment Overview

Columbia Pipeline Group

The Columbia Pipeline Group (CPG) segment transports and delivers large volumes of natural gas to LDCs and other industries across 16 states and the District of Columbia. CPG owns and operates nearly 15,000 miles of pipeline as well as one of the nation's largest underground storage facilities at a capacity of ~650 Bcf. CPG's three principal subsidiaries (Columbia Gas Transmission, Columbia Gulf System, and Crossroads Pipeline) own and operate interstate pipelines across the eastern seaboard from Texas to New York.

Columbia Gas Transmission moves an average of 3 Bcf/d of natural gas through 12,000 miles of pipelines and 92 compressor stations in 10 states.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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The system also includes 37 storage fields with 650 Bcf of total storage capacity. Columbia Gas Transmission's customers include LDCs, power generation facilities, energy marketers, and other industrial and commercial end users.

Columbia Gulf Transmission is an interstate pipeline system with roughly 3,400 miles of pipeline and 11 compressor stations. Columbia Gulf is connected to nearly every major pipeline system on the Gulf Coast, providing significant access to a variety of natural gas markets.

Crossroads Pipeline is a 200-mile interstate pipeline across Ohio and Indiana with interconnects to Natural Gas Pipeline Company of America, Trunkline Gas Company, Vector Pipeline, and Panhandle Eastern which allow for service to supply areas in the Mid-Continent, Rocky Mountains, Gulf Coast, Permian Basin and Canada.

The company also participates in a number of storage and transmission JVs across the Marcellus. Hardy Storage Company is a joint venture between CPG and Piedmont Natural Gas with a working storage capacity of 12 Bcf in West Virginia. Millennium Pipeline, a venture with National Grid and DTE Energy, is a 182-mile pipeline across New York State delivering 0.53 Bcf/d to Northeast markets.

Growth Projects & Modernization Program

Pipeline Modernization – In January 2013, NiSource and FERC agreed to a 5-year settlement on a systematic infrastructure replacement program on the Columbia Gas Transmission system. The capital spending for the program is expected to be ~$300mm/year and began in 2013. During the 4Q13 earnings call, management noted that recovery on 2013 spending will begin on Feb. 1, 2014 and that investors can expect an additional $300mm/year through 2018. Management has also noted that there is potential to expand this program, which generates a steady, regulated return on NiSource's pipeline system.

Pennant Midstream – The Pennant Midstream project is a joint venture with Harvest Pipeline Company (an affiliate of Hilcorp Energy) to build an NGL pipeline as well as gathering & processing facilities in the Utica shale region of East Ohio. The NGL pipeline will connect the Hickory Bend processing facility to the UEO Kensington facility at a capacity of 90,000 Bbl/d. Projected in-service on this pipe is the third quarter of 2014.

The gathering & processing assets will have capacity for 600 MMcf/d of gathering and 200 MMcf/d of processing. These assets began providing service in December of 2013, and given similar assets in the region, we expect the facilities to ramp slowly to full service. Management has also indicated there is room for expansion on these assets, and the total project costs are expected to reach $370mm, $185mm of which will be paid by NiSource.

Cameron Access – Once completed, Cameron Access will connect NiSource's Columbia Gulf pipeline to Sempra's Cameron LNG terminal on the Gulf Coast. This facility received DOE approval for LNG exports in February 2014, FERC approval in June 2014, and NI expects its pipeline to be operational by the end of 2017. The project is expected to be able to transport 800 MMcf/d of gas from numerous supply basins to the export terminal and should cost ~$300mm; management announced on the most recent earnings call that CPG has already entered into binding precedent agreements for this project.

West Side Expansion – The West Side Expansion project is a ~$200mm investment expected to bring an additional 500MMcf/d of capacity on NiSource's Columbia Gas Transmission system to transport Marcellus gas to markets on the Gulf Coast. The anticipated full in-service date on this project is 4Q14.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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East Side Expansion – The East Side Expansion project is a ~$275mm investment to provide an additional ~315MMcf/d of capacity on NiSource's Columbia Gas Transmission system to move northern Marcellus supplies to Northeast and Mid-Atlantic markets. Management expects this project to be fully in-service by the second half of 2015.

Rayne-Leach XPress – The Leach XPress and Rayne XPress projects will connect shale production to markets along the Columbia Gas (Leach) and Columbia Gulf (Rayne) systems, and are expected to provide a combined 2.5 Bcf/d of incremental capacity (1.5 Bcf/d on Leach XPress / 1.0 Bcf/d on Rayne Xpress). Rayne-Leach, along with the West Side Expansion, will ultimately render the Columbia Gulf pipeline bidirectional, and given the ~125-mile greenfield expansion necessary to complete the project, we're anticipating a late-2017 to early-2018 completion and in-service date for the expanded capacity.

Valuation

We calculate a ~$8.2B enterprise value for the Columbia Pipeline Group within our SOP by applying a 12.0x multiple to our 2016 EBITDA estimate of $686mm less assumed MLP EBITDA. This multiple is based on our assumed drop multiple from CPG to the MLP.

NiSource Gas Distribution

Exhibit 7: NiSource Gas Distribution

Source: NI reports

NiSource Gas Distribution (NGD) provides supplies of domestic natural gas to more than 3.3 million residential, commercial, and industrial customers through 60,000 miles of pipeline and related facilities. NiSource owns various subsidiaries which operate independently within each state: Columbia Gas of Kentucky, Columbia Gas of Maryland, Columbia Gas of Massachusetts (formerly Bay State Gas Co.), Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Virginia, and NIPSCO (Northern Indiana Public Service Co.). NIPSCO is an Indiana utility and provides both natural gas and electricity distribution services to the northern part of the state. NiSource's Gas Distribution segment is collectively one of the largest distributors in the United States with ~3.3 million customers across seven states. As of the end of 2013, nearly 3.1 million of NGD's 3.3 million customers were residential rate payers, though this group compromises only ~30% of total volume. Industrial users comprise only ~8,000 of NGD's customers but represent nearly 50% of total gas volumes sold. Commercial customers comprise the remaining ~200,000 customers and ~20% of sales.

Modernization Programs & Rate Cases

NGD has a remarkable platform for sustainable earnings growth through its varied infrastructure replacement programs across its seven jurisdictions.

- **Kentucky (~$200mm rate base)** – Columbia Gas of Kentucky has a long term infrastructure replacement program of $10-$15 million per year that is tracked with annual tracker filings; the authorized ROE for Columbia Gas of Kentucky is ~10.5%.
- **Maryland (~$60mm rate base)** – Columbia Gas of Maryland has a long term infrastructure replacement program of $5-$10mm per year that is recovered via rate case filings with make-whole filings for up to three subsequent years from the initial filing. Columbia Gas of Maryland's authorized ROE is 9.6%.
- **Massachusetts (~$500mm rate base)** – Columbia Gas of Massachusetts (formerly Bay State Gas Co.) has a long term infrastructure replacement program of $20-$25mm per year that is tracked with annual filings. Columbia Gas of Massachusetts just had a rate case approved in late February that allows for a rate increase of $19.3mm and an authorized ROE of 9.55%. This case was effective as of 1Q14.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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- **Ohio (~$1.4B rate base)** – Columbia Gas of Ohio has a long term infrastructure replacement program of $150-$200 million per year that is tracked with annual tracker filings. The program has a 5-year renewal period which occurs again in the Spring of 2018. Columbia Gas of Ohio's authorized ROE is 10.4%.
- **Pennsylvania (~$900mm rate base)** – Columbia Gas of Pennsylvania has a long term infrastructure replacement program of $100-$150 million per year that is recovered via forward test year rate case filings and/or periodic tracker filings. This program was initially approved in the Fall of 2012 and implemented in July of 2013 with a forward-twelve-month test year. We estimate Columbia Gas of Pennsylvania's allowed ROE to be ~11.25%.
- **Indiana (~$725mm gas rate base)** – Northern Indiana Public Supply Co.'s (NIPSCO) gas division has an estimated $725mm rate base with a seven-year infrastructure replacement program of ~$100mm/yr that is pending approval. The plan is expected to be approved and implemented during 2014 and will focus on upgrading the system as well as extending service to rural customers. We estimate NIPSCO's allowed ROE to be ~10.2%.

Valuation

We calculate a ~$7.5B enterprise value for NGD by ascribing a 9.25x multiple to 2016 estimated EBITDA of $816mm. We calculate the average gas LDC EV/EBITDA multiple at 8.5x, but have ascribed a premium to the average due to NiSource's large and varied service territory, large infrastructure modernization programs, and generally favorable regulatory climates.

NiSource Electric Operations

Exhibit 8: NiSource Electric

Source: NiSource

The NiSource Electric Operations segment houses the electricity business of NIPSCO and serves 455,000 customers across 20 counties in Northern Indiana. The segment's overall operations include power generation, transmission, and local distribution which are part of the Midcontinent Independent System Operator (MISO) transmission organization in the Midwestern portion of the United States. The supply assets incorporate traditional and renewable generation equipment, including natural gas, hydroelectric, wind, and coal generated supplies with a total system generation capability of 3,300 MW. Residential customers represent ~88% of NIPSCO's total electric customers, but account for only ~20% of total GWh volumes. Industrial customers comprise <1% of the customer base, but are responsible for 55% of volumes. Commercial customers represent 12% of total customers but 20% of total usage. Wholesale users comprise the remainder of both the customer base and transportation volumes.

Modernization Program

Similar to NIPSCO's gas distribution business, the electric operations also have a sizeable, long term infrastructure modernization program. The 7-year, $1.1B capital investment program was approved in mid-February and began in the middle part of this year. 80% of the spending in this program is tracked, while the remaining 20% will be recovered via a rate increase to be settled in a rate case that must be filed within the seven-year period. We expect NiSource to earn a ~12% return on this program.

System Upgrades & Transmission Projects

NIPSCO is also undertaking several upgrade projects on its electric plants, including 3 flue gas desulfurization (FGD) facilities for $250mm each (one was completed at the end of 2013) and other environmental upgrades for $50-$60mm each. These programs all have an environmental cost recovery mechanism (ECRM), meaning they are 100% tracked and begin earning a return during construction. The electric upgrade projects present a ~$1B capital expenditure opportunity over the next five years.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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NiSource is also building two electric transmission substations in Indiana that are FERC-approved projects. NiSource's total investment in these projects is expected to range from $400-$500mm, on which the company is authorized to earn up to ~12%.

Valuation

We calculate a ~$4.8B enterprise value for Electric Operations by ascribing an 8.75x multiple to 2016 estimated EBITDA of $543mm. We calculate the average LDC EV/EBITDA multiple at 8.5x and have ascribed a slight premium to NI's Electric Operations segment. While we would ordinary like to value electric utility operations on a price-to-earnings (PE) multiple, NI does not report quarterly Net Income or debt balances for NIPSCO Electric. However, we highlight that our 8.75x EBITDA multiple approximates a ~19.5x PE multiple assuming ~$179mm in Net Income and splitting FERC reported NIPSCO debt balances by the respective electric & gas rate bases.

Valuation Analysis

Our $40 NI price target is derived via a combination of Sum-of-the-Parts (SOTP), Discounted Cash Flow (DCF), and Target Yield approaches. We have also done a Dividend Discount Model (DDM) analysis for NI shares, but do not incorporate the outcome into our price target. The exhibit below outlines the chief assumptions supporting these valuation methodologies.

Sum-of-the-Parts

Our Sum-of-the-Parts analysis aggregates stand-alone valuations for NI's collection of businesses by ascribing multiples to 2016E EBITDA for each of the company's segments.

Exhibit 9: Sum-of-the-Parts Valuation

Sum-of-the-Parts Valuation			
Operating Segment	**2016E EBITDA**	**Multiple**	**Implied EV**
Gas Distribution	$816	9.25x	$7,547
Columbia Pipeline Group (less MLP)	$686	12.00x	$8,234
MLP Market Cap net to NI			$1,807
2018 GP Distributions	$45	25.00x	$735
Electric Distribution	$543	8.75x	$4,755
Corporate & Other	$13	5.00x	$63
		Enterprise Value	$23,141
		(Net Debt)	($10,693)
		(Pension & Operating Lease Obligations)	($160)
		Plus Inventory	$425
		Implied Market Cap	$12,713
		Shares Outstanding	316.1
		Implied 12-Month Price Target	**$40.20**

Source: Jefferies estimates

Note: We ascribe a 0.75x premium to the gas utility peer group multiple given the large service territory, modernization programs, and generally favorable regulatory climate. The CPG EBITDA excludes EBITDA dropped to NI-MLP by 2016 and 12.0x is the FY multiple we assume for drop-downs. For LP valuation, we assume NI-MLP trades with a distribution yield of 2.5% in 2016 and NI retains a 60% LP position; we've tax effected this at a 20% LT cash tax rate & assumed a 10% liquidity discount given NI's sizable retained LP position. The 25x multiple ascribed to 2018 GP distributions is a 5x premium to PAGP's current 2018 GP multiple which we believe is appropriate given its much faster rate of GP cash flow growth; we tax-effect GP distribution by the 35% statutory rate. As we have employed 2016 EBITDA in this analysis, we have rolled the Balance Sheet to YE2016 expectations and excluded the debt held by the MLP. In addition, we only hit NI for 25% of estimated pension shortfall as we view it longer-term as a rate payer issue. Finally, our PT has been rounded to the nearest 10¢.

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Discounted Cash Flow

We have included a consolidated Discounted Cash Flow analysis into our valuation. The DCF analysis assumes capital expenditures in the terminal year to be equal to depreciation plus $550 million, which represents ~200 bps/year of terminal cash flow growth including inflation. The analysis also yields a $40 share price.

Exhibit 10: DCF Valuation Analysis

Discounted Cash Flow	2014E	2015E	2016E	2017E	2018E
EBIT	$1,287.7	$1,454.8	$1,581.3	$1,683.2	$1,957.0
(Cash Taxes on EBIT)	($51.1)	($109.1)	($134.4)	($176.7)	($244.6)
NOPAT	$1,236.5	$1,345.7	$1,446.9	$1,506.5	$1,712.4
D&A	$603.9	$642.8	$669.4	$692.2	$769.9
(Capex)	($2,175.0)	($2,200.0)	($2,200.0)	($2,200.0)	($1,319.9)
(Changes in NWC)	($276.3)	($2.5)	($11.7)	($4.0)	$1.0
Free Cash Flow to the Firm	($610.9)	($214.0)	($95.4)	($5.4)	$1,163.4
Terminal Value					$26,519.5
PV of Cash Flows	($603.4)	($201.3)	($85.4)	($4.6)	$22,473.4
Implied Enterprise Value	$21,578.7				
(Net Debt)	($9,577)				
(Pension & Operating Lease Obligations)	($160)				
Plus Inventory	$350				
Implied Equity Value	$12,192				
Shares Outstanding	$316.1				
Implied 12-Month Price Target	**$39.80**				

Source: Jefferies estimates

Note: We assume 75% percent of current natural gas inventory can be monetized quickly, mitigating the impact of working capital fluctuations throughout the year. Terminal year capex spending is equal to estimated depreciation plus ~$550mm. Finally, our PT has been rounded to the nearest 10¢.

Target Yield Analysis

Exhibit 11: Target Yield Analysis

Target Yield Analysis	
Projected 3Q15 Dividend	$0.280
Historic 3-year Average Yield	3.44%
Target Yield	2.84%
Implied Price Target	**$39.40**

Source: Jefferies estimates

A target yield approach builds a forward-year equity value based on the anticipated dividend run-rate in one year's time. We expect a single dividend raise next year by 2¢ to $0.28/quarter, resulting in an annual run rate of $1.12/share. Over the last three years (a period which avoids the 2008-09 market trough and saw the resumption of dividend growth), NI carried an average dividend yield of ~3.45%. Given the recent emphasis on modernization programs that generate regulated returns and a growing inventory of midstream investment opportunities, we have capitalized the 3Q15 dividend rate at ~2.85%, a 50 basis point premium to the 3-year average, in our target yield analysis. The outcome implies a $39 share price.

Dividend Discount Model

We do not formally incorporate a DDM into our valuation approach but feature it as our representation of minimum equity value. The DDM captures only the value of total anticipated cash payments to shareholders and ignores the potential for asset value upside. The analysis yields a $35 price.

Exhibit 12: DDM Valuation Analysis

Dividend Discount Model	2014E	2015E	2016E	2017E	2018E
Earnings Per Share	$1.70	$1.87	$1.98	$2.04	$2.44
Dividend per Share	$1.02	$1.08	$1.17	$1.28	$1.41
Implied Payout Ratio	60%	58%	59%	63%	58%
Terminal Value					$36.28
PV of Dividends	$1.01	$1.01	$1.03	$1.07	$29.65
PV of Dividends per Share	$33.75				
Implied 12-Month Price Target	**$34.80**				

Source: Jefferies estimates

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Please see important disclosure information on pages 18 - 21 of this report.

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Exhibit 13: NI Consolidated Statement of Income ($MM)

Consolidated Income Statement	2009	2010	2011	2012	2013	1Q	2Q	3QE	4QE	2014E	1QE	2QE	3QE	4QE	2015E	2016E	2017E	2018E	2019E
Revenues	$6,147.2	$5,817.9	$5,795.7	$5,099.9	$5,659.3	$2,294.1	$1,335.0	$1,150.7	$1,722.6	$6,502.4	$2,486.6	$1,471.2	$1,285.1	$1,855.8	$7,098.7	$7,495.0	$7,854.6	$8,698.4	$9,130.0
(Cost of Sales)	($2,805.4)	($2,379.2)	($2,334.1)	($1,525.2)	($1,815.5)	($1,061.3)	($371.7)	($255.0)	($573.2)	($2,261.2)	($1,105.8)	($392.1)	($269.5)	($592.9)	($2,360.3)	($2,438.0)	($2,527.1)	($2,622.1)	($2,705.2)
Net Revenue	$3,341.8	$3,438.7	$3,461.6	$3,574.7	$3,843.8	$1,232.8	$963.3	$895.7	$1,149.5	$4,241.2	$1,380.9	$1,079.1	$1,015.7	$1,262.8	$4,738.4	$5,057.0	$5,327.5	$6,076.3	$6,424.8
(Operating & Maintenance Expenses)	($1,607.6)	($1,655.7)	($1,688.1)	($1,674.6)	($1,873.9)	($501.2)	($533.1)	($496.6)	($557.4)	($2,088.3)	($574.8)	($599.9)	($563.6)	($618.6)	($2,356.9)	($2,516.0)	($2,653.1)	($3,008.3)	($3,179.5)
(Depreciation & Amortization)	($589.4)	($596.3)	($542.8)	($563.9)	($577.3)	($148.7)	($149.1)	($150.7)	($155.4)	($603.9)	($160.8)	($157.5)	($160.0)	($164.6)	($642.8)	($669.4)	($692.2)	($769.9)	($802.0)
(Other Taxes)	($281.6)	($284.4)	($293.3)	($287.8)	($300.6)	($101.1)	($73.4)	($68.1)	($86.0)	($328.6)	($110.7)	($81.4)	($76.1)	($92.0)	($360.1)	($375.9)	($393.7)	($437.8)	($459.5)
(Gain on Sale of Assets)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
OPERATING INCOME BY DIVISION																			
Gas Distribution	$329.3	$342.9	$438.7	$450.2	$448.8	$280.1	$62.5	$6.6	$175.8	$525.0	$292.5	$72.7	$16.6	$181.5	$563.3	$585.3	$616.0	$646.6	$663.1
Columbia Pipeline	$408.8	$377.2	$360.4	$397.8	$422.8	$141.4	$103.4	$97.3	$133.4	$475.5	$183.5	$126.7	$123.5	$164.3	$598.0	$688.0	$739.0	$956.2	$1,032.6
Electric Operations	$162.4	$218.3	$195.1	$237.6	$265.3	$74.2	$59.8	$92.4	$52.3	$278.7	$75.6	$61.0	$93.9	$53.2	$283.7	$299.7	$319.9	$346.6	$377.5
Corporate & Eliminations	($21.3)	($21.2)	($42.2)	($5.0)	($9.0)	($4.1)	($6.9)	($3.5)	$1.5	($13.0)	($4.1)	($5.6)	($4.2)	$2.5	($11.4)	($12.8)	($12.7)	($13.3)	($13.6)
Total Recurring Operating Income	**$863.2**	**$902.3**	**$952.0**	**$1,080.6**	**$1,127.9**	**$491.6**	**$218.8**	**$192.8**	**$363.0**	**$1,266.3**	**$547.5**	**$254.8**	**$229.9**	**$401.5**	**$1,433.6**	**$1,560.3**	**$1,662.2**	**$1,936.1**	**$2,059.7**
Other Income / (Loss)	($1.6)	$3.8	($7.3)	$2.4	$24.2	$4.5	$7.5	$4.7	$4.7	$21.4	$5.4	$5.6	$5.1	$5.2	$21.2	$21.0	$21.0	$21.0	$21.0
Interest Expense - Net	($399.2)	($392.2)	($376.8)	($418.3)	($414.8)	($109.1)	($109.1)	($114.2)	($121.0)	($453.4)	($124.8)	($127.5)	($129.8)	($132.5)	($514.6)	($557.8)	($619.1)	($674.4)	($723.9)
Pretax Income	$462.4	$513.9	$567.9	$664.7	$737.3	$387.0	$117.2	$83.4	$246.7	$834.3	$428.0	$132.8	$105.1	$274.1	$940.1	$1,023.5	$1,064.1	$1,282.6	$1,356.7
(Provision)/Benefit for Income Taxes	($183.3)	($189.7)	($196.2)	($231.8)	($254.8)	($139.3)	($39.4)	($28.4)	($88.8)	($295.8)	($151.8)	($47.1)	($37.3)	($97.2)	($333.3)	($368.5)	($385.7)	($468.2)	($495.2)
Effective Tax Rate	*39.6%*	*36.9%*	*34.6%*	*34.9%*	*34.6%*	*36.0%*	*33.6%*	*34.0%*	*36.0%*	*35.5%*	*35.5%*	*35.5%*	*35.5%*	*35.5%*	*35.5%*	*36.0%*	*36.3%*	*36.5%*	*36.5%*
Net Income (from Continuing Operations)	$279.1	$324.2	$371.7	$432.9	$482.5	$247.7	$77.8	$55.0	$157.9	$538.5	$276.3	$85.7	$67.8	$176.9	$606.8	$655.1	$678.4	$814.5	$861.5
Recurring Diluted EPS	**$1.01**	**$1.16**	**$1.29**	**$1.44**	**$1.54**	**$0.79**	**$0.25**	**$0.17**	**$0.50**	**$1.70**	**$0.87**	**$0.27**	**$0.21**	**$0.54**	**$1.87**	**$1.98**	**$2.04**	**$2.44**	**$2.57**
Average # of diluted shares outstanding	275.8	280.1	288.5	300.4	313.6	315.1	316.1	316.5	317.2	316.2	317.5	317.9	329.4	329.7	323.7	330.6	332.0	333.4	334.9
Average # of basic shares outstanding	275.1	277.8	280.4	291.9	312.4	314.2	315.0	315.4	316.1	315.2	316.4	316.8	328.3	328.6	322.6	329.5	330.9	332.3	333.8
Dividends per Share	**$0.92**	**$0.92**	**$0.92**	**$0.94**	**$0.98**	$0.250	$0.250	$0.260	$0.260	**$1.02**	$0.260	$0.260	$0.280	$0.280	**$1.08**	**$1.17**	**$1.28**	**$1.41**	**$1.56**
Payout Ratio	**91%**	**79%**	**71%**	**65%**	**64%**	32%	102%	150%	52%	**60%**	30%	96%	136%	52%	**58%**	**59%**	**63%**	**58%**	**61%**

GAAP Revenue	$6,126.3	$5,826.8	$5,797.5	$5,067.3	$5,657.6	$2,320.5	$1,335.1
GAAP Operating Expense	($2,521.9)	($2,539.6)	($2,565.2)	($2,526.2)	($2,754.9)	($751.0)	($755.6)
Non-GAAP Asset Sale Adjustments	$2.5	($1.1)	($1.5)	$0.1	$18.7	$17.5	$0.6
GAAP Asset Sale Adjustments	($18.2)	($0.8)	($15.5)	$3.5	$0.3	($1.8)	$0.1
Total Asset Sale Adjustments	($15.7)	($1.9)	($17.0)	$3.6	$19.0	$15.7	$0.7
GAAP Operating Margin	$3,320.9	$3,447.6	$3,463.4	$3,542.1	$3,842.1	$1,259.2	$963.4
Equity Earnings from Unconsolidated Affiliates	$16.0	$14.9	$14.6	$32.2	$35.9	$9.8	$11.1
GAAP Op Income	$783.3	$906.1	$827.1	$1,051.7	$1,142.1	$533.7	$219.6
Tax Effects & Other Adjusting Items	$15.2	$47.8	$36.3	($2.8)	$0.3	($23.4)	($0.1)
GAAP Net Income	$214.4	$279.1	$283.1	$401.2	$497.0	$266.4	$78.5
GAAP Basic EPS from Continuing Ops	$0.78	$1.01	$1.01	$1.37	$1.59	$0.85	$0.25

Source: NI reports, Jefferies estimates

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Please see important disclosure information on pages 18 - 21 of this report.

Exhibit 14: NI Consolidated Balance Sheet ($MM)

Consolidated Balance Sheet ($MM)	2009	2010	2011	2012	2013	1Q	2Q	3QE	4QE	2014E	1QE	2QE	3QE	4QE	2015E	2016E	2017E	2018E	2019E
Cash & equivalents	16	9	12	36	27	38	18	15	20	20	21	19	16	21	21	62	64	67	69
Accounts receivable	809	1,079	855	907	1,006	1,271	824	563	936	936	1,381	889	629	1,009	1,009	1,024	1,076	1,192	1,262
Inventory	457	428	566	496	500	98	322	277	467	467	98	345	293	483	483	566	589	611	630
Other current assets	942	932	816	913	626	913	891	891	891	891	891	891	891	891	891	891	891	891	891
Total current assets	**2,224**	**2,449**	**2,248**	**2,352**	**2,159**	**2,320**	**2,055**	**1,746**	**2,315**	**2,315**	**2,392**	**2,144**	**1,828**	**2,404**	**2,404**	**2,543**	**2,619**	**2,760**	**2,852**
Tangible fixed assets	**10,684**	**11,097**	**11,800**	**12,916**	**14,365**	**14,658**	**15,089**	**15,477**	**15,952**	**15,952**	**16,188**	**16,502**	**16,885**	**17,357**	**17,357**	**18,736**	**20,091**	**21,344**	**22,540**
Goodwill	3,667	3,677	3,677	3,677	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666	3,666
Other intangible fixed assets	339	476	460	381	363	273	270	270	270	270	270	270	270	270	270	270	270	270	270
Investment in affiliates	295	201	205	243	374	407	437	482	535	535	566	589	634	687	687	839	992	1,144	1,296
Other investments	2,063	2,038	2,318	2,275	1,727	1,783	1,741	1,741	1,741	1,741	1,741	1,741	1,741	1,741	1,741	1,741	1,741	1,741	1,741
Non-Current Assets	**6,364**	**6,393**	**6,660**	**6,576**	**6,130**	**6,130**	**6,115**	**6,159**	**6,212**	**6,212**	**6,243**	**6,267**	**6,311**	**6,364**	**6,364**	**6,517**	**6,669**	**6,821**	**6,974**
Total assets	**19,272**	**19,939**	**20,708**	**21,845**	**22,654**	**23,107**	**23,258**	**23,382**	**24,479**	**24,479**	**24,823**	**24,913**	**25,025**	**26,126**	**26,126**	**27,795**	**29,379**	**30,925**	**32,365**
Trade payables and other ST liabilities	2,311	2,233	1,960	2,018	1,938	1,998	2,330	1,940	2,492	2,492	2,519	2,262	2,006	2,578	2,578	2,665	2,735	2,874	2,961
Short term debt	800	1,417	1,687	1,284	1,241	1,343	1,101	1,163	1,209	1,209	1,209	1,245	1,232	1,277	1,277	1,399	1,516	1,602	1,684
Total current liabilities	**3,111**	**3,649**	**3,646**	**3,302**	**3,178**	**3,341**	**3,431**	**3,104**	**3,701**	**3,701**	**3,728**	**3,508**	**3,239**	**3,855**	**3,855**	**4,064**	**4,250**	**4,475**	**4,645**
Long term debt	5,988	5,936	6,267	6,819	7,593	7,639	7,641	8,070	8,389	8,389	8,392	8,642	8,550	8,861	8,861	9,710	10,517	11,115	11,685
Debt deemed provisions (e.g. pensions)	1,288	1,178	1,100	1,268	702	685	644	644	644	644	644	644	644	644	644	644	644	644	644
Deferred taxes (Revenue)	2,139	2,312	2,650	3,062	3,408	3,534	3,615	3,639	3,716	3,716	3,835	3,872	3,902	3,978	3,978	4,260	4,534	4,842	5,133
Other long term liabilities	1,892	1,939	2,048	1,840	1,886	1,897	1,898	1,908	1,909	1,909	1,895	1,903	1,909	1,907	1,907	1,913	1,915	1,919	1,922
Total liabilities	**14,418**	**15,016**	**15,711**	**16,290**	**16,767**	**17,095**	**17,230**	**17,365**	**18,358**	**18,358**	**18,495**	**18,569**	**18,243**	**19,246**	**19,246**	**20,591**	**21,860**	**22,996**	**24,030**
Common equity	4,854	4,923	4,997	5,554	5,887	6,012	6,028	6,018	6,121	6,121	6,328	6,344	6,782	6,879	6,879	7,204	7,519	7,930	8,336
Preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	**4,854**	**4,923**	**4,997**	**5,554**	**5,887**	**6,012**	**6,028**	**6,018**	**6,121**	**6,121**	**6,328**	**6,344**	**6,782**	**6,879**	**6,879**	**7,204**	**7,519**	**7,930**	**8,336**
Total liabilities and equity	**19,272**	**19,939**	**20,708**	**21,845**	**22,654**	**23,107**	**23,258**	**23,382**	**24,479**	**24,479**	**24,823**	**24,913**	**25,025**	**26,126**	**26,126**	**27,795**	**29,379**	**30,925**	**32,365**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Balance Sheet Assumptions	2009	2010	2011	2012	2013	1Q	2Q	3QE	4QE	2014E	1QE	2QE	3QE	4QE	2015E	2016E	2017E	2018E	2019E
Accounts receivable (as % of EBIT)	94%	119%	90%	84%	87%	256%	364%	285%	255%	73%	250%	342%	268%	248%	69%	65%	64%	61%	61%
Inventory (as % of operating expenses)	28%	26%	34%	30%	27%	20%	60%	56%	84%	22%	17%	57%	52%	78%	21%	23%	22%	20%	20%
Trade payable & other S.T. liabilities (as % of opg. Exp.)	144%	135%	116%	120%	103%	399%	437%	391%	447%	119%	438%	377%	356%	417%	109%	106%	103%	96%	93%
Working Capital	(104.1)	207.0	277.0	299	195	284.3	(293.8)	(209.5)	(197.7)	(198)	(148.1)	(137.3)	(194.0)	(195.2)	(195)	(183)	(179)	(180)	(178)
Changes in Working Capital	**685.8**	**(419.8)**	**(262.2)**	**(30.3)**	**55.3**	(166.8)	(13.4)	(84.3)	(11.8)	**(276.3)**	(49.6)	(10.7)	56.7	1.1	**(2.5)**	**(11.7)**	**(4.0)**	**1.0**	**(2.4)**
Average Collection Period	**48**	**68**	**54**	**65**	**65**	50	56	45	50	**53**	50	55	45	50	**52**	**50**	**50**	**50**	**50**
Inventory Days	**59**	**66**	**89**	**119**	**101**	8	79	100	75	**75**	8	80	100	75	**75**	**85**	**85**	**85**	**85**
Average Payable Period	**301**	**343**	**306**	**484**	**390**	169	571	700	400	**402**	205	525	685	400	**399**	**400**	**395**	**400**	**400**

Cash	16	9	12	36	27	38	18	15	20	20	21	19	16	21	21	62	64	67	69
Total Debt	6,787	7,353	7,954	8,103	8,834	8,982	8,742	9,233	9,598	9,598	9,602	9,888	9,782	10,138	10,138	11,110	12,032	12,717	13,369
Total Net Debt	**6,771**	**7,344**	**7,942**	**8,067**	**8,807**	8,944	8,724	9,218	9,577	**9,577**	9,581	9,869	9,766	10,117	**10,117**	**11,048**	**11,969**	**12,650**	**13,300**
Preferred Securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	4,854	4,923	4,997	5,554	5,887	6,012	6,028	6,018	6,121	6,121	6,328	6,344	6,782	6,879	6,879	7,204	7,519	7,930	8,336
Net Debt/Capital	**58.2%**	**59.9%**	**61.4%**	**59.2%**	**59.9%**	59.8%	59.1%	60.5%	61.0%	**61.0%**	60.2%	60.9%	59.0%	59.5%	**59.5%**	**60.5%**	**61.4%**	**61.5%**	**61.5%**
	-5%	3%	3%	-4%	1%					2%					-2%	2%	1%	0%	0%
Invested capital	11,625	12,267	12,940	13,621	14,694	14,956	14,752	15,236	15,698	15,698	15,908	16,212	16,547	16,997	16,997	18,252	19,488	20,580	21,636
ROIC	7.4%	7.5%	7.6%	8.2%	8.2%	5.0%	8.4%	8.4%	8.5%	8.5%	5.1%	8.7%	8.8%	8.9%	8.9%	9.0%	8.9%	9.8%	9.9%
ROE	5.8%	6.6%	7.4%	8.2%	8.4%	8.8%	8.8%	8.8%	8.9%	8.9%	9.3%	9.3%	9.2%	9.2%	9.2%	9.3%	9.2%	10.5%	10.6%
EBITDA	1,451	1,502	1,488	1,647	1,729	645	375	348	523	1,892	714	418	395	571	2,098	2,251	2,375	2,727	2,883
Net Debt/EBITDA	**4.8x**	**4.8x**	**5.0x**	**4.8x**	**4.8x**	4.8x	4.8x	4.8x	4.8x	**4.8x**	4.7x	4.8x	4.7x	4.7x	**4.7x**	**4.7x**	**4.8x**	**4.5x**	**4.5x**

Source: NI reports, Jefferies estimates

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Please see important disclosure information on pages 18 - 21 of this report.

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Exhibit 15: NI Consolidated Statement of Cash Flows ($MM)

Consolidated Statement of Cash Flows ($MM)	2009	2010	2011	2012	2013	1Q	2Q	3QE	4QE	2014E	1QE	2QE	3QE	4QE	2015E	2016E	2017E	2018E	2019E
Operating activities																			
Net income	218	292	299	416	532	266	78	55	158	557	276	86	68	177	607	655	678	814	862
Depreciation, amortization & decommissioning	589	596	538	562	577	149	149	151	155	604	161	157	160	165	643	669	692	770	802
Deferred taxes	383	200	178	305	287	149	38	24	76	287	120	37	29	77	263	281	274	308	292
Net change in working capital	686	(420)	(262)	(30)	55	(167)	(13)	(84)	(12)	(276)	(50)	(11)	57	1	(3)	(12)	(4)	1	(2)
Other, including changes in provisions and other liabilities	(224)	51	117	23	(15)	(3)	5	9	1	13	(13)	8	6	(2)	(1)	6	2	4	3
Cash from operating activities	**1,651**	**720**	**870**	**1,276**	**1,437**	**394**	**257**	**155**	**379**	**1,185**	**494**	**277**	**320**	**418**	**1,509**	**1,600**	**1,643**	**1,897**	**1,956**
Investing activities																			
Capital expenditure - tangible fixed assets	(777)	(804)	(1,125)	(1,499)	(1,880)	(386)	(467)	(539)	(631)	(2,023)	(396)	(472)	(543)	(637)	(2,048)	(2,048)	(2,048)	(2,023)	(1,998)
Investment in affiliates	0	0	0	(20)	(125)	(31)	(24)	(44)	(53)	(152)	(31)	(24)	(44)	(53)	(152)	(152)	(152)	(152)	(152)
Net disposals/(acquisitions)	6	1	9	26	18	0	6	0	0	6	0	0	0	0	0	0	0	0	0
Other investment	117	(140)	(34)	68	96	9	(6)	0	0	4	0	0	0	0	0	0	0	0	0
Cash from investing activities	**(655)**	**(943)**	**(1,149)**	**(1,425)**	**(1,891)**	**(408)**	**(490)**	**(583)**	**(684)**	**(2,165)**	**(427)**	**(496)**	**(587)**	**(690)**	**(2,200)**	**(2,200)**	**(2,200)**	**(2,175)**	**(2,150)**
Financing activities																			
Inc./(dec.) in short term debt	(1,061)	1,280	(23)	(582)	(78)	114	289	62	46	510	0	36	(13)	45	68	122	116	86	82
Inc./(dec.) in long term debt	290	(728)	603	660	797	(9)	(4)	430	318	735	3	250	(93)	312	473	849	806	599	570
Inc./(dec.) in equity	24	13	24	374	44	(1)	7	16	28	50	13	13	463	13	500	55	60	65	65
Common stock dividends paid	(253)	(256)	(258)	(273)	(306)	(79)	(79)	(82)	(82)	(321)	(82)	(82)	(92)	(92)	(349)	(385)	(423)	(469)	(521)
Other cash from financing	0	(93)	(65)	(3)	(11)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inc./(dec.) in preffered equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from financing activities	**(1,000)**	**216**	**281**	**175**	**445**	**25**	**213**	**426**	**310**	**974**	**(66)**	**216**	**265**	**277**	**692**	**641**	**559**	**281**	**196**
Cash flow increase/(decrease) in cash	(4)	(7)	2	25	(9)	11	(20)	(3)	5	(7)	1	(2)	(3)	5	1	41	2	3	2
Non-cash movements in cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**(4)**	**(7)**	**2**	**25**	**(9)**	**11**	**(20)**	**(3)**	**5**	**(7)**	**1**	**(2)**	**(3)**	**5**	**1**	**41**	**2**	**3**	**2**
Cash at the beginning of the year	**21**	**16**	**9**	**11**	**36**	27	38	18	15	**27**	20	21	19	16	**20**	**21**	**62**	**64**	**67**
Cash at the end of the year	**16**	**9**	**11**	**36**	**27**	38	18	15	20	**20**	21	19	16	21	**21**	**62**	**64**	**67**	**69**
Cash paid for income taxes	**34**	**69**	**9**	**8**	**8**	7	10	4	12	**33**	32	10	8	21	**71**	**87**	**112**	**160**	**204**
Cash Interest paid, net of amount capitalized	**383**	**393**	**369**	**387**	**387**	168	208	159	44	**578**	187	138	177	38	**540**	**616**	**650**	**717**	**710**
Accounting Free Cash Flow (CFO-CAPEX-Dividend)	620	(339)	(513)	(497)	(749)	(71)	(288)	(466)	(334)	(1159)	15	(277)	(315)	(311)	(888)	(833)	(829)	(594)	(563)
Free Cash Flow (NI+D&A-WC-CAPEX-DIV)	(910)	249	(284)	(764)	(1132)	117	(305)	(331)	(388)	(907)	8	(300)	(464)	(388)	(1144)	(1097)	(1097)	(908)	(852)

Source: NI reports, Jefferies estimates

Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

Please see important disclosure information on pages 18 - 21 of this report.

Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

Analyst Certification

I, Christopher Sighinolfi, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Company Specific Disclosures

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Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

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Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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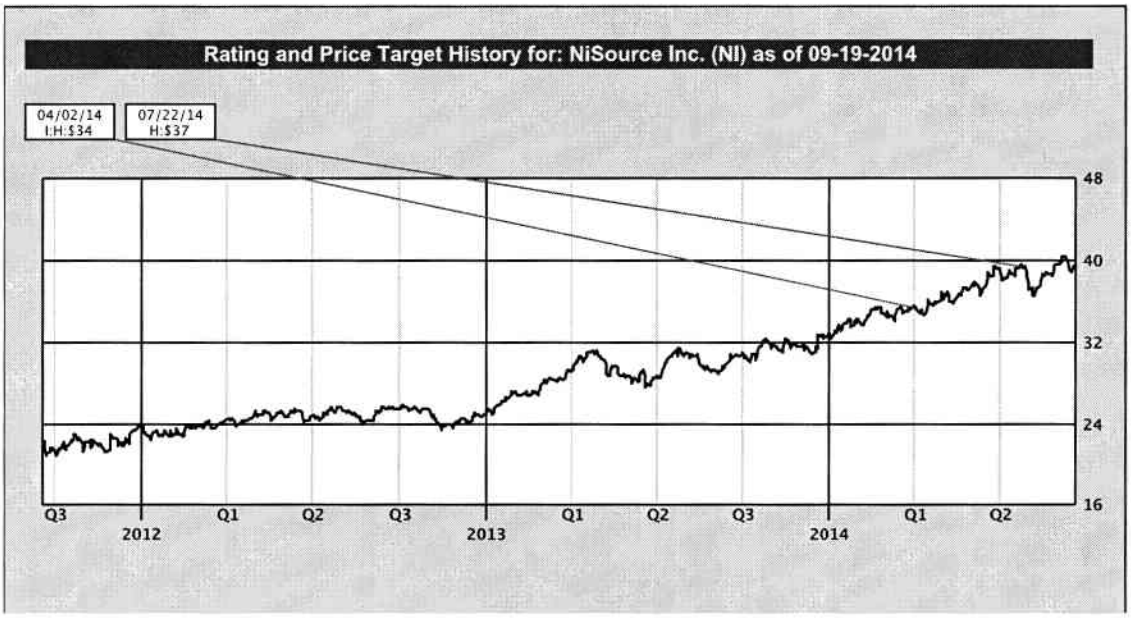
Other Companies Mentioned in This Report

- Dominion Resources, Inc. (D: $68.92, HOLD)
- NextEra Energy, Inc. (NEE: $95.14, HOLD)
- NRG Energy, Inc. (NRG: $31.25, BUY)
- Questar Corp. (STR: $22.66, HOLD)
- Spectra Energy Corp. (SE: $40.44, HOLD)
- Transocean Ltd. (RIG: $34.08, HOLD)
- UGI Corporation (UGI: $35.08, HOLD)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	972	51.48%	255	26.23%
HOLD	776	41.10%	133	17.14%
UNDERPERFORM	140	7.42%	6	4.29%

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

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Christopher Sighinolfi, CFA, Equity Analyst, (212) 707-6420, csighino@jefferies.com

NiSource, Inc. (BUY)

NI - Quick Alert: Pipeline Explosion, Initial Thoughts

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

KEY INVESTMENT POINTS

Late last night there was an explosion on one of NiSource, Inc.'s (NI- NYSE) three large interstate pipelines that run between the Gulf and markets to the north. Our discussion with NI has indicated that the explosion has not meaningfully disrupted commercial operations.

There were two injuries related to the explosion and fire, both of which have been treated and released.

At this time, NI is unsure how long repairs will take. In our view, repairs are likely to take a few days to clean up the site, cut out damaged portions and weld in a new section of pipeline. We expect activity related to cause determination and heightened inspection will be minimally disruptive.

We expect the event to generate headlines around pipeline safety, heightened inspection and potential fines and/or penalties. We expect that these issues will be manageable.

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NiSource, Inc. - NI

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NiSource, Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource, Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

During the past 12 months, NiSource, Inc. has been a client of the firm or its affiliates for non- securities related services.

As of the date of this report, we make a market in NiSource, Inc..

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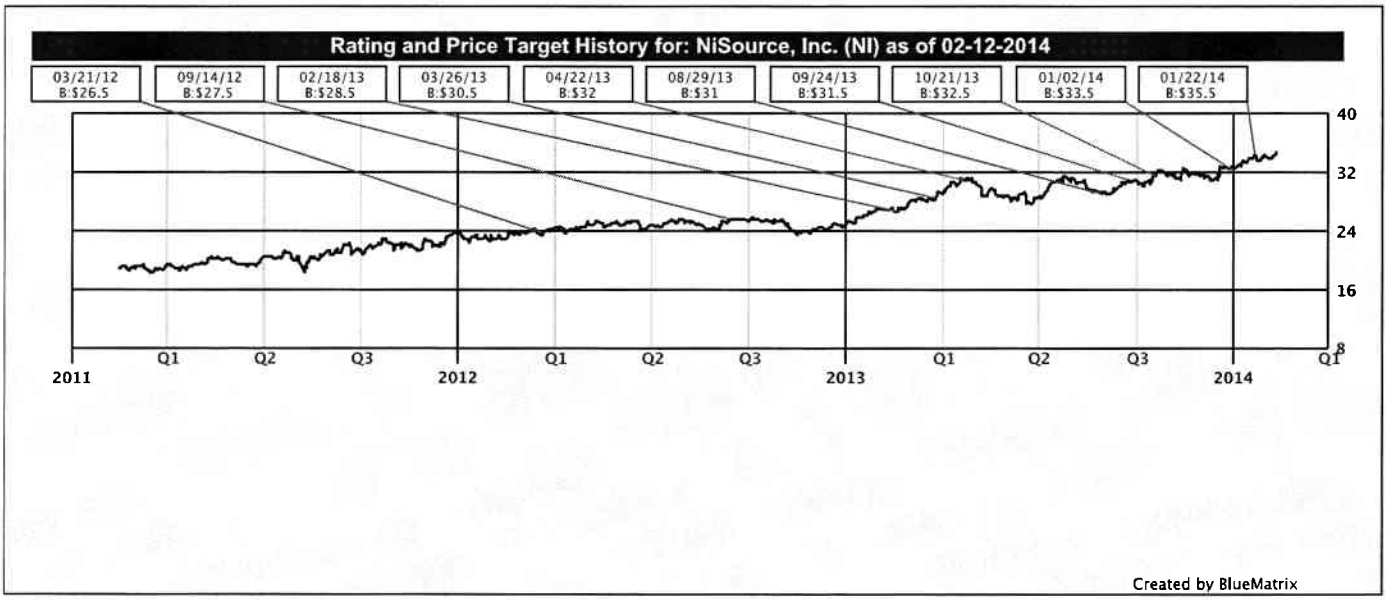
Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	243	44.92	57	23.46	BUY [BUY]	36	50.70	20	55.56
HOLD [HOLD]	286	52.87	65	22.73	HOLD [HOLD]	35	49.30	17	48.57
SELL [UND]	12	2.22	4	33.33	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

NiSource, Inc. (BUY)

NI - Quick Alert: Rayne and Leach Announced at $1.75 Billion

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
John Barta: (216) 689- 3386 — john_j_barta@key.com

KEY INVESTMENT POINTS

After initially indicating a non- binding open season had been well received by shippers, NiSource, Inc. (NI- NYSE) formally announced it will proceed with the Rayne and Leach projects. These are two pipelines with 1.5 bcf/day from the Utica and Marcellus regions to markets served by other NI pipelines.

The projects are estimated to cost $1.75 billion. We believe this exceeds expectations by roughly $250 million. We expect that projects will be welcomed by investors.

The Leach Xpress line in Ohio and West Virginia is anchored by contracts with Range Resources, Noble Energy, Kaiser Marketing and American Energy Utica.

The Rayne projects are anchored by the same companies and consist primarily of incremental compression to existing pipeline projects in the portfolio.

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KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

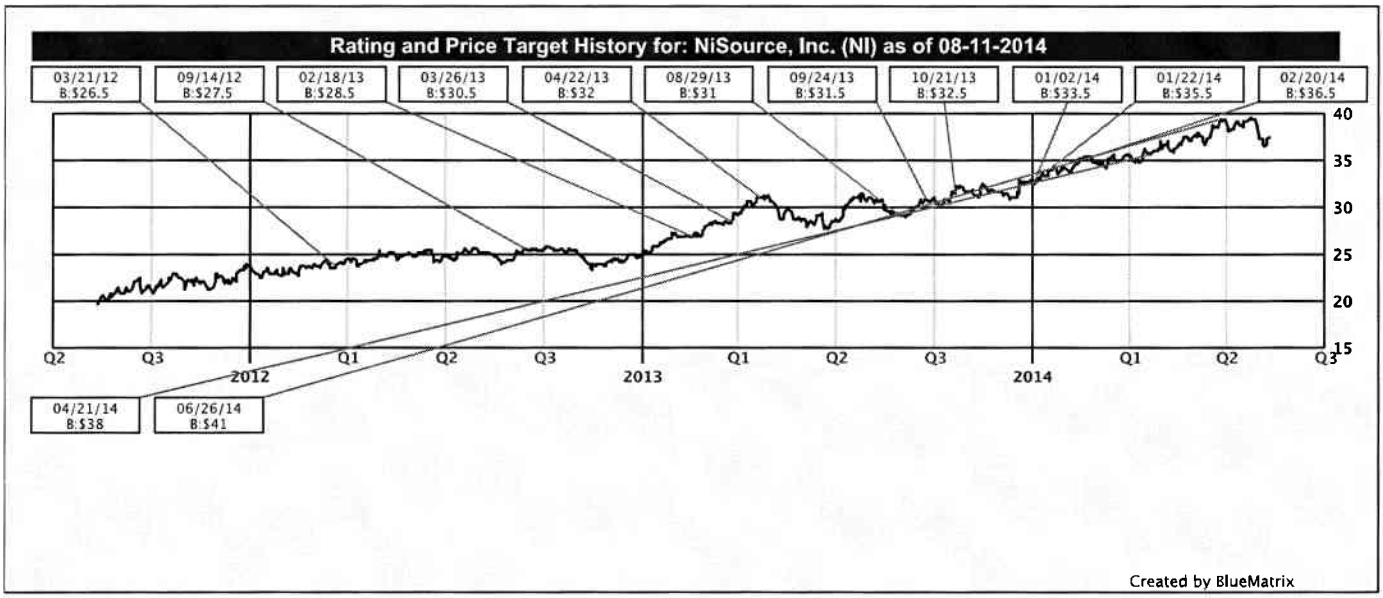
During the past 12 months, NiSource, Inc. has been a client of the firm or its affiliates for non- securities related services.

As of the date of this report, we make a market in NiSource, Inc..

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	259	46.84	57	22.01	BUY [BUY]	37	52.11	20	54.05
HOLD [HOLD]	282	50.99	56	19.86	HOLD [HOLD]	34	47.89	16	47.06
SELL [UND]	12	2.17	3	25.00	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.48 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Management Optimistic About MLP

Charles Fishman, CFA
Stock Analyst
charles.fishman@morningstar.com
312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 19 May 2014
Estimates as of 21 Mar 2014
Pricing data through 16 May 2014
Rating updated as of 16 May 2014

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 19 May 2014

On May 18, we met with the executive management team from NiSource at the American Gas Association Financial Forum in Miami. We believe the key takeaway from our meeting was management's commitment to forming a master limited partnership with the majority of the assets currently making up the Columbia Pipeline Group. It now appears more likely that NiSource's 2015 equity needs will be raised by an IPO of the MLP instead of an equity issuance. We are reaffirming our fair value estimate of $30 per share. Our narrow moat and stable moat trend ratings are unchanged.

An IPO would significantly reduce NiSource's capital expenditures since the MLP would be self-funding. We had assumed the CPG would need almost 40% of the $10.7 billion of NiSource's estimated capital expenditures from 2014-18. In addition, ongoing drop-downs of additional assets would also be a source of equity.

NiSource management expressed optimism about the Pennant joint venture in the Utica, indicating there could be an upward bias to the 30 wells expected to be drilled this year. The success of development of the Utica mineral rights would increase midstream production volumes and our estimate of the potential value of the MLP. In addition, based on the success of the Ryan/Leach Express open season (it was 3-4 times oversubscribed), management indicated that it hopes to have the size and timing of the project finalized by the September analyst day. The success of these projects provides additional confidence that NiSource will move forward with an MLP.

Based on the upbeat comments at our meeting concerning the potential formation of the MLP, the likelihood of the Reynolds-Topeka and Greentown-Reynolds transmission projects moving forward and Indiana Commission approval

Vital Statistics

Market Cap (USD Mil)	11,487
52-Week High (USD)	37.18
52-Week Low (USD)	27.11
52-Week Total Return %	27.0
YTD Total Return %	12.5
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	6.8
5-Yr Forward EPS CAGR %	6.9
Price/Fair Value	1.22

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	17.0	20.8	*22.1*	*20.5*
EV/EBITDA	9.9	11.2	*10.9*	*10.0*
EV/EBIT	15.2	17.0	*16.1*	*14.7*
Free Cash Flow Yield %	-3.0	-4.4	*-4.9*	*-4.6*
Dividend Yield %	3.5	3.0	*2.8*	*3.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	5,061	5,657	*6,123*	*6,524*
Revenue YoY %	-15.9	11.8	*8.2*	*6.6*
EBIT	1,039	1,126	*1,269*	*1,388*
EBIT YoY %	12.7	8.4	*12.7*	*9.4*
Net Income, Adjusted	437	494	*526*	*572*
Net Income YoY %	12.4	13.0	*6.5*	*8.8*
Diluted EPS	1.46	1.58	*1.65*	*1.78*
Diluted EPS YoY %	7.9	8.3	*4.6*	*8.1*
Free Cash Flow	71	-379	*-157*	*-390*
Free Cash Flow YoY %	339.3	-637.2	*-58.5*	*148.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. NiSource also owns 15,000 miles of natural gas transmission pipeline, operates one of the nation's largest underground natural gas storage systems, and provides unregulated midstream services in the growing Marcellus and Utica shale production area. NiSource's electric utility generates, transmits, and distributes electricity in northern Indiana.

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of the NIPSCO electric and natural gas distribution long-term modernization plans, we also think it is likely that NiSource will increase its long-term annual EPS growth rate, currently 5%-7%, at the analyst day meeting.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	Forecast 2015	5-Year Proj. CAGR
Revenue	-4.1	-6.3	-15.9	11.8	8.2	6.6	6.8
EBIT	6.8	-0.2	12.7	8.4	12.7	9.4	9.8
EBITDA	3.9	-4.0	9.6	6.4	9.9	9.3	8.9
Net Income	13.2	14.1	12.4	13.0	6.5	8.8	9.0
Diluted EPS	9.0	10.8	7.9	8.3	4.6	8.1	6.9
Earnings Before Interest, after Tax	4.4	10.4	4.1	-1.0	16.8	4.7	8.0
Free Cash Flow	-237.7	-88.9	339.3	-637.2	-58.5	148.0	—

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5 Year Proj. Avg
Operating Margin %	18.6	15.3	20.5	19.9	20.7	21.3	21.9
EBITDA Margin %	28.7	24.3	31.6	30.1	30.6	31.4	32.0
Net Margin %	7.9	6.5	8.6	8.7	8.6	8.8	9.1
Free Cash Flow Margin %	-1.7	0.3	1.4	-6.7	-2.6	-6.0	-2.9
ROIC %	7.3	7.6	7.5	6.9	7.4	7.2	7.2
Adjusted ROIC %	10.0	10.6	10.2	9.1	9.7	9.2	9.0
Return on Assets %	1.9	1.5	2.0	2.4	2.2	2.2	2.3
Return on Equity %	7.7	6.0	7.9	9.3	8.8	9.2	9.4

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	0.60	0.61	0.59	0.60	0.61	0.63	0.62
Total Debt/EBITDA	5.23	5.45	5.06	5.19	5.21	5.26	5.10
EBITDA/Interest Expense	3.94	3.88	3.83	4.11	4.03	3.99	4.07

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.00	1.22	—	—
Price/Earnings	17.0	20.8	22.1	20.5
EV/EBITDA	9.9	11.2	10.9	10.0
EV/EBIT	15.2	17.0	16.1	14.7
Free Cash Flow Yield %	-3.0	-4.4	-4.9	-4.6
Dividend Yield %	3.5	3.0	2.8	3.0

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	87.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-816	-4.5	-2.55
Present Value Stage II	1,359	7.5	4.25
Present Value Stage III	17,611	97.0	55.12
Total Firm Value	**18,155**	**100.0**	**56.82**
Cash and Equivalents	70	—	0.22
Debt	-8,834	—	-27.65
Preferred Stock	—	—	—
Other Adjustments	35	—	0.11
Equity Value	**9,425**	—	**29.50**
Projected Diluted Shares	320		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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NiSource Inc NI (NYSE) ★★

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36.48 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2011	2012	2013	*Forecast* 2014	*Forecast* 2015
Revenue	**6,019**	**5,061**	**5,657**	***6,123***	***6,524***
Cost of Goods Sold	2,556	1,542	1,816	*2,023*	*2,109*
Gross Profit	**3,463**	**3,520**	**3,842**	***4,100***	***4,415***
Selling, General & Administrative Expenses	1,723	1,663	1,874	*1,976*	*2,111*
Other Operating Expense (Income)	295	288	301	*297*	*307*
Other Operating Expense (Income)	-15	-32	-36	*-45*	*-49*
Depreciation & Amortization (if reported separately)	538	562	577	*603*	*658*
Operating Income (ex charges)	**922**	**1,039**	**1,126**	***1,269***	***1,388***
Restructuring & Other Cash Charges	17	-4	-18	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**905**	**1,043**	**1,143**	***1,269***	***1,388***
Interest Expense	377	418	415	*465*	*513*
Interest Income	-61	2	24	*5*	*5*
Pre-Tax Income	**467**	**626**	**753**	***809***	***880***
Income Tax Expense	163	216	262	*283*	*308*
Other After-Tax Cash Gains (Losses)	-5	6	6	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	35	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**299**	**416**	**532**	***526***	***572***
Weighted Average Diluted Shares Outstanding	289	300	314	*319*	*321*
Diluted Earnings Per Share	**1.03**	**1.39**	**1.70**	***1.65***	***1.78***
Adjusted Net Income	389	437	494	*526*	*572*
Diluted Earnings Per Share (Adjusted)	**1.35**	**1.46**	**1.58**	***1.65***	***1.78***
Dividends Per Common Share	0.92	0.94	0.98	*1.02*	*1.06*
EBITDA	**1,443**	**1,605**	**1,721**	***1,872***	***2,046***
Adjusted EBITDA	**1,460**	**1,601**	**1,703**	***1,872***	***2,046***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Cash and Equivalents	172	83	35	*199*	*168*
Investments	—	—	—	—	—
Accounts Receivable	855	907	1,006	*1,090*	*1,162*
Inventory	566	496	500	*554*	*578*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	655	866	618	*750*	*750*
Current Assets	**2,248**	**2,352**	**2,159**	***2,594***	***2,658***
Net Property Plant, and Equipment	11,800	12,916	14,365	*15,843*	*17,259*
Goodwill	3,677	3,677	3,666	*3,666*	*3,666*
Other Intangibles	298	287	276	*276*	*276*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,685	2,613	2,188	*2,561*	*2,689*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**20,708**	**21,845**	**22,654**	***24,940***	***26,548***
Accounts Payable	435	539	619	*690*	*719*
Short-Term Debt	1,687	1,284	1,241	*1,250*	*1,250*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,525	1,479	1,319	*1,500*	*1,500*
Current Liabilities	**3,646**	**3,302**	**3,178**	***3,440***	***3,469***
Long-Term Debt	6,267	6,819	7,593	*8,500*	*9,500*
Deferred Tax Liabilities (Long-Term)	2,542	2,953	3,278	*3,632*	*3,963*
Other Long-Term Operating Liabilities	3,256	3,216	2,718	*3,252*	*3,236*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**15,711**	**16,290**	**16,767**	***18,823***	***20,169***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,168	4,598	4,690	*4,725*	*4,760*
Retained Earnings (Deficit)	917	1,060	1,286	*1,486*	*1,717*
(Treasury Stock)	-31	-41	-49	*-49*	*-49*
Other Equity	-60	-66	-44	*-49*	*-54*
Shareholder's Equity	**4,997**	**5,554**	**5,887**	***6,117***	***6,379***
Minority Interest	—	—	—	—	—
Total Equity	**4,997**	**5,554**	**5,887**	***6,117***	***6,379***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	Forecast 2014	Forecast 2015
Net Income	299	416	532	*526*	*572*
Depreciation	538	562	577	*603*	*658*
Amortization	—	—	—	—	—
Stock-Based Compensation	39	45	51	*49*	*53*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	178	305	287	*354*	*332*
Other Non-Cash Adjustments	217	25	-65	—	—
(Increase) Decrease in Accounts Receivable	220	-51	-95	*-85*	*-72*
(Increase) Decrease in Inventory	-142	62	-9	*-54*	*-24*
Change in Other Short-Term Assets	-274	-157	81	*-132*	—
Increase (Decrease) in Accounts Payable	-155	57	68	*71*	*29*
Change in Other Short-Term Liabilities	—	—	—	*181*	—
Cash From Operations	**920**	**1,264**	**1,427**	***1,514***	***1,549***
(Capital Expenditures)	-1,125	-1,499	-1,880	*-2,081*	*-2,074*
Net (Acquisitions), Asset Sales, and Disposals	9	26	18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-34	51	-148	*160*	*-143*
Cash From Investing	**-1,149**	**-1,422**	**-2,010**	***-1,921***	***-2,216***
Common Stock Issuance (or Repurchase)	21	374	36	*35*	*35*
Common Stock (Dividends)	-258	-273	-306	*-326*	*-341*
Short-Term Debt Issuance (or Retirement)	-23	-582	-78	*9*	—
Long-Term Debt Issuance (or Retirement)	541	656	794	*907*	*1,000*
Other Financing Cash Flows	—	—	—	*-49*	*-53*
Cash From Financing	**281**	**175**	**445**	***576***	***642***
Exchange Rates, Discontinued Ops, etc. (net)	-50	8	129	*-5*	*-5*
Net Change in Cash	**2**	**25**	**-10**	***164***	***-31***

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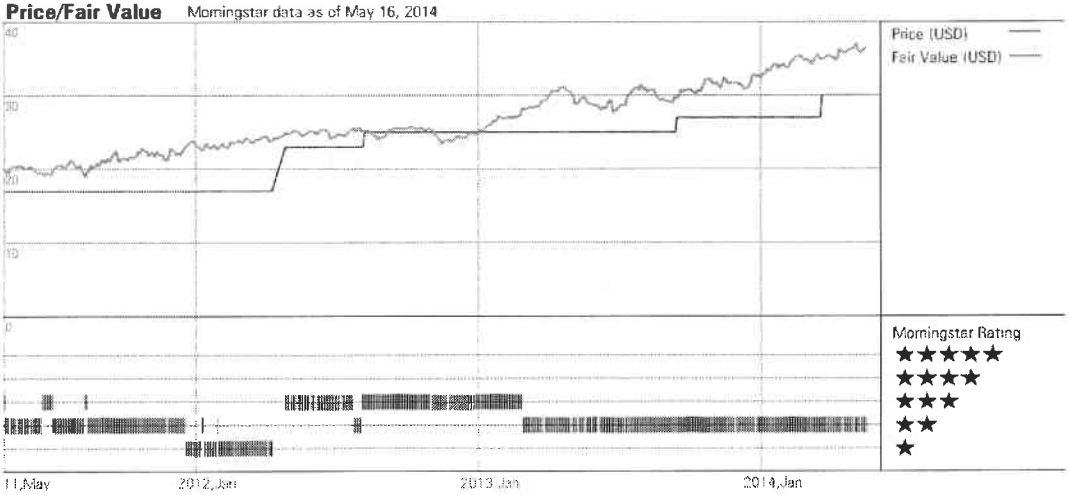
Price/Fair Value Morningstar data as of May 16, 2014



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NISOURCE INC.
NI

CURRENT PRICE:	$40.01
TARGET PRICE:	$40.00
RECOMMENDATION:	HOLD

Key Stats

Market Cap:	$12.6B
Enterprise Value:	$21.9B
EPU (2014E):	$1.70
EPU (2015E):	$1.81
P/E (2014E):	23.5x
P/E (2015E):	22.1x
EV/EBITDA (2014E):	11.6x
DPS (2014E)	$1.02
Current Yield:	2.5%
3-Yr DPS Growth Rate:	5.5%
Beta:	0.75

Analyst Contacts

Becca Followill
713-366-0557
bfollowill@uscallc.com

James Carreker
713-366-0558
jcarreker@uscallc.com

Zachary Rollins, CFA
713-366-0547
zrollins@uscallc.com

Looking Ahead to NiSource's Analyst Meeting

(NI - $40.01 - Hold - $40 PT)

In anticipation of NI's analyst day Monday, September 29 in New York (Millennium Hotel), we take a look at what happened at their meeting two years ago (Sept. '12), what's happened since then, and what we are looking for this year.

We are also raising our price target to $40/sh from $38 as we roll forward our valuation one year. For the group, we normally roll forward our valuations about this time each year; we are just doing it a little earlier for NI given the timing of the meeting.

What Happened Two Years Ago?

- **Guidance:** 5-7%/yr earnings growth for the period '12-'17; 3-5%/yr dividend growth with 60-70% payout ratio target; $1.5-$1.8B/yr capex; $25-30B project inventory over 15-20+ years. Anticipated equity financing needs in '15.
    - **Gas Distribution:** $10B inventory and 7-9% operating earnings growth;
    - **Electric:** $6-8B inventory and 7-9% operating earnings growth;
    - **Pipelines:** $8-10B inventory and 10-12% operating earnings growth.
- **Big Picture:** EPS growth slower than prior '09 -'12 pace of ~11%/yr, but solid visibility on tracked infrastructure replacement/modernization programs combined with gas pipeline and midstream organic growth opportunities.

What's Happened Since Then?

- **Stock Performance:** NI stock returned 68.0% since 9.12.12, outperforming total returns of 8.1% for the UTY index and 28.3% for the S&P 500.
- **Financial Results:** We estimate NI will grow EPS by 7.4%/yr over the period '12-'14 and dividends by 4.4%, with a 61% payout ratio. By segment, we estimate Gas Distribution will grow operating income by 6.4%/yr, Electric by 13.3% and Pipelines by 9.3%. Capex averages $1.83B/yr over the three-year period.

** Important Disclosures on pages 5-6 of this report **

- **Big Picture:** Positive fundamentals all around for NI – assets located in the right place; regulators amenable to infrastructure replacement for safety reasons and aided by minimal customer sticker shock due to low gas price environment; producers finally ready and willing to sign up for take-away capacity out of Appalachia; and market rewarding financial engineering.
- **Backlog Increase:** While the magnitude of the investment opportunity NI outlined two years ago is unchanged, at $20-$25B, they have firmed up a number of large projects, particularly on the pipeline side. Below is a list of what should be the majority of new, larger projects they have announced (costs in bold/italics represent USCA estimates):

New Projects Since Sept. '12 Analyst Meeting				
Project	Segment	Cost ($mm)	Capacity (mmcf/d)	In-Service
Pennant JV NGL Pipeline	Gas Pipeline	$60	90 mbpd	Q3'14
Big Pine Expansion	Gas Pipeline	$100	175 mmcf/d	Q2'15
Washington Country Gathering	Gas Pipeline	$120	100 mmcf/d	2H'15
Utica Access	Gas Pipeline	***$50***	200 mmcf/d	Q4'16
Leach XPress	Gas Pipeline	***$1,400***	1.5 bcf/d	2H'17
Rayne XPress	Gas Pipeline	***$350***	1.0 bcf/d	2H'17
Cameron Access Project	Gas Pipeline	$310	800 mmcf/d	Q3'17
WB Xpress	Gas Pipeline	***$1,000***	1.3 bcf/d	Q4'18
Mountaineer Xpress	Gas Pipeline	***$500-$1000***	.75-2 bcf/d	1H'17/4Q'18

Source: NI, USCA

- **MLP:** Company said that they look to make a decision on and around an MLP in the third quarter.
- **Regulatory:** Tons of regulatory activity since the last meeting. Some of the more impactful items include:
  - **Columbia Gas of PA:** Granted a $55mm rate increase in PA (effective 7.1.13). Filed rate case on 3.21.14 to support continuation of ongoing infrastructure modernization program. Would increase revenues by ~$54mm if approved. Decision expected this year.
  - **Columbia Gas of OH:** Received approval from PUC on 4.23.14 for annual infrastructure replacement and demand-side management rider. Revenue increase of $26mm.
  - **Columbia Gas of VA:** Filed rate case in April 2014 with request for $32mm rate increase, with $25mm of that incremental. Decision expected by year-end with new rates effective 10.1.14.
  - **Columbia Gas of KY:** Commission adopted a settlement in Dec. 2013 which provided for an $8mm rate increase effective 12.29.13.
  - **Bay State Gas (MA):** In Feb. 2014, the Massachusetts Department of Public Utilities granted a $19mm rate increase effective 3.1.14.
  - **NIPSCO (IN):** On April 30, IURC approved their Transmission, Distribution & Storage system improvement charge (TDSIC) rider. Seven-year investment of $710mm, with 80% tracked. Adds revenue of $6mm in '15, $10mm in '16, $12mm in '17, $11mm in '18 and $13mm in '19.
  - **IN Infrastructure Tracking:** Northern Indiana filed a 7-yr electric infrastructure plan with the IURC on July 19. Anticipated investment opportunities of >$1B, with 80% tracked. 2014 investment anticipated at $75mm.

** Important Disclosures on pages 5-6 of this report **

- **Transmission ROEs INDIEC:** On Nov. 12, 2013, several industrial customers, including INDIEC, filed a complaint at the FERC regarding the 12.38% ROE used to set the MISO Transmission owners' transmission rates and requesting a reduction in the base ROE to 9.15% and a capital structure no more than 50% equity. NIPSCO joined in an answer defending the ROE and to dismiss the complaint. We see any impact as minimal to NI given their ~$500mm of target projects (Reynolds to Hiple and Reynolds to Greentown) vs. an overall NI rate base of ~$9B.

What to Look for This Year?

- **Guidance:**
  - ***Previous guidance from two years ago ('12-'17 period):*** 5-7%/yr EPS growth; 3-5%/yr dividend growth with 60-70% payout ratio target; and $1.5-$1.8B/yr capex.
  - ***USCA Estimates ('14-'19 period)***: 8-10%/yr average EPS growth (more back-end weighted); 5-7%/yr dividend growth with 50-60% payout ratio; and $2-$2.5B/yr capex. With more detail due to come out of the meeting on major project costs, our estimates will be subject to some fine-tuning. Our estimates do not yet factor in an MLP as we need more specifics on what the MLP would look like. A 50-60% payout ratio is low, but with a larger anticipated capex program, Debt/EBITDA at ~5x and a historically conservative company, we think it's in the ballpark.
- **MLP Structure:** Widely expected that NI will outline plans and specifics for an MLP for their Gas Transportation & Storage assets. At this point we have no idea how NI plans to structure the MLP – targeted distribution growth rate, timing of dropdowns, MLP role in funding organic growth, dropdowns done for what percent cash vs. equity. That said, we still need to estimate what an MLP would mean to NI's valuation and what the market is current imputing in the stock.
  - ***What is Market Imputing?:*** To back into what we think the market is imputing for an MLP within NI's ~$40/sh price we assumed the market is paying industry-type multiples on '15 EBITDA for the utilities and then netted out the debt. It gets us to 16.2x for the Gas Transportation & Storage assets, roughly in line with peer multiples (EQM at 17.2x, SEP 14.5x, EPB 14.4x), and a total value of ~$10.7B.

Current NI Valuation - Implied Midstream Value - Using '15E Multiples

Net Asset Value

		Shares outstanding	316mm	
Segment	'15 EBITDA ($mm)	Multiple	Value	Value/sh
Gas Distribution	$801	8.0x	$6,408	$20.25
Gas Trans. & Storage	$663	16.2x	$10,716	$33.87
Electric Ops	$599	8.0x	$4,791	$15.14
Net Debt			($9,272)	($29.30)
Current Share Price			$12,644	$40

Source: USCA, Company Reports

** Important Disclosures on pages 5-6 of this report **

- ***What Could the Value Be?:*** We have made a world of assumptions in order to get to a number, so here are just a few of those: 10% of assets initially dropped and the remainder dropped down over an eight-year period; drops at 10x EBITDA multiple; and target distribution growth of 15%/yr with 1.0-1.1x coverage. If our plethora of assumptions are correct, it says the market has factored in the MLP, with a total value of ~$10.7B.

NI Potential MLP Value ($mm)	
GP Value	$8,151
LP Unit Value	$768
NPV of Undropped Assets	$1,773
Total Potential Value	$10,692

Source: USCA

- **Deep Dive on Segments:** Expect a deep dive into the segments, with more specifics on costs behind some of the recently announced projects as well additional opportunities on the horizon.

** Important Disclosures on pages 5-6 of this report **

Analyst Certification:

We, Becca Followill, James Carreker, and Zachary Rollins, do hereby certify that the recommendations and opinions expressed in this presentation accurately reflect our personal views about any and all of the subject securities or issues discussed herein. Furthermore, no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein. We do not own any shares directly or indirectly (or any derivative thereof) of the company that is subject to this research report. Neither we nor any member of our households serves as an officer, director or advisory board member of any company that is subject to this presentation.

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Analysts' compensation is not based on investment banking revenue and the analysts are not compensated by the subject companies. USCA provided and received compensation for providing investment banking services for the following subject companies within the past 12 months: EQT Midstream Partners (EQM), Oiltanking Partners (OILT), Plains All-American Pipeline (PAA), Plains GP Holdings (PAGP) and Rose Rock Midstream (RRMS). Within the next three months USCA may attempt to seek compensation for investment banking services from the companies mentioned within this report.

Opinion Key:

USCA uses a Buy, Overweight, Hold, Underweight and Sell rating system.

BUY - The stock has among the best combination of risk/reward and positive company specific catalysts within the sector. Stock is expected to trade higher on an absolute basis and be a top performer relative to peer stocks over the next 12 months.

OVERWEIGHT - The stock has above average risk/reward and is expected to outperform peer stocks over the next 12 months.

HOLD - The stock has average risk/reward and is expected to perform in line with peer stocks over the next 12 months.

UNDERWEIGHT - The stock has below average risk/reward and is expected to underperform peer stocks over the next 12 months.

SELL - The stock's risk/reward is skewed to the downside with possible negative company specific catalysts or excessive valuation. The stock is expected to trade lower on an absolute basis and be among the worst performers relative to peer stocks over the next 12 months.

Risks that may impede achievement of price target(s):

Industry wide risks include but are not limited to environmental and regulatory for both pipeline and E&P, aging infrastructure and availability of midstream infrastructure to accommodate new production. Competition for and availability of service crews and drilling rigs. Commodity prices, the economic outlook, access to capital markets. Interest rates. Asset recontracting. Cost overruns.

** Important Disclosures on pages 5-6 of this report **

Price Target Methodology:

For C-Corps, our price targets are, generally, based on a traditional sum of the parts analysis. For traditional pipes and midstream assets, we value at 8-12x EBITDA multiples (usually forward year unless it doesn't represent a good run rate). LP units are marked to current market. GP values are determined using a discounted cash flow of projected distributions and then tax effected.

For MLPs, we average three different valuations as we have yet to find one pure way to value MLPs that captures the many nuances – current yield, growth, GP IDRs, equity to fund growth, etc. For all three methods, we start with six-year projections of LP distributions and assume a terminal growth rate. The three valuation methods – Traditional CAPM, Growth Adjusted Cash Yield, and GP Adjusted Distribution Discount Model – each yield a different cost of equity, which is then used as the discount rate against the projected distributions and terminal growth rates. Traditional CAPM is a straight forward traditional use of the Capital Asset Pricing Model. Growth Adjusted Cash Yield uses projected yield plus an adjustment for expected long-term distribution growth. GP Adjusted Distribution Discount Model uses average annual forecasted distributions for both the GP and LP for the next three years divided by the average number of forecasted LP units over the next three years divided by the current LP unit price. In our view, this method helps account for the higher cost of capital associated with GP IDRs.

Distribution of Ratings (as of September 12, 2014):

Recommendation	Count	Percent	Investment Banking Relationship	Count	Percent
Overweight/Buy	35	56%	Overweight/Buy	8	23%
Hold	27	44%	Hold	1	4%
Underweight/Sell	0	0%	Underweight/Sell	0	0%

Historical Ratings and Price Targets may be found by clicking the link below:
USCA Rating and Price Target History

For hard a hard copy of our price target/ratings history, please call 888-601-USCA (8722), or write to U.S. Capital Advisors, 1330 Post Oak Blvd., Suite 900, Houston, TX, 77056.

A list of common terms and abbreviations may be found by viewing our Glossary.

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Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-011:

If applicable, please supply a listing of all common equity infusions from the parent to the Company over the past five years. In each case, identify date and dollar amount.

Response:

There have been no common equity infusions from the parent to the Company over the past five years (2010-2014).

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-012:

If applicable, please identify the Company's common dividend payments to its parent for each of the last five years.

Response:

Common Dividend payments to the Parent Company for the last 5 years were as follows:

2010 - $ 31,500,000
2011 - $ 5,000,000
2012 - $ 3,000,000
2013 - $ 8,000,000
2014 - $ 0

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-013:

Please provide the latest year-by-year financial projections for the Company for the next five years. Also, please indicate the date these projections were prepared; whether approved by management; and whether the projections have been submitted to bond rating agencies. (Information should be treated in a confidential manner.)

Response:

The financial projections of the Company are confidential and will be made available upon request, subject to the execution of a confidentiality agreement.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-014:

Please provide the Company's five-year construction budget.

Response:

GAS-ROR-014 Attachment A provides Columbia Gas of Pennsylvania's current five year Capital Program (2015-2019) broken down by Business Class, summarized by Gross Capital Expenditures, Net Capital Expenditures, and Contributions and Reimbursements.

Columbia Gas of Pennsylvania
Capital Program
($000)

Gross View

Class	2015	2016	2017	2018	2019
Growth	$20,000	$19,000	$18,500	$19,000	$19,700
Betterment	$9,100	$31,800	$31,000	$24,700	$27,200
Public Improvement	$4,500	$4,100	$4,000	$4,000	$4,000
Replacement	$144,600	$147,000	$168,805	$169,070	$160,000
Support Services	$14,222	$4,250	$4,550	$3,750	$3,850
Corporate/Segment IT	$4,564	$4,820	$4,919	$6,342	$4,140
Automated Meter Reading	$410	$410	$410	$410	$410
Total Gross Capital	**$197,396**	**$211,380**	**$232,184**	**$227,272**	**$219,300**

	2015	2016	2017	2018	2019
Contributions - Growth	($2,700)	($400)	($300)	($300)	($300)
Reimbursement - Betterment	$0	$0	$0	$0	$0
Reimbursement - Public Improvement	($400)	($400)	($400)	($400)	($400)
Reimbursement - Replacement	$0	$0	$0	$0	$0
Total Contributions & Reimbursements	**($3,100)**	**($800)**	**($700)**	**($700)**	**($700)**

Net View

Class	2014	2015	2016	2017	2018
Growth	$22,700	$19,400	$18,800	$19,300	$20,000
Betterment	$9,100	$31,800	$31,000	$24,700	$27,200
Public Improvement	$4,900	$4,500	$4,400	$4,400	$4,400
Replacement	$144,600	$147,000	$168,805	$169,070	$160,000
Support Services	$14,222	$4,250	$4,550	$3,750	$3,850
Corporate IT	$4,564	$4,820	$4,919	$6,342	$4,140
Automated Meter Reading	$410	$410	$410	$410	$410
Total Net Capital	**$200,496**	**$212,180**	**$232,884**	**$227,972**	**$220,000**

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-015:

Please identify the Company's and, if applicable, its parent's capital structure targets (percentages of capital types). Provide the complete basis for the capital structure targets.

Response: Columbia Gas of Pennsylvania, Inc.

The Company targets an equity ratio of between 52-56% and a debt ratio, including short term debt, of between 44-48%. These ranges have been acceptable in Pennsylvania in the past. They also fall within the ranges of the Gas Group as described in Paul R. Moul's direct testimony, Columbia Statement No. 8..

Response: NiSource Inc.

NiSource Inc. does not formally publish a capital structure target, but it implements its financial strategy with the goal of maintaining an investment grade bond rating.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-016:

For each month, of the most recent 24 months, please supply the Company's

a. short-term debt balance;

b. short-term debt interest rate;

c. balance of construction work in progress; and

d. balance of construction work in progress which is eligible for AFUDC accrual.

Response:

Please see GAS-ROR-016 Attachment A.

COLUMBIA GAS OF PENNSYLVANIA, INC.
Standard Data Request - Rate of Return
GAS-ROR-016

	Part A	Part B	Part C	Part D
	Short Term Debt		Construction Work in Progress	
	Balance ($000)	Rate %	CWIP Balance (Dollars$)	CWIP Eligible for AFUDC (Dollars$)
December 2012	0	1.28%	11,596,649	8,966,582
January 2013	0	1.19%	13,510,988	10,011,283
February	0	1.17%	11,995,282	7,129,448
March	0	1.07%	13,378,477	7,960,000
April	0	0.96%	15,045,210	8,876,058
May	0	0.56%	16,600,071	11,926,561
June	0	0.67%	18,821,384	14,462,534
July	0	0.70%	22,662,182	18,127,830
August	0	0.69%	29,541,934	25,361,687
September	22,845	0.68%	21,063,768	17,584,998
October	43,094	0.68%	24,942,784	21,830,054
November	41,531	0.68%	26,946,601	23,778,772
December 2013	41,296	0.71%	24,550,265	19,915,911
January 2014	0	0.71%	30,907,927	25,680,223
February	0	0.69%	33,925,106	28,047,616
March	0	0.61%	39,602,330	33,329,389
April	0	0.59%	28,114,486	22,709,191
May	0	0.61%	25,669,768	20,083,413
June	26,931	0.64%	15,148,354	10,798,325
July	70,063	0.67%	25,042,656	21,411,527
August	89,642	0.73%	22,781,410	20,080,401
September	105,719	0.67%	29,225,850	27,414,049
October	124,501	0.66%	30,152,792	29,163,959
November 2014	125,029	0.71%	19,464,729	20,661,133

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-017:

If applicable, please provide the currently authorized returns on equity for each of the parent's utility subsidiaries of the same industry type as the Company. In each case identify the approximate date when the current return on equity was approved by the state commission.

Response:

Company	Date	ROE
Columbia Gas of Kentucky	December 29, 2013	10.125%
Columbia Gas of Ohio	October 24, 2008	10.39%
Columbia Gas of Maryland	September 23, 2013	9.60%
Columbia Gas of Virginia	December 17, 2010	10.10%
Columbia Gas of Massachusetts	February 28, 2014	9.55%
NIPSCO - Gas	August 28, 2013	9.90%

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-018:

Has the Utility reacquired or repurchased any debt within the last five years? If so, provide a summary of each gain or loss on reacquired debt, the date on which the utility commenced amortization of such a gain or loss, the regulatory commission decision addressing the treatment of such gain or loss on reacquired debt, if any, on interest expense.

Response:

Columbia has not reacquired or repurchased any debt within the last five years.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-019:

Fully identify all debt (other than instruments traded in public markets) owed to all shareholders, corporate officers, or members of the board of directors, its affiliates, parent company, or subsidiaries.

Response:

Columbia Gas of Pennsylvania, Inc. (the Company) is a wholly owned subsidiary of NiSource Gas Distribution, Inc., which is a subsidiary of NiSource Inc. (the Parent). All debt of the Company is held by the Parent, through its subsidiary, NiSource Finance Corp., and is not publicly traded.

Please see Attachment A to this Response.

COLUMBIA GAS OF PENNSYLVANIA, INC.

STATEMENT OF OUTSTANDING LONG TERM NOTES AT DECEMBER 31, 2014

Line No.	Description	Date of Issue (1)	Date of Maturity (2)	Principal Amount Issued (3) $	Amount Paid (4) $	Amount Outstanding (5) $	Coupon Interest Rate (6)	Annualized Cost (7) $
	Columbia Gas of Pennsylvania, Inc.							
1	LONG TERM DEBT							
2	Debentures	11/28/2005	11/28/2015	47,350,000	$ -	47,350,000	5.410%	2,561,635
3	Debentures	11/28/2005	11/28/2016	18,525,000	$ -	18,525,000	5.450%	1,009,613
4	Debentures	11/28/2005	11/28/2025	54,515,000	$ -	54,515,000	5.920%	3,227,288
5	Debentures	11/1/2006	11/1/2021	20,000,000	$ -	20,000,000	6.015%	1,203,000
6	Debentures	12/14/2007	12/14/2027	58,000,000	$ -	58,000,000	6.865%	3,981,700
7	Debentures	12/16/2010	12/16/2030	28,000,000	$ -	28,000,000	6.020%	1,685,600
8	Debentures	3/28/2012	3/26/2032	30,000,000	$ -	30,000,000	5.355%	1,606,500
9	Debentures	3/28/2012	3/26/2042	35,000,000	$ -	35,000,000	5.890%	2,061,500
10	Debentures	11/28/2012	11/28/2042	65,000,000	$ -	65,000,000	5.260%	3,419,000
11	Debentures	6/19/2013	06/19/2043	23,000,000	$ -	23,000,000	5.530%	1,271,900
12	Debentures	12/18/2013	12/18/2043	32,000,000	$ -	32,000,000	6.290%	2,012,800
13	Debentures	12/18/2014	12/16/2043	30,000,000	$ -	30,000,000	4.430%	1,329,000
14	TOTAL INSTALLMENT FROM NOTES PAYABLE			441,390,000	$ -	441,390,000		25,369,536
15	TOTAL AVERAGE WEIGHTED EFFECTIVE COST RATE [Col. 7/Col. 5]							5.748%

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-20:

Provide a summary statement of all stock dividends, splits, or par value changes during the two (2) year calendar period preceding the rate case filing.

Response:

Cash dividends on NiSource Inc. stock during the two year calendar period preceding the rate case were as follows:

Date Declared		Record Date		Date of Payment		Dividend Per share
05-Aug-14		31-Oct-14		20-Nov-14		$0.26
13-May-14		31-Jul-14		20-Aug-14		$0.26
25-Mar-14		30-Apr-14		20-May-14		$0.25
29-Jan-14		10-Feb-14		20-Feb-14		$0.25
27-Aug-13		31-Oct-13		20-Nov-13		$0.25
14-May-13		31-Jul-13		20-Aug-13		$0.25
26-Mar-13		30-Apr-13		20-May-13		$0.24
25-Jan-13		04-Feb-13		20-Feb-13		$0.24

NiSource Inc. did not have any stock splits or par value changes during the two year calendar period preceding the rate case.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-021:

If a claim of the filing utility is based on utilization of the capital structure or capital costs of the parent company and system--consolidated, the reasons for this claim must be fully stated and supported.

Response:

The filing utility, Columbia Gas of Pennsylvania, Inc., is not utilizing the capital structure of the parent company (NiSource Gas Distribution, Inc.), or the system consolidated (NiSource Inc.) in its claim.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-022:

To the extent not provided in SDR III-A.13, supply projected capital requirements and sources of the filing utility, its parent and system--consolidated--for the test year and each of three (3) comparable future years.

Response:

Please see GAS-ROR-022 Attachment A, page 1, which provides Columbia Gas of Pennsylvania's capital requirements and sources for the test year (November 30, 2014). See GAS-ROR-022 Attachment A, page 2, which provides NiSource Inc's capital requirements and sources for December 31, 2013. The System prepares YTD cash flow statements, therefore a November 30, 2013 statement is not available.

Please refer to Exhibit No. 405, for the projected capital requirements and sources of the filing utility and its system for the three comparable future years.

COLUMBIA GAS OF PENNSYLVANIA, INC.
53.53 II. RATE OF RETURN
A. ALL Utilities

USES OF FUNDS	Test Year November 30, 2014 000's
Constructions	$211,728
Allowance for Funds Used During Contruction	356
Debt Retirement and Redemption	0
Other Investing Activities	0
Common Dividends	0
Total Funds Required	212,084
SOURCES OF FUNDS	
Internal Sources	
Net Income	$63,144
Depreciation	40,991
Deferred Taxes	14,662
OPEB	(6,303)
Retirement Income Plan	(3,258)
Other Non-Current Assets and Liabilities	13,671
Other Regulatory Assets	394
Working Capital	(4,747)
Total Internal Sources	118,554
External Sources	
Common Stock/Additional Paid in Capital	33
Net Increase(Decrease) in Short-Term Borrowings	0
Issuance of Long-Term debt	10,000
Net Increase(Decrease) in Temporary Cash Investment	83,497
Total External Sources	93,530
Total Sources of Funds	212,084

COLUMBIA GAS OF PENNSYLVANIA, INC.
53.53 II. RATE OF RETURN
A. ALL Utilities

USES OF FUNDS	Test Year November 30, 2014 000's
Constructions	$211,728
Allowance for Funds Used During Contruction	356
Debt Retirement and Redemption	0
Other Investing Activities	0
Common Dividends	0
Total Funds Required	212,084
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Other Non-Current Assets and Liabilities	13,671
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Working Capital	(4,747)
Total Internal Sources	118,554
External Sources	
Common Stock/Additional Paid in Capital	33
Net Increase(Decrease) in Short-Term Borrowings	0
Issuance of Long-Term debt	10,000
Net Increase(Decrease) in Temporary Cash Investment	83,497
Total External Sources	93,530
Total Sources of Funds	212,084

NISOURCE, INC.
53.53 II. RATE OF RETURN
A. ALL Utilities

USES OF FUNDS	December 31, 2013 *in millions*
Constructions	1,879.9
Allowance for Funds Used During Contruction	18.5
Debt Retirement and Redemption	514.1
Retirement of Preferred Stock	0.0
Common Dividends	305.9
Acquisition of Treasury Stock	8.1
Other Investing Activities	130.2
Total Funds Required	2,856.7
SOURCES OF FUNDS	
Internal Sources	
Net Income	532.1
Depreciation	577.3
Deferred Taxes	287.4
Other Cash Flow From Operations	(6.8)
Working Capital	55.3
Total Internal Sources	1,445.3
External Sources	
Common Stock	43.7
Net Increase(Decrease) in Short-Term Borrowings	60.1
Issuance of Long-term Debt	1,307.6
Sale of Assets	0.0
Total External Sources	1,411.4
Total Sources of Funds	2,856.7

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-023:

To the extent not provided elsewhere, supply financial data of Company and/or parent for the last five (5) years.

a. Times interest earned ratio – pre and post tax basis.

b. Preferred stock dividend coverage ratio – post tax basis.

c. Times fixed charges earned ratio – pre tax basis.

d. Dividend payout ratio.

e. AFUDC as a percent of earnings available for common equity.

f. Construction work in progress as a percent of net utility plant.

g. Effective income tax rate.

h. Internal cash generations as a percent of total capital requirements.

Response:

Please see GAS-ROR-023 Attachment A, page 1 for Company financial data and page 2 for parent financial data.

COLUMBIA GAS OF PENNSYLVANIA, INC.
Standard Data Request - Rate of Return
SDR No. 23 - Exhibit

a. Times Interest earned ratio -- pre and post tax basis.

	2009	2010	2011	2012	2013
Pre-tax	3.29	3.67	2.89	3.36	4.20
Post-tax	2.48	4.04	3.04	3.20	3.47

b. Preferred stock dividend coverage ratio -- post tax basis.
The Company has no preferred stock outstanding.

c. Time fixed charges earned ratio -- post tax basis.

2009	2010	2011	2012	2013
4.49	3.64	3.22	3.37	4.23

d. Dividend payout ratio.

2009	2010	2011	2012	2013
0.74	0.63	0.12	0.06	0.14

e. AFUDC as earnings available for common equity.

2009	2010	2011	2012	2013
1.00%	0.30%	0.40%	0.70%	0.73%

f. Construction work in progress as a percent of net utility plant.

2009	2010	2011	2012	2013
0.18%	1.29%	1.85%	1.21%	2.22%

g. Effective income tax rate (1)

2009	2010	2011	2012	2013
35.06%	-13.67%	-7.74%	6.74%	22.72%

h. Internal cash generations as a percent of total capital requirements.

2009	2010	2011	2012	2013
139.50%	45.90%	49.20%	86.83%	52.05%

(1) Effective income tax rates are low for the more recent years due to the flow through treatment of repairs and the amortization of the tax refund due to repairs.

NiSource Inc.
Standard Data Request - Rate of Return
SDR No. 23 - Exhibit

a. Times Interest earned ratio -- pre and post tax basis.

	2009	2010	2011	2012	2013
Pre-tax	1.88	2.11	2.13	2.30	2.54
Post-tax	2.29	3.04	3.46	4.67	6.32

b. Preferred stock dividend coverage ratio -- post tax basis.

2009	2010	2011	2012	2013
0.00%	0.00%	0.00%	0.00%	0.00%

NOTE: All outstanding cumulative preferred stock was redeemed in 2006.

c. Time fixed charges earned ratio -- post tax basis.

2009	2010	2011	2012	2013
1.91	2.00	2.11	2.38	2.63

d. Dividend payout ratio.

2009	2010	2011	2012	2013
1.16	0.88	0.86	0.66	0.57

e. AFUDC as earnings available for common equity.

2009	2010	2011	2012	2013
2.34%	-4.38%	-6.19%	-8.50%	3.77%

f. Construction work in progress as a percent of net utility plant.

2009	2010	2011	2012	2013
2.79%	2.41%	3.32%	5.83%	5.19%

g. Effective income tax rate.

2009	2010	2011	2012	2013
41.76%	32.45%	34.96%	34.42%	34.79%

h. Internal cash generations as a percent of total capital requirements.

2009	2010	2011	2012	2013
119.73%	103.67%	66.80%	66.57%	58.44%