Morgan Stanley

July 19, 2011

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Regulatory Initiatives Receive a Boost

NI's strategic plan to restore earnings power across its operations and specifically in its electric utilities received a vote of support with today's NIPSCO settlement filing. While the settlement still needs approval from the State of Indiana's Utility Regulatory Commission, we see it as both a positive catalyst for the stock and a fair and reasonable (potential) conclusion for NI and its customers.

What's new: NI (through NIPSCO) reached a collaborative settlement on its November 2010 rate case with its industrial customers and a coalition of northern Indiana Municipalities. The settlement still requires regulatory review by Indiana's utilities commission, and as a result of the mutually agreeable nature of the settlement, we believe that it has a strong likelihood of commission approval (expected in 1Q12). For residential customers, the settlement calls for a base rate increase limit of 4.5% (from ~8% in the original filing request). For industrial customers, expanded interruptible service would provide them with the ability to reduce or shift energy use.

What's the impact. We see an approved settlement resulting in an ROE to NI of a modest ~10.2%. On an EBIT basis we believe that this could translate into a $35m - $45m, which is below the $65m - $75m anticipated at the time of the original filing. We are adjusting our EPS estimates for 2012/2013 a bit higher as we incorporate the full potential of the settlement into our numbers.

What's Next: Execution of $1+b capex plan. NI capital expenditures will focus on a broad array of projects including infrastructure modernization within its gas distribution business, environmental investments and trackers, and infrastructure expansions in the Marcellus within its gas transmission and storage businesses. We believe NI will accomplish its goal of sustainable long-term earnings growth of 3-5% annually, and deliver earnings near the high end of its initial guidance range of $1.25 – 1.35 per share for 2011E.

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Key Ratios and Statistics

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

Price target	$21.00
Shr price, close (Jul 18, 2011)	$20.26
Mkt cap, curr (mm)	$5,799
52-Week Range	$20.67-15.57

Fiscal Year ending	12/10	12/11e	12/12e	12/13e
ModelWare EPS ($)	1.20	1.36	1.51	1.56
Prior ModelWare EPS ($)	-	1.36	1.50	1.55
P/E	14.7	14.8	13.4	13.0
Consensus EPS ($)§	1.22	1.34	1.45	1.50
EV/EBITDA	8.7	8.9	8.4	8.2
EBITDA ($mm)	1,514	1,535	1,624	1,664
Div yld (%)	5.2	4.5	4.7	4.8
Div per shr ($)	0.92	0.92	0.95	0.98
Net debt ($mm)	8,064	7,673	7,597	7,623
Shrs out, diluted, avg (mm)	283	297	303	303

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

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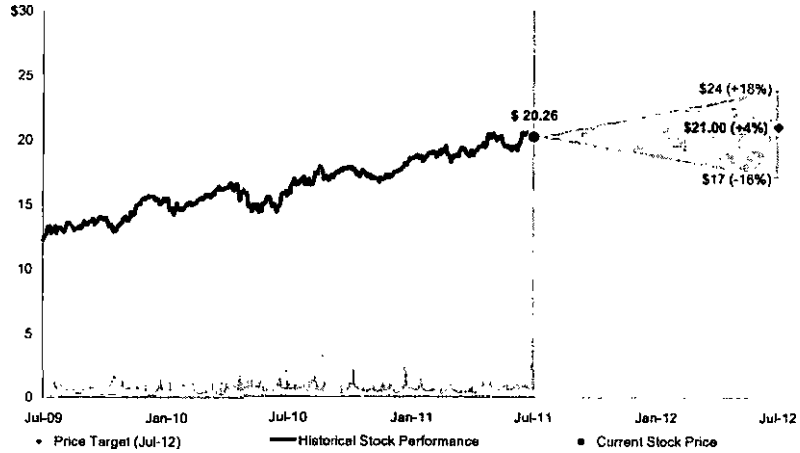
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July 19, 2011
NiSource, Inc.

NiSource (NI, $20, Equal-weight, Price Target $21)

Risk-Reward View: Marcellus Midstream and Regulated Utilities



Source: FactSet; Morgan Stanley Research

Price Target $21		Derived from base case average of four valuation methodologies
Bull Case $24	9.5x GT&S '11e EBITDA, 8.5x Electric EBITDA	**Increasing Marcellus market share, and utilities outperform.** NI gains larger market share than its anticipated 25% from new production, fostering additional capital spend in the GT&S segment. Regulated utilities restore earnings power sooner than expected and earn ROEs at allowable rates.
Base Case $21	9x GT&S '11e EBITDA, 7.5x 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, coupled with fair rate case outcomes.
Bear Case $17	7.0x GT&S '11e EBITDA, 6.0x 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. Utility rate case outcomes prove unfavorable.

Sum-of-the-Parts Breakdown (see Appendix for details)

NiSource Inc.	Value ($ m)	$/Share
Gas Distribution	$4,901	$18
Gas Transmission & Storage	5,505	20
Electric Utility	3,750	13
Value per Share	**$14,156**	**$51**
Net Debt	(7,374)	(26)
Net Equity Value	**$6,782**	**$24**
Shares Outstanding (in mm)		280

Source: Morgan Stanley Research

Why Equal-weight?

- Near-term headwinds associated with restoring earnings power at regulated utilities segments (e.g. successful rate case outcomes and earning ROEs that are closer to the allowable rate).
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus provide exceptional long-term value.
- Expect earnings uplift from recovery in business units to pick up in 2012.

Key Value Drivers

- Executing Marcellus midstream projects on time and below budget (targeting $200m of projects per year over the next 3-4 years).
- Execution on its regulatory agenda (e.g., filing rate cases, operational improvement, implementing trackers / cost recovery mechanisms).
- Stable and predictable dividend.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies
- Announcement of additional Marcellus project or acquisition beyond those included in guidance (e.g., Renovo to Corning expansion).

Where We Could Be Wrong

- Regulatory risks associated with Marcellus drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

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July 19, 2011
NiSource, Inc.

Exhibit 1
NI Income Statement

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E
Net Revenues					
Gas Distribution	3,103,100	3,610,396	3,980,719	4,102,816	4,228,631
Gas Transportation and Storage	1,261,300	1,121,946	1,113,435	1,143,871	1,176,770
Electric	1,374,900	1,539,139	1,676,555	1,744,335	1,814,857
Other	78,600	30,800	-	-	-
Total Net Revenues	**5,817,900**	**6,302,281**	**6,770,709**	**6,991,023**	**7,220,258**
Operating Costs					
Cost of Sales	2,379,200	2,649,453	2,837,821	2,936,367	3,032,296
Operation and maintenance	1,655,700	1,830,311	2,005,464	2,075,236	2,143,718
Depreciation and amortization	596,300	536,752	542,500	556,186	570,216
Other taxes	284,400	299,849	315,640	327,739	336,893
Total Operating Costs	**4,915,600**	**5,316,365**	**5,701,425**	**5,895,528**	**6,083,122**
Equity Earnings (Loss) in Uncon. Affiliates	**15,000**	**12,090**	**12,395**	**12,708**	**13,029**
EBIT	**917,300**	**998,006**	**1,081,679**	**1,108,203**	**1,150,164**
EBITDA	**1,513,600**	**1,534,758**	**1,624,180**	**1,664,388**	**1,720,380**
Other income					
Interest expense, net	(392,200)	(376,069)	(381,692)	(381,692)	(381,692)
Other income	3,800	13,200	13,200	13,200	13,200
Inc. from continuing operations bef inc. taxes	**528,900**	**635,137**	**713,187**	**739,711**	**781,672**
Income tax (provision)	189,300	229,751	256,378	267,009	281,559
Operating Net income (Loss)	**339,600**	**405,386**	**456,809**	**472,701**	**500,113**
Net Income per Share (Operating)	**$1.20**	**$1.36**	**$1.51**	**$1.56**	**$1.65**
Net Income per Share (GAAP)	**$1.04**	**$1.36**	**$1.51**	**$1.56**	**$1.65**
Weighted Avg Diluted Units Outstanding	282,600	297,121	303,182	303,182	303,182
Dividends per share	0.92	0.92	0.95	0.98	1.01

Source: Company data, Morgan Stanley Research

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July 19, 2011
NiSource, Inc.

Exhibit 2
NI Operating Data

	2010	2011E	2012E	2013E	2014E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	258.1	265.2	270.5	274.6	278.7
Commercial	166.8	174.6	178.1	180.7	183.4
Industrial	386.0	416.8	425.2	431.6	438.0
Off System	71.9	76.0	77.5	78.6	79.8
Other	0.9	1.2	1.2	1.2	1.2
Total Sales and Transports	**883.7**	**933.8**	**952.4**	**966.7**	**981.2**
Weather Adjustment	5.2	(29.2)	(29.2)	(29.2)	(29.2)
Sales and Transport Vols — Excluding Weather	**888.9**	**904.6**	**923.2**	**937.5**	**952.0**
y/y change	*6.8%*	*1.8%*	*2.1%*	*1.5%*	*1.5%*
Sales Price ($ / Dth)	$4.14	$4.23	$4.31	$4.38	$4.44
y/y change	*-11.7%*	*2.2%*	*2.0%*	*1.5%*	*1.5%*
COGS Price ($ / Dth)	$2.32	$2.36	$2.41	$2.44	$2.48
y/y change	*-15.6%*	*1.8%*	*1.7%*	*1.6%*	*1.4%*
Gross Margin ($ / Dth)	$1.81	$1.86	$1.91	$1.93	$1.96
y/y change	*-6.1%*	*2.7%*	*2.3%*	*1.3%*	*1.6%*
GAS TRANSMISSION & STORAGE					
Throughput (MMDth):					
Columbia Transmission	1,092.4	1,166.7	1,248.4	1,273.4	1,298.9
Columbia Gulf	848.4	921.8	967.9	987.2	1,007.0
Crossroads Gas Pipeline	25.4	23.3	24.4	24.9	25.4
Total throughput	**1,966.2**	**2,111.8**	**2,240.7**	**2,285.5**	**2,331.2**
Intrasegment eliminations	(568.7)	(577.2)	(634.7)	(643.3)	(651.2)
Total third-party throughput	**1,397.5**	**1,534.6**	**1,606.0**	**1,642.2**	**1,680.1**
y/y change	*0.4%*	*9.8%*	*4.7%*	*2.3%*	*2.3%*
Tariff ($ / Dth)	$0.52	$0.52	$0.54	$0.55	$0.55
y/y change	*0.1%*	*0.4%*	*3.8%*	*1.0%*	*1.1%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,625.6	3,693.9	3,878.6	3,975.6	4,075.0
Commercial	3,919.9	3,997.1	4,396.8	4,506.7	4,619.3
Industrial	8,459.0	9,009.9	9,801.3	10,046.3	10,297.5
Wholesale	817.1	797.1	837.0	857.9	879.4
Other	186.4	197.1	203.0	209.1	215.3
Total sales	**17,008.0**	**17,695.0**	**19,116.6**	**19,595.6**	**20,086.5**
Weather Adjustment	(500.2)	(17.5)	-	-	-
Total sales volumes — Adj. for weather impacts	**16,507.8**	**17,677.5**	**19,116.6**	**19,595.6**	**20,086.5**
y/y change	*4.0%*	*7.1%*	*8.1%*	*2.5%*	*2.5%*
Revenue ($ / Gigawatt hour)	$83.78	$83.94	$87.70	$89.02	$90.35
y/y change	*6.1%*	*0.2%*	*4.5%*	*1.5%*	*1.5%*
COGS ($ / Gigawatt hour)	$30.80	$31.29	$32.28	$32.89	$33.45
y/y change	*7.1%*	*1.6%*	*3.2%*	*1.9%*	*1.7%*
Gross Margin ($ / Gigawatt hour)	$52.99	$52.65	$55.42	$56.12	$56.90
y/y change	*5.6%*	*-0.6%*	*5.3%*	*1.3%*	*1.4%*

Source: Company data, Morgan Stanley Research

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July 19, 2011
NiSource, Inc.

Exhibit 3

NI Balance Sheet

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E
ASSETS					
Cash and cash equivalents	9,200	220,980	296,689	270,741	297,791
Restricted cash	202,900	164,900	164,900	164,900	164,900
Accounts receivable	1,079,300	849,540	912,519	919,354	960,579
Income tax receivable	99,000	20,400	20,400	20,400	20,400
Gas inventory	298,200	383,800	436,436	416,276	440,470
Regulatory assets	151,800	112,600	112,600	112,600	112,600
Other	120,800	119,700	119,700	119,700	119,700
Total Current Assets	**2,448,900**	**2,232,320**	**2,423,644**	**2,384,371**	**2,476,840**
Net Property, Plant and Equipment	**11,097,000**	**11,370,948**	**11,728,447**	**12,063,262**	**12,357,316**
Unconsolidated affiliates	200,900	202,600	202,600	202,600	202,600
Other investments	139,700	136,300	136,300	136,300	136,300
Price risk management assets	240,300	188,300	188,300	188,300	188,300
Regulatory assets	1,650,400	1,661,200	1,661,200	1,661,200	1,661,200
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	308,600	305,900	305,900	305,900	305,900
Deferred charges, Postretiremen, other	167,800	179,100	179,100	179,100	179,100
TOTAL ASSETS	**19,938,800**	**19,956,267**	**20,505,092**	**20,800,633**	**21,187,156**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	34,200	36,400	36,400	36,400	36,400
Short-term borrowings	1,382,500	1,263,000	1,263,000	1,263,000	1,263,000
Accounts payable	581,800	515,073	584,395	563,805	592,424
Dividends payable	100	64,500	64,500	64,500	64,500
Customer deposits and credits	318,100	181,600	181,600	181,600	181,600
Taxes accrued	221,100	244,400	244,400	244,400	244,400
Interest accrued	114,400	61,200	61,200	61,200	61,200
Price risk management liabilities	173,900	146,100	146,100	146,100	146,100
Exchange gas payable	266,100	139,400	139,400	139,400	139,400
Deferred revenue	6,800	7,800	7,800	7,800	7,800
Regulatory liabilities	92,900	87,400	87,400	87,400	87,400
Acc liab for post-retirement / -employment benefits	23,300	23,300	23,300	23,300	23,300
Other accruals	336,400	249,200	249,200	249,200	249,200
Total Current Liabilities	**3,649,400**	**3,181,573**	**3,250,895**	**3,230,305**	**3,258,924**
Long-term debt, excl amounts due within one year	5,936,100	5,927,600	5,927,600	5,927,600	5,927,600
Price risk management liabilities	181,600	135,500	135,500	135,500	135,500
Deferred income taxes	2,209,700	2,340,200	2,340,200	2,340,200	2,340,200
Deferred inc. taxes, credits, other	102,600	104,900	104,900	104,900	104,900
Acc liability for post-retirement/-employment benefits	1,039,600	944,700	944,700	944,700	944,700
Regulatory liabilities and other removal costs	1,595,800	1,612,000	1,612,000	1,612,000	1,612,000
Asset retirement obligations	138,800	140,100	140,100	140,100	140,100
Other noncurrent liabilities	162,000	163,400	163,400	163,400	163,400
Total Other Liabilities and Deferred Credits	**11,366,200**	**11,368,400**	**11,368,400**	**11,368,400**	**11,368,400**
Common stock	2,800	2,800	2,800	2,800	2,800
Additional paid-in capital	4,103,900	4,320,100	4,420,100	4,420,100	4,420,100
Retained earnings	901,800	975,963	1,146,195	1,322,982	1,518,303
Treasury stock	(57,900)	(30,200)	(30,200)	(30,200)	(30,200)
Accumulated other comprehensive loss	(27,400)	137,631	346,902	486,246	648,829
Total Common Stockholders' Equity	**4,923,200**	**5,406,295**	**5,885,797**	**6,201,928**	**6,559,833**
TOTAL CAPITALIZATION & LIABILITIES	**19,938,800**	**19,956,267**	**20,505,092**	**20,800,633**	**21,187,156**
CONSOLIDATED DEBT METRICS					
Average Total Debt	7,070,100	7,289,900	7,227,000	7,227,000	7,227,000
Average Net Debt	7,057,300	7,174,810	6,968,166	6,943,285	6,942,734
Net Debt/ Total Book Capitalization	59.1%	58.1%	55.2%	53.5%	52.1%
Average Debt/ EBITDA	4.7x	4.7x	4.4x	4.3x	4.2x
Average Interest Rate	5.5%	5.2%	5.3%	5.3%	5.3%

Source: Company data, Morgan Stanley Research

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July 19, 2011
NiSource, Inc.

Exhibit 4

NI Cash Flow Statement

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E
Cash from Operating Activities					
Net Income	292,000	405,786	456,809	472,701	500,113
Debt: Gain Early Extinguishment / Amort Disc.+Premium	107,000	-	-	-	-
Depreciation and Amortization	596,300	536,752	542,500	556,186	570,216
Net Changes in Price Risk Mgmt A / L	(5,500)	14,300	-	-	-
Deferred: Inc. Tax/Credits; Revenues	179,700	100,100	-	-	-
Stock Compensation Expense	30,900	7,800	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	2,000	700	-	-	-
Income from Unconsolidated Affiliates	(14,800)	(3,100)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	2,600	(15,100)	-	-	-
AFUDC Equity	(6,100)	(1,400)	-	-	-
Dist. of Earnings Received from Equity Investee	12,900	1,800	-	-	-
Other	(55,000)	-	-	-	-
Changes in Assets and Liabilities:	**(419,800)**	**(30,267)**	**(46,293)**	**(7,265)**	**(36,800)**
Net cash from operating activities	**722,200**	**1,017,371**	**953,016**	**1,021,622**	**1,033,529**
Cash from Investing Activities					
Capital Expenditures	(803,800)	(837,600)	(900,000)	(891,000)	(864,270)
Insurance Recoveries	5,000	-	-	-	-
Proceeds from Disposition of Assets	500	5,500	-	-	-
Restricted Cash Deposits (Borrowings)	(28,200)	38,000	-	-	-
Contributions to Equity Investments	(64,100)	-	-	-	-
Other Investing Activities	(53,100)	(9,200)	-	-	-
Net cash from investing activities	**(943,700)**	**(803,300)**	**(900,000)**	**(891,000)**	**(864,270)**
Cash from Financing Activities					
Issuance of Long-Term Debt	250,000	(2,800)	-	-	-
Retirement/Repurchase of Long-Term Debt	(977,700)	(8,200)	-	-	-
Change in Short-Term Borrowings, Net	1,279,500	74,831	209,271	139,344	162,583
Issuance of Common Stock	14,400	203,700	100,000	-	-
Acquisition of Treasury Stock	(1,400)	(2,700)	-	-	-
Dividends Paid - Common Stock	(255,600)	(267,123)	(286,577)	(295,914)	(304,791)
Other	(94,900)	-	-	-	-
Net cash from financing activities	**214,300**	**(2,291)**	**22,693**	**(156,569)**	**(142,208)**
Net change in cash	**(7,200)**	**211,780**	**75,709**	**(25,948)**	**27,050**
Cash at beginning of period	**16,400**	**9,200**	**220,980**	**296,689**	**270,741**
Cash at end of period	**9,200**	**220,980**	**296,689**	**270,741**	**297,791**

Source: Company data, Morgan Stanley Research

Exhibit 5
NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$4,901	**$18**
Gas Transmission & Storage	5505	**$20**
Electric Utility	3750	**$13**
Value	**$14,156**	**$51**
Net Debt	**(7,374)**	**(26)**
Net Equity Value	**$6,782**	**$24**
Shares Outstanding (in m)		280

GAS DISTRIBUTION	
Forward EBITDA (2012E)	$613
Forward multiple	8.0x
Enterprise value	**$4,901**

GAS TRANSMISSION & STORAGE	
Forward EBITDA (2012E)	$612
Forward multiple	9.0x
Enterprise value	**$5,505**

ELECTRIC UTILITY	
Forward EBITDA (2012E)	$500
Forward multiple	7.5x
Enterprise value	**$3,750**

Source: Company data, Morgan Stanley Research

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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.

Disclosure Section

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Global Stock Ratings Distribution

(as of June 30, 2011)

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Morgan Stanley

MORGAN STANLEY RESEARCH

July 19, 2011
NiSource, Inc.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1138**	**41%**	**470**	**49%**	**41%**
Equal-weight/Hold	**1143**	**41%**	**365**	**38%**	**32%**
Not-Rated/Hold	**117**	**4%**	**19**	**2%**	**16%**
Underweight/Sell	**389**	**14%**	**96**	**10%**	**25%**
Total	**2,787**		**950**		

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.

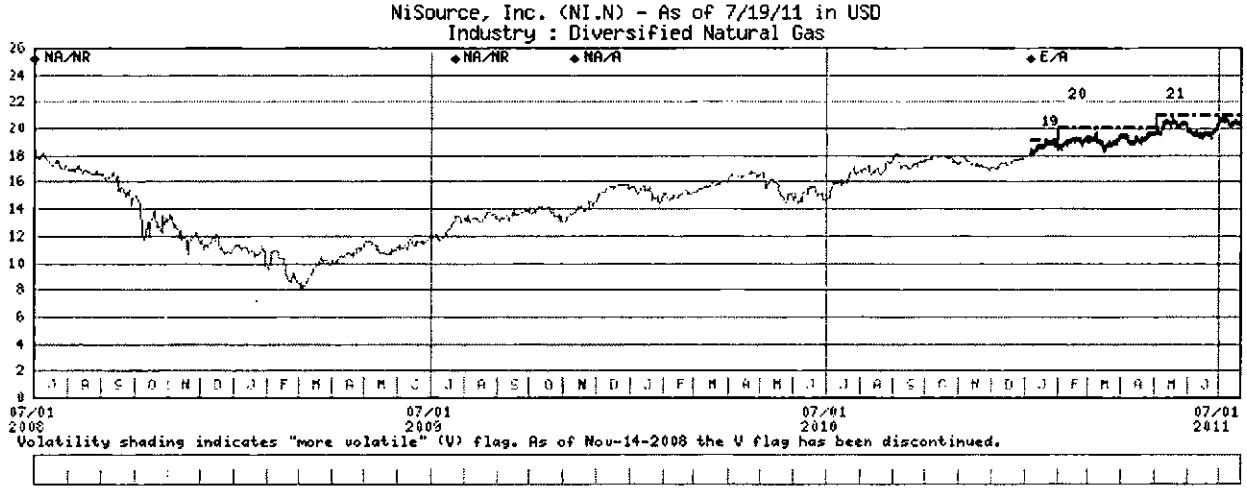
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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Attractive (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)



Stock Rating History: 7/1/08 : NA/NR; 7/23/09 : NA/NR; 11/10/09 : NA/A; 1/6/11 : E/A
Price Target History: 6/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21

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 19, 2011
NiSource, Inc.

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MORGAN STANLEY RESEARCH

July 19, 2011
NiSource, Inc.

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United States	United Kingdom	Japan	Hong Kong
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Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (07/19/2011)
Stephen J. Maresca, CFA		
El Paso Corp. (EP.N)	O (05/10/2010)	$20.23
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$22.24
National Fuel Gas Co (NFG.N)	O (01/06/2011)	$72.25
NiSource, Inc. (NI.N)	E (01/06/2011)	$20.71
Oneok Inc. (OKE.N)	E (10/29/2010)	$74.84
Questar Corp. (STR.N)	U (10/29/2010)	$18.2
Southern Union Company (SUG.N)	E (11/10/2009)	$44.34
Spectra Energy Corp. (SE.N)	E (11/10/2009)	$27.35
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$30.64

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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Article



Tuesday, July 19, 2011 12:09 PM ET RRA

UPDATE: RRAlert--Parties file settlement in Northern Indiana Public Service's electric rate proceeding

By Russell Ernst

On July 18, Northern Indiana Public Service (NIPSCO), the Indiana Office of Utility Consumer Counsel, the NIPSCO Industrial Group, NLMK Indiana (a steel mill), and the Indiana Municipal Utilities Group filed a settlement in NIPSCO's pending electric base rate proceeding. It appears that the settlement calls for a $6.9 million (0.5% of test year revenues) rate increase premised upon a 10.2% return on equity (46.53% of a regulatory capital structure) and a 6.98% return on a $2.7 billion original-cost rate base. (Although the settlement does not explicitly state the amount of the agreed-upon increase, the settlement does state that the stipulated increase is a $68.9 million downward adjustment to the company's original $75.7 million requested increase.) The settlement specifies that NIPSCO would reflect, in its statutory quarterly "earnings test" filings, an authorized $188.9 million level of net operating income (NOI), and that NIPSCO's "earnings bank" utilized in these filings would be reset to $200 million. The settlement specifies that NIPSCO is to utilize tracking mechanisms for incremental variations in certain revenues and costs associated with participation in the Midwest Independent System Operator (MISO) regional transmission organization, and for incremental changes in purchased capacity costs; these trackers had been approved by the URC in 2010 in a separate proceeding (see below). The parties state that the stipulated cost allocation results in "fair and reasonable rates and charges." The parties had reached an agreement-in-principle on July 12, and request that the Indiana Utility Regulatory Commission (URC) render a decision by Dec. 31, 2011.

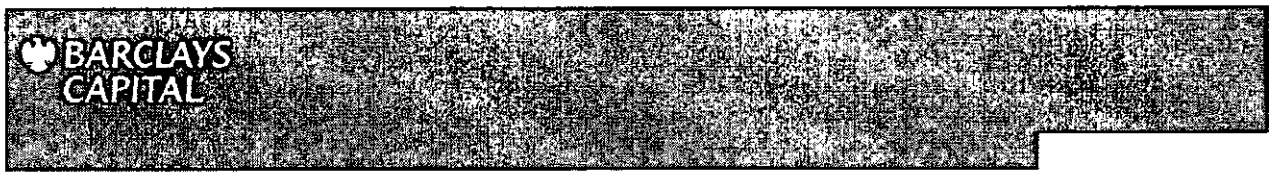
We note that although not an issue in this case, but coincident with a URC order in this proceeding, NIPSCO is to realize an approximate $58 million revenue increase related to the expiration of an existing customer credit. In addition, the company is to realize an incremental $33 million revenue increase related to the expiration of certain industrial customer discounts.

This proceeding (Cause No. 43969) was initiated on Nov. 19, 2010, when NIPSCO, a subsidiary of NiSource, filed with the URC for a $75.7 million (5.9% of test-year revenues) rate increase premised upon an 11.75% return on equity (46.53% of a regulatory capital structure) and a 7.7% return on an original-cost rate base valued at $2.71 billion for a test period ended June 30, 2010. NIPSCO cited increased operating costs, primarily higher pension expense, and reduced customer usage as necessitating the request. The company proposed to reflect, in its quarterly earnings test filings an authorized $250 million level of NOI that is higher than the level ($208 million) used to determine base rates in this case; the company stated that its earnings-test proposal reflected a $4.81 billion fair-value rate base. The company indicated that the $250 million NOI incorporated in the earnings test would have provided earnings headroom in the event that actual NOI exceeds the level utilized to determine base rates in this case. NIPSCO indicated that this rate case would resolve outstanding matters from the company's previous electric base rate case, which was decided in August 2010.

In its August 2010 rate decision for NIPSCO, the URC ordered the company to reduce base rates by $48.9 million premised upon a 9.9% return on equity (49.95% of a regulatory capital structure) and a 7.29% return on a rate base valued at $2.639 billion for a calendar-2007 test year, updated for known-and-measurable changes through Dec. 31, 2008 (Cause No. 43526). The required rate reduction did not reflect the impact of the expiration of a $55.1 million annual rate credit or the expiration of $80.1 million of discounted industrial customer contracts (see the Final Report dated 9/22/10). Certain parties to Cause No. 43526 subsequently filed for rehearing of certain rate-design-related aspects of the URC's final order. In addition, these parties formally objected to NIPSCO's compliance tariffs. Because the compliance filing has yet to be approved, the rate change incorporated in the August 2010 order has not yet been implemented. (Certain parties appealed the URC's order to the Indiana Court of Appeals; however, at the request of the parties, the Court subsequently granted a stay of its review of the matter, pending a possible resolution of the related issues by the company and the parties.)

NIPSCO indicated that its filing in the instant case was intended to address certain parties' concerns pertaining to the rate design reflected in the company's compliance tariffs in Cause 43526. The instant request incorporated certain "policy determinations" reflected in the URC's order, including: approval of a tracking mechanism to reflect incremental variations in certain revenues and costs associated with participation in MISO; and, approval of a "resource adequacy" tracker to reflect incremental changes in purchased capacity costs. NIPSCO stated that the filing reflected a "moderated" rate increase for residential customers versus the increase reflected in the company's compliance filing in the prior case.

Please note that any use of the word "we" in this article refers to the opinion of RRA, and not necessarily that of its affiliate SNL Financial. The author of this article can be reached at (201) 433-5507. This article was amended at 3:50pm on July 19, 2011, to clarify certain aspects of the company's stipulated rate increase.





19 July 2011

Daniel Ford, CFA	+1 212 526 0836	dan.ford @barcap. com	BCI, New York
Noah Hauser	+1 212 526 6203	noah.hau ser@barc ap.com	BCI, New York

This morning NiSource (NI) announced that their NIPSCO subsidiary had reached a settlement with all major parties in their Indiana rate case. The settlement calls for a revenue increase of $41M and a 10.2% authorized ROE. NI is requesting that the IURC approve the settlement by 12/31/11, for rates to become effective 1/1/12.

We view this settlement very favorably for NI as it removes the single largest overhang facing the stock. While the settlement still must be approved by the IURC, there doesn't seem to be anything immediately apparent that should derail the timeline that we see as reasonable.

Our 2012/2013 EPS estimates of $1.45/$1.50 incorporated a $37.5M increase, with rates effective 1/1/12. In our view, this increase should allow NI to earn close to their authorized ROE in 2012, while effectively closing the under-earning gap in 2013 as the final below market contracts roll off ~six months after new rates become effective.

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Mentioned Stocks (Ticker, Date, Price)
NiSource, Inc. (NI, 18-Jul-2011, USD 20.26), 2-Equal Weight/1-Positive, A/C/D/E/F/J/K/L/M/O
Valuation Methodology: Our $18 price target is premised upon our '12E EPS of $1.41 and the '12 PE multiple of 12.8x.
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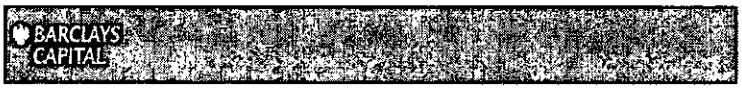
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EQUITY RESEARCH | INSTANT INSIGHTS 19 July 2011

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This morning NiSource (NI) announced that their NIPSCO subsidiary had reached a settlement with all major parties in their Indiana rate case. The settlement calls for a revenue increase of $41M and a 10.2% authorized ROE. NI is requesting that the IURC approve the settlement by 12/31/11, for rates to become effective 1/1/12.

We view this settlement very favorably for NI as it removes the single largest overhang facing the stock. While the settlement still must be approved by the IURC, there doesn't seem to be anything immediately apparent that should derail the timeline that we see as reasonable.

Our 2012/2013 EPS estimates of $1.45/$1.50 incorporated a $37.5M increase, with rates effective 1/1/12. In our view, this increase should allow NI to earn close to their authorized ROE in 2012, while effectively closing the under-earning gap in 2013 as the final below market contracts roll off ~six months after new rates become effective.

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Mentioned Stocks (Ticker, Date, Price)
NiSource, Inc. (NI, 18-Jul-2011, USD 20.26), 2-Equal Weight/1-Positive, A/C/D/E/F/J/K/L/M/O
Valuation Methodology: Our $18 price target is premised upon our '12E EPS of $1.41 and the '12 PE multiple of 12.8x.
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BMO Capital Markets

North American Pipelines

July 19, 2011

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Natural Gas IQ: NIPSCO Settlement at Last, NFG JV Update and EP's Ruby Pipeline is Pending

The Natural Gas IQ is our weekly report aimed at developments in the natural gas infrastructure space, and importantly, the implications for our pipeline equities.

At long last: NiSource reaches settlement in NIPSCO electric rate case. Reducing the risk profile of NI, this settlement is no doubt good news as it removes a five-year overhang (three years in front of the regulators), although financially it is largely in line with investor expectations we think. With a 10.2% allowed ROE and new rates that hadn't been modified since the 1980s, this settlement should provide approximately $40mm in incremental annual operating income (~53% of the original request), or $0.09 in EPS. While it will take time to fully ramp, we understand the targeted EBIT for the electric segment would ultimately rise to the $275mm range as compared to the $220mm of weather-normalized electric EBIT achieved in 2010. With unanimous consent by all counterparties—including its industrial customers—we do not anticipate any major delays in obtaining final approval by year-end. Once approved, rates should become effective immediately and any associated re-hearings from the 2008 rate case will be eliminated. NI should thus experience an earnings benefit for a full year in 2012, consistent with expectations. Settlement aside, we do see positive earnings momentum at NI from both its electric division and lower corporate (e.g., pension) expense, and see modest upside bias to both our 2Q11 and longerterm outlook.

NFG joint venture search still alive. Despite passing a self-imposed June-end deadline, NFG announced last week that discussions on potential deal terms remain ongoing having received several offers. No new deadline has been set (nor expected), but we should get additional color on timing with fiscal 3Q conference call August 5. Should NFG reach a deal, our net asset value would increase about $9/share over our $72 target for every $1,000/acre above our current $3,000 assumption. Notably, NFG also released fiscal year-end Marcellus Shale production targets of 150MMcf and 240MMcf for 2011 and 2012, respectively.

Ruby Pipeline pending. Last week, Ruby Pipeline asked the FERC for approval to commence operations no later than July 27, on target with El Paso's July time frame outlined earlier in the year. While previously removed as a stock overhang, Ruby's in-service will nonetheless serve as an important milestone by removing contingent debt from its balance sheet.

Gas Industry Snapshot*

NYMEX Natural Gas 12-Mo. Strip ($/mmbtu):	$4.76
Weekly Change	*3.8%*
YTD Change	*2.6%*
NYMEX Crude Oil 12-Mo. Strip ($/bbl):	$98.24
Weekly Change	*0.5%*
YTD Change	*4.8%*
Natural Gas Liquids (40% ethane, $/gal):	$1.39
Current $ Correlation to Spot Crude Oil	61%
Weekly Change	*-0.1%*
YTD Change	*16.6%*
Processing Frac-Spread (Gulf Coast, $/gal):	$1.00
Weekly Change	*-3.6%*
YTD Change	*19.8%*
LNG U.S. Imports (weekly avg, Bcf/d):	0.89
Weekly Change	*8.8%*
Y-o-Y Change	*6.5%*
Natural Gas in Storage (Bcf):	+84 to 2,611
Vs. this week last year	+78 to 2,829
Vs. this week 5-yr avg	+88 to 2,663
Natural Gas Directed Rig Count:	+12 to 885
Weekly Change	*1.4%*
Y-o-Y Change	*-9.9%*
Stock Performance: Weekly	
US Gas Diversifieds	2.4%
US Gas Utilities	-1.4%
Canadian Pipelines	-0.2%
Canadian Income	1.0%
UTY (Philadelphia Utility Index)	-1.1%
XOP (S&P E&P SPDR)	5.3%
OSX (Oil Service Index)	1.2%
S&P 500 (SPX)	-1.1%
10-Year US Treasury Yield	0.3%
Stock Performance: YTD	
US Gas Diversifieds	25.3%
US Gas Utilities	7.2%
Canadian Pipelines	7.8%
Canadian Income	11.3%
UTY (Philadelphia Utility Index)	4.7%
XOP (S&P E&P SPDR)	16.8%
OSX (Oil Service Index)	9.6%
S&P 500 (SPX)	3.8%
10-Year US Treasury Yield	-11.1%

All data priced as of close July 18, 2011 in US$.
Source: Bloomberg, EIA, Waterborne, Baker Hughes, Platts, Company data.

Refer to pages 23 to 24 for Important Disclosures, including Analyst's Certification.

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Company Data & Valuation

Exhibit 1: North American Pipelines Coverage Universe

Company	Ticker	FYE	Rating	Price Target	Price 07/18/11	Shares O/S (mm)	Market Cap (mm)	Enterprise Value (mm)	Indicated Dividend $	Indicated Dividend 2011E 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																
El Paso Corp	EP	Dec	OP	$23	$20.12	789.0	$15,472	$28,185	$0.04	3.8%	0.2%	72.7%	BB	14.3%	0.2%	14.5%
Energen Corp	EGN	Dec	MKT	$64	59.15	72.1	$4,263	$4,657	$0.54	14.0%	0.9%	21.0%	BBB	8.2%	0.9%	9.1%
National Fuel Gas Company	NFG	Sep	MKT	$72	70.49	82.7	$5,829	$6,802	$1.38	52.6%	2.0%	31.6%	BBB	2.1%	2.0%	4.1%
Oneok Inc.	OKE	Dec	MKT	$68	73.04	107.1	$7,920	$12,597	$2.08	68.0%	2.8%	57.3%	BBB	-8.0%	2.8%	-5.2%
Southern Union Company	SUG	Dec	MKT	$39	43.33	124.7	$5,404	$9,154	$0.60	33.0%	1.4%	59.1%	BBB-	-10.0%	1.4%	-8.6%
Spectra Energy	SE	Dec	MKT	$27	27.13	649.9	$17,632	$29,015	$1.04	58.8%	3.8%	55.6%	BBB+	-0.5%	3.8%	3.4%
Williams Cos	WMB	Dec	OP	$36	30.04	588.1	$17,668	$26,107	$0.80	53.3%	2.7%	49.2%	BBB-	19.8%	2.7%	22.5%
Average							$74,187	$116,717		40.8%	2.0%	49.5%		3.7%	2.0%	5.7%
U.S. Gas Utilities																
AGL Resources Inc	AGL	Dec	MKT	$42	40.79	78.9	$3,192	$5,296	$1.80	56.2%	4.4%	51.5%	A-	3.0%	4.4%	7.4%
CenterPoint Energy	CNP	Dec	OP	$20	19.40	425.4	$8,253	$17,206	$0.79	72.5%	4.1%	70.3%	BBB	3.1%	4.1%	7.2%
NiSource Inc	NI	Dec	MKT	$19	20.26	280.1	$5,674	$12,938	$0.92	70.9%	4.5%	58.5%	BBB-	-6.2%	4.5%	-1.7%
Questar Corp	STR	Dec	MKT	$18	17.99	177.5	$3,193	$4,378	$0.61	56.6%	3.4%	51.7%	A	0.1%	3.4%	3.4%
UGI Corp	UGI	Sep	MKT	$35	31.18	111.7	$3,481	$5,518	$1.04	45.5%	3.3%	44.9%	A-	12.3%	3.3%	15.6%
Average							$23,794	$45,338		60.3%	4.0%	55.4%		2.4%	4.0%	6.4%
Canadian Pipes*																
Enbridge Inc	ENB	Dec	MKT	$30	30.97	774.4	$23,984	$38,471	$0.98	67.9%	3.2%	63.9%	A-	-3.1%	3.2%	0.0%
TransCanada Corp.	TRP	Dec	OP	$44	40.11	702.4	$28,175	$48,979	$1.68	75.6%	4.2%	54.2%	A-	9.7%	4.2%	13.9%
Average							$52,159	$87,450		71.7%	3.7%	59.1%		3.3%	3.7%	7.0%
Canadian Income*																
AltaGas	ALA	Dec	OP	$28	26.80	83.1	$2,210	$3,337	$1.32	136.2%	5.0%	37.9%	BBB	5.3%	5.0%	10.2%
Inter Pipeline Fund	IPL	Dec	MKT	$15	16.01	258.5	$4,138	$6,864	$0.96	111.0%	6.0%	66.6%	BBB+	-6.3%	6.0%	-0.3%
Keyera	KEY	Dec	MKT	$40	43.56	70.7	$3,080	$3,566	$1.92	448.7%	4.4%	41.2%	-	-8.2%	4.4%	-3.8%
Pembina Pipeline Corp	PPL	Dec	MKT	$22	25.89	167.2	$4,330	$5,709	$1.56	261.3%	6.0%	52.5%	BBB+	-15.0%	6.0%	-9.0%
Provident	PVE	Dec	MKT	$9	8.57	269.7	$2,311	$2,762	$0.54	28.0%	6.3%	45.2%	-	5.0%	6.3%	11.3%
Valener	VNR	Sep	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Veresen	VSN	Dec	MKT	$13	13.99	161.3	$2,256	$4,072	$1.00	116.5%	7.1%	65.9%	BBB	-7.1%	7.1%	0.1%
Average							$18,325	$28,331		163.6%	6.6%	51.9%		-4.4%	5.8%	1.4%

MKT= MARKET PERFORM, OP= OUTPERFORM, UND=UNDERPERFORM, R=RESTRICTED

* All data in C$ unless otherwise indicated

Source: BMO Capital Markets estimates, Company Data.

Exhibit 2: BMO North American Pipeline Comparative Valuation - Estimates

Company	Ticker	Price 07/18/11	Dividend Yield	Operating EPS 2010A	Operating EPS 2011E	Operating EPS 2012E	Operating CFPS 2010A	Operating CFPS 2011E	Operating CFPS 2012E	EBITDA 2010A	EBITDA 2011E	EBITDA 2012E	Estimate ROE 2010A	Estimate ROE 2011E	Estimate ROE 2012E
BMO North American Pipeline Coverage Universe															
U.S. Commodity Sensitive															
El Paso Corp	EP	$20.12	0.2%	$0.99	$1.05	$1.18	$2.86	$2.70	$3.31	$3,125	$3,297	$3,562	18.0%	19.1%	21.5%
Energen Corp	EGN	59.15	0.9%	$4.38	$3.85	$3.82	$10.27	$9.67	$9.64	$745	$755	$783	14.7%	12.9%	12.8%
National Fuel Gas Company	NFG	70.49	2.0%	$2.66	$2.62	$2.76	$6.51	$6.80	$6.67	$643	$735	$773	12.1%	11.9%	12.5%
Oneok Inc.	OKE	73.94	2.8%	$3.06	$3.06	$3.35	$6.15	$5.95	$5.76	$1,355	$1,456	$1,572	13.1%	13.1%	14.3%
Southern Union Company	SUG	43.33	1.4%	$1.79	$1.82	$2.09	$4.11	$4.12	$4.39	$963	$971	$1,044	8.6%	8.8%	10.1%
Spectra Energy	SE	27.13	3.8%	$1.57	$1.77	$1.81	$2.82	$3.49	$2.94	$3,196	$3,263	$3,347	12.4%	14.0%	14.3%
Williams Cos	WMB	30.04	2.7%	$1.28	$1.50	$1.61	$4.70	$4.81	$5.10	$2,788	$3,905	$4,186	9.9%	11.7%	12.5%
Average			**2.0%**										**12.7%**	**13.1%**	**14.0%**
U.S. Utilities															
AGL Resources Inc	AGL	40.79	4.4%	$3.05	$3.20	$3.35	$6.42	$6.52	$5.95	$643	$682	$707	12.6%	13.2%	13.8%
CenterPoint Energy	CNP	19.40	4.1%	$1.00	$1.09	$1.22	$3.68	$3.66	$3.63	$2,190	$2,200	$2,287	13.0%	14.2%	15.8%
NiSource Inc	NI	20.26	4.5%	$1.22	$1.30	$1.38	$4.27	$3.72	$3.51	$1,514	$1,504	$1,612	6.8%	7.2%	7.7%
Questar Corp	STR	17.99	3.4%	$1.12	$1.08	$1.21	$2.58	$2.47	$2.45	$511	$519	$567	18.2%	17.6%	19.8%
UGI Corp.	UGI	31.18	3.3%	$2.25	$2.29	$2.59	$6.02	$5.56	$6.34	$867	$857	$932	12.2%	12.3%	14.0%
Average			**4.0%**										**12.5%**	**12.9%**	**14.2%**
Canadian Pipes*															
Enbridge Inc.	ENB	30.97	3.2%	$1.33	$1.44	$1.56	$2.83	$3.09	$3.15	$2,772	$3,298	$3,408	13.0%	14.1%	15.2%
TransCanada Corp.	TRP	40.11	4.2%	$1.97	$2.22	$2.50	$4.82	$4.96	$4.91	$3,787	$4,736	$4,923	8.8%	9.9%	11.1%
Average			**3.7%**										**10.9%**	**12.0%**	**13.2%**
Canadian Income*															
AltaGas	ALA	26.60	5.0%	$1.30	$0.96	$1.05	$2.39	$2.46	$2.55	$241	$261	$281	10.5%	7.7%	8.5%
Inter Pipeline Fund	IPL	16.01	6.0%	$0.91	$0.84	$0.98	$1.30	$1.46	$1.63	$367	$521	$617	17.6%	16.3%	19.0%
Keyera	KEY	43.56	4.4%	$1.86	$2.08	$1.89	$3.29	$2.75	$2.93	$214	$263	$257	19.0%	21.2%	19.3%
Pembina Pipeline Corp	PPL	25.89	6.0%	$1.14	$0.97	$0.98	$1.52	$1.63	$1.70	$309	$349	$377	18.5%	15.7%	15.8%
Provident	PVE	8.57	6.3%	$0.37	$0.43	$0.48	-$0.03	$0.83	$0.83	$140	$251	$279	18.1%	21.1%	23.5%
Valener	VNR	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Veresen	VSN	13.99	7.1%	$0.55	$0.60	$0.61	$1.64	$1.43	$1.46	$367	$408	$405	10.5%	11.5%	11.8%
Average			**5.8%**										**15.7%**	**15.6%**	**16.3%**

*Free Cash = Cash Flow from Operation less Total Capital Expenditures

* All Data in C$ unless otherwise indicated

** Operating cash flow less maintenance capital; shareholder cash available for dividend or growth reinvestment

MKT= MARKET PERFORM, OP= OUTPERFORM, UND=UNDERPERFORM, R=RESTRICTED

Source: BMO Capital Markets estimates, Company Data.

Exhibit 3: BMO North American Pipeline Comparative Valuation – Metrics

Company	Ticker	Institutional Held %	EPS CAGR ('09-'12)	P/E 2010A	P/E 2011E	P/E 2012E	TEV/EBITDA 2010A	TEV/EBITDA 2011E	TEV/EBITDA 2012E	P/CFPS 2010A	P/CFPS 2011E	P/CFPS 2012E	CF Reinv Yield** 2010A	CF Reinv Yield** 2011E	CF Reinv Yield** 2012E
BMO North American Pipeline Coverage Universe															
U.S. Commodity Sensitive															
El Paso Corp	EP	88%	-4.9%	20.3x	19.1x	17.0x	9.0x	8.5x	7.9x	7.0x	7.5x	6.1x	4.9%	2.8%	5.9%
Energen Corp	EGN	77%	2.7%	13.5x	15.4x	15.5x	6.5x	6.4x	6.2x	5.8x	6.1x	6.1x	9.7%	8.8%	8.7%
National Fuel Gas Company	NFG	54%	1.8%	26.6x	26.9x	25.6x	10.6x	9.2x	8.8x	10.8x	10.4x	10.6x	6.4%	5.7%	4.7%
Oneok Inc.	OKE	75%	5.7%	24.2x	24.2x	22.1x	9.3x	8.7x	8.0x	12.0x	12.4x	12.8x	5.4%	4.9%	5.6%
Southern Union Company	SUG	77%	4.8%	24.2x	23.8x	20.8x	9.5x	9.4x	8.8x	10.5x	10.5x	9.9x	5.5%	5.5%	6.4%
Spectra Energy	SE	69%	15.3%	17.3x	15.3x	15.0x	9.1x	8.9x	8.7x	9.6x	7.8x	9.2x	6.8%	8.9%	7.2%
Williams Cos	WMB	83%	19.7%	23.6x	20.0x	18.7x	22.9x	8.7x	8.2x	6.4x	6.2x	5.9x	7.2%	6.5%	7.2%
Average				**21.4x**	**20.7x**	**19.2x**	**11.0x**	**8.3x**	**7.8x**	**8.9x**	**8.7x**	**8.7x**	**6.6%**	**6.1%**	**6.5%**
U.S. Utilities															
AGL Resources Inc	AGL	67%	5.2%	13.4x	12.7x	12.2x	8.2x	7.8x	7.5x	6.3x	6.3x	6.9x	10.7%	10.8%	9.4%
CenterPoint Energy	CNP	74%	4.7%	19.5x	17.8x	16.0x	7.9x	7.8x	7.5x	5.3x	5.3x	5.3x	9.8%	10.4%	10.4%
NiSource Inc	NI	87%	11.2%	16.6x	15.6x	14.6x	6.5x	6.6x	6.0x	4.7x	5.4x	5.6x	13.8%	10.9%	10.0%
Questar Corp	STR	79%	5.8%	16.1x	16.7x	14.8x	8.6x	8.4x	7.7x	7.0x	7.3x	7.3x	9.0%	8.4%	8.4%
UGI Corp.	UGI	79%	3.2%	13.9x	13.6x	12.0x	6.4x	6.4x	5.9x	5.2x	5.6x	4.9x	10.0%	4.0%	11.3%
Average				**15.9x**	**15.3x**	**13.9x**	**7.9x**	**7.8x**	**7.3x**	**5.7x**	**6.0x**	**6.0x**	**10.7%**	**8.9%**	**9.9%**
Canadian Pipes*															
Enbridge Inc.	ENB	74%	8.7%	23.3x	21.5x	19.9x	13.0x	11.7x	11.3x	11.0x	10.0x	9.8x	6.5%	7.4%	7.8%
TransCanada Corp.	TRP	55%	7.3%	20.4x	18.0x	16.1x	12.9x	10.3x	9.9x	8.3x	8.1x	8.2x	9.8%	10.2%	10.1%
Average				**21.8x**	**19.8x**	**18.0x**	**13.4x**	**11.0x**	**10.6x**	**9.6x**	**9.0x**	**9.0x**	**8.2%**	**8.8%**	**8.9%**
Canadian Income*															
AltaGas	ALA	33%	-15.8%	20.5x	27.8x	25.3x	13.8x	12.8x	11.9x	11.1x	10.8x	10.4x	8.5%	8.8%	9.2%
Inter Pipeline Fund	IPL	16%	7.8%	17.5x	19.0x	16.3x	18.7x	13.2x	11.1x	12.3x	11.0x	9.8x	7.7%	8.6%	9.6%
Keyera	KEY	42%	-7.6%	23.4x	20.9x	23.0x	16.8x	13.6x	14.0x	13.2x	15.8x	14.8x	7.5%	6.2%	6.6%
Pembina Pipeline Corp	PPL	11%	-3.9%	22.7x	26.7x	26.5x	18.5x	16.3x	15.2x	17.0x	15.8x	15.2x	5.9%	6.3%	6.8%
Provident	PVE	23%	188.7%	23.4x	20.0x	18.0x	19.7x	11.0x	9.9x	NM	10.3x	10.3x	0.0%	8.6%	9.3%
Valener	VNR	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Veresen	VSN	21%	-0.2%	25.7x	23.4x	22.9x	11.1x	10.0x	10.1x	8.6x	9.8x	9.6x	11.5%	10.0%	10.1%
Average				**22.2x**	**23.0x**	**22.0x**	**16.4x**	**12.8x**	**12.0x**	**12.5x**	**12.3x**	**11.7x**	**8.8%**	**8.1%**	**8.6%**

Free Cash = Cash Flow from Operation less Total Capital Expenditures
* All Data in C$ unless otherwise indicated
** Operating cash flow less maintenance capital; shareholder cash available for dividend or growth reinvestment
MKT= MARKET PERFORM, OP= OUTPERFORM, UND=UNDERPERFORM, R=RESTRICTED

INDUSTRY COMPS															
Industry Comps															
U.S. Commodity Sensitive															
Average				**26.3x**	**20.3x**	**16.3x**	**11.5x**	**9.3x**	**7.9x**	**8.3x**	**11.0x**	**8.7x**			
U.S. Gas Utilities															
Average				**16.8x**	**17.2x**	**15.9x**	**8.0x**	**8.6x**	**8.4x**	**7.6x**	**9.1x**	**8.3x**			
U.S. Master Limited Partnerships															
Average				**24.8x**	**20.6x**	**18.7x**	**18.6x**	**10.6x**	**9.6x**	**12.4x**	**11.5x**	**11.0x**			
U.S. Regulated Electric Utilities															
Average				**13.8x**	**13.8x**	**13.4x**	**8.3x**	**8.0x**	**7.7x**	**6.9x**	**6.2x**	**6.1x**			
Canadian Income*															
Average				**34.1x**	**62.5x**	**65.9x**	**33.6x**	**24.1x**	**19.9x**	**27.5x**	**16.4x**	**15.0x**			
Other Canadian Pipelines & Utility*															
Average				**18.0x**	**15.5x**	**14.7x**	**18.9x**	**17.0x**	**15.9x**	**6.6x**	**4.7x**	**4.8x**			

Source: BMO Capital Markets estimates, Company Data.

Exhibit 4: Residual E&P / Midstream Valuation Assuming Fair Utility Value in SOP Analysis

2012 EBITDA Sensitivity			Current Market Implied Valuation: Commodity Segments						2011E Multiples Used for Fee Based Segments					EV/EBITDA Consolidated
			E&P				Midstream							
		Price	EV/EBITDA		EV %	Reserves	EV/EBITDA							
Company	Ticker	07/18/11	2011E	2012E	of NAV*	1P (Proved)	2011E	2012E	LDC	Pipe	Merchant	Midstream	Corp	2011E
El Paso	EP	$20.12	4.3x	4.3x	110%	$2.09			–	9.0x	–	–	5.0x	8.0x
Energen	EGN	$59.15	6.5x	6.5x	110%	$2.31			8.0x	–	–	–	–	6.7x
National Fuel	NFG	$70.49	12.7x	11.4x	111%	$6.26			7.5x	9.0x	5.0x	–	5.0x	9.8x
Williams	WMB	$30.04	1.7x	1.5x	31%	$0.47	5.0x	5.0x	–	9.0x	5.0x	7.0x	5.0x	4.6x
Spectra	SE	$27.13	–	–		–	8.1x	7.7x	8.5x	9.0x	–	7.0x	5.0x	9.4x
Southern Union	SUG	$43.33	–	–		–	27.2x	16.5x	8.0x	9.0x	–	7.0x	–	9.9x
	Average		7.2x	6.4x	71%	$3.37	13.4x	9.7x	8.0x	9.0x	5.0x	7.0x	5.0x	8.4x

2011 EBITDA Sensitivity			Current Market Implied Valuation: Commodity Segments						2010E Multiples Used for Fee Based Segments					EV/EBITDA Consolidated
			E&P				Midstream							
		Price	EV/EBITDA		EV %	Reserves	EV/EBITDA							
Company	Ticker	07/18/11	2011E	2012E	of NAV*	1P (Proved)	2011E	2012E	LDC	Pipe	Merchant	Midstream	Corp	2010E
El Paso	EP	$20.12	5.2x	5.2x	134%	$2.55			–	9.0x	–	–	5.0x	8.6x
Energen	EGN	$59.15	6.3x	6.2x	107%	$2.24			8.0x	–	–	–	–	6.6x
National Fuel	NFG	$70.49	12.4x	11.1x	108%	$6.10			7.5x	9.0x	5.0x	–	5.0x	10.2x
Williams	WMB	$30.04	1.4x	1.2x	25%	$0.38	5.0x	5.0x	–	9.0x	5.0x	7.0x	5.0x	4.9x
Spectra	SE	$27.13	–	–		–	9.4x	8.9x	8.5x	9.0x	–	7.0x	5.0x	9.7x
Southern Union	SUG	$43.33	–	–		–	30.4x	18.5x	8.0x	9.0x	–	7.0x	–	10.2x
	Average		6.9x	6.2x	66%	$3.24	14.9x	10.8x	8.0x	9.0x	5.0x	7.0x	5.0x	8.7x

BMO Large Cap E&P Universe:				
Average	8.2x	8.7x	91%	3.55
Average (ex HK & SWN)	8.1x	8.6x	90%	3.51
Range:				
High	21.7x	13.7x	148%	8.72
Median	7.6x	5.6x	88%	2.87
Low	4.2x	4.3x	56%	1.73

* NAV can include both proved and non-proved value, and thus relative percentages can be difficult to compare

Source (all Exhibits): BMO Capital Markets estimates, Company Data, Bloomberg.

Exhibit 5: N. America Pipeline Short Interest*

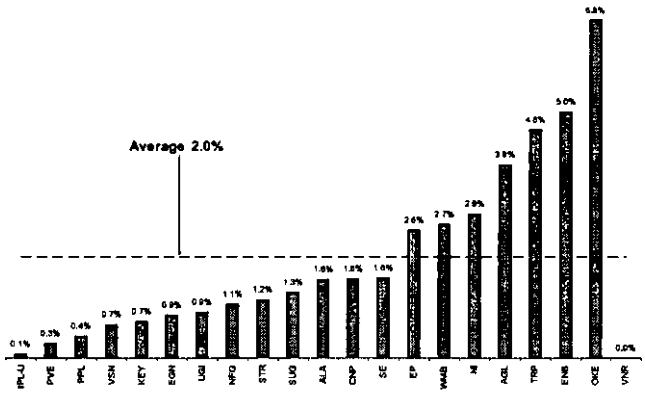


Exhibit 6: N. America Pipeline Days To Cover

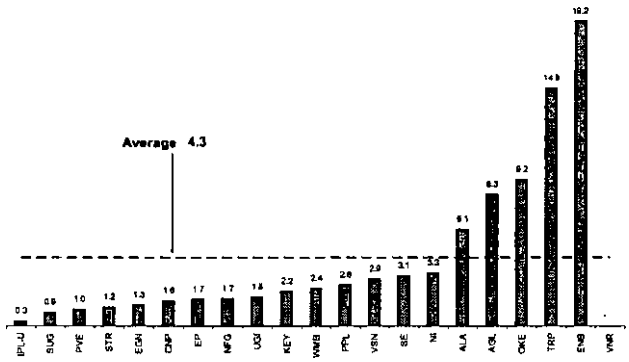


Exhibit 7: 2-Week Absolute Change in SI

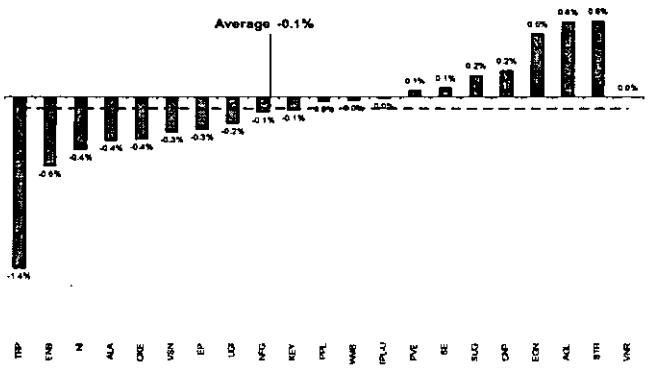


Exhibit 8: 2-Week Absolute Change in Days

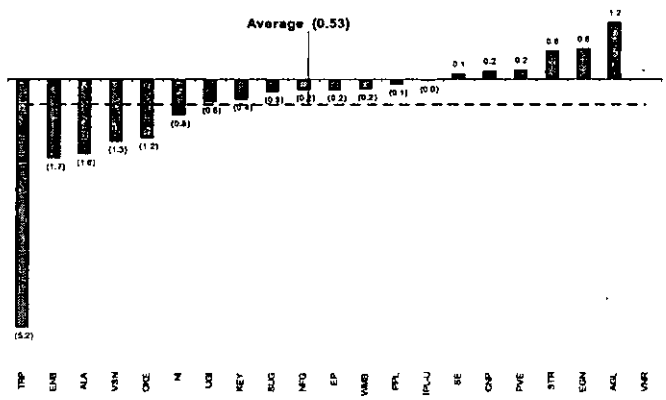


Exhibit 9: 2-Week Relative Change in SI

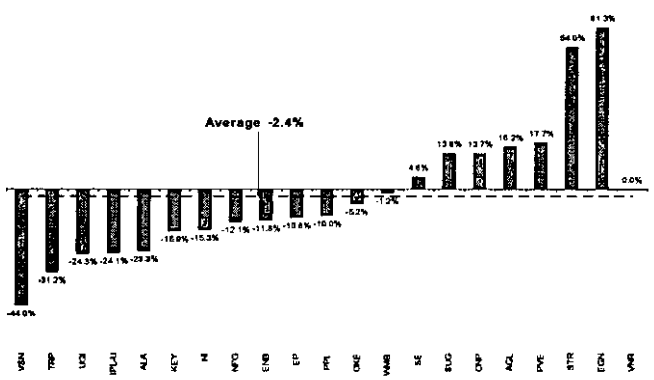
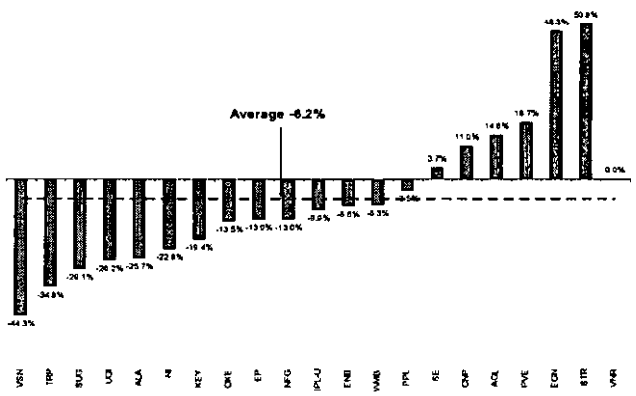


Exhibit 10: 2-Week Relative Change in Days



Source: BMO Capital Markets estimates, Bloomberg.

* Last available update: July 7, 2011. Short interest is defined as absolute short volume divided by public float.

Earnings

Exhibit 11: BMO Capital Estimates vs. Consensus

	2010A	2011E 1QA	2011E 2QE	2011E 3QE	2011E 4QE	2011E	2012E	Year-Over-Year Growth '10 vs.'11	Year-Over-Year Growth '11 vs.'12	BMO vs. Consensus 2011E	BMO vs. Consensus 2012E
U.S. Commodity Sensitive											
EP	$0.99	$0.30	$0.24	$0.24	$0.29	$1.05	$1.18	6.2%	12.4%	-5.2%	-13.2%
Consensus			*$0.24*	*$0.24*	*$0.31*	*$1.11*	*$1.36*	*12.1%*	*22.7%*		
EGN	$4.38	$1.30	$0.85	$0.69	$1.00	$3.85	$3.82	-12.0%	-0.9%	1.1%	-6.3%
Consensus			*$0.76*	*$0.72*	*$1.03*	*$3.81*	*$4.07*	*-13.0%*	*6.9%*		
NFG	$2.66	$0.70	$1.01	$0.50	$0.41	$2.62	$2.76	-1.4%	5.2%	-2.1%	-9.9%
Consensus				*$0.53*	*$0.45*	*$2.68*	*$3.06*	*0.7%*	*14.2%*		
OKE	$3.06	$1.19	$0.54	$0.45	$0.87	$3.06	$3.35	-0.1%	9.4%	-3.3%	-5.2%
Consensus			*$0.53*	*$0.54*	*$0.88*	*$3.16*	*$3.53*	*3.4%*	*11.6%*		
SUG	$1.79	$0.51	$0.36	$0.41	$0.54	$1.82	$2.09	1.5%	14.8%	-4.0%	0.1%
Consensus			*$0.39*	*$0.43*	*$0.57*	*$1.89*	*$2.09*	*5.7%*	*10.1%*		
SE	$1.57	$0.54	$0.38	$0.39	$0.45	$1.77	$1.81	12.6%	2.1%	0.4%	-2.9%
Consensus			*$0.39*	*$0.39*	*$0.46*	*$1.76*	*$1.86*	*12.2%*	*5.6%*		
WMB	$1.28	$0.36	$0.37	$0.39	$0.38	$1.50	$1.61	17.2%	7.3%	-2.7%	-3.1%
Consensus			*$0.37*	*$0.40*	*$0.37*	*$1.54*	*$1.66*	*20.5%*	*7.7%*		
U.S. Utilities											
AGL	$3.05	$1.63	$0.39	$0.24	$0.96	$3.20	$3.35	5.1%	4.6%	2.8%	2.1%
Consensus			*$0.26*	*$0.28*	*$0.93*	*$3.12*	*$3.29*	*2.2%*	*5.4%*		
CNP	$1.00	$0.34	$0.21	$0.29	$0.25	$1.09	$1.22	9.4%	11.6%	-1.3%	-0.6%
Consensus			*$0.21*	*$0.28*	*$0.27*	*$1.10*	*$1.22*	*10.9%*	*10.9%*		
NI	$1.22	$0.71	$0.13	$0.11	$0.35	$1.30	$1.38	6.4%	6.7%	-2.9%	-4.6%
Consensus			*$0.13*	*$0.08*	*$0.42*	*$1.34*	*$1.45*	*9.6%*	*8.5%*		
STR	$1.12	$0.40	$0.19	$0.16	$0.32	$1.08	$1.21	-3.8%	12.5%	-2.2%	2.2%
Consensus			*$0.20*	*$0.17*	*$0.34*	*$1.10*	*$1.19*	*-1.6%*	*7.7%*		
UGI	$2.25	$0.93	$1.37	$0.05	-$0.06	$2.29	$2.59	1.6%	13.4%	-2.3%	-0.8%
Consensus				*$0.04*	*-$0.05*	*$2.34*	*$2.61*	*3.9%*	*11.7%*		
Canadian Pipes*											
ENB	$2.66	$0.45	$0.34	$0.27	$0.39	$1.44	$1.56	8.5%	8.1%	1.2%	0.4%
Consensus			*$0.32*	*$0.28*	*$0.38*	*$1.43*	*$1.55*	*7.2%*	*9.0%*		
TRP	$1.97	$0.61	$0.50	$0.57	$0.55	$2.22	$2.50	13.0%	12.3%	-2.7%	0.9%
Consensus			*$0.54*	*$0.58*	*$0.57*	*$2.28*	*$2.47*	*16.0%*	*8.3%*		
Canadian Income*											
ALA	$1.30	$0.31	$0.18	$0.18	$0.28	$0.96	$1.05	-26.3%	9.9%	-2.3%	-12.6%
Consensus			*$0.18*	*$0.20*	*$0.31*	*$0.98*	*$1.20*	*-24.6%*	*22.8%*		
IPL	$0.91	$0.25	$0.20	$0.21	$0.18	$0.84	$0.98	-7.3%	16.4%	-9.0%	5.8%
Consensus			*$0.23*	*$0.23*	*$0.24*	*$0.93*	*$0.93*	*1.9%*	*0.2%*		
KEY	$1.86	$0.74	$0.38	$0.36	$0.60	$2.08	$1.89	11.6%	-9.0%	-8.4%	-8.2%
Consensus			*$0.44*	*$0.45*	*$0.65*	*$2.27*	*$2.06*	*21.8%*	*-9.1%*		
PPL	$1.14	$0.25	$0.23	$0.23	$0.26	$0.97	$0.98	-15.1%	0.6%	6.7%	1.3%
Consensus			*$0.21*	*$0.22*	*$0.26*	*$0.91*	*$0.96*	*-20.4%*	*5.9%*		
PVE	$0.37	$0.06	$0.08	$0.08	$0.21	$0.43	$0.48	16.7%	11.1%	20.5%	-6.4%
Consensus			*$0.06*	*$0.07*	*$0.17*	*$0.36*	*$0.51*	*-3.2%*	*43.1%*		
VNR	R	R	R	R	R	R	R	R	R	R	R
Consensus											
VSN	$0.55	$0.07	$0.14	$0.22	$0.16	$0.60	$0.61	9.5%	2.4%	6.0%	-2.1%
Consensus			*$0.15*	*$0.17*	*$0.17*	*$0.56*	*$0.62*	*3.3%*	*10.8%*		

Source: BMO Capital Markets estimates, Company Data, Bloomberg.

Exhibit 12: EPS Commodity Sensitivity

		EGN		EP		VSN		IPL		PVE		ALA		KEY		NFG		OKE		SE		SUG		WMB	
Base Case 2011 EPS	*hedged*	$3.85		$1.05		$0.60		$0.84		$0.43		$0.96		$2.08		$2.62		$3.06		$1.77		$1.62		$1.50	
NATURAL GAS																									
-$1 nat gas ($/MMBtu)	*hedged*	(0.28)	-7.2%	(0.05)	-5.1%					0.01	2.4%	0.09	-9.3%	-	0.0%	(0.20)	-7.7%	(0.02)	-0.6%			(0.06)	-3.2%	(0.06)	-5.3%
	unhedged	(0.62)	-16.4%	(0.19)	-21.8%	0.02	4.2%	0.04	4.9%	0.05	14.4%	(0.03)	-2.1%	-	0.0%	(0.35)	-13.4%	(0.02)	-0.6%	(0.00)	0.0%	(0.07)	-3.3%	(0.83)	-25.2%
+$1 nat gas ($/MMBtu)	*hedged*	0.28	7.2%	0.05	5.1%					(0.01)	-2.4%	(0.09)	-9.3%	-	0.0%	0.20	7.7%	0.02	0.6%			0.06	3.2%	0.08	5.3%
	unhedged	0.62	16.4%	0.19	21.8%	(0.02)	-4.2%	(0.04)	-5.0%	(0.05)	-14.4%	0.03	2.1%	-	0.0%	0.35	13.7%	0.02	0.6%	0.00	0.0%	0.07	3.3%	0.33	25.2%
NATURAL GAS LIQUIDS																									
-$.05 NGL ($/gal)	*hedged*	(0.02)	-0.5%	-	0.0%					-	0.0%	(0.01)	-1.0%	-	0.0%	-	0.0%	(0.02)	-0.6%			0.12	8.0%	(0.08)	-5.1%
	unhedged	(0.04)	-1.1%	-	0.0%	(0.12)	-20.0%	(0.03)	-3.5%	(0.01)	-3.2%	(0.03)	-2.1%	-	0.0%	-	0.0%	(0.02)	-0.6%	(0.04)	-2.1%	(0.03)	-1.2%	(0.07)	-5.0%
+$.05 NGL ($/gal)	*hedged*	0.02	0.5%	-	0.0%					-	0.0%	0.01	1.0%	-	0.0%	-	0.0%	0.02	0.6%			0.14	7.5%	0.06	3.9%
	unhedged	0.04	1.1%	-	0.0%	0.14	23.7%	0.02	2.5%	0.01	3.2%	0.03	2.1%	-	0.0%	-	0.0%	0.02	0.6%	0.04	2.1%	0.03	1.4%	0.07	5.5%
CRUDE OIL**																									
-$10 Oil ($/Bbl)	*hedged*	(0.20)	-5.3%	(0.05)	-4.5%					-	0.0%	(0.03)	-3.1%	(0.07)	-3.3%	(0.14)	-5.4%	(0.07)	-2.2%			(0.02)	-1.0%	0.11	7.0%
	unhedged	(0.58)	-17.2%	(0.08)	-7.3%	(0.19)	-33.1%	(0.07)	-8.4%	(0.02)	-6.9%	(0.09)	-7.5%	(0.09)	-4.4%	(0.23)	-8.7%	(0.07)	-2.5%	(0.15)	-8.7%	(0.08)	-3.9%	-	0.0%
+$10 Oil ($/Bbl)	*hedged*	0.20	5.5%	0.06	6.1%					-	0.0%	0.03	3.1%	0.07	3.3%	0.14	5.4%	0.07	2.2%			0.02	1.0%	0.11	7.0%
	unhedged	0.58	17.2%	0.08	7.3%	0.19	33.1%	0.07	8.3%	0.02	6.9%	0.09	7.5%	0.09	4.4%	0.23	9.0%	0.07	2.5%	0.15	8.7%	0.08	3.9%	-	0.0%

*All unhedged positions shown assume BMO 2011 commodity forecast of $4.25 nat gas, $92 oil and $1.16 NGLs.
**Crude sensitivities also flow through NGL prices, doubling impact of price changes

Source: BMO Capital Markets estimates, Company Data, Bloomberg.

Exhibit 13: Consensus EPS Revisions – Trailing 4 Weeks

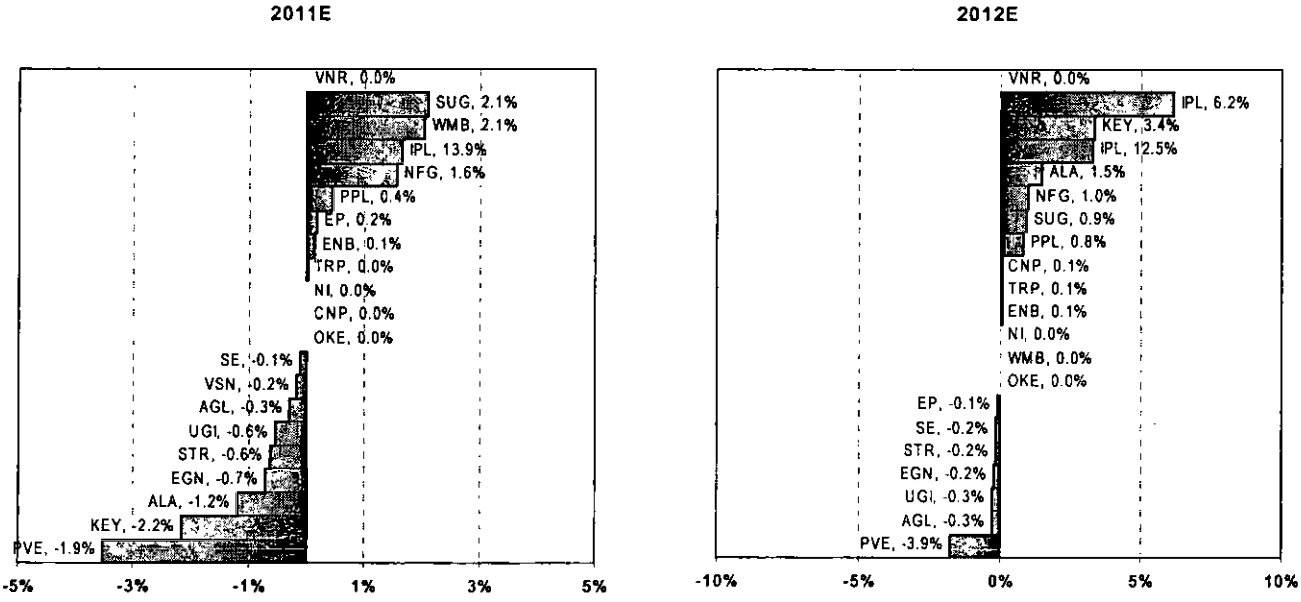
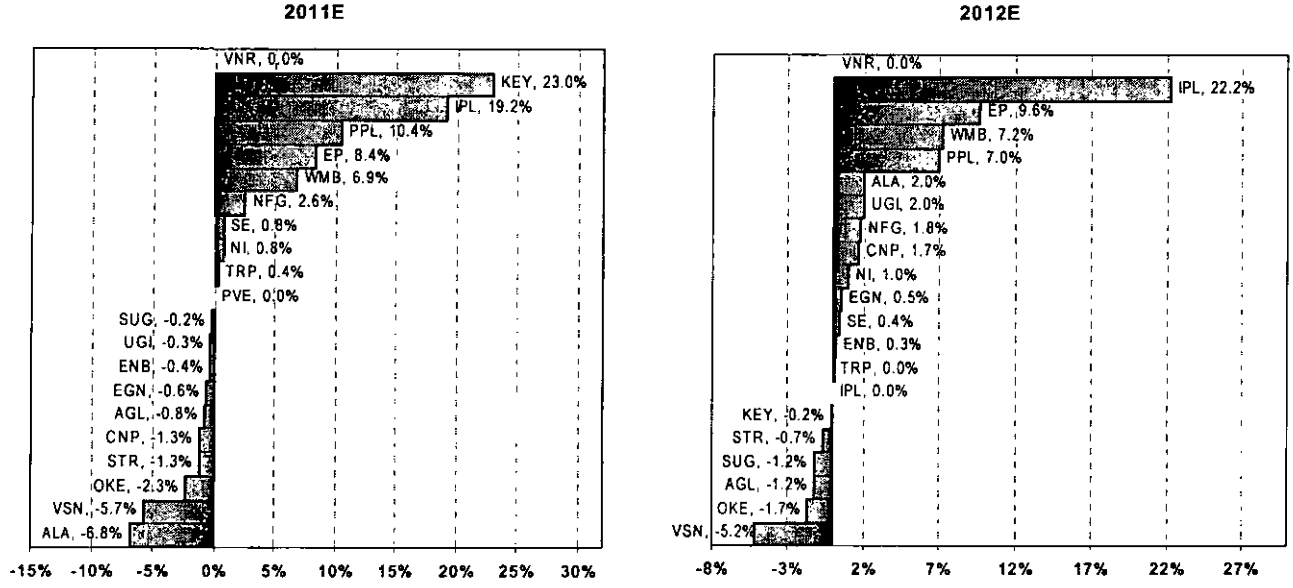


Exhibit 14: Consensus EPS Revisions – Trailing 3 Months



Source (all Exhibits): BMO Capital Markets estimates, Company Data, Bloomberg.

Stock Performance

Exhibit 15: 5-Day Performance (July 12 thru July 18)

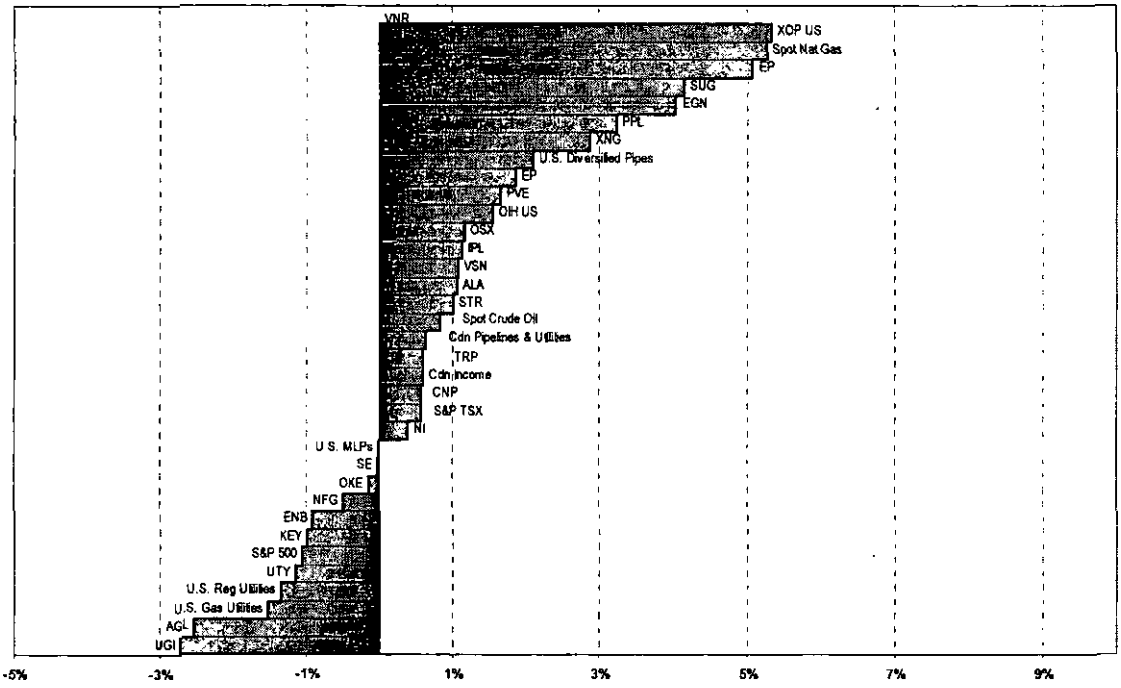
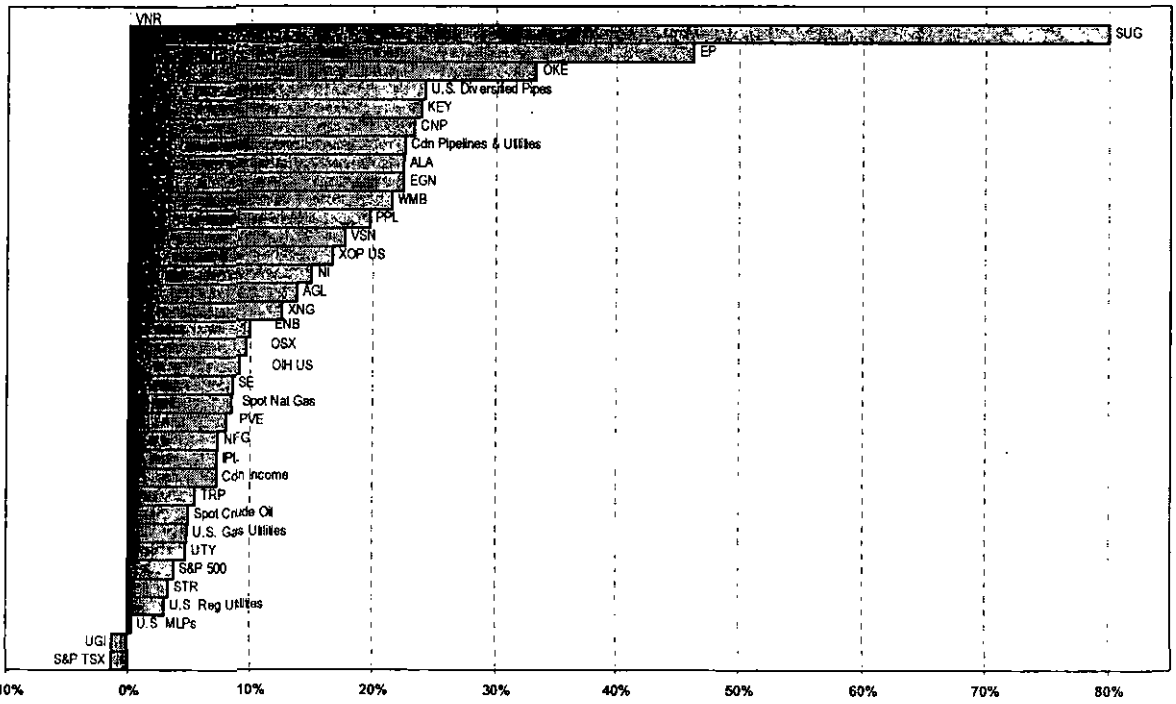


Exhibit 16: Year-to-Date Performance



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 17: 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														
El Paso Corp	EP	OP	20.12	0.0%	1.9%	1.9%	-0.4%	10.5%	46.2%	68.1%	-6.6%	5/25/2011	83.4%	8/25/2010
Energen Corp	EGN	MKT	59.15	-0.7%	4.0%	5.8%	4.7%	-1.2%	22.6%	31.1%	-9.6%	5/2/2011	40.5%	8/27/2010
National Fuel Gas Company	NFG	MKT	70.49	0.0%	-0.5%	0.9%	-3.2%	0.5%	7.4%	50.6%	-7.2%	7/7/2011	64.6%	8/25/2010
Oneok Inc.	OKE	MKT	73.94	-0.6%	-0.1%	6.6%	-0.1%	15.1%	33.3%	64.0%	-2.9%	7/7/2011	73.9%	8/31/2010
Southern Union Company	SUG	MKT	43.33	-0.1%	4.2%	29.1%	7.9%	58.1%	80.0%	94.9%	-0.7%	7/15/2011	96.8%	8/25/2010
Spectra Energy	SE	MKT	27.13	-1.1%	0.0%	1.9%	-1.0%	0.4%	8.6%	30.2%	-7.2%	5/2/2011	34.4%	8/31/2010
Williams Cos	WMB	OP	30.04	-1.1%	5.1%	6.1%	-0.7%	-0.6%	21.5%	60.9%	-10.2%	5/2/2011	69.5%	8/25/2010
Average				**-0.5%**	**2.1%**	**7.5%**	**1.0%**	**11.8%**	**31.4%**	**57.1%**	**-6.3%**		**66.1%**	
U.S. Utilities														
AGL Resources Inc	AGL	MKT	40.79	-1.4%	-2.5%	3.4%	0.2%	4.2%	13.8%	8.6%	-3.7%	7/7/2011	19.2%	12/8/2010
CenterPoint Energy	CNP	OP	19.40	0.1%	0.8%	3.5%	0.3%	8.9%	23.4%	39.3%	-2.8%	7/7/2011	40.4%	7/21/2010
NiSource Inc	NI	MKT	20.26	-0.9%	0.4%	3.9%	0.0%	7.1%	15.0%	29.8%	-2.0%	5/13/2011	29.5%	7/19/2010
Questar Corp	STR	MKT	17.99	-0.4%	1.0%	1.8%	1.6%	7.1%	3.3%	12.5%	-1.9%	7/7/2011	12.4%	7/19/2010
UGI Corp.	UGI	MKT	31.18	-2.2%	-2.7%	0.8%	-2.2%	-1.0%	-1.3%	17.3%	-7.0%	5/2/2011	18.6%	7/20/2010
Average				**-1.0%**	**-0.7%**	**2.7%**	**0.0%**	**5.3%**	**10.8%**	**21.5%**	**-3.5%**		**24.0%**	
Industry Comps														
U.S. Commodity Sensitive														
Equitable Resources***	EQT	OP	59.06	2.7%	9.8%	17.4%	12.5%	28.5%	31.7%	64.1%	-0.2%	7/19/2011	83.2%	8/25/2010
Sempra Energy**	SRE	MKT	51.55	-1.1%	-0.9%	-3.1%	-2.5%	-3.1%	-1.8%	8.2%	-7.9%	5/10/2011	6.7%	7/19/2010
Average				**0.8%**	**4.4%**	**7.1%**	**5.0%**	**12.7%**	**15.0%**	**35.2%**	**-4.0%**		**45.0%**	
U.S. Gas Utilities														
Atmos Energy	ATO	NR	33.26	-1.8%	-1.2%	4.2%	0.0%	0.9%	6.6%	18.7%	-5.6%	3/9/2011	18.7%	8/31/2010
Integrys Energy Group	TEG	NR	51.06	-1.3%	-1.4%	1.4%	-1.5%	2.1%	5.3%	12.0%	-6.2%	11/4/2010	12.1%	7/19/2010
The Laclede Group	LG	NR	37.44	-1.3%	-1.4%	3.4%	-1.0%	0.7%	2.5%	12.1%	-6.4%	1/26/2011	15.0%	8/24/2010
New Jersey Resources	NJR	NR	44.70	-1.5%	-1.3%	3.4%	0.2%	7.6%	3.7%	26.1%	-4.1%	7/7/2011	26.4%	7/19/2010
Nicor	GAS	NR	54.90	-0.7%	-1.5%	1.8%	0.3%	4.0%	10.0%	31.3%	-2.5%	7/7/2011	32.2%	8/20/2010
Northwest Natural Gas Company	NWN	NR	45.68	-0.9%	-0.3%	3.5%	1.2%	2.1%	-1.7%	3.9%	-10.2%	10/15/2010	4.8%	8/3/2011
Piedmont Natural Gas	PNY	NR	29.84	-1.9%	-1.7%	1.4%	-1.4%	0.5%	6.7%	17.9%	-6.7%	4/29/2011	18.4%	7/20/2010
South Jersey Industries	SJI	NR	52.98	-2.0%	-1.9%	3.8%	-2.5%	-2.9%	0.3%	20.0%	-8.7%	4/6/2011	20.5%	7/19/2010
Vectren	VVC	NR	27.30	-1.7%	-2.7%	0.3%	-2.0%	1.3%	7.6%	13.3%	-5.3%	5/10/2011	13.9%	7/19/2010
Washington Gas Light	WGL	NR	38.90	-1.7%	-1.8%	3.4%	1.1%	4.4%	8.8%	11.8%	-3.7%	7/13/2011	12.1%	12/7/2010
Average				**-1.5%**	**-1.6%**	**2.7%**	**-0.8%**	**2.1%**	**5.0%**	**16.7%**	**-6.0%**		**17.4%**	
U.S. Master Limited Partnerships														
Ameriges Partners	APU	NR	43.98	-1.4%	-2.8%	2.3%	-2.3%	-4.7%	-9.0%	2.4%	-14.6%	2/7/2011	5.7%	8/12/2010
TC Pipelines	TCLP	NR	47.19	-0.1%	-0.9%	4.8%	-1.2%	-8.4%	-9.3%	14.9%	-14.1%	3/4/2011	18.7%	7/20/2010
Enbridge Energy Partners	EEP	NR	29.55	-0.5%	0.1%	2.9%	-1.7%	-8.7%	-5.3%	3.2%	-14.5%	4/29/2011	17.3%	7/30/2010
Enbridge Energy Management	EEQ	NR	30.67	-0.7%	1.4%	3.9%	-0.7%	-1.3%	-0.9%	19.9%	-9.6%	5/2/2011	34.5%	7/30/2010
El Paso Pipeline Partners	EPB	NR	35.30	-1.0%	0.6%	5.0%	1.6%	-3.3%	5.5%	17.6%	-7.1%	3/2/2011	18.4%	7/20/2010
Cheniere Energy Partners	CQP	NR	18.33	-1.7%	1.2%	11.4%	2.0%	0.8%	-14.0%	0.2%	-25.3%	1/12/2011	21.6%	3/9/2011
Targa Resource Partners	NGLS	NR	36.07	0.4%	2.1%	10.1%	1.3%	4.0%	8.2%	34.9%	-0.9%	7/7/2011	45.7%	8/10/2010
Williams Partners	WPZ	NR	55.03	-0.5%	0.4%	10.5%	1.6%	5.0%	18.0%	21.7%	-2.8%	4/29/2011	33.2%	8/25/2010
Spectra Energy Partners	SEP	NR	31.08	-0.8%	-2.1%	0.4%	-2.3%	-5.9%	-5.4%	-11.0%	-14.4%	10/6/2010	4.9%	6/17/2011
DCP Midstream Partners	DPM	NR	41.25	-0.1%	-0.1%	7.5%	0.7%	-1.4%	10.3%	18.3%	-7.9%	5/2/2011	32.9%	8/25/2010
Oneok Partners	OKS	NR	43.83	-1.4%	1.8%	8.9%	2.8%	5.0%	10.3%	27.5%	-2.0%	7/15/2011	31.4%	8/12/2010
Kinder Morgan Energy Partners	KMP	NR	73.19	0.2%	-0.6%	3.7%	0.8%	-3.1%	4.2%	8.8%	-6.2%	4/26/2011	11.1%	7/30/2010
Enterprise Product Partners	EPD	NR	42.86	-0.3%	-0.1%	7.0%	-0.8%	0.2%	3.1%	14.3%	-3.3%	2/16/2011	54.0%	3/15/2011
Boardwalk Pipeline Partners	BWP	NR	28.72	-0.6%	-1.0%	4.1%	-1.1%	-9.3%	-7.7%	-8.4%	-16.1%	10/13/2010	6.3%	6/17/2011
Average				**-0.7%**	**-0.1%**	**5.7%**	**0.0%**	**-2.2%**	**0.6%**	**11.3%**	**-10.2%**		**23.7%**	
U.S. Regulated Electric Utilities														
American Electric Power**	AEP	MKT	37.11	-1.0%	-2.1%	-1.4%	-1.5%	5.1%	3.1%	6.8%	-4.8%	5/17/2011	10.9%	3/17/2011
Dominion Resources**	D	MKT	48.00	-0.9%	-0.2%	0.7%	-0.6%	8.8%	12.4%	18.7%	-2.7%	7/7/2011	18.3%	7/19/2010
Duke Energy**	DUK	MKT	18.63	-1.2%	-2.3%	-0.6%	-1.1%	2.3%	4.6%	10.4%	-4.5%	5/17/2011	11.2%	8/16/2010
Ameren	AEE	NR	28.36	-1.6%	-0.7%	-0.1%	-1.7%	-0.1%	0.6%	15.3%	-5.9%	5/16/2011	15.7%	7/21/2010
Consolidated Edison**	ED	MKT	52.53	-1.4%	-1.4%	-0.5%	-1.3%	4.6%	6.0%	16.6%	-3.4%	5/13/2011	16.8%	7/20/2010
PG&E Corp.**	PCG	MKT	41.54	-1.3%	-1.3%	-1.3%	-0.9%	-6.7%	-13.0%	-2.2%	-14.4%	11/4/2010	1.1%	6/23/2011
Progress Energy**	PGN	MKT	47.05	-1.1%	-2.1%	-1.5%	-2.0%	2.3%	8.2%	16.2%	-4.0%	5/17/2011	22.6%	9/27/2010
Southern Company**	SO	MKT	39.99	-0.6%	-0.4%	0.5%	-1.0%	4.5%	4.6%	15.0%	-2.2%	5/19/2011	14.7%	7/19/2010
Xcel Energy**	XEL	MKT	23.76	-1.1%	-1.7%	-3.3%	-2.2%	-0.8%	0.9%	10.8%	-6.4%	5/20/2011	11.0%	8/4/2010
Average				**-1.1%**	**-1.3%**	**-0.8%**	**-1.4%**	**2.2%**	**3.0%**	**12.0%**	**-8.4%**		**13.8%**	
Indices/Treasury														
Spot Henry Hub Natural Gas	NGUSHHUB		4.59	2.2%	5.3%	4.8%	7.2%	8.5%	8.5%	-1.7%	NA	NA	NA	NA
Spot WTI	USCRWTIC		95.93	-1.4%	0.8%	3.1%	0.5%	-10.5%	5.0%	28.2%	NA	NA	NA	NA
OIL SERVICE HOLDRS TRUST	OIH US		152.95	-0.5%	1.6%	7.7%	0.6%	-1.2%	9.1%	52.8%	-8.4%	4/6/2011	59.7%	8/27/2010
OIL SERVICE SECTOR INDEX	OSX		268.77	-0.5%	1.2%	7.3%	0.3%	-4.2%	9.6%	55.4%	-10.7%	4/6/2011	NA	NA
AMEX NATURAL GAS INDEX	XNG		681.98	-0.7%	2.9%	5.3%	1.0%	2.9%	12.6%	36.8%	-3.5%	5/2/2011	900.0%	7/19/2010
SPDR S&P OIL & GAS EXPLORATI	XOP US		81.60	-0.9%	5.3%	12.2%	4.8%	2.4%	16.8%	56.8%	-6.3%	4/6/2011	64.5%	8/25/2010
PHILA UTILITY INDEX	UTY		441.87	-1.0%	-1.1%	-0.2%	-1.3%	3.8%	4.7%	10.2%	-3.1%	5/16/2011	NA	NA
S&P 500 INDEX	SPX		1,305.44	-0.8%	-1.1%	2.7%	-1.2%	0.0%	3.8%	22.8%	-4.8%	5/2/2011	NA	NA
US Generic Govt 10 Year Yield	USGG10YR		2.93	0.8%	0.3%	-0.6%	-7.4%	-13.2%	-11.1%	0.2%	NA	NA	NA	NA
S&P/TSX COMPOSITE INDEX	SPTSX		13,254.14	-0.3%	0.6%	3.6%	-0.4%	-3.3%	-1.4%	14.6%	-7.5%	3/7/2011	NA	NA
Canadian Govt Bonds 10 Year No	GCAN10YR		2.87	-0.2%	-0.8%	-2.6%	-7.7%	-11.2%	-8.1%	-9.3%				

* 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 07.15.11/07.12.11/6.18.11/07.18.10

Mkt= Market Perform; OP= Outperform; Und= Underperform; R=Restricted

Source: BMO Capital Markets estimates, Bloomberg.

Exhibit 18: 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	MKT	30.97	-0.4%	-0.9%	2.3%	-1.2%	3.1%	10.1%	21.0%	-5.4%	6/17/2011	27.7%	7/30/2010
TransCanada Corp.	TRP	OP	40.11	-0.8%	0.6%	-2.8%	-5.3%	0.2%	5.6%	10.8%	-8.3%	6/1/2011	13.0%	11/16/2010
Average				-0.6%	-0.2%	-0.2%	-3.3%	1.7%	7.8%	15.9%	-6.8%		20.4%	
Canadian Income*														
AltaGas	ALA	OP	26.60	-0.5%	1.1%	5.3%	3.3%	4.1%	22.6%	35.9%	-0.8%	7/8/2011	37.6%	7/30/2010
Inter Pipeline Fund	IPL	MKT	16.01	0.1%	1.1%	3.3%	0.9%	1.9%	7.3%	32.3%	-6.4%	3/31/2011	32.4%	7/20/2010
Keyera	KEY	MKT	43.56	1.1%	-1.0%	5.5%	-0.3%	14.6%	23.9%	51.8%	-2.2%	7/12/2011	55.3%	7/21/2010
Pembina Pipeline Income Fund	PPL	MKT	25.89	1.7%	3.2%	7.8%	2.0%	13.1%	19.9%	43.0%	0.0%	7/19/2011	42.6%	7/21/2010
Provident	PVE	MKT	8.67	-0.3%	1.7%	7.1%	-0.6%	-1.3%	8.1%	20.4%	-6.5%	4/4/2011	37.1%	8/25/2010
Valener	VNR	R	R	R	R	R	R	R	R	R	R	R	R	R
Veresen	VSN	MKT	13.99	0.7%	1.1%	3.5%	0.7%	5.0%	17.8%	32.7%	-6.5%	6/1/2011	33.2%	7/19/2010
Average				0.5%	1.2%	5.4%	1.0%	6.2%	16.6%	36.0%	-3.4%		39.7%	
Industry Comps														
Canadian Income*														
Atlantic Power Corp.**	ATP	MKT	15.36	0.6%	-0.2%	2.7%	4.8%	9.2%	4.6%	21.2%	-2.3%	6/22/2011	21.4%	7/23/2010
Enbridge Income Fund	ENF	NR	18.75	-1.6%	1.4%	3.0%	0.2%	-7.5%	3.6%	32.4%	-12.1%	3/21/2011	41.5%	7/30/2010
Capital Power Income Fund	CPA	MKT	19.46	0.5%	0.1%	4.5%	2.4%	-3.6%	8.4%	13.2%	-8.3%	3/30/2011	14.7%	8/5/2010
Brookfield Renewable Power Fund**	BRC	MKT	23.20	0.2%	1.1%	2.9%	0.6%	3.8%	12.5%	15.3%	-3.1%	5/9/2011	16.0%	8/16/2010
Northland Power Income Fund**	NPI	MKT	na	na	na	na	na	na	na	na	na	na	na	na
Average				0.4%	0.3%	3.4%	2.7%	3.2%	8.6%	16.6%	-4.6%		17.4%	
Other Canadian Pipelines & Utility*														
Algonquin Power**	AQN	MKT	5.84	0.2%	1.9%	1.4%	2.3%	15.9%	16.3%	38.4%	-0.5%	5/20/2011	56.1%	8/13/2010
Canadian Utilities**	CU	MKT	57.37	0.2%	2.6%	1.8%	2.4%	10.3%	5.5%	22.2%	-4.2%	5/27/2011	25.4%	8/12/2010
Emera Incorporated**	EMA	MKT	32.29	-0.3%	0.3%	2.6%	2.2%	4.0%	3.0%	23.7%	-1.6%	1/12/2011	27.1%	8/12/2010
Fortis Inc.**	FTS	OP	32.06	-0.2%	-1.0%	0.4%	-0.9%	1.5%	-5.7%	15.6%	-9.6%	2/4/2011	15.5%	7/19/2010
Innergex Renewable Energy Inc.**	INE	OP	10.24	-0.8%	2.4%	4.2%	2.6%	9.3%	3.1%	16.8%	-4.5%	1/5/2011	21.8%	9/8/2010
Pacific Northern Gas**	PNG	MKT	28.26	-1.4%	-2.0%	-1.0%	-0.4%	18.7%	15.4%	41.3%	-8.5%	8/2/2011	42.6%	7/19/2010
TransAlta Corporation**	TA	Und	20.64	-0.7%	0.2%	0.6%	0.2%	2.0%	-2.4%	0.4%	-7.2%	10/1/2010	5.6%	3/15/2011
Average				-0.4%	0.6%	1.4%	1.2%	6.8%	5.0%	22.6%	-5.2%		27.6%	
Indices/Treasury														
Spot Henry Hub Natural Gas	NGUSHHUB		4.59	2.2%	6.3%	4.6%	7.2%	8.6%	8.5%	-1.7%	NA	NA	NA	NA
Spot WTI	USCRWTIC		95.93	-1.4%	0.8%	3.1%	0.5%	-10.5%	5.0%	26.2%	NA	NA	NA	NA
OIL SERVICE HOLDRS TRUST	OIH US		152.95	-0.5%	1.6%	7.7%	0.6%	-1.2%	9.1%	52.8%	-8.4%	4/6/2011	59.7%	8/27/2010
OIL SERVICE SECTOR INDEX	OSX		268.77	-0.5%	1.2%	7.3%	0.3%	-4.2%	9.6%	55.4%	-10.7%	4/6/2011	NA	NA
AMEX NATURAL GAS INDEX	XNG		681.98	-0.7%	2.9%	5.3%	1.0%	2.9%	12.6%	36.8%	-3.5%	5/2/2011	900.0%	7/19/2010
SPDR S&P OIL & GAS EXPLORATI	XOP US		61.60	-0.9%	5.3%	12.2%	4.8%	2.4%	16.8%	56.8%	-6.3%	4/6/2011	64.5%	8/25/2010
PHLA UTILITY INDEX	UTY		441.87	-1.0%	-1.1%	-0.2%	-1.3%	3.8%	4.7%	10.2%	-3.1%	5/18/2011	NA	NA
S&P 500 INDEX	SPX		1,305.44	-0.8%	-1.1%	2.7%	-1.2%	0.0%	3.6%	22.6%	-4.8%	5/2/2011	NA	NA
US Generic Govt 10 Year Yield	USGG10YR		2.93	0.8%	0.3%	-0.6%	-7.4%	-13.2%	-11.1%	0.2%	NA	NA	NA	NA
S&P/TSX COMPOSITE INDEX	SPTSX		13,254.14	-0.3%	0.6%	3.6%	-0.4%	-3.3%	-1.4%	14.6%	-7.5%	3/7/2011	2.9%	12/15/2010
Canadian Govt Bonds 10 Year No	GCAN10YR		2.87	-0.2%	-0.8%	-2.6%	-7.7%	-11.2%	-8.1%	-9.3%				

* All Data in C$ unless otherwise indicated

** Covered by Michael McGowan at our Canadian Affiliate, BMO Nesbitt Burns Inc

***1-Day / 5-Day / 1-Month / 1-Year measures mentioned period performance from 07.15.11/07.12.11/6.18.11/07.18.10

Mkt= Market Perform; OP= Outperform; Und= Underperform; R=Restricted

Source: BMO Capital Markets estimates, Bloomberg.

Commodity Review

Exhibit 19: Commodity Outlook

	QUARTERLY									ANNUAL						
	2010					2011							BMO Estimate			
	1Q	2Q	3Q	4Q	2010	1QA	2QA	3QTD	2011	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Commodity Price Summary																
Henry Hub Natural Gas ($/mmbtu)	$5.11	$4.32	$4.26	$3.81	$4.38	$4.18	$4.37	$4.36	$4.25	$6.96	$8.85	$3.94	$4.38	$4.40	$4.50	$5.00
Y/Y % Change	12%	17%	35%	-13%	11%	-18%	1%	2%	-2%	3%	27%	-55%	11%	1%	2%	11%
WTI Crude Oil ($/bbl)	$78.76	$77.93	$76.01	$85.22	$79.49	$94.28	$102.40	$96.59	$98.22	$72.12	$99.53	$61.85	$79.49	$96.00	$95.00	$90.00
Y/Y % Change	83%	31%	12%	12%	29%	20%	31%	27%	24%	9%	38%	-38%	29%	21%	-1%	-5%
NGL Composite (40% ethane)	$1.15	$1.01	$0.95	$1.15	$1.07	$1.25	$1.37	$1.38	$1.32	$1.13	$1.33	$0.80	$1.07	$1.26	$1.18	$1.10
Y/Y % Change	65%	43%	17%	11%	34%	9%	35%	45%	23%	19%	17%	-40%	34%	18%	-6%	-7%
NGL / WTI (% $ basis)	61%	55%	53%	57%	56%	56%	56%	60%	56%	66%	56%	54%	56%	55%	52%	51%
Y/Y % Change	1%	9%	5%	-1%	4%	-9%	3%	14%	0%	10%	-15%	-3%	4%	-2%	-5%	-2%
Frac Spread (Gulf Coast, $/gal)	$0.72	$0.65	$0.59	$0.83	$0.70	$0.90	$1.00	$1.01	$0.96	$0.54	$0.58	$0.46	$0.70	$0.89	$0.80	$0.68
Y/Y % Change	205%	64%	9%	24%	50%	25%	54%	71%	37%	43%	6%	-20%	50%	27%	-9%	-15%
Natural Gas Liquids																
Mont Belvieu (Gulf Coast)																
Ethane	$0.73	$0.55	$0.48	$0.64	$0.60	$0.66	$0.78	$0.80	$0.73	$0.79	$0.90	$0.48	$0.60	$0.58	$0.55	$0.51
Propane	$1.24	$1.09	$1.07	$1.26	$1.16	$1.39	$1.50	$1.52	$1.45	$1.20	$1.42	$0.84	$1.16	$1.49	$1.36	$1.23
Butane	$1.49	$1.40	$1.34	$1.59	$1.46	$1.71	$1.78	$1.74	$1.74	$1.42	$1.68	$1.07	$1.48	$1.71	$1.70	$1.61
Iso-Butane	$1.64	$1.57	$1.43	$1.68	$1.58	$1.85	$2.01	$1.99	$1.94	$1.51	$1.73	$1.19	$1.58	$1.76	$1.74	$1.65
Natural Gasoline	$1.82	$1.81	$1.71	$2.00	$1.84	$2.26	$2.48	$2.44	$2.39	$1.68	$2.10	$1.31	$1.84	$2.51	$2.26	$2.14
MB Composite ($/gal)	$1.15	$1.01	$0.95	$1.15	$1.07	$1.25	$1.37	$1.38	$1.32	$1.13	$1.33	$0.80	$1.07	$1.26	$1.18	$1.10
MB Composite ($/bbl)	$48.40	$42.63	$40.08	$48.40	$44.86	$52.68	$57.61	$57.96	$55.40	$47.56	$55.70	$33.51	$44.86	$52.92	$49.76	$46.31
MB Composite ($/mmbtu)	$13.64	$12.01	$11.30	$13.64	$12.64	$14.85	$16.24	$16.34	$15.61	$13.40	$15.70	$9.44	$12.64	$14.91	$14.02	$13.05
Conway (Midcontinent)																
Ethane	$0.59	$0.32	$0.27	$0.42	$0.40	$0.47	$0.53	$0.56	$0.50	$0.73	$0.81	$0.34	$0.40	$0.51	$0.48	$0.44
Propane	$1.22	$1.03	$1.02	$1.21	$1.12	$1.29	$1.40	$1.44	$1.35	$1.19	$1.40	$0.81	$1.12	$1.42	$1.29	$1.17
Butane	$1.45	$1.32	$1.33	$1.59	$1.42	$1.67	$1.73	$1.70	$1.70	$1.36	$1.55	$0.97	$1.42	$1.65	$1.63	$1.54
Iso-Butane	$1.59	$1.45	$1.41	$1.62	$1.52	$1.85	$1.92	$1.91	$1.89	$1.55	$1.70	$1.14	$1.52	$1.70	$1.68	$1.59
Natural Gasoline	$1.82	$1.74	$1.64	$1.93	$1.78	$2.26	$2.38	$2.29	$2.32	$1.72	$2.05	$1.33	$1.78	$2.45	$2.20	$2.08
CW Composite ($/gal)	$1.08	$0.88	$0.85	$1.04	$0.96	$1.14	$1.22	$1.23	$1.19	$1.10	$1.27	$0.72	$0.96	$1.20	$1.14	$1.06
CW Composite ($/bbl)	$45.39	$36.90	$35.56	$43.63	$40.35	$47.97	$51.19	$51.71	$49.77	$46.38	$53.17	$30.10	$40.35	$50.36	$48.05	$44.61
CW Composite ($/mmbtu)	$12.79	$10.40	$10.02	$12.30	$11.37	$13.52	$14.43	$14.57	$14.03	$13.07	$14.99	$8.48	$11.37	$14.19	$13.54	$12.57
NGL Basis Differential																
Mont Belvieu-Conway ($/gal)	($0.07)	($0.14)	($0.11)	($0.11)	($0.11)	($0.11)	($0.15)	($0.15)	($0.13)	($0.03)	($0.06)	($0.08)	($0.11)	($0.06)	($0.04)	($0.04)
Frac Spread Margin																
Gulf Coast ($/mmbtu)	$6.53	$7.69	$7.02	$9.83	$8.27	$10.67	$11.67	$11.97	$11.34	$6.44	$6.64	$5.50	$8.27	$10.51	$9.52	$8.05
Gulf Coast ($/gal)	$0.72	$0.65	$0.59	$0.83	$0.70	$0.90	$1.00	$1.01	$0.96	$0.54	$0.58	$0.46	$0.70	$0.89	$0.80	$0.68
Conway ($/mmbtu)	$7.53	$6.14	$5.87	$8.34	$6.97	$9.19	$10.07	$10.23	$9.68	$6.55	$7.43	$4.83	$6.97	$9.04	$9.24	$7.92
Conway ($/gal)	$0.64	$0.52	$0.50	$0.70	$0.59	$0.78	$0.85	$0.86	$0.82	$0.55	$0.63	$0.41	$0.59	$0.64	$0.78	$0.67
Correlations																
NGL / WTI (% $ basis)	61%	55%	53%	57%	56%	56%	56%	60%	56%	66%	56%	54%	56%	55%	52%	51%
Heavy NGL / WTI (% $ basis)	77%	72%	70%	74%	73%	74%	72%	77%	73%	79%	66%	68%	73%	75%	71%	70%
Ethane / Nat Gas (btu basis)	217%	193%	171%	254%	208%	239%	271%	279%	258%	173%	154%	186%	208%	200%	185%	155%

Exhibit 20: BMO Crude Oil Forecast

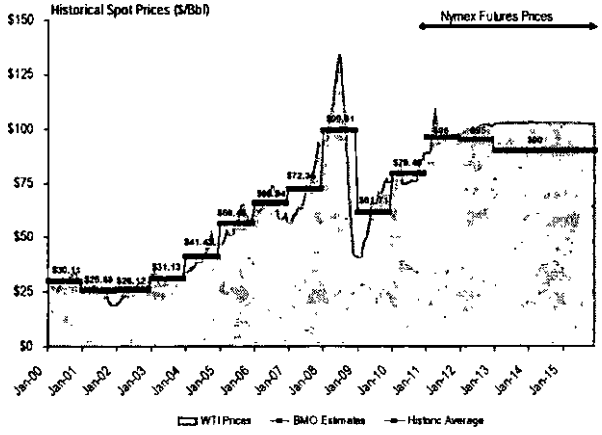
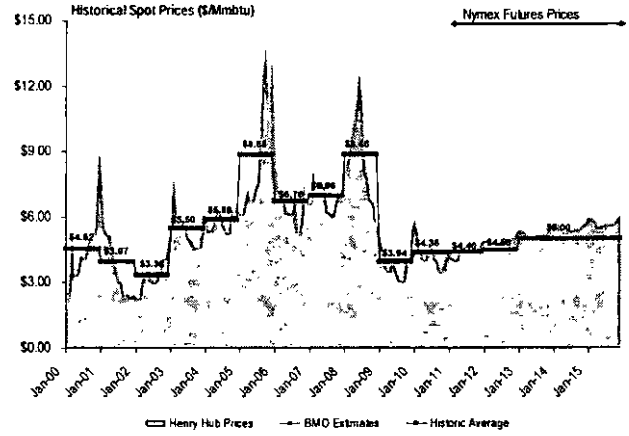


Exhibit 21: BMO Natural Gas Forecast



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 22: 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)
2010A																		
Jan	57.1	10.6	1.8	2.9	0.1	66.5	31.2	16.7	19.9	17.6	6.0	91.4	1.3	(26.2)	(812.3)	(789.1)	1.4%	0.7
Feb	57.9	9.9	1.4	3.0	0.1	66.3	29.5	16.5	20.4	17.0	6.0	89.4	(1.0)	(22.1)	(619.9)	(648.3)	-1.1%	(1.0)
Mar	58.8	9.1	1.1	3.1	0.1	65.7	19.5	11.3	18.6	14.6	5.5	69.7	(2.8)	(1.2)	(35.7)	(43.0)	-4.0%	(0.2)
Apr	58.9	8.5	1.4	2.4	0.1	66.3	10.8	7.5	17.3	15.7	5.2	56.5	(2.1)	11.8	355.1	334.9	-3.7%	(0.7)
May	58.8	8.4	1.1	2.7	0.1	65.6	6.6	5.4	17.0	18.1	5.1	52.1	0.3	13.2	408.8	404.4	0.6%	(0.1)
Jun	58.0	8.3	0.9	2.8	0.1	64.3	4.6	4.4	17.1	23.6	5.1	54.8	(1.1)	10.7	320.6	340.3	-2.0%	0.7
Jul	58.4	9.4	0.9	2.6	0.1	65.9	3.7	4.0	16.8	29.0	5.7	58.8	(0.1)	7.3	226.6	240.0	-0.2%	0.4
Aug	59.5	9.1	0.5	2.7	0.1	66.4	3.6	4.2	16.9	30.6	5.3	60.6	(0.2)	6.0	186.0	185.9	-0.3%	(0.0)
Sep	60.0	8.4	0.8	2.4	0.2	66.6	4.0	4.5	17.3	23.2	5.2	54.3	0.6	11.8	352.9	347.7	1.1%	(0.2)
Oct	60.0	9.4	1.0	2.8	0.1	66.5	6.7	6.1	17.0	18.3	5.2	53.3	1.8	11.4	352.4	339.6	3.5%	(0.4)
Nov	60.8	8.0	0.7	3.8	0.1	65.7	15.3	9.8	18.6	16.4	5.8	65.8	2.5	(2.5)	(74.1)	(63.3)	3.9%	0.4
Dec	61.2	10.4	0.6	3.9	0.1	68.2	28.1	15.5	20.0	18.1	6.2	87.9	1.9	(21.5)	(665.8)	(666.1)	2.1%	(0.0)
FY	59.1	9.1	1.0	2.9	0.1	66.2	13.6	8.8	18.1	20.2	5.5	66.1	0.1	(0.0)	(5.3)	(17.1)	0.2%	(0.0)
2011E Deltas																		
Jan	3.8	0.1	(0.7)	1.0	0.0	2.2	0.1	0.2	0.9	0.1	0.3	1.4	0.3	0.4				
Feb	2.0	(0.0)	(0.6)	1.3	0.0	0.1	(1.7)	(1.0)	0.5	0.2	0.1	(1.9)	0.7	1.3				
Mar	3.4	(0.1)	(0.1)	1.4	0.0	1.9	0.0	0.3	0.5	0.9	0.3	2.1	3.3	(3.5)				
Apr	4.0	(0.3)	(0.7)	1.6	(0.1)	1.5	0.7	0.3	1.1	1.2	0.3	3.7	2.5	(4.8)				
May	1.2	0.0	(0.1)	0.0	0.0	1.1	0.0	0.0	0.3	0.4	0.0	0.7	0.0	0.4				
Jun	1.7	0.0	0.0	0.0	0.0	1.7	0.0	0.0	0.3	0.5	0.0	0.8	0.0	0.9				
Jul	1.8	(0.5)	0.0	0.0	0.0	1.3	0.0	0.0	0.3	0.6	0.0	0.9	0.0	0.4				
Aug	0.6	(0.5)	0.4	0.0	0.0	0.5	0.0	0.0	0.3	0.6	0.0	1.0	0.0	(0.4)				
Sep	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.3	0.5	0.0	0.8	0.0	(0.6)				
Oct	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.3	0.4	0.0	0.7	0.0	(0.5)				
Nov	0.0	0.4	0.2	0.0	0.0	0.6	0.0	0.0	0.4	0.3	0.0	0.7	0.0	(0.1)				
Dec	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.4	0.4	0.0	0.8	0.0	(0.6)				
FY	1.5	(0.1)	(0.1)	0.4	(0.0)	1.0	(0.1)	(0.0)	0.5	0.5	0.1	1.0	0.6	(0.6)				
Jan	6.6%	1.0%	-39.0%	32.4%	13.6%	3.3%	0.2%	1.0%	4.3%	0.5%	4.5%	1.6%	26.9%	-1.7%				
Feb	3.5%	-0.5%	-42.1%	44.7%	11.0%	0.1%	-5.8%	-5.9%	2.4%	1.3%	1.1%	-2.1%	-67.7%	-5.7%				
Mar	5.9%	-0.7%	-13.0%	43.1%	15.1%	2.8%	0.1%	3.0%	2.7%	6.5%	4.9%	3.0%	-119.4%	306.3%				
Apr	6.8%	-3.8%	-50.6%	65.3%	-44.6%	2.2%	6.8%	4.4%	6.6%	7.7%	6.7%	6.6%	-120.5%	-40.2%				
May	2.0%	0.0%	-10.0%	0.0%	0.0%	1.6%	0.0%	0.0%	2.0%	2.0%	0.0%	1.3%	0.0%	2.8%				
Jun	3.0%	0.0%	0.0%	0.0%	0.0%	2.7%	0.0%	0.0%	2.0%	2.0%	0.0%	1.5%	0.0%	8.7%				
Jul	3.0%	-5.0%	0.0%	0.0%	0.0%	1.9%	0.0%	0.0%	2.0%	2.0%	0.0%	1.6%	0.0%	5.0%				
Aug	1.0%	-5.0%	75.0%	0.0%	0.0%	0.8%	0.0%	0.0%	2.0%	2.0%	0.0%	1.6%	0.0%	-6.9%				
Sep	0.0%	0.0%	25.0%	0.0%	0.0%	0.3%	0.0%	0.0%	2.0%	2.0%	0.0%	1.5%	0.0%	-5.1%				
Oct	0.0%	0.0%	25.0%	0.0%	0.0%	0.4%	0.0%	0.0%	2.0%	2.0%	0.0%	1.3%	0.0%	-4.0%				
Nov	0.0%	5.0%	25.0%	0.0%	0.0%	0.9%	0.0%	0.0%	2.0%	2.0%	0.0%	1.1%	0.0%	4.5%				
Dec	0.0%	0.0%	25.0%	0.0%	0.0%	0.2%	0.0%	0.0%	1.9%	2.0%	0.0%	0.9%	0.0%	1.8%				
FY	2.6%	-0.8%	-8.6%	14.7%	-2.9%	1.4%	-0.5%	-0.1%	2.7%	2.5%	1.5%	1.5%	547.5%	NM				
2011E Outlook																		
Jan	60.9	10.7	1.1	3.9	0.1	68.7	31.3	16.9	20.7	17.6	6.3	92.8	1.6	(25.8)	(798.7)	(823.4)	1.8%	(0.8)
Feb	60.0	9.9	0.8	4.3	0.1	66.3	27.8	15.5	20.8	17.2	6.1	87.5	(0.3)	(20.9)	(584.3)	(916.3)	-0.4%	(11.9)
Mar	62.2	9.0	1.0	4.5	0.1	67.6	19.6	11.7	19.1	15.5	5.8	71.7	0.5	(4.7)	(145.0)	(853.0)	0.8%	(22.8)
Apr	62.9	8.2	0.7	4.0	0.1	67.7	11.5	7.8	18.4	16.9	5.6	60.2	0.4	7.1	212.3	181.6	0.7%	(1.0)
May	60.0	8.4	1.0	2.7	0.1	66.7	6.6	5.4	17.3	18.4	5.1	52.8	0.3	13.6	420.2	385.7	0.6%	(1.1)
Jun	59.7	8.3	0.9	2.8	0.1	66.1	4.6	4.4	17.4	24.0	5.1	55.6	(1.1)	11.6	348.4	360.7	-2.0%	0.4
Jul	60.1	8.9	0.9	2.6	0.1	67.2	3.7	4.0	17.1	29.6	5.7	59.7	(0.1)	7.7	237.9	25.6	-0.2%	(6.8)
Aug	60.1	8.7	0.9	2.7	0.1	67.0	3.6	4.2	17.3	31.2	5.3	61.6	(0.2)	5.6	173.2		-0.3%	0.0
Sep	60.0	8.4	1.1	2.4	0.2	66.8	4.0	4.5	17.6	23.7	5.2	55.1	0.6	11.2	335.0		1.0%	0.0
Oct	60.0	8.4	1.2	2.8	0.1	66.8	6.7	6.1	17.4	18.6	5.2	54.0	1.8	10.9	338.2		3.4%	0.0
Nov	60.8	8.4	0.9	3.8	0.1	66.3	15.3	9.8	18.9	16.8	5.6	66.3	2.5	(2.6)	(77.5)		3.8%	0.0
Dec	61.2	10.4	0.8	3.9	0.1	68.4	28.1	15.5	20.4	18.5	6.2	88.6	1.9	(22.1)	(684.6)		2.1%	0.0
FY	60.7	9.0	0.9	3.4	0.1	67.1	13.5	8.8	18.5	20.7	5.6	67.1	0.7	(0.7)	(234.9)		1.0%	0.0

Storage @ 07/08/11	2,611
Est. Storage @ 8/31/11	1,585
Est. Storage @ 10/31/11	2,723

Source: BMO Capital Markets estimates, EIA.

Exhibit 23: U.S. Natural Gas Storage

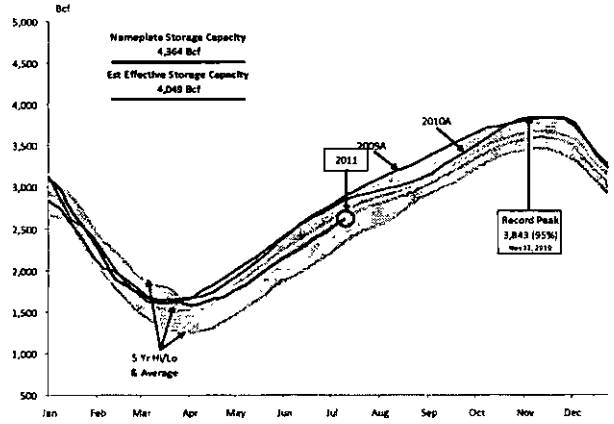


Exhibit 24: Canadian Natural Gas Storage

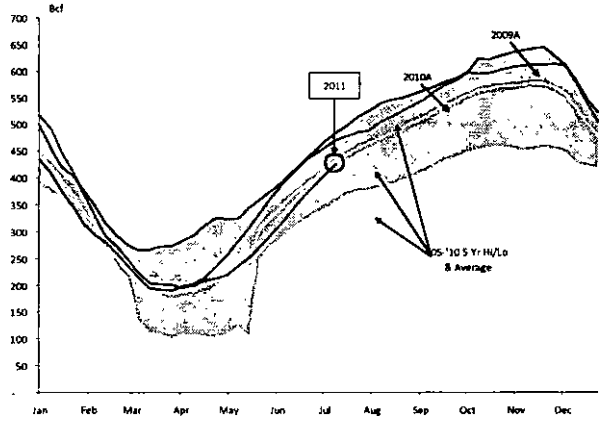


Exhibit 25: U.S. Onshore Production

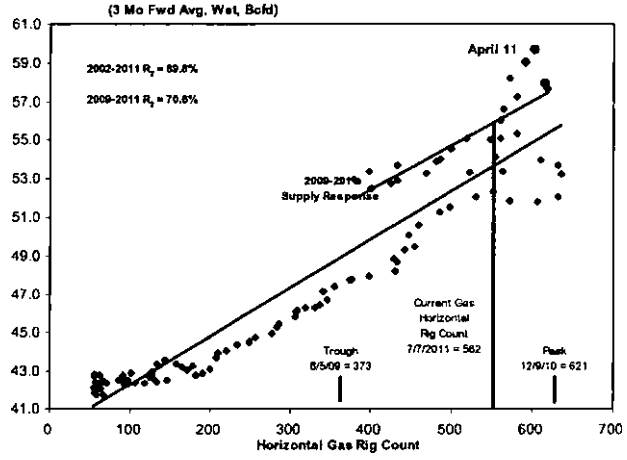


Exhibit 26: Alberta Gathering Receipts

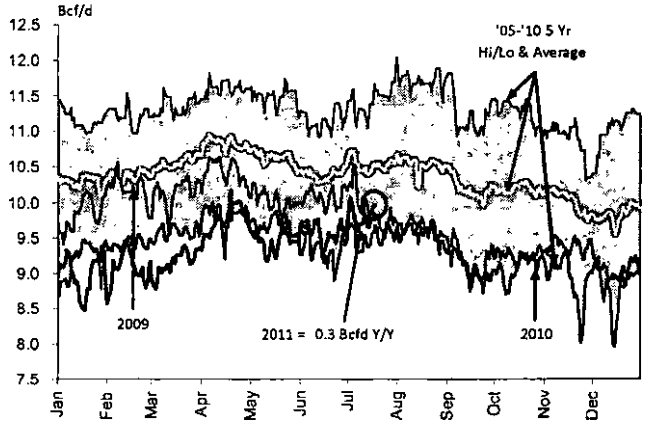


Exhibit 27: Degree Day Variance

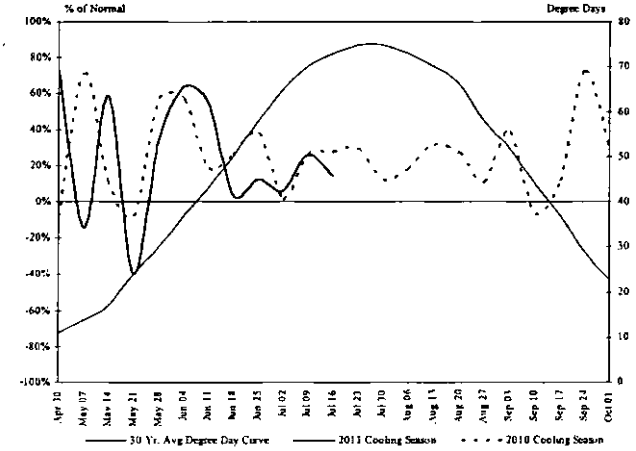
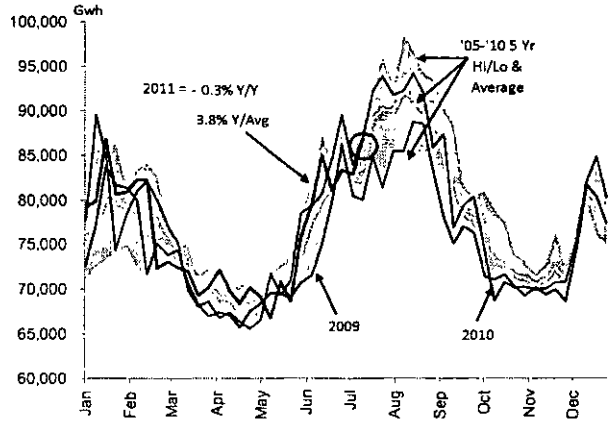


Exhibit 28: U.S. Electricity Output



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg, EIA.

Midstream/Natural Gas Liquids

Exhibit 29: Historic NGL Prices

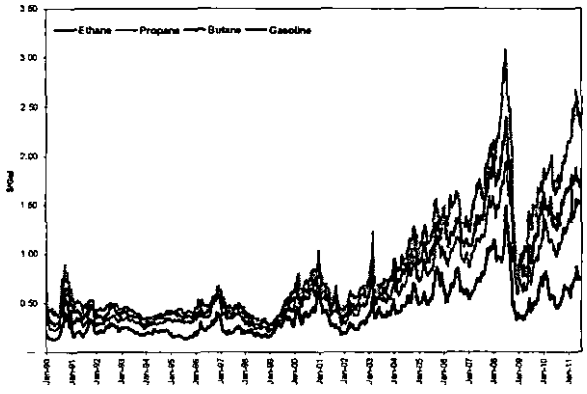


Exhibit 30: Average NGL Barrel % WTI Crude

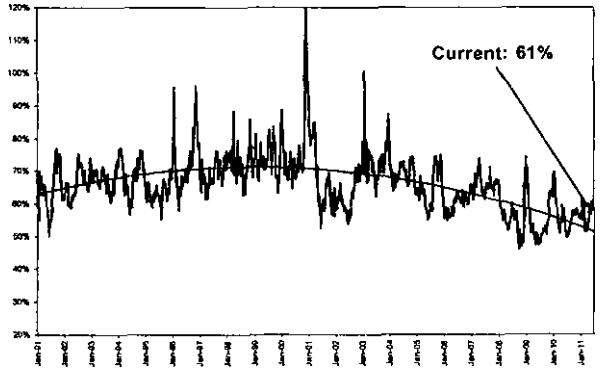


Exhibit 31: Keep-Whole "Frac" Spreads

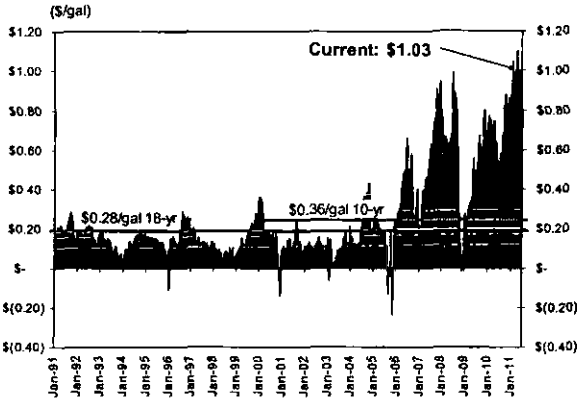


Exhibit 32: Oil – Gas Ratio

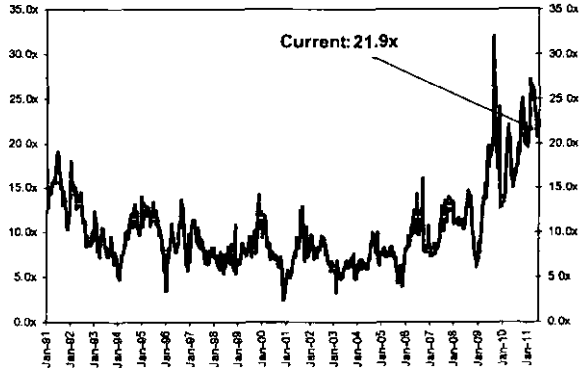


Exhibit 33: Ethane % Henry Hub Natural Gas

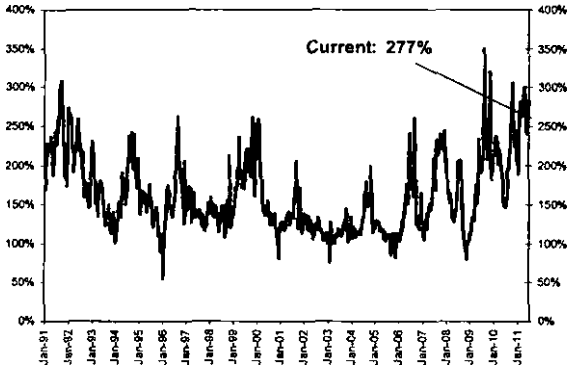
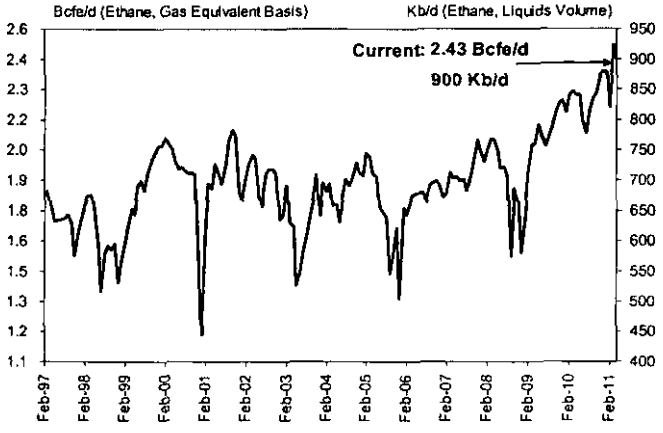


Exhibit 34: U.S. Monthly Ethane Production



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 35: Mt. Belvieu Premium to Conway

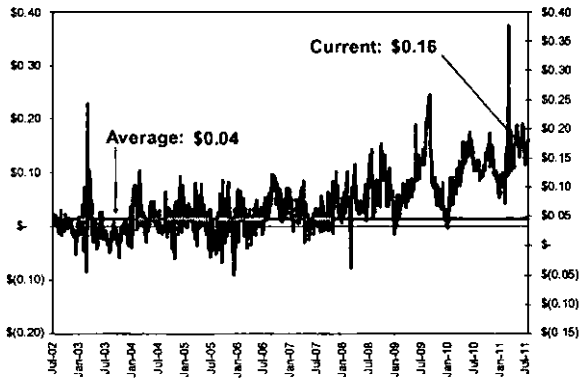


Exhibit 36: NGL Storage

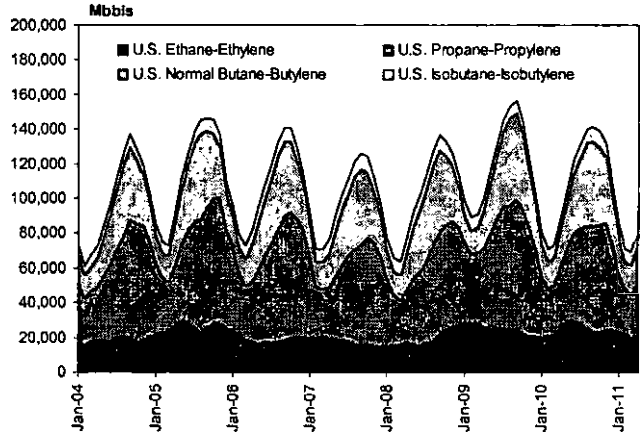


Exhibit 37: Chemical Rail Car Loadings

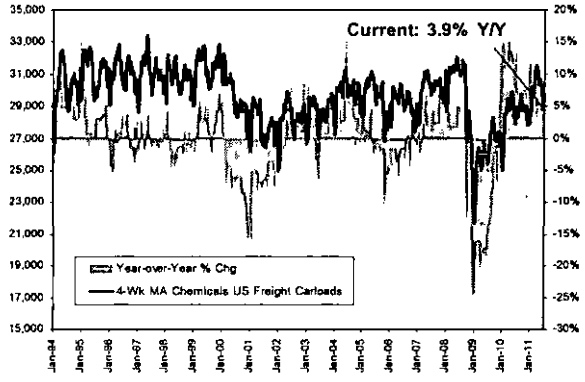


Exhibit 38: Ethane vs. Naphtha (Gulf Coast)

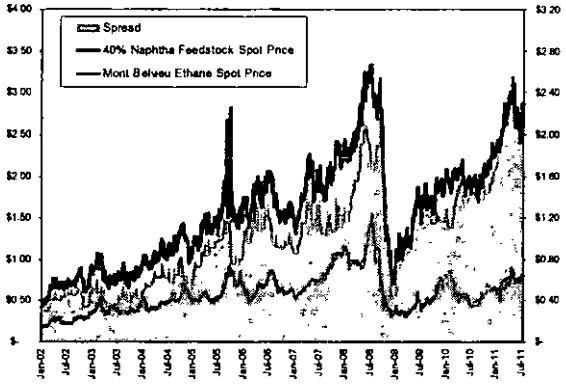


Exhibit 39: Petrochemical Price Trends

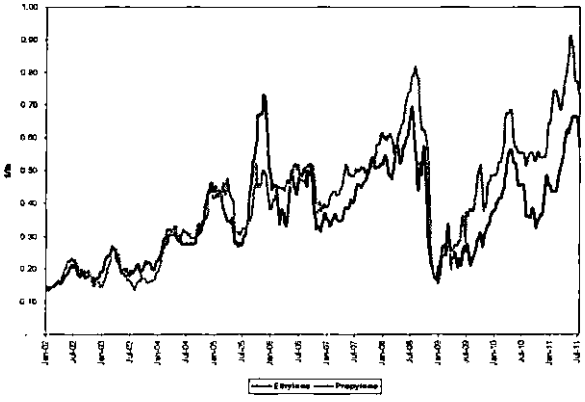
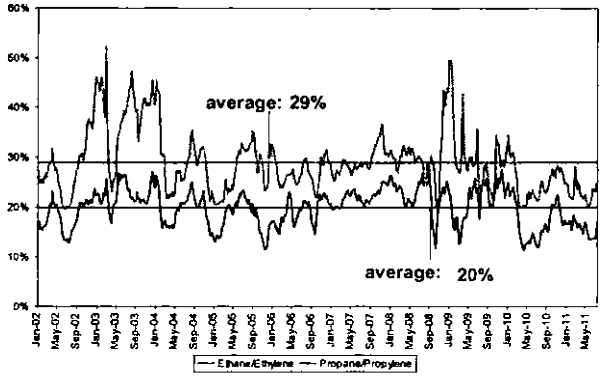


Exhibit 40: NGL/Petchem Price Correlation



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

LNG Update

Exhibit 41: LNG Outlook

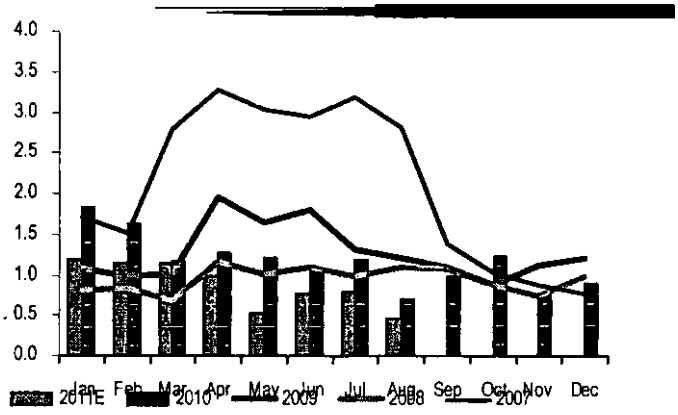


Exhibit 42: 2011 US LNG Imports by Terminal

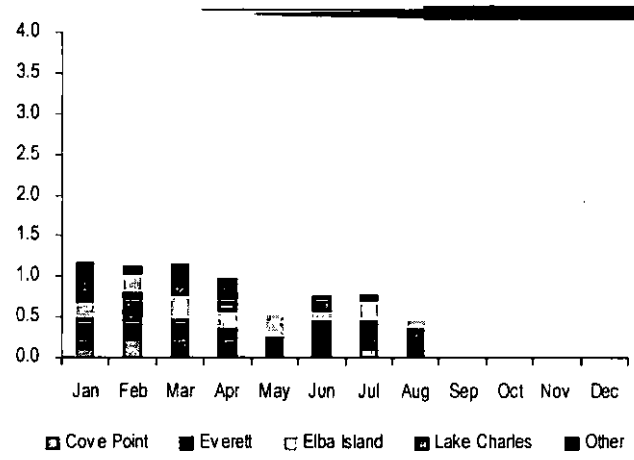


Exhibit 43: Global Liquefaction Outlook

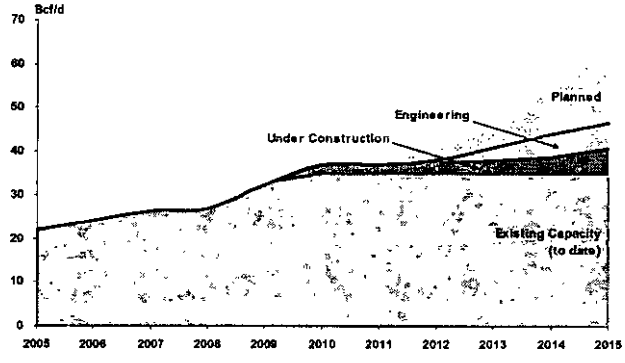


Exhibit 44: UK vs. US Natural Gas Price

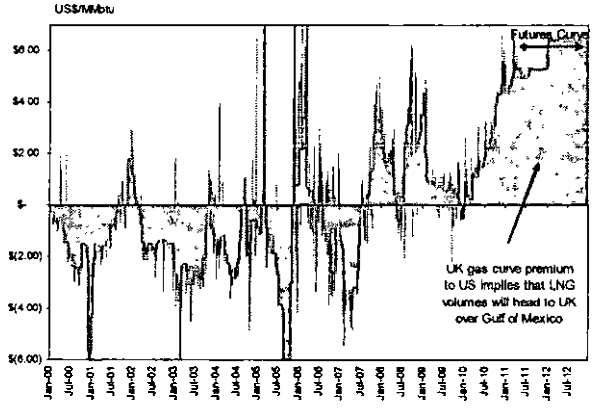
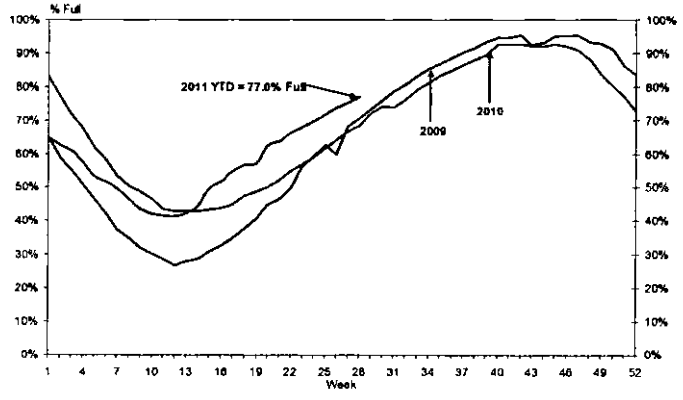


Exhibit 45: Global LNG Price Comparison

	Alba-nia	Argen-tina	Belgium	Brazil	Cana-port	China	Cove Point	India	France	Japan	Korea	Lake Charles	Spain	Taiwan	UK
Market**	$4.61	$13.06	$8.73	$8.93	$4.51	$13.63	$4.39	$12.67	$9.03	$13.91	$13.79	$3.98	$9.56	$13.75	$8.3
Algeria	$3.07	$12.19	$8.17	$7.66	$3.50	$10.78	$3.17	$10.93	$8.56	$10.73	$10.69	$2.42	$9.31	$10.93	$7.8
Egypt	$2.60	$12.19	$7.71	$7.24	$1.50	$11.26	$2.69	$11.40	$8.10	$11.22	$11.20	$1.95	$8.98	$11.43	$7.4
Nigeria	$2.72	$12.54	$7.39	$7.95	$3.00	$10.69	$2.78	$10.52	$7.79	$10.82	$10.82	$2.07	$8.36	$10.86	$7.1
Norway	$3.01	$11.62	$8.22	$7.20	$3.60	$8.88	$3.06	$10.09	$8.40	$9.82	$10.62	$2.36	$8.58	$10.05	$7.8
Peru	$1.58	$12.87	$5.73	$7.24	$1.64	$10.56	$1.53	$9.17	$6.02	$11.33	$10.98	$0.93	$6.65	$10.80	$5.3
Qatar	$1.38	$11.34	$6.54	$6.41	$1.64	$11.04	$1.52	$12.19	$6.94	$11.93	$11.91	$0.73	$7.84	$12.11	$6.2
Trinidad	$3.85	$12.58	$7.48	$8.12	$3.76	$9.76	$3.74	$9.82	$7.85	$9.72	$9.69	$3.20	$8.31	$9.95	$7.2
Yemen	$1.88	$11.64	$7.01	$6.56	$2.02	$11.04	$2.01	$12.19	$7.42	$11.03	$11.01	$1.23	$8.31	$12.11	$6.7

** Estimated August 2011 landed price

Exhibit 46: European Natural Gas Storage



Source (all Exhibits): Bloomberg, Waterborne, LNG Unlimited, EIA, IEA, Gas Infrastructure Europe, BMO Capital Markets estimates.

Basis and Transportation Update

Exhibit 47: US Gas Prices and Basis Differentials to Henry Hub ($/Mmbtu) – July 18, 2011

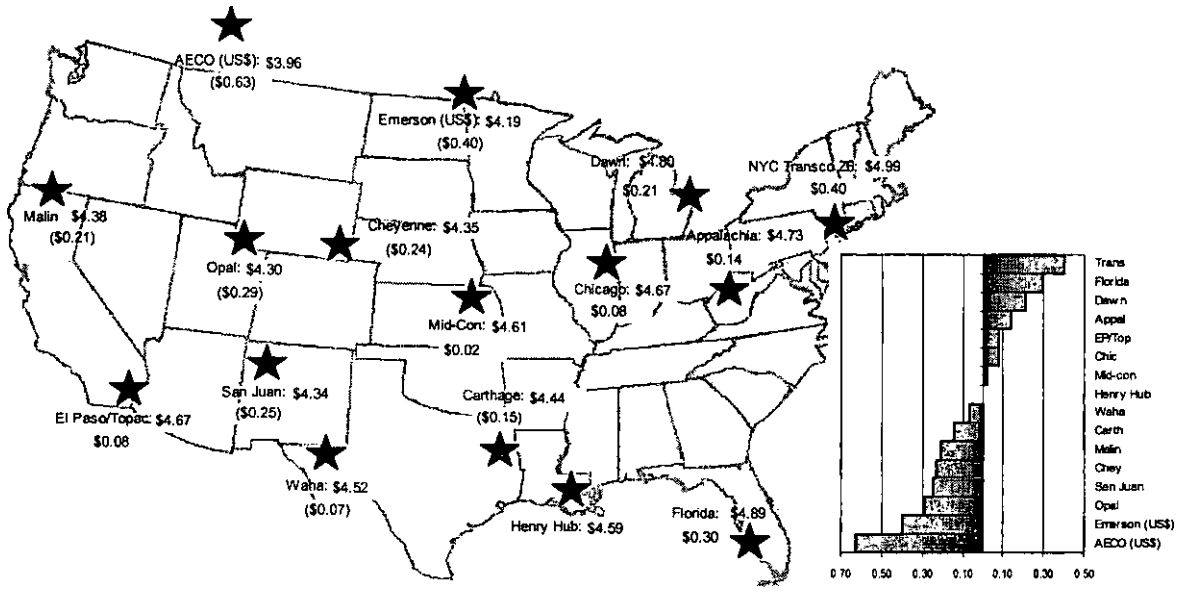
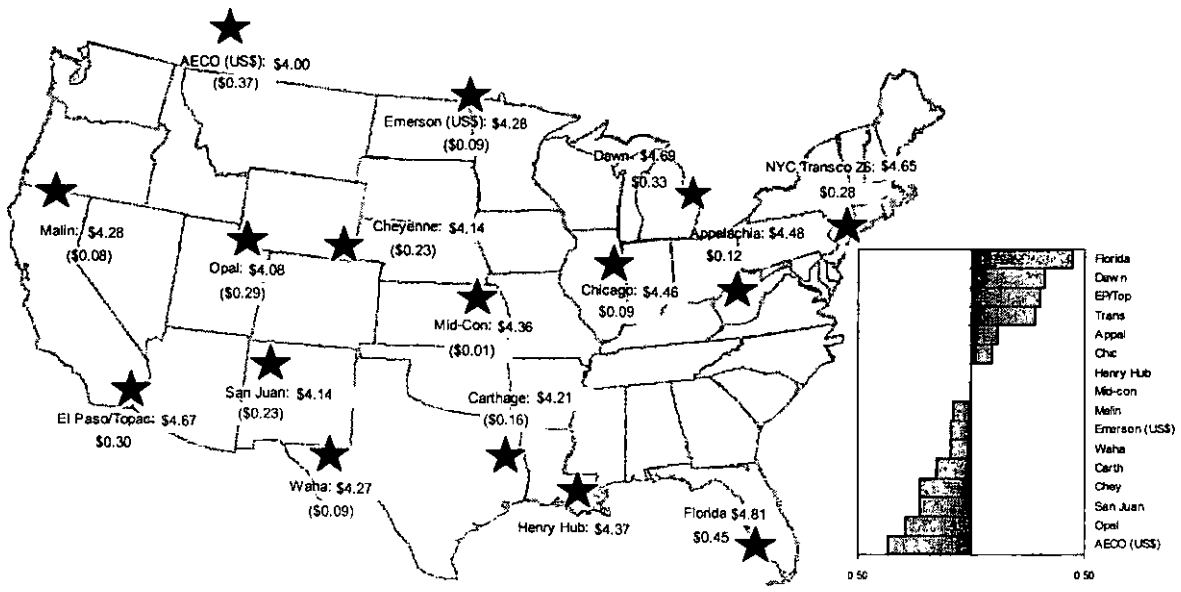


Exhibit 48: US Gas Prices and Basis Differentials to Henry Hub ($/Mmbtu) – 3rd Quarter to Date



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 49: NY Transco Zone 6 Basis

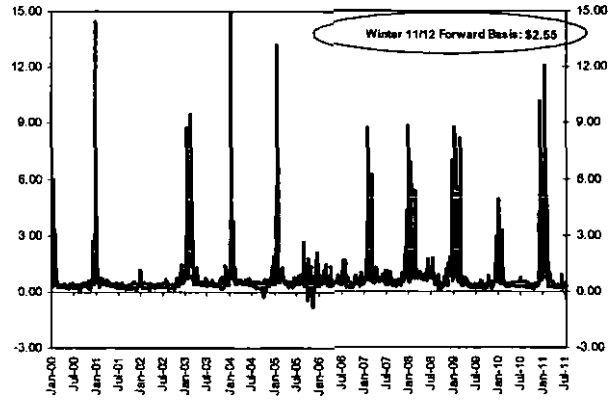


Exhibit 50: Appalachia Basis

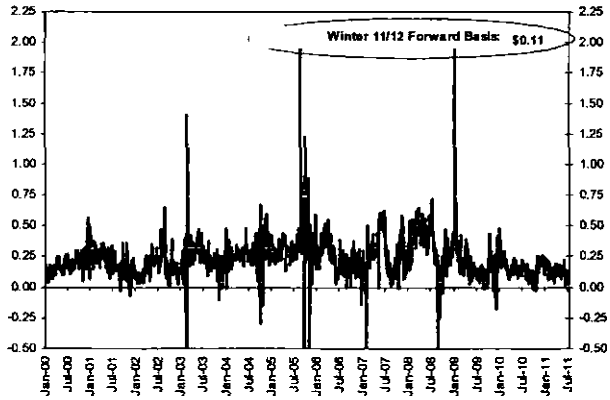


Exhibit 51: Mid Continent Basis

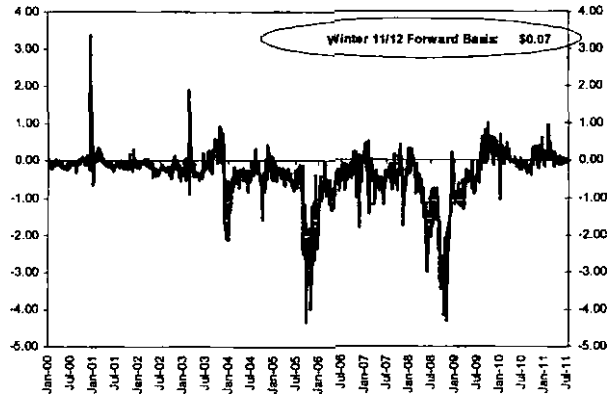


Exhibit 52: AECO Basis

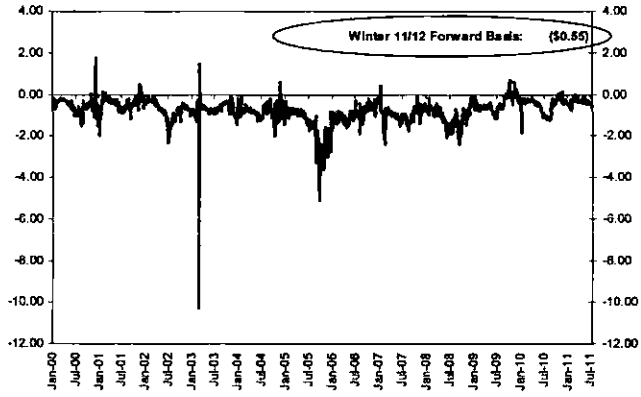


Exhibit 53: Rockies Basis

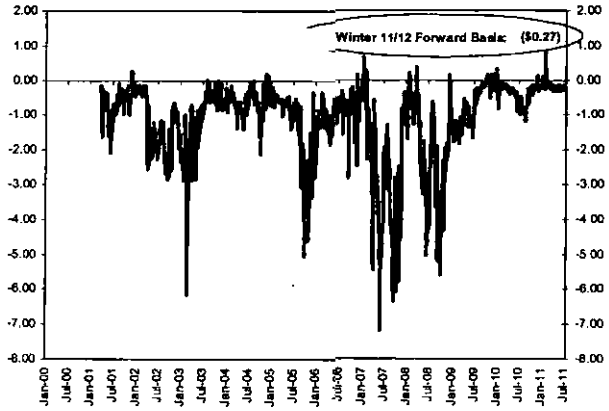
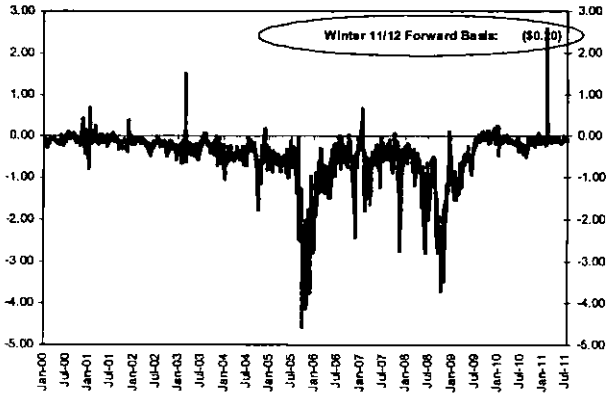


Exhibit 54: Waha Basis



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Relative Coal / Natural Gas Thermal Comparisons

Exhibit 55: Weighted Avg Coal vs. Natural Gas

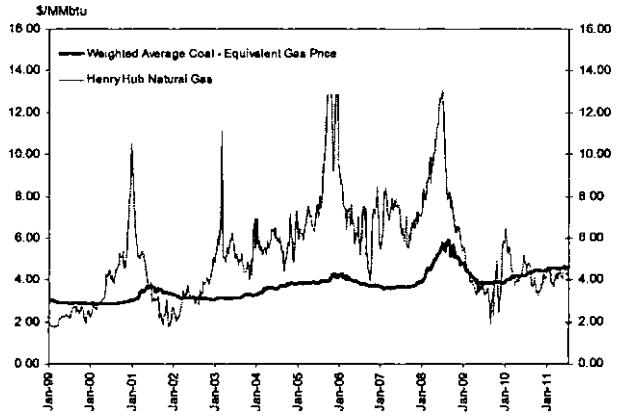


Exhibit 56: NAPP Coal vs. Natural Gas

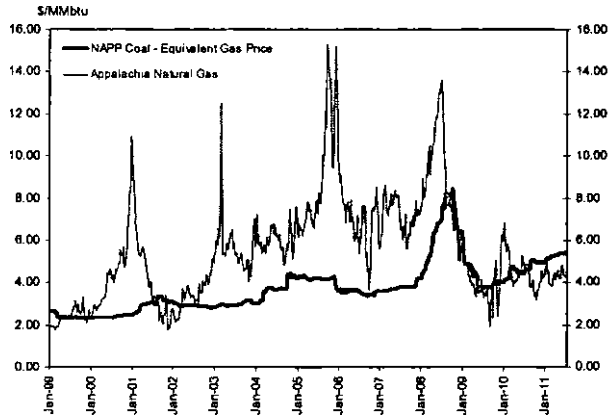


Exhibit 57: CAPP Coal vs. Natural Gas

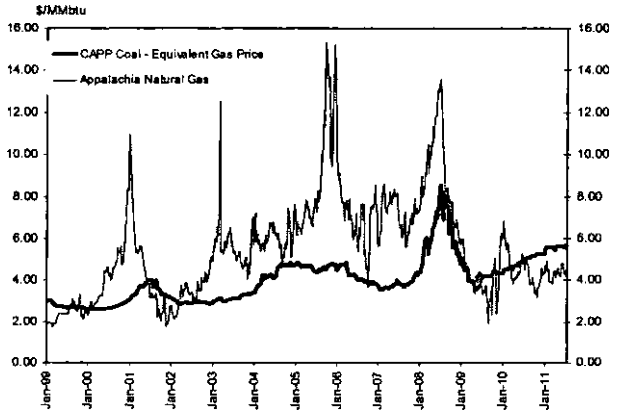


Exhibit 58: Interior Coal vs. Natural Gas

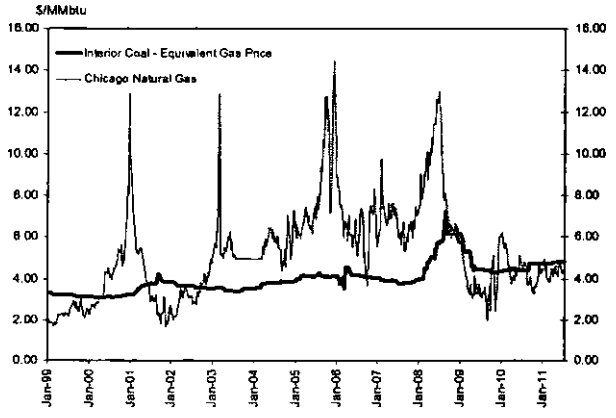


Exhibit 59: Southwest Coal vs. Natural Gas

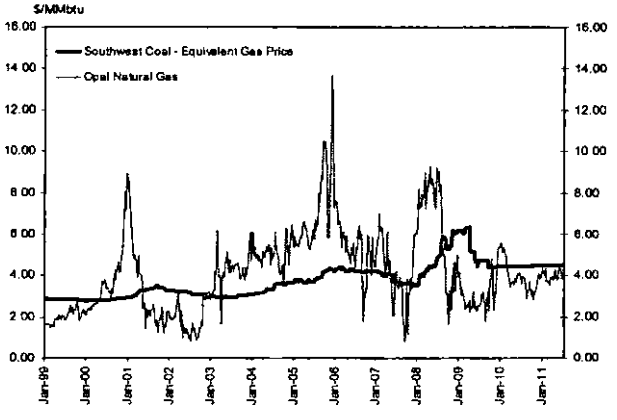
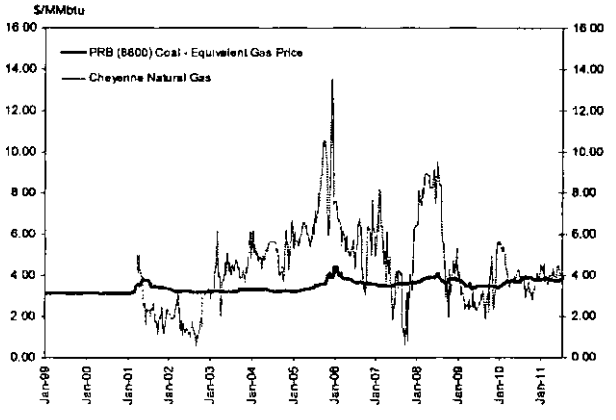


Exhibit 60: PRB Coal vs. Natural Gas



Source (all Exhibits): BMO Capital Markets estimates, Bloomberg.

Exhibit 61: 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)	$78.20	$79.65	$47.80	$41.00	$13.80
Transportation Expense	$20.00	$20.00	$30.00	$30.00	$30.00
Delivered Coal ($/ton)	$98.20	$99.65	$77.80	$71.00	$43.80
SO_2 Price ($/ton)	$1.88	$1.88	$1.88	$1.88	$1.88
SO_2 Cost ($/coal ton)	$0.07	$0.03	$0.11	$0.02	$0.01
SO_2 Cost ($/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)	$100.20	$101.53	$79.66	$72.72	$45.12
Total Coal Cost ($/MMbtu)	$3.85	$4.06	$3.38	$3.16	$2.56
Coal Plant Fuel Cost ($/Mwh)	$38.54	$40.61	$33.75	$31.62	$25.63
Plus: Variable O&M ($/Mwh)	$3.00	$3.00	$3.00	$3.00	$4.00
Total Variable Coal Cost ($/Mwh)	$41.54	$43.61	$36.75	$34.62	$29.63
Gas Equivalence					
CCGT Total Variable Fuel Cost ($/Mwh)	$41.54	$43.61	$36.75	$34.62	$29.63
Less: Variable O&M ($/Mwh)	($1.00)	($1.00)	($1.00)	($1.00)	($1.00)
CCGT Fuel Cost ($/Mwh)	$40.54	$42.61	$35.75	$33.62	$28.63
Equivalent Gas Price ($/Mmbtu, at the CCGT)	**$5.40**	**$5.68**	**$4.77**	**$4.48**	**$3.82**
Coal Weightings Across United States	**14%**	**23%**	**10%**	**8%**	**45%**
Weighted Average					**$4.62**

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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NiSource Inc (NI)

NIPSCO Rate Case Settlement Constructive

- Company Update
- Estimate Change

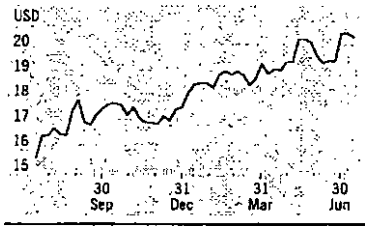
- **Event** - Earlier today, NiSource's regulated electric utility, NIPSCO electric, announced the details of a settlement on its rate case with the Indiana Utility Rate Commission (IURC). The settlements will allow NIPSCO to raise rates by $41 mm. The authorized ROE is 10.2%, on a rate base of $2.3 BN, and a 59% Equity component. NI originally requested a rate increase of $76 mm, 11.75% ROE and target Equity ratio of 46%. Our estimate was for a revenue increase of $50 mm, on a rate base of $2.5 BN and 48% Equity ratio. Overall, we view the outcome of the decision to be constructive.

- **Timing** – We expect the new rates to come in effect starting in 2012. We estimate this will contribute between $0.05-$0.08 to next year's earnings and is slightly lower than what we had estimated in our model. We estimate the achieved ROE following the rate increase will be close to 10% assuming a 59% Equity ratio.

- **Recommendation** – We continue to like management's progress in restoring the earnings power of the electric business and setting NIPSCO Electric up for stable earnings growth through investments in rate base. We maintain our Hold rating and $21 price target.

Hold/Medium Risk	2M
Price (19 Jul 11)	US$20.71
Target price	US$21.00
Expected share price return	1.4%
Expected dividend yield	4.4%
Expected total return	**5.8%**
Market Cap	US$5,801M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.72A	0.10A	0.06A	0.32A	1.19A	1.22A
2011E	**0.67E**	**0.16E**	**0.11E**	**0.47E**	**1.40E**	**1.34E**
Previous	0.67E	0.16E	0.11E	0.47E	1.40E	na
2012E	**0.71E**	**0.20E**	**0.15E**	**0.49E**	**1.54E**	**1.45E**
Previous	0.71E	0.20E	0.15E	0.49E	1.54E	na
2013E	**0.70E**	**0.22E**	**0.16E**	**0.50E**	**1.58E**	**1.50E**
Previous	na	na	na	na	1.58E	na

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

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Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	20.6	17.4	14.8	13.4	13.1
EV/EBITDA adjusted (x)	10.7	10.2	9.6	8.9	8.6
P/BV (x)	1.2	1.2	1.1	1.1	1.1
Dividend yield (%)	4.4	4.4	4.4	4.4	4.4
Per Share Data (US$)					
EPS adjusted	1.00	1.19	1.40	1.54	1.58
EPS reported	0.79	1.21	1.40	1.54	1.58
BVPS	17.57	17.58	18.14	18.71	18.92
DPS	0.92	0.92	0.92	0.92	0.92
Profit & Loss (US$M)					
Net sales	6,297	5,816	5,616	6,155	6,279
Operating expenses	-5,457	-4,921	-4,603	-5,043	-5,130
EBIT	**840**	**895**	**1,013**	**1,112**	**1,149**
Net interest expense	-399	-392	-387	-387	-387
Non-operating/exceptionals	19	19	8	6	0
Pre-tax profit	**459**	**522**	**635**	**731**	**762**
Tax	-183	-188	-228	-263	-274
Extraord./Min.Int./Pref.div.	-59	3	0	0	0
Reported net income	**218**	**337**	**406**	**468**	**487**
Adjusted earnings	277	334	406	468	487
Adjusted EBITDA	1,429	1,491	1,627	1,757	1,824
Growth Rates (%)					
Sales	-29.1	-7.6	-3.4	9.6	2.0
EBIT adjusted	-8.6	6.5	13.2	9.7	3.3
EBITDA adjusted	-3.8	4.4	9.1	8.0	3.8
EPS adjusted	-22.8	19.0	17.1	10.3	2.6
Cash Flow (US$M)					
Operating cash flow	**1,905**	**828**	**760**	**1,154**	**1,143**
Depreciation/amortization	589	596	614	645	675
Net working capital	686	-414	-260	42	-19
Investing cash flow	**-655**	**-943**	**-1,067**	**-1,067**	**-1,067**
Capital expenditure	-777	-804	-1,067	-1,067	-1,067
Acquisitions/disposals	6	1	0	0	0
Financing cash flow	**-1,000**	**211**	**-50**	**-62**	**-284**
Borrowings	-770	453	0	0	0
Dividends paid	-253	-256	-267	-279	-284
Change in cash	**-4**	**38**	**-357**	**26**	**-208**
Balance Sheet (US$M)					
Total assets	**19,272**	**19,939**	**20,234**	**20,813**	**20,571**
Cash & cash equivalent	191	212	203	203	203
Accounts receivable	809	1,178	1,077	1,183	998
Net fixed assets	10,684	11,097	11,551	11,973	12,074
Total liabilities	**14,418**	**15,016**	**14,954**	**15,127**	**14,739**
Accounts payable	502	582	394	485	353
Total Debt	6,787	7,353	7,701	7,675	7,516
Shareholders' funds	**4,854**	**4,923**	**5,280**	**5,686**	**5,831**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	22.7	25.6	29.0	28.5	29.0
ROE adjusted	5.8	6.8	8.0	8.5	8.5
ROIC adjusted	4.0	4.2	4.5	4.7	4.8
Net debt to equity	135.9	145.0	142.0	131.4	125.4
Total debt to capital	58.3	59.9	59.3	57.4	56.3

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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 Hold/Medium Risk (2M).

NI provides long-term earnings power of $1.40 per share, including growth from expected rate increases at Nisource's utilities. Our estimates do not include substantial industrial load growth at the utility or the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale.

Valuation

We average multiple valuation methodologies to derive our $21 target.

Our NAV yields a value of $23.70. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Based on regulatory uncertainty at NIPSCo, we apply a 15% discount to our typical utility multiple at the company's utility.

Our DDM, which incorporates our rate base growth assumptions, values the company at $17.84.

Our P/E and EV/EBITDA multiples (2012 estimates) 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 14.5X and 14.5x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 8.0x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of $22.35 and $18.84.

Risks

We rate NI Medium Risk as stability surrounding the company's highly regulated asset base is offset by uncertainty surrounding major rate cases at the utilities and potential upside from pipeline and storage asset growth into productive shale plays.

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.

Weather – Changes in weather impact the stability of earnings.

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.

Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings.

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.

Appendix A-1

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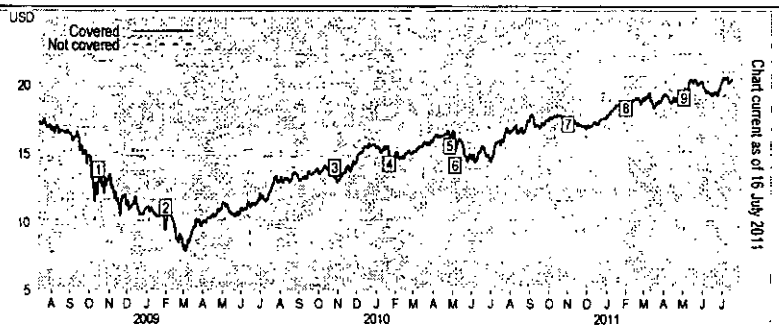
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NiSource Inc (NI)

Ratings and Target Price History

Fundamental Research

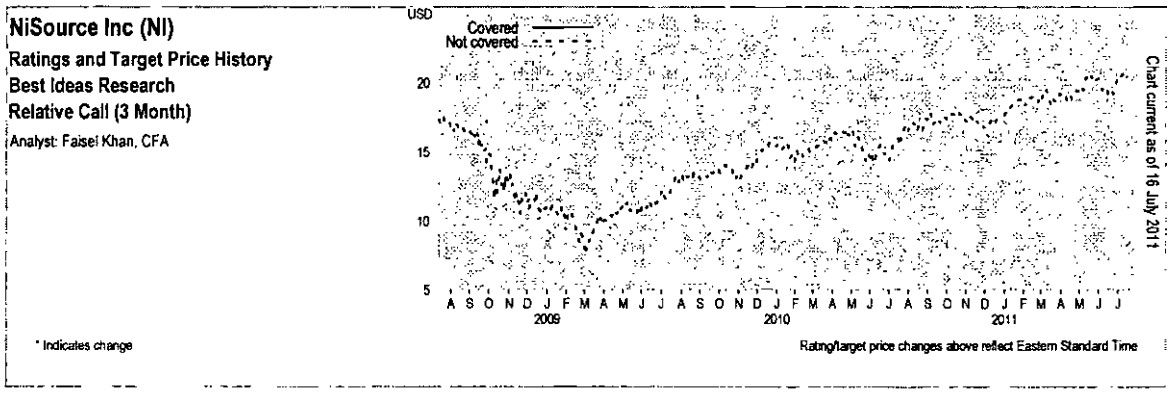
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	16-Oct-08	*1H	*15.00	12.91
2	2-Feb-09	1H	*14.00	9.38
3	27-Oct-09	1H	*15.00	13.47
4	21-Jan-10	*2M	*16.00	14.87
5	27-Apr-10	2M	*16.50	16.27
6	5-May-10	2M	*17.00	16.20
7	1-Nov-10	2M	*18.00	17.17
8	31-Jan-11	2M	*20.00	18.62
9	2-May-11	2M	*21.00	19.52

* Indicates change

Rating/target price changes above reflect Eastern Standard Time



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	12 Month Rating			*Relative Rating*		
Data current as of 30 Jun 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	54%	36%	11%	10%	81%	10%
% of companies in each rating category that are investment banking clients	45%	41%	42%	50%	42%	44%

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

Morgan Stanley

July 19, 2011

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Regulatory Initiatives Receive a Boost

NI's strategic plan to restore earnings power across its operations and specifically in its electric utilities received a vote of support with today's NIPSCO settlement filing. While the settlement still needs approval from the State of Indiana's Utility Regulatory Commission, we see it as both a positive catalyst for the stock and a fair and reasonable (potential) conclusion for NI and its customers.

What's new: NI (through NIPSCO) reached a collaborative settlement on its November 2010 rate case with its industrial customers and a coalition of northern Indiana Municipalities. The settlement still requires regulatory review by Indiana's utilities commission, and as a result of the mutually agreeable nature of the settlement, we believe that it has a strong likelihood of commission approval (expected in 1Q12). For residential customers, the settlement calls for a base rate increase limit of 4.5% (from ~8% in the original filing request). For industrial customers, expanded interruptible service would provide them with the ability to reduce or shift energy use.

What's the Impact. We see an approved settlement resulting in an ROE to NI of a modest ~10.2%. On an EBIT basis we believe that this could translate into a $35m - $45m, which is below the $65m - $75m anticipated at the time of the original filing. We are adjusting our EPS estimates for 2012/2013 a bit higher as we incorporate the full potential of the settlement into our numbers.

What's Next: Execution of $1+b capex plan. NI capital expenditures will focus on a broad array of projects including infrastructure modernization within its gas distribution business, environmental investments and trackers, and infrastructure expansions in the Marcellus within its gas transmission and storage businesses. We believe NI will accomplish its goal of sustainable long-term earnings growth of 3-5% annually, and deliver earnings near the high end of its initial guidance range of $1.25 – 1.35 per share for 2011E.

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Key Ratios and Statistics

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

Price target	$21.00
Shr price, close (Jul 18, 2011)	$20.26
Mkt cap, curr (mm)	$5,799
52-Week Range	$20.67-15.57

Fiscal Year ending	12/10	12/11e	12/12e	12/13e
ModelWare EPS ($)	1.20	1.36	1.51	1.56
Prior ModelWare EPS ($)	-	1.36	1.50	1.55
P/E	14.7	14.8	13.4	13.0
Consensus EPS ($)§	1.22	1.34	1.45	1.50
EV/EBITDA	8.7	8.9	8.4	8.2
EBITDA ($mm)	1,514	1,535	1,624	1,664
Div yld (%)	5.2	4.5	4.7	4.8
Div per shr ($)	0.92	0.92	0.95	0.98
Net debt ($mm)	8,064	7,673	7,597	7,623
Shrs out, diluted, avg (mm)	283	297	303	303

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

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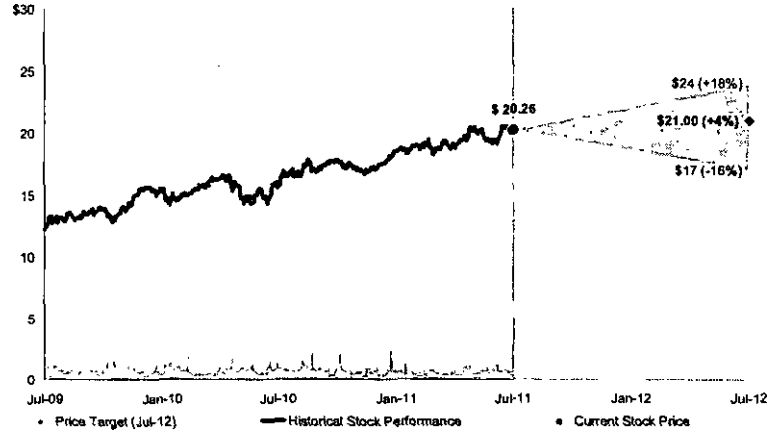
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MORGAN STANLEY RESEARCH

July 19, 2011
NiSource, Inc.

NiSource (NI, $20, Equal-weight, Price Target $21)

Risk-Reward View: Marcellus Midstream and Regulated Utilities



Source: FactSet, Morgan Stanley Research

Price Target $21		Derived from base case average of four valuation methodologies
Bull Case $24	9.5x GT&S '11e EBITDA, 8.5x Electric EBITDA	**Increasing Marcellus market share, and utilities outperform.** NI gains larger market share than its anticipated 25% from new production, fostering additional capital spend in the GT&S segment. Regulated utilities restore earnings power sooner than expected and earn ROEs at allowable rates.
Base Case $21	9x GT&S '11e EBITDA, 7.5x 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, coupled with fair rate case outcomes.
Bear Case $17	7.0x GT&S '11e EBITDA, 6.0x 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. Utility rate case outcomes prove unfavorable.

Sum-of-the-Parts Breakdown (see Appendix for details)

NiSource Inc.	Value ($ m)	$/Share
Gas Distribution	$4,901	$18
Gas Transmission & Storage	5,505	20
Electric Utility	3,750	13
Value per Share	**$14,156**	**$51**
Net Debt	(7,374)	(26)
Net Equity Value	**$6,782**	**$24**
Shares Outstanding (in mm)		280

Source: Morgan Stanley Research

Why Equal-weight?

- Near-term headwinds associated with restoring earnings power at regulated utilities segments (e.g. successful rate case outcomes and earning ROEs that are closer to the allowable rate).
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus provide exceptional long-term value.
- Expect earnings uplift from recovery in business units to pick up in 2012.

Key Value Drivers

- Executing Marcellus midstream projects on time and below budget (targeting $200m of projects per year over the next 3-4 years).
- Execution on its regulatory agenda (e.g., filing rate cases, operational improvement, implementing trackers / cost recovery mechanisms).
- Stable and predictable dividend.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies
- Announcement of additional Marcellus project or acquisition beyond those included in guidance (e.g., Renovo to Corning expansion).

Where We Could Be Wrong

- Regulatory risks associated with Marcellus drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

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July 19, 2011
NiSource, Inc.

Exhibit 1
NI Income Statement

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E
Net Revenues					
Gas Distribution	3,103,100	3,610,396	3,980,719	4,102,816	4,228,631
Gas Transportation and Storage	1,261,300	1,121,946	1,113,435	1,143,871	1,176,770
Electric	1,374,900	1,539,139	1,676,555	1,744,335	1,814,857
Other	78,600	30,800	-	-	-
Total Net Revenues	**5,817,900**	**6,302,281**	**6,770,709**	**6,991,023**	**7,220,258**
Operating Costs					
Cost of Sales	2,379,200	2,649,453	2,837,821	2,936,367	3,032,296
Operation and maintenance	1,655,700	1,830,311	2,005,464	2,075,236	2,143,718
Depreciation and amortization	596,300	536,752	542,500	556,186	570,216
Other taxes	284,400	299,849	315,640	327,739	336,893
Total Operating Costs	**4,915,600**	**5,316,365**	**5,701,425**	**5,895,528**	**6,083,122**
Equity Earnings (Loss) in Uncon. Affillates	**15,000**	**12,090**	**12,395**	**12,708**	**13,029**
EBIT	**917,300**	**998,006**	**1,081,679**	**1,108,203**	**1,150,164**
EBITDA	**1,513,600**	**1,534,758**	**1,624,180**	**1,664,388**	**1,720,380**
Other Income					
Interest expense, net	(392,200)	(376,069)	(381,692)	(381,692)	(381,692)
Other income	3,800	13,200	13,200	13,200	13,200
Inc. from continuing operations bef Inc. taxes	**528,900**	**635,137**	**713,187**	**739,711**	**781,672**
Income tax (provision)	189,300	229,751	256,378	267,009	281,559
Operating Net income (Loss)	**339,600**	**405,386**	**456,809**	**472,701**	**500,113**
Net Income per Share (Operating)	**$1.20**	**$1.36**	**$1.51**	**$1.56**	**$1.65**
Net Income per Share (GAAP)	**$1.04**	**$1.36**	**$1.51**	**$1.56**	**$1.65**
Weighted Avg Diluted Units Outstanding	282,600	297,121	303,182	303,182	303,182
Dividends per share	0.92	0.92	0.95	0.98	1.01

Source: Company data, Morgan Stanley Research

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July 19, 2011
NiSource, Inc.

Exhibit 2
NI Operating Data

	2010	2011E	2012E	2013E	2014E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	258.1	265.2	270.5	274.6	278.7
Commercial	166.8	174.6	178.1	180.7	183.4
Industrial	386.0	416.8	425.2	431.6	438.0
Off System	71.9	76.0	77.5	78.6	79.8
Other	0.9	1.2	1.2	1.2	1.2
Total Sales and Transports	**883.7**	**933.8**	**952.4**	**966.7**	**981.2**
Weather Adjustment	5.2	(29.2)	(29.2)	(29.2)	(29.2)
Sales and Transport Vols — Excluding Weather	**888.9**	**904.6**	**923.2**	**937.5**	**952.0**
y/y change	*6.8%*	*1.8%*	*2.1%*	*1.5%*	*1.5%*
Sales Price ($ / Dth)	$4.14	$4.23	$4.31	$4.38	$4.44
y/y change	*-11.7%*	*2.2%*	*2.0%*	*1.5%*	*1.5%*
COGS Price ($ / Dth)	$2.32	$2.36	$2.41	$2.44	$2.48
y/y change	*-15.6%*	*1.8%*	*1.7%*	*1.6%*	*1.4%*
Gross Margin ($ / Dth)	$1.81	$1.86	$1.91	$1.93	$1.96
y/y change	*-6.1%*	*2.7%*	*2.3%*	*1.3%*	*1.6%*
GAS TRANSMISSION & STORAGE					
Throughput (MMDth):					
Columbia Transmission	1,092.4	1,166.7	1,248.4	1,273.4	1,298.9
Columbia Gulf	848.4	921.8	967.9	987.2	1,007.0
Crossroads Gas Pipeline	25.4	23.3	24.4	24.9	25.4
Total throughput	**1,966.2**	**2,111.8**	**2,240.7**	**2,285.5**	**2,331.2**
Intrasegment eliminations	(568.7)	(577.2)	(634.7)	(643.3)	(651.2)
Total third-party throughput	**1,397.5**	**1,534.6**	**1,606.0**	**1,642.2**	**1,680.1**
y/y change	*0.4%*	*9.8%*	*4.7%*	*2.3%*	*2.3%*
Tariff ($ / Dth)	$0.52	$0.52	$0.54	$0.55	$0.55
y/y change	*0.1%*	*0.4%*	*3.8%*	*1.0%*	*1.1%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,625.6	3,693.9	3,878.6	3,975.6	4,075.0
Commercial	3,919.9	3,997.1	4,396.8	4,506.7	4,619.3
Industrial	8,459.0	9,009.9	9,801.3	10,046.3	10,297.5
Wholesale	817.1	797.1	837.0	857.9	879.4
Other	186.4	197.1	203.0	209.1	215.3
Total sales	**17,008.0**	**17,695.0**	**19,116.6**	**19,595.6**	**20,086.5**
Weather Adjustment	(500.2)	(17.5)	-	-	-
Total sales volumes — Adj. for weather impacts	**16,507.8**	**17,677.5**	**19,116.6**	**19,595.6**	**20,086.5**
y/y change	*4.0%*	*7.1%*	*8.1%*	*2.5%*	*2.5%*
Revenue ($ / Gigawatt hour)	$83.78	$83.94	$87.70	$89.02	$90.35
y/y change	*6.1%*	*0.2%*	*4.5%*	*1.5%*	*1.5%*
COGS ($ / Gigawatt hour)	$30.80	$31.29	$32.28	$32.89	$33.45
y/y change	*7.1%*	*1.6%*	*3.2%*	*1.9%*	*1.7%*
Gross Margin ($ / Gigawatt hour)	$52.99	$52.65	$55.42	$56.12	$56.90
y/y change	*5.6%*	*-0.6%*	*5.3%*	*1.3%*	*1.4%*

Source: Company data, Morgan Stanley Research

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July 19, 2011
NiSource, Inc.

Exhibit 3
NI Balance Sheet

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E
ASSETS					
Cash and cash equivalents	9,200	220,980	296,689	270,741	297,791
Restricted cash	202,900	164,900	164,900	164,900	164,900
Accounts receivable	1,079,300	849,540	912,519	919,354	960,579
Income tax receivable	99,000	20,400	20,400	20,400	20,400
Gas inventory	298,200	383,800	436,436	416,276	440,470
Regulatory assets	151,800	112,600	112,600	112,600	112,600
Other	120,800	119,700	119,700	119,700	119,700
Total Current Assets	**2,448,900**	**2,232,320**	**2,423,644**	**2,384,371**	**2,476,840**
Net Property, Plant and Equipment	**11,097,000**	**11,370,948**	**11,728,447**	**12,063,262**	**12,357,316**
Unconsolidated affiliates	200,900	202,600	202,600	202,600	202,600
Other investments	139,700	136,300	136,300	136,300	136,300
Price risk management assets	240,300	188,300	188,300	188,300	188,300
Regulatory assets	1,650,400	1,661,200	1,661,200	1,661,200	1,661,200
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	308,600	305,900	305,900	305,900	305,900
Deferred charges, Postretiremen, other	167,800	179,100	179,100	179,100	179,100
TOTAL ASSETS	**19,938,800**	**19,956,267**	**20,505,092**	**20,800,633**	**21,187,156**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	34,200	36,400	36,400	36,400	36,400
Short-term borrowings	1,382,500	1,263,000	1,263,000	1,263,000	1,263,000
Accounts payable	581,800	515,073	584,395	563,805	592,424
Dividends payable	100	64,500	64,500	64,500	64,500
Customer deposits and credits	318,100	181,600	181,600	181,600	181,600
Taxes accrued	221,100	244,400	244,400	244,400	244,400
Interest accrued	114,400	61,200	61,200	61,200	61,200
Price risk management liabilities	173,900	146,100	146,100	146,100	146,100
Exchange gas payable	266,100	139,400	139,400	139,400	139,400
Deferred revenue	6,800	7,800	7,800	7,800	7,800
Regulatory liabilities	92,900	87,400	87,400	87,400	87,400
Acc liab for post-retirement / -employment benefits	23,300	23,300	23,300	23,300	23,300
Other accruals	336,400	249,200	249,200	249,200	249,200
Total Current Liabilities	**3,649,400**	**3,181,573**	**3,250,895**	**3,230,305**	**3,258,924**
Long-term debt, excl amounts due within one year	5,936,100	5,927,600	5,927,600	5,927,600	5,927,600
Price risk management liabilities	181,600	135,500	135,500	135,500	135,500
Deferred income taxes	2,209,700	2,340,200	2,340,200	2,340,200	2,340,200
Deferred inc. taxes, credits, other	102,600	104,900	104,900	104,900	104,900
Acc liability for post-retirement/-employment benefits	1,039,600	944,700	944,700	944,700	944,700
Regulatory liabilities and other removal costs	1,595,800	1,612,000	1,612,000	1,612,000	1,612,000
Asset retirement obligations	138,800	140,100	140,100	140,100	140,100
Other noncurrent liabilities	162,000	163,400	163,400	163,400	163,400
Total Other Liabilities and Deferred Credits	**11,366,200**	**11,368,400**	**11,368,400**	**11,368,400**	**11,368,400**
Common stock	2,800	2,800	2,800	2,800	2,800
Additional paid-in capital	4,103,900	4,320,100	4,420,100	4,420,100	4,420,100
Retained earnings	901,800	975,963	1,146,195	1,322,982	1,518,303
Treasury stock	(57,900)	(30,200)	(30,200)	(30,200)	(30,200)
Accumulated other comprehensive loss	(27,400)	137,631	346,902	486,246	648,829
Total Common Stockholders' Equity	**4,923,200**	**5,406,295**	**5,885,797**	**6,201,928**	**6,559,833**
TOTAL CAPITALIZATION & LIABILITIES	**19,938,800**	**19,956,267**	**20,505,092**	**20,800,633**	**21,187,156**
CONSOLIDATED DEBT METRICS					
Average Total Debt	7,070,100	7,289,900	7,227,000	7,227,000	7,227,000
Average Net Debt	7,057,300	7,174,810	6,968,166	6,943,285	6,942,734
Net Debt/ Total Book Capitalization	59.1%	58.1%	55.2%	53.5%	52.1%
Average Debt/ EBITDA	4.7x	4.7x	4.4x	4.3x	4.2x
Average Interest Rate	5.5%	5.2%	5.3%	5.3%	5.3%

Source: Company data, Morgan Stanley Research

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July 19, 2011
NiSource, Inc.

Exhibit 4
NI Cash Flow Statement

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E
Cash from Operating Activities					
Net Income	292,000	405,786	456,809	472,701	500,113
Debt: Gain Early Extinguishment / Amort Disc.+Premium	107,000	-	-	-	-
Depreciation and Amortization	596,300	536,752	542,500	556,186	570,216
Net Changes in Price Risk Mgmt A / L	(5,500)	14,300	-	-	-
Deferred: Inc. Tax/Credits; Revenues	179,700	100,100	-	-	-
Stock Compensation Expense	30,900	7,800	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	2,000	700	-	-	-
Income from Unconsolidated Affiliates	(14,800)	(3,100)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	2,600	(15,100)	-	-	-
AFUDC Equity	(6,100)	(1,400)	-	-	-
Dist. of Earnings Received from Equity Investee	12,900	1,800	-	-	-
Other	(55,000)	-	-	-	-
Changes in Assets and Liabilities:	**(419,800)**	**(30,267)**	**(46,293)**	**(7,265)**	**(36,800)**
Net cash from operating activities	**722,200**	**1,017,371**	**953,016**	**1,021,622**	**1,033,529**
Cash from Investing Activities					
Capital Expenditures	(803,800)	(837,600)	(900,000)	(891,000)	(864,270)
Insurance Recoveries	5,000	-	-	-	-
Proceeds from Disposition of Assets	500	5,500	-	-	-
Restricted Cash Deposits (Borrowings)	(28,200)	38,000	-	-	-
Contributions to Equity Investments	(64,100)	-	-	-	-
Other Investing Activities	(53,100)	(9,200)	-	-	-
Net cash from investing activities	**(943,700)**	**(803,300)**	**(900,000)**	**(891,000)**	**(864,270)**
Cash from Financing Activities					
Issuance of Long-Term Debt	250,000	(2,800)	-	-	-
Retirement/Repurchase of Long-Term Debt	(977,700)	(8,200)	-	-	-
Change in Short-Term Borrowings, Net	1,279,500	74,831	209,271	139,344	162,583
Issuance of Common Stock	14,400	203,700	100,000	-	-
Acquisition of Treasury Stock	(1,400)	(2,700)	-	-	-
Dividends Paid - Common Stock	(255,600)	(267,123)	(286,577)	(295,914)	(304,791)
Other	(94,900)	-	-	-	-
Net cash from financing activities	**214,300**	**(2,291)**	**22,693**	**(156,569)**	**(142,208)**
Net change in cash	**(7,200)**	**211,780**	**75,709**	**(25,948)**	**27,050**
Cash at beginning of period	**16,400**	**9,200**	**220,980**	**296,689**	**270,741**
Cash at end of period	**9,200**	**220,980**	**296,689**	**270,741**	**297,791**

Source: Company data, Morgan Stanley Research

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July 19, 2011
NiSource, Inc.

Exhibit 5
NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$4,901	**$18**
Gas Transmission & Storage	5505	**$20**
Electric Utility	3750	**$13**
Value	**$14,156**	**$51**
Net Debt	**(7,374)**	**(26)**
Net Equity Value	**$6,782**	**$24**
Shares Outstanding (in m)		280

GAS DISTRIBUTION	
Forward EBITDA (2012E)	$613
Forward multiple	8.0x
Enterprise value	**$4,901**

GAS TRANSMISSION & STORAGE	
Forward EBITDA (2012E)	$612
Forward multiple	9.0x
Enterprise value	**$5,505**

ELECTRIC UTILITY	
Forward EBITDA (2012E)	$500
Forward multiple	7.5x
Enterprise value	**$3,750**

Source: Company data, Morgan Stanley Research

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July 19, 2011
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MORGAN STANLEY ModelWare

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July 19, 2011
NiSource, Inc.

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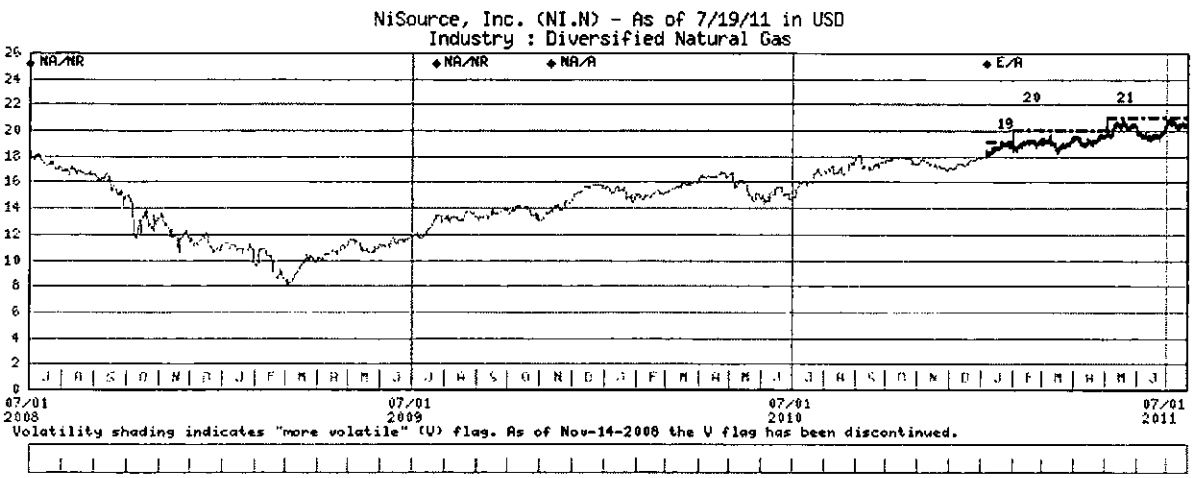
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Stock Rating History: 7/1/08 : NA/NR; 7/23/09 : NA/NR; 11/10/09 : NA/A; 1/6/11 : E/A
Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21

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) ▬
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July 19, 2011
NiSource, Inc.

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NiSource, Inc.

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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (07/19/2011)
Stephen J. Maresca, CFA		
El Paso Corp. (EP.N)	O (05/10/2010)	$20.23
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$22.24
National Fuel Gas Co (NFG.N)	O (01/06/2011)	$72.25
NiSource, Inc. (NI.N)	E (01/06/2011)	$20.71
Oneok Inc. (OKE.N)	E (10/29/2010)	$74.84
Questar Corp. (STR.N)	U (10/29/2010)	$18.2
Southern Union Company (SUG.N)	E (11/10/2009)	$44.34
Spectra Energy Corp. (SE.N)	E (11/10/2009)	$27.35
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$30.64

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Article



Tuesday, July 19, 2011 12:09 PM ET RRA

UPDATE: RRAlert--Parties file settlement in Northern Indiana Public Service's electric rate proceeding

By Russell Ernst

On July 18, Northern Indiana Public Service (NIPSCO), the Indiana Office of Utility Consumer Counsel, the NIPSCO Industrial Group, NLMK Indiana (a steel mill), and the Indiana Municipal Utilities Group filed a settlement in NIPSCO's pending electric base rate proceeding. It appears that the settlement calls for a $6.9 million (0.5% of test year revenues) rate increase premised upon a 10.2% return on equity (46.53% of a regulatory capital structure) and a 6.98% return on a $2.7 billion original-cost rate base. (Although the settlement does not explicitly state the amount of the agreed-upon increase, the settlement does state that the stipulated increase is a $68.9 million downward adjustment to the company's original $75.7 million requested increase.) The settlement specifies that NIPSCO would reflect, in its statutory quarterly "earnings test" filings, an authorized $188.9 million level of net operating income (NOI), and that NIPSCO's "earnings bank" utilized in these filings would be reset to $200 million. The settlement specifies that NIPSCO is to utilize tracking mechanisms for incremental variations in certain revenues and costs associated with participation in the Midwest Independent System Operator (MISO) regional transmission organization, and for incremental changes in purchased capacity costs; these trackers had been approved by the URC in 2010 in a separate proceeding (see below). The parties state that the stipulated cost allocation results in "fair and reasonable rates and charges." The parties had reached an agreement-in-principle on July 12, and request that the Indiana Utility Regulatory Commission (URC) render a decision by Dec. 31, 2011.

We note that although not an issue in this case, but coincident with a URC order in this proceeding, NIPSCO is to realize an approximate $58 million revenue increase related to the expiration of an existing customer credit. In addition, the company is to realize an incremental $33 million revenue increase related to the expiration of certain industrial customer discounts.

This proceeding (Cause No. 43969) was initiated on Nov. 19, 2010, when NIPSCO, a subsidiary of NiSource, filed with the URC for a $75.7 million (5.9% of test-year revenues) rate increase premised upon an 11.75% return on equity (46.53% of a regulatory capital structure) and a 7.7% return on an original-cost rate base valued at $2.71 billion for a test period ended June 30, 2010. NIPSCO cited increased operating costs, primarily higher pension expense, and reduced customer usage as necessitating the request. The company proposed to reflect, in its quarterly earnings test filings an authorized $250 million level of NOI that is higher than the level ($208 million) used to determine base rates in this case; the company stated that its earnings-test proposal reflected a $4.81 billion fair-value rate base. The company indicated that the $250 million NOI incorporated in the earnings test would have provided earnings headroom in the event that actual NOI exceeds the level utilized to determine base rates in this case. NIPSCO indicated that this rate case would resolve outstanding matters from the company's previous electric base rate case, which was decided in August 2010.

In its August 2010 rate decision for NIPSCO, the URC ordered the company to reduce base rates by $48.9 million premised upon a 9.9% return on equity (49.95% of a regulatory capital structure) and a 7.29% return on a rate base valued at $2.639 billion for a calendar-2007 test year, updated for known-and-measurable changes through Dec. 31, 2008 (Cause No. 43526). The required rate reduction did not reflect the impact of the expiration of a $55.1 million annual rate credit or the expiration of $80.1 million of discounted industrial customer contracts (see the Final Report dated 9/22/10). Certain parties to Cause No. 43526 subsequently filed for rehearing of certain rate-design-related aspects of the URC's final order. In addition, these parties formally objected to NIPSCO's compliance tariffs. Because the compliance filing has yet to be approved, the rate change incorporated in the August 2010 order has not yet been implemented. (Certain parties appealed the URC's order to the Indiana Court of Appeals; however, at the request of the parties, the Court subsequently granted a stay of its review of the matter, pending a possible resolution of the related issues by the company and the parties.)

NIPSCO indicated that its filing in the instant case was intended to address certain parties' concerns pertaining to the rate design reflected in the company's compliance tariffs in Cause 43526. The instant request incorporated certain "policy determinations" reflected in the URC's order, including: approval of a tracking mechanism to reflect incremental variations in certain revenues and costs associated with participation in MISO; and, approval of a "resource adequacy" tracker to reflect incremental changes in purchased capacity costs. NIPSCO stated that the filing reflected a "moderated" rate increase for residential customers versus the increase reflected in the company's compliance filing in the prior case.

Please note that any use of the word "we" in this article refers to the opinion of RRA, and not necessarily that of its affiliate SNL Financial. The author of this article can be reached at (201) 433-5507. This article was amended at 3:50pm on July 19, 2011, to clarify certain aspects of the company's stipulated rate increase.

December 22, 2011
ENERGY: Multi- Utilities
Quick Alert

KeyBanc
Capital Markets

NiSource, Inc. (HOLD)

NI - Quick Alert: Electric Rate Case Settlement Approved

KeyBanc Capital Markets Inc.
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KEY INVESTMENT POINTS
December 21, 2011 Close: $23.21
2011 KBCM EPSEstimate: $1.35 (Consensus: $1.35)
2012 KBCM EPS Estimate: $1.45 (Consensus: $1.45)

On December 21, the Indiana Utility Regulatory Commission (IURC) adopted NI's pending electric rate case settlement without modifications for Northern Indiana Public Service (NIPSCO) with a 10.2% ROE (46.5% equity layer) and overall 6.98% rate of return on $2.7 billion rate base.

Using required net operating income and adding back tax impacts, we view the pre- tax earnings impact of the current settlement and order to be approximately $41 million compared to the adjusted test- year.

The current settlement and order allowed customer rate design and revenue requirement allocations to stand as proposed as being fair and reasonable to all parties and balancing the public interest. The IURC order did state that the next rate case filing should have revenue allocation based on a cost of service analysis, which we believe directionally shows the Commission's preference towards having all customer classes pay their fair share of costs of service.

Recall, that NIPSCO had filed back on November 19, 2010 for a $75.7 million rate increase based on an 11.75% ROE (46.5% equity layer) and an overall 7.7% rate of return on $2.7 billion rate base for test period ending June 30, 2010, citing operating costs, pension expense, and lower customer usage as reasons for the request. This followed an August 2010 rate decision that was not implemented due to some parties filing for rehearing and appealing aspects of rate design. The current order effectively resolves all outstanding issues in the prior case.

We view the settlement being approved without modifications favorably and believe the outcome was slightly better than expectations, as we had heard investor concerns over the potential for changes by the Commission to the settlement (rarely in the Company's favor).

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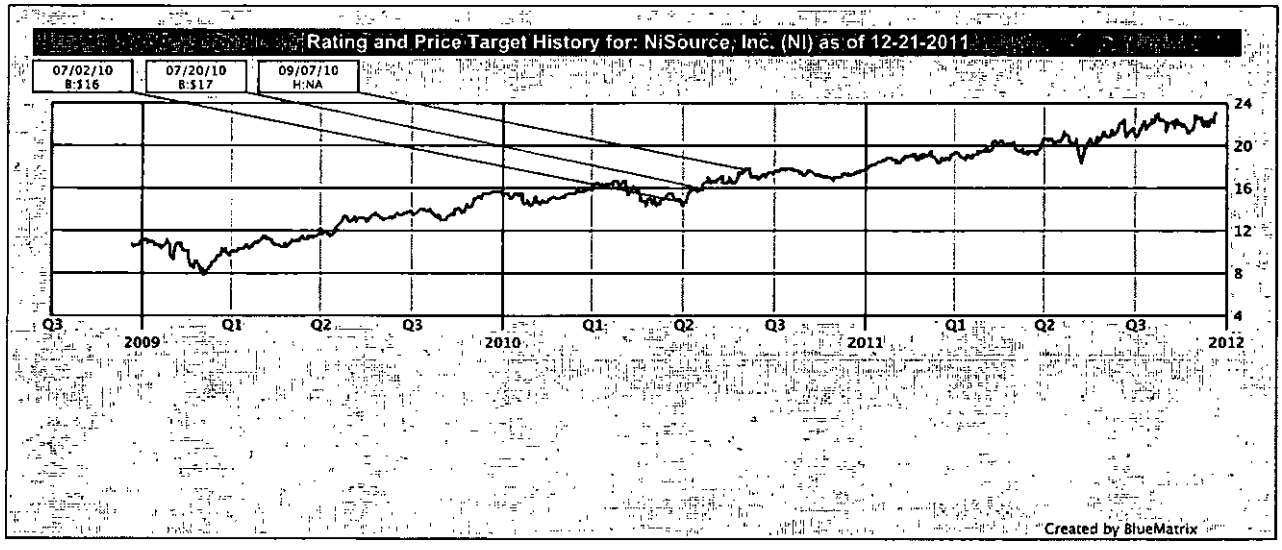
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Three- Year Rating and Price Target History



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HOLD [HOLD]	264	52.90	55	20.83	HOLD [HOLD]	40	52.60	20	50.00
SELL [UND]	2	0.40	0	0.00	SELL [UND]	0	0.00	0	0.00

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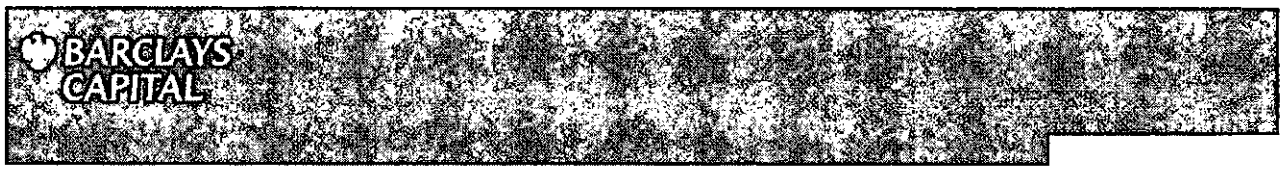
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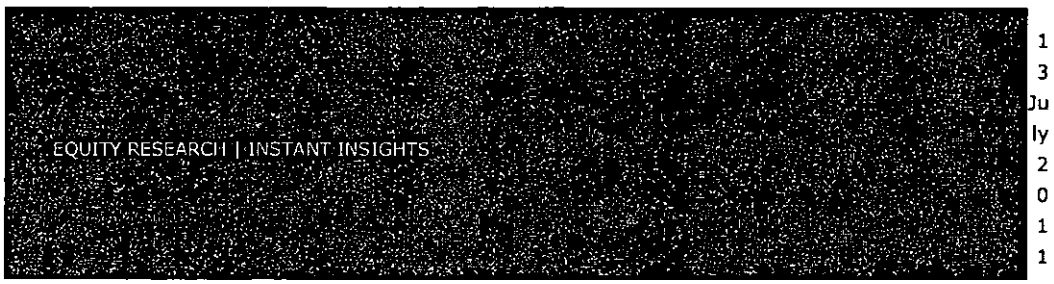
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After the close, NI filed a settlement in principle in the ongoing NIPSCO electric rate case. Parties to the settlement were the OUCC, Beta Steel, and the Indiana Municipal group. Work continues with remaining intervenors. While no details are currently available on the terms of the agreement, a full stipulation and settlement agreement is expected to be filed on or before July 18th that will flush out the terms. The company's supporting testimony will be filed on July 22nd, with the settling parties to file supporting testimony on July 29th.

We view this settlement agreement in principle favorably for NI. Continuing the positive trend the company started in 2010 with the NIPSCO Gas settlement, that balanced fairly the interests of involved stakeholders, we look towards the 18th to see how terms of this deal come out.

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July 13, 2011
ENERGY: Multi-Utilities
Quick Alert

KeyBanc
Capital Markets

NiSource, Inc. (HOLD)

NI - Quick Alert: Incremental Settlement Progress in Indiana

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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KEY INVESTMENT POINTS

NI released an 8-K filing on July 12 indicating that parties had reached a settlement in principle with most major intervenors resolving all outstanding issues.

The 8-K indicates that the settlement will be filed with the Indiana commission next week. No details of the settlement were included in the filing. Given the development of the settlement in principle, parties did not file intervenor testimony that was due on July 12. We had viewed the date as critical, in that we felt settlement odds would diminish greatly once the parties' positions were filed.

We note that the industrial users are not party to the settlement in principle. However, we understand that the group continues to be actively engaged in discussions and was supportive of yesterday's 8-K filing.

Incrementally, we view this development as a positive, especially since a recent trip to meet with management left us feeling settlement could be difficult. We now remain cautiously optimistic that the industrial users may be brought aboard in the coming days of discussion. Absent inclusion of the industrial group, we believe a partial settlement could act to resolve many of the issues pending in the case.

We expect a modestly positive reaction in the shares today as the news is incrementally positive, while the lack of full support from the important industrials will allow a level of uncertainty to continue.

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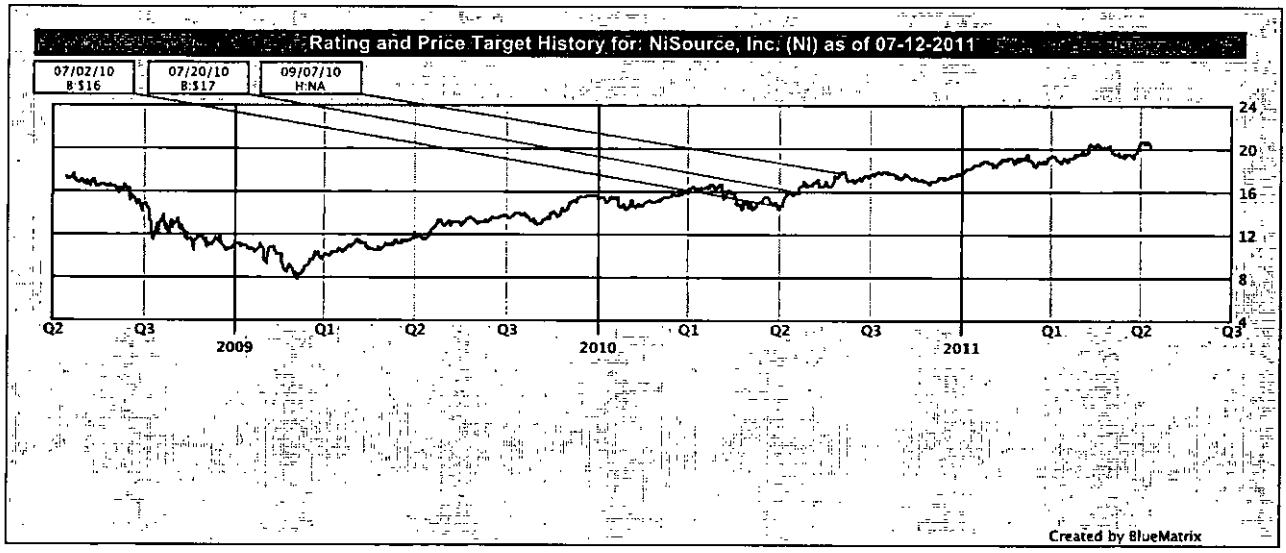
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HOLD [HOLD]	225	50.00	43	19.11	HOLD [HOLD]	36	52.90	17	47.22
SELL [UND]	2	0.40	0	0.00	SELL [UND]	0	0.00	0	0.00

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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.

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.

WUNDERLICH SECURITIES

Energy: Utilities/Power

NISOURCE INC. (NI: 20.21)

July 13, 2011

Company Update
Rating: Hold
Price Target: $19.00

Market Data	
12-18 Month Price Target	$19.00
52-Week Range	20.67 - 15.56
ADTV - 90Day (MM)	2,653.3
Market Cap ($MM)	5,660.5
Shares Out (MM)	278.9
Public Market Float (MM)	277.7
Dividend	0.92
Dividend/Yield	4.55%

EPS ($)

FY DEC	2010	2011		2012	
	Actual	Previous	Current	Previous	Current
Q1	$0.72A	–	$0.72A	–	–
Q2	$0.13A	–	$0.11E	–	–
Q3	$0.04A	–	$0.09E	–	–
Q4	$0.33A	–	$0.40E	–	–
YEAR	$1.22A	–	$1.32E	–	$1.42E

2009 and 2010 actuals are non-GAAP, operating earnings. GAAP EPS for '09 and '10 were $0.84 and $1.06, respectively.

Valuation Ratio

	FY10	FY11	FY12
P/E	16.6x	15.3x	14.2x
PEG	4.1x	3.8x	3.6x
EV/S	2.0x	2.0x	1.9x
EV/EBITDA	8.4x	8.5x	8.1x
Leverage Ratio	4.8x	4.9x	4.7x
EV/FCF	NM	141.6x	105.0x
FCF Yield	NM	1.6%	2.2%
P/FCF	(67.5)x	62.5x	46.4x

Financial Data

	FY10	FY11	FY12
Revenue	6,422.0A	6,490.7E	6,612.3E
EBIT	$925.1A	$956.2E	$1,014.1E
EBITDA	1,521.4A	1,508.9E	1,578.4E
FCF(Mil)	$(83.8)A	$90.6E	$122.1E
Debt/Capital	59.9%A	58.4%E	56.9%E
BV/Share	$17.66A	$18.05E	$18.54E
CapEx	803.8A	1,050.0E	1,000.0E

Balance Sheet

	FY10	FY11	FY12
PPE	$11,097.0A	$11,594.3E	$12,030.0E
Total Assets	$19,938.8A	$20,545.4E	$21,111.9E
Total Debt	$7,352.8A	$7,352.8E	$7,352.8E
Long Term Debt	5,936.1A	11,163.9E	11,503.4E
Total SOE and Liab.	$19,938.8A	$20,545.4E	$21,111.9E

Indiana Rate Case Settlement To Be Filed Next Week; Maintain Hold

Summary

After the close yesterday, NiSource (NI) indicated to Indiana regulators that the company has reached a settlement with most of the major intervenors in their pending electric rate case (terms were not released). One major industrial group is currently not a party to the settlement, but the company and other parties to the settlement indicated that efforts to negotiate a unanimous settlement will continue until next week. NI is expected to file the terms of the settlement on July 18. We expect the settlement includes a rate increase for NI, but a unanimous settlement would be preferable. Though potentially positive news, we are maintaining our Hold rating based on valuation.

Key Points

- **Settlement terms to be released on July 18.** The parties to the settlement indicated that the terms would be filed with Indiana regulators on July 18, allowing some more time to reach a unanimous settlement. Thereafter, NI will file a brief in support of the settlement by July 22 and parties supporting the settlement will file briefs on July 29. Regulators would then set a process for consideration of the settlement. A decision is likely before year-end. If approved, we believe NI would try to stay out of electric rate cases for a few years.
- **Indiana rate case has been the focus for the last several months.** In November 2010, NI filed a second electric rate case in Indiana, requesting a rate increase of $75.7 million based on an 11.75% allowed ROE. In May, NI confirmed that settlement discussions were under way with all parties, and that the company was seeking common ground. In the absence of a settlement, Indiana regulators would make a decision in late 2011 or early 2012.
- **Gas and electric infrastructure investment continues to drive growth.** NI has a capital budget of $1.1 billion for 2011. This compares with depreciation of about $550 million. The growth in infrastructure investment is expected to drive earnings growth. NI's gas transmission and distribution business is attractively located near the new shale gas resources in the Marcellus. This should provide NI with gas gathering and transportation development opportunities over the next several years.
- **Maintaining our 2011, 2012, and 2013 EPS estimates.** Our estimates are $1.32, $1.42, and $1.49 for 2011, 2012, and 2013, respectively. The company's pending rate cases should drive 2012 EPS. Ongoing environmental spending for NI's electric business in Indiana has the benefit of an environmental cost tracker for cost recovery. Similar trackers exist for some of NI's gas distribution replacement programs.
- **Maintain $19 price target and Hold rating.** NI currently trades at 14.2 and 13.6 times our 2012 and 2013 EPS estimates, respectively. This compares with 14.0x and 13.2x for comparable electric peers, but closer to 17x and 15x for gas peers. We allow a modest premium to electric comparables, given NI's gas business. This coupled with our DCF supports our target price of $19. We continue to have a Hold rating on NI.

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

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Disclosures:

Analyst Certification

I James L. Dobson, CFA and Erica Piserchia, 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 risk 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 and a discounted cash flow analysis.

General disclosures:

Prices are as of the close of 07/12/11.

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

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	113	62.40	17	15.04
Hold -rated	64	35.40	4	6.25
Sell -rated	4	2.20	0	0.00

** 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.*

Rating System:

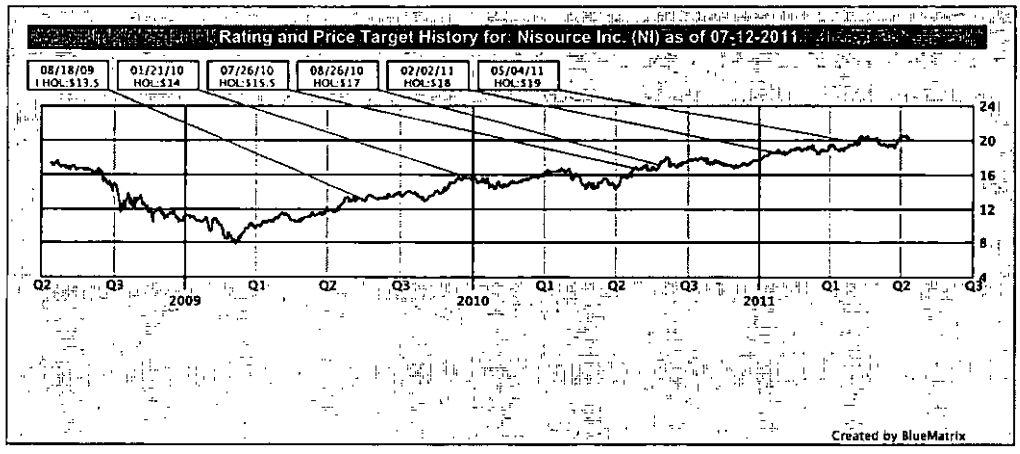
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Buy – a security which at the time the rating is instituted or reiterated indicates an expectation of a total return of greater than 20% over the next 12-18 months.

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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ValuEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

Mar. 16, 2011

VALUENGINE RECOMMENDATION & BASIC INFORMATION

RECOMMENDATION		
NEGATIVE (underperform)	NEUTRAL (match)	POSITIVE (outperform)

VALUENGINE RATING

VVVV

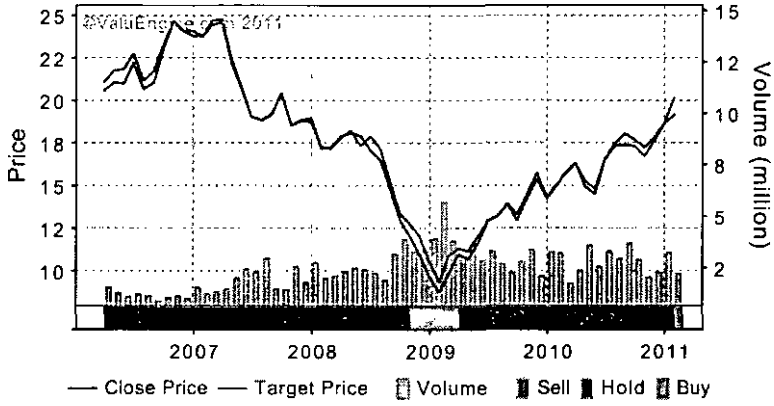
RECOMMENDATION FACTORS	Value	Rank
Overall Rank		top 13%
Fair Value	$16.25	btm 30%
1Yr Target Price	$19.51	top 16%
P/E Ratio	14.98	top 31%
Last 1-Y Return	26.39%	top 31%
Market Cap(bil)	$5.17	top 15%

BASIC INFORMATION	
Last Trade	$18.58
Trade Date	03/15/11
Market Cap(bil)	$5.17093
Trailing P/E	14.98
Forward P/E	13.74
PEG Ratio	1.65
P/S Ratio	0.81
M/B Ratio	5.82
Sharpe Ratio	-0.09
5-Y Avg Ann Return	-1.96%
Volatility	22.69%
EPS Growth	9.08%
Annual Dividend	$0.92
Dividend Yield	4.95%
LT Debt/Equity	6.71
Beta	0.87

VALUATION ANALYSIS

NI	Today's Fair value: $16.25 14.33% overvalued
Industry	Utility-electric Power 4.93% overvalued
Sector	Utilities 6.10% overvalued

FORECAST ANALYSIS	Target Price	Exp. Return
1-Month	$18.97	2.08%
3-Month	$18.99	2.22%
6-Month	$19.10	2.77%
1-Year	$19.51	5.01%
2-Year	$19.85	6.84%
3-Year	$24.34	31.02%



VALUENGINE RECOMMENDATION

ValuEngine has issued a BUY recommendation for NISOURCE INC on Mar. 16, 2011. Based on the information we have gathered and our resulting research, we feel that NISOURCE INC has the probability to OUTPERFORM average market performance for the next year. The company exhibits ATTRACTIVE volatility, company size and P/E ratio.

RECOMMENDATION OVERVIEW

ValuEngine's stock recommendations are based on the proprietary ValuEngine one-year forecast return (1YFR) model output for each individual equity. A stock is rated Strong Buy, Buy, Hold, Sell, Strong Sell based on the Forecast One Year Return. The breakdown for each rating is as follows:

- Strong Buy: More than +12% 1YFR
- Buy: Between +5% and +12% 1YFR
- Hold: Between -5% and +5% 1YFR
- Sell: Between -12% and -5% 1YFR
- Strong Sell: Less than -12% 1YFR

ValuEngine's Strong Buy-rated stocks have an averaged annual return of 19% since 2001. For more details on the ValuEngine One Year Forecast Target price and its components, please go HERE.

FAIR MARKET VALUATION PRICE

Based on available data as of Mar. 16, 2011, we believe that NI should be trading at $16.25. This makes NI 14.33% overvalued. Fair Value indicates what we believe the stock should be trading at today if the stock market were perfectly efficient and everything traded at its true worth. For NI, we base this on actual earnings per share (EPS) for the previous four quarters of $1.24, forecasted EPS for the next four quarters of $1.35, and correlations to the 30-year Treasury bond yield of 4.47%. There are an additional 10 firm specific and interest rate related parameters, each playing a role in the valuation analysis. For more details on ValuEngine's Fair Value Model, please go HERE.

FORECASTED TARGET PRICES

The predictive variables used in Valuengine's forecast target price models include both proprietary and well-established forecasting variables derived from credible financial research studies and publications. Our forecasting models capture, among other things, several important tendencies that stock prices consistently exhibit: Short-term price reversals, Intermediate-term momentum continuation, and Long-term price reversals. We use a distinct forecasting model for each time horizon and for every industry. We then apply the most advanced statistical/econometric techniques to ensure that our stock return forecasts are as reliable as possible. For more details on ValuEngine's Forecast Model, please click HERE.

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ValuEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

BUSINESS SUMMARY, DATA SUMMARY & MARKET RATIO BASED VALUATION

BUSINESS SUMMARY

NiSource Inc., formerly NIPSCO Industries, Inc., is an energy and utility-based holding company headquartered in Merrillville, Indiana, that provides natural gas, electricity and water to the public for residential, commercial and industrial uses. NiSource operating companies deliver energy to millions of customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England.

OPTIMAL BUY-SELL

Based solely on the Historical Mispricing of NI, the best time to buy would be below $10.89 (or valuation below -33.00%). The best time to sell would be above $15.76 (or valuation above -3.00%).

EVALUATION & RANKINGS

	Value	Rank
Valuation	14.33%	30
12-Month Return	26.39%	70
5-Y Avg Ann Rtn	-1.96%	54
Volatility	22.69%	94
EPS Growth	9.08%	29
Market Cap(bill)	5.17	86
Sharpe Ratio	-0.09	49
P/S Ratio	0.81	69
M/B Ratio	5.82	19
P/E Ratio	14.98	70

EVALUATION & RANKINGS SUMMARY

Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 7000 plus stocks in our database. This is sometimes confusing to newcomers to ValuEngine. Each of these quantitative measurements is ranked on a scale of 1 to 100. Generally the higher the ranking, the more positive the influence each measurement has on the overall attractiveness of the stock. In other words a high rank is always better. Let's take them one by one:

- Valuation rank 30: 70% of stocks are more undervalued
- Momentum rank 70: 30% of stocks have higher momentum
- Sharpe Ratio rank 49: 51% of stocks have a higher Sharpe Ratio
- 5-Year Average Annual Return 54: 46% of stocks have higher average annual return
- Volatility rank 94: 6% of stocks have less volatility
- EPS growth rank 29: 71% of stocks have greater projected EPS growth
- Size rank 86: 14% of companies have higher market capitalization
- P/E rank 70: 30% of stocks have lower P/E ratios
- Price/Sales rank 69: 31% of stocks have lower price/sales ratios
- Market/Book rank 19: 81% of stocks have lower market/book value ratios

MARKET RATIO BASED VALUATION

Portfolio managers and professionals traditionally rely on market ratios to gauge whether a stock is fair valued or overvalued. On this page, we present such a valuation based on one of three market ratios: PEG (price to trailing 4 quarter earnings ratio, divided by the consensus analyst forecasted next year EPS growth), P/E (price to forward 4 quarter earnings ratio), and P/S ratio (price to trailing 4 quarter sales). Among the three, PEG is the most informative as it reflects both the price/earnings ratio and expected future EPS growth, while P/E is better than P/S. For each given stock, we apply the PEG to give a fair value assessment if both its trailing 4 quarter EPS and forecasted EPS growth rate are positive. If its forecasted EPS growth is negative but its forward 4 quarter EPS is positive, we apply the P/E to give a fair value for the stock as of today. Otherwise, we resort to the P/S to assess its fair value.

To establish a valuation standard, we use both (i) the average historical market ratio of the stock over the past 10 years (or however long there is data available for the stock), and (ii) the average market ratio today of five comparable stocks in the same sector and from companies of similar size. These two alternative perspectives should give you a good idea about where this stock's valuation stands today.

1. Valuation Based on NI's Past PEG

Over the past 10 years, NI's average PEG is 3.75. NI earned $1.24 per share in its recent 4 quarters. The analyst consensus estimate is $1.35 for its 4 quarter forward EPS. NI's current price sales ratio is 0.81. The following assessment is based on multiplying the historical PEG with recent 4 quarter EPS and the forecasted EPS growth rate over the next 4 quarters for NI.

Fair Value	
Historical Average PEG	3.75
PEG-Based Fair Value	$42.22

2. Valuation Based on Comparables' PEG

NI's comparables are CMS, NRG, NST, OGE and SCG. The current PEG average of these comparables is 2.88. NI earned $1.24 per share in its recent 4 quarters. The analyst consensus estimate is $1.35 for its 4-quarter-forward EPS. NI's current price sales ratio is 0.81. The following assessment is based on multiplying comparable stocks' average PEG today with NI's recent 4 quarter EPS and the forecasted EPS growth rate over the next 4 quarters .

Comparables' PEG

Comparables	Current PEG
CMS	1.21
NRG	n/a
NST	7.46
OGE	1.06
SCG	1.8

Fair Value	
Comparable Stocks' Avg PEG	2.88
Comparable PEG-Based Fair Value	$32.46

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ValuEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

VALUENGINE RANKINGS

Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 7000 plus stocks in our database. Each of these quantitative measurements is ranked on a scale of 1 to 100. Generally the higher the ranking, the more positive the influence each measurement has on the overall attractiveness of the stock. In other words a high rank is always better. The below data points show how the rank for each data point for NI relates to the overall industry, sector, and S&P 500 averages.

Valuation		Rank
NI	14.33%	30
Industry	4.93%	46
Sector	6.10%	47
S&P 500	n/a	n/a

The ValuEngine Valuation Rank measures the relationship between a company's stock price and its Fair Value. The higher the Valuation rank, the more undervalued the stock. With a Valuation Rank of 30, NI is slightly lower than the average of its industry group, which carries a Valuation Rank of 46.

12-Month Return		Rank
NI	26.39%	70
Industry	9.46%	49
Sector	12.43%	51
S&P 500	11.42%	51

The ValuEngine 12-Month Return Rank reflects the relative stock performance of a stock over the recent 12 months. On a scale of 1 to 100, a higher 12-Month Return rank indicates a stronger performance. With a 12-Month Return Rank of 70, NI is moderately higher than the industry's rank score of 49.

5-Y Avg Ann Rtn		Rank
NI	-1.96%	54
Industry	0.04%	59
Sector	-1.74%	59
S&P 500	0.02%	59

The ValuEngine 5-Years Average Return Rank reflects a stock's average annual return over the last 5 years, in comparison with the coverage universe. A higher rank indicates a better return performance. With a rank of 54, NI is in line with the industry, which has a rank of 59.

Volatility		Rank
NI	22.69%	94
Industry	28.27%	84
Sector	33.70%	79
S&P 500	18.26%	98

The ValuEngine Volatility Rank reflects the volatility associated with the stock. A higher Volatility Rank indicates a lower volatile percentile of stocks. NI has a Volatility Rank of 94, which is in line with the industry Rank of 84.

EPS Growth		Rank
NI	9.08%	29
Industry	26.07%	30
Sector	19.99%	32
S&P 500	n/a	n/a

The ValuEngine EPS Growth Rank indicates a stock's expected EPS growth rate. A high rank indicates a high growth rate expectation. NI has an EPS Growth Rank of 29.This is in line with the industry rank of 30.

Market Cap(bill)		Rank
NI	5.17	86
Industry	7.48	78
Sector	9.15	75
S&P 500	n/a	n/a

The ValuEngine Size rank signifies the company's size in terms of market capitalization. A higher rank denotes a larger market capitalization within ValuEngine's stock universe. With a Size rank of 86, NI is in line with the industry, which has a rank of 78.

Sharpe Ratio		Rank
NI	-0.09	49
Industry	0.05	59
Sector	0.04	59
S&P 500	0	59

The ValuEngine Sharpe Ratio Rank measures the risk return tradeoff offered by a stock. Sharpe ratio is the stock's average annual return (over the last five years) divided by its annualized volatility over the same 5 years. With a rank of 49, NI is in line with the industry, which has a rank of 59.

P/S Ratio		Rank
NI	0.81	69
Industry	2.85	56
Sector	2.11	56
S&P 500	n/a	n/a

The ValuEngine Price/Sales rank signifies the relative position of the company based on its P/S ratio. Stocks with the lowest P/S ratio are assigned a rank of 100 while stocks with the highest P/S ratio are ranked 1. At a Price/Sales rank of 69, NI is slightly higher than the industry rank of 56.

M/B Ratio		Rank
NI	5.82	19
Industry	2.41	60
Sector	2.87	55
S&P 500	n/a	n/a

The Market/Book Rank is a measure of a stock's market to book ratio relative to the stock universe. A higher rank corresponds to a lower market book value. NI has a Market/Book rank of 19, which is substantially lower than the industry rank of 60.

P/E Ratio		Rank
NI	14.98	70
Industry	20.62	65
Sector	20.93	62
S&P 500	n/a	n/a

The ValuEngine P/E Rank signifies the relative standing of a company on its P/E ratio, relative to the universe. Stocks in the top P/E percentile are each assigned a rank of 1(highest P/E stocks) while those in the bottom P/E percentile are assigned a rank of 100 (traditional value stocks). With a P/E rank of 70, NI is in line with the industry P/E rank of 65.

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ValueEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

COMPARISON OF SIMILAR STOCKS* & RISK ASSESSMENT

Valuation		Rank
NI	14.33%	30
NRG	-26.41%	87
SCG	1.12%	52
OGE	28.68%	16
NST	19.77%	24

12-Month Return		Rank
NI	26.39%	70
NRG	-9.61%	26
SCG	9.62%	49
OGE	30.76%	73
NST	32.66%	75

5-Y Avg Ann Rtn		Rank
NI	-1.96%	54
NRG	-1.41%	55
SCG	-1.01%	56
OGE	10.03%	83
NST	8.30%	80

Volatility		Rank
NI	22.69%	94
NRG	35.03%	77
SCG	17.89%	98
OGE	20.31%	96
NST	15.18%	99

EPS Growth		Rank
NI	0.09	29
NRG	-0.53	3
SCG	0.07	26
OGE	0.15	40
NST	0.02	19

Market Cap(bill)		Rank
NI	5.17	86
NRG	4.98	86
SCG	4.93	86
OGE	4.67	86
NST	4.64	86

Sharpe Ratio		Rank
NI	-0.09	49
NRG	-0.04	54
SCG	-0.06	52
OGE	0.49	94
NST	0.55	95

P/S Ratio		Rank
NI	0.81	69
NRG	0.54	79
SCG	1.08	60
OGE	1.27	55
NST	1.59	47

M/B Ratio		Rank
NI	5.82	19
NRG	1	79
SCG	1.37	68
OGE	2.08	51
NST	2.35	46

P/E Ratio		Rank
NI	14.98	70
NRG	11.75	82
SCG	12.98	78
OGE	15.61	68
NST	17.31	62

FORECAST COMPARISONS

RETURN FORECAST: EXPECTED RETURN

	NI	NRG	NST	OGE	SCG
One-Month	2.08%	2.00%	1.66%	1.67%	2.03%
Three-Month	2.22%	3.03%	1.71%	1.73%	2.58%
Six-Month	2.77%	4.70%	1.85%	1.67%	3.47%
One-Year	5.01%	5.96%	3.22%	3.41%	5.38%
Two-Year	6.84%	8.62%	4.59%	4.61%	7.69%
Three-Year	31.02%	32.25%	25.97%	28.39%	32.93%

RISK ASSESSMENT: CHANCE OF GAIN

	NI	NRG	NST	OGE	SCG
One-Month	62.47%	57.85%	64.73%	61.23%	65.32%
Three-Month	57.77%	56.86%	58.91%	56.76%	61.36%
Six-Month	56.87%	57.52%	56.83%	54.64%	60.81%
One-Year	58.74%	56.75%	58.40%	56.67%	61.81%
Two-Year	58.45%	56.91%	58.46%	56.38%	61.94%
Three-Year	78.50%	70.24%	83.84%	79.02%	85.60%

RISK ASSESSMENT: CHANCE OF LOSS

	NI	NRG	NST	OGE	SCG
One-Month	37.53%	42.15%	35.27%	38.77%	34.68%
Three-Month	42.23%	43.14%	41.09%	43.24%	38.64%
Six-Month	43.13%	42.48%	43.17%	45.36%	39.19%
One-Year	41.26%	43.25%	41.60%	43.33%	38.19%
Two-Year	41.55%	43.09%	41.54%	43.62%	38.07%
Three-Year	21.50%	29.76%	16.16%	20.98%	14.40%

*** Comparables are companies in the same Sector and Industry and of approximately similar market capitalization value.**

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ValuEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

ANNUAL FINANCIALS (All items in Millions)

BALANCE SHEET	200912	200812	200712	200612	200512	200412	200312	200212
Cash	191.1	307.2	95.4	175.6	103.3	86.4	50.1	56.2
Marketable Securities	0	0	0	0	0	0	0	0
Receivables	833.5	1142.5	1159.9	1118.6	1254.6	536.7	814.3	885.3
Inventory	547	670.7	604.7	703.4	1045.6	846.7	529.9	510.1
Raw Materials	547	670.7	--	--	--	--	--	--
Work In Progress	--	--	--	--	--	--	--	--
Finished Goods	--	--	--	--	--	--	--	--
Notes Receivable	0	0	0	0	0	0	0	0
Other Current Assets	652	1290.4	594.9	785.3	657.2	815.8	668.6	416.9
Total Current Assets	**2223.6**	**3410.8**	**2454.9**	**2782.9**	**3060.7**	**2285.6**	**2062.9**	**1868.5**
Property, Plant & Equipment	19037.6	18468.9	17543.5	17194.9	16684.4	16632.3	16400.8	18188.9
Accumulated Depreciation	8353.7	8080.8	7850.5	7850	7556.8	7247.6	7095.9	8120.9
Net Property, Plant & Equipment	10683.9	10388.1	9693	9344.9	9127.6	9384.7	9304.9	10068
Investment & Advances	129.2	117.9	456	465.7	540.9	204	187.1	274.8
Other non-current Assets	422.1	333.3	41.2	43	34.6	0	0	0
Deferred Charges	1796.2	1763.9	1004.7	1297.5	753.7	189.5	147.8	195
Intangibles	3996.9	4007.9	4099.3	4113	4173.1	4207.5	4231.2	3764.9
Deposits & other assets	19.8	10.3	255.7	109.5	267.9	716.7	689.9	725.7
TOTAL ASSETS	19271.7	20032.2	18004.8	18156.5	17958.5	16988	16623.8	16896.9
Notes Payable	0	0	1061	1193	898	307.6	685.5	913.1
Accounts Payable	724.3	1248.8	1161.5	713.1	866.7	648.4	496.6	521.6
Current Portion of Long-term Debt	822.3	1632.8	33.9	93.3	440.7	1299.9	118.3	1232.6
Current Portion of Capital Leases	0	0	0	0	0	0	0	0
Accrued Expenses	459.3	613.9	802.7	834.1	913.9	808.9	557.2	601.6
Income Taxes Payable	212.9	206.5	0	0	0	0	210.8	242.1
Other Current Liabilities	930.8	881.4	333.5	987.7	723.9	537.4	540.6	666.4
Total Current Liabilities	**3149.6**	**4583.4**	**3392.6**	**3821.2**	**3843.2**	**3602.2**	**2609**	**4177.4**
Mortgages	0	0	0	0	0	0	0	0
Deferred Charges (taxes/income)	2138.7	1678.8	3068.4	3010.2	1803.3	1889.7	1868.9	2408.4
Convertible Debt	0	0	0	0	0	0	0	0
Long Term Debt	5965.1	5943.9	5594.4	5146.2	5271.2	4835.9	5993.4	5018
Non-Current Capital Leases	0	0	0	0	0	0	0	0
Other Long-Term Liabilities	3164.2	3097.3	872.8	1165.3	2026.7	1792	1655.5	688.3
Minority Interest (liabilities)	0	0	0	0	0	0	0	345
Total Liabilities	**14417.6**	**15303.4**	**12928.2**	**13142.9**	**12944.4**	**12119.8**	**12126.8**	**12637.1**
Preferred Stock	0	0	0	0	81.1	81.1	81.1	84.9
Common Stock, Net	2.8	2.7	2.7	2.7	2.7	2.7	0	0
Capital Surplus	4057.6	4020.3	4011	3998.3	3969.4	3924	0	0
Retained Earnings	865.5	901.1	1074.5	1012.9	981.6	925.4	0	0
Treasury Stock	25.9	23.3	23.3	21.2	0	0	0	0
Other Equity	-45.9	-172	11.7	20.9	-20.7	-65	0	0
Total Shareholders' Equity	**4854.1**	**4728.8**	**5076.6**	**5013.6**	**5014.1**	**4868.2**	**4497**	**4259.8**
Total Liabilites & Shareholders Equity	**19271.7**	**20032.2**	**18004.8**	**18156.5**	**17958.5**	**16988**	**16623.8**	**16896.9**

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ValuEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

ANNUAL FINANCIALS (All items in Millions)

INCOME STATEMENT	200912	200812	200712	200612	200512	200412	200312	200212
Net Sales or Revenues	6649.4	8874.2	7939.8	7490	7899.1	6666.2	6246.6	6492.3
Cost of Goods Sold	4971.4	7086.5	4676.1	4365.4	4749.3	3610.5	3186.3	3163.3
Gross Profit	1678	1787.7	3263.7	3124.6	3149.8	3055.7	3060.3	3329
Research & Development Expense	0	0	0	0	0	0	0	0
Selling, General & Admin. Expense	303.1	315.1	1771.2	1679	1629.6	1477.1	1471.9	1579.5
Income Before Depr., Depl., Amort.	1374.9	1472.6	1492.5	1445.6	1520.2	1578.6	1588.4	1749.5
Depreciation, Depletion, Amort.	589	567.2	559.2	549.2	545.2	509.7	497	574
Non-Operating Income	10.1	29.9	-48.5	-24.7	-121	6.1	33.2	10.2
Interest Expense	399	380.1	400.7	387.4	421	403.9	464.7	526.1
Pretax Income	397	555.2	484.1	484.3	433	671.1	659.9	659.6
Provision for Income Taxes	165.8	185.4	172.1	170.8	149.4	240.9	234.2	233.9
Minority Interest	0	0	0	0	0	0	0	0
Investment Gains (Losses)	0	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0	0
Income Before Extraordinaries & Disc	231.2	369.8	312	313.5	283.6	430.2	425.7	425.7
Extraordinary Items & Discontinued	-13.5	-290.8	9.4	-31.3	22.9	6.1	-340.5	-53.2
Net Income	217.7	79	321.4	282.2	306.5	436.3	85.2	372.5
Average Shares used for Diluted EPS	275.8	275.4	273.8	272.6	271.3	265.5	261.6	212.8
Average Shares used for Basic EPS	275.1	274	273.8	272.6	271.3	263.7	259.6	211
Income Before Non-Recurring Items	295.3	348.5	375.8	388.5	375.4	430.2	425.7	425.7
Income From Non-Recurring Items	-64.1	21.3	-53.8	0	-91.8	0	0	0
EPS - Basic, net	0.8	0.3	1.2	1.4	1	1.7	0.3	1.8
EPS - Diluted, net	0.8	0.3	1.2	1.4	1	1.6	0.3	1.8
EPS - Diluted, before non-recurring	1.1	1.3	1.4	1.4	1.4	1.6	1.6	2
Preferred Dividends - Acc & Pd	–	–	–	–	24.4	-1.4	-0.5	1.1
Dividends (common)	253.7	252.3	252.2	251.2	250.8	242.5	288.7	282.8
Dividend per share (common)	0.9	0.9	0.9	0.9	0.9	0.9	1.1	1.2

CASH FLOW STATEMENT								
Net Income (Cash Flow)	217.7	79	321.4	282.2	306.5	436.3	85.2	372.5
Depreciation, Depletion, Amortization-CF	602	574.9	566.5	556.9	562.7	531.3	515.9	574
Net Increase(decrease) in	692.2	-457.4	-133.6	410.3	-223	-34.1	-387.8	165.6
Cash from(used in) Discontinued Oper.	-241	288.6	-9.1	36.1	68.3	-3.9	199	-16.2
Other Adjustments - Net	413.2	100.2	12	-129.3	-2.2	93.2	60.6	76.5
Net Cash from (used by) Operating Act.	1666.2	585.3	757.2	1156.2	712.3	1022.8	472.9	1172.4
Increase/Decrease in Prop, Plant, & Equ.	-771.5	-1251.8	-788.3	-637.4	-590.4	-517	-574.6	-202.7
Acquisition/Disposition of Subsidiaires	0	0	0	0	-0.1	0	0	0
Increase (decrease) in Investments	39.2	7.5	0	0	0	0	0	0
Other Cash inflow from Investment Act.	77.5	130	106.9	-95.1	18.4	-2.1	568.9	0
Net Cash from (used by) Invesment Act.	-654.8	-1114.3	-681.4	-732.5	-572.1	-519.1	-5.7	-202.7
Issuance (purchase) of Equity Shares	8	1.3	6.1	-65.8	38.4	156.7	6	681.3
Issuance (repayment) of Debt Securities	290.2	664.7	345.7	-438.7	-464.6	-414.5	34.6	-532.1
Increase (decrease) in Bank & Other	-1060.5	102.5	-132	296.4	576.2	0	-227.6	-941.2
Payment of Dividends & Other Cash	-253.3	-252.4	-252.1	-251.9	-250.3	-243.1	-284	-241.5
Other Cash from (used by) Financing	0	-1.1	-40.6	0	0	0	0	0
Net Cash from (used by) Financing Act.	-1015.6	515	-72.9	-460	-100.3	-500.9	-471	-1033.5
Net Change in Cash & Cash Equivalents	-4.2	-14	2.9	-36.3	39.9	2.8	-3.8	-63.8

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ValuEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

QUARTERLY FINANCIALS (All items in Millions)

BALANCE SHEET	201009	201006	201003	200912	200909	200906	200903	200812
Cash	287.4	220.1	331.4	191.1	148.3	313.1	452	307.2
Marketable Securities	0	0	0	0	0	0	0	0
Receivables	615.4	595.3	952.8	833.5	738	544.7	910.7	1142.5
Inventory	570.5	382.9	229.9	547	691.8	426.6	259.3	670.7
Raw Materials	570.5	382.9	229.9	547	691.8	426.6	259.3	670.7
Work in Progress	–	–	–	–	–	–	–	–
Finished Goods	–	–	–	–	–	–	–	–
Notes Receivable	0	0	0	0	0	0	0	0
Other Current Assets	722.2	695.1	683.1	652	985.1	1152.3	1010.4	1290.4
Total Current Assets	**2195.5**	**1893.4**	**2197.2**	**2223.6**	**2563.2**	**2436.7**	**2632.4**	**3410.8**
Property, Plant & Equipment	19366.5	19347.3	19140.7	19037.6	18868.4	18776	18610.8	18468.9
Accumulated Depreciation	8445	8547.3	8443.5	8353.7	8286.3	8232.9	8134.1	8080.8
Net Property, Plant & Equipment	10921.5	10800	10697.2	10683.9	10582.1	10543.1	10476.7	10388.1
Investment & Advances	144.5	128	129.1	129.2	128.2	111.6	115.7	117.9
Other non-current Assets	490.2	390.8	451	422.1	402.8	397.4	364.9	333.3
Deferred Charges	1764.8	1821.6	1860.2	1796.2	1704.6	1722.9	1745.6	1763.9
Intangibles	3988.7	3991.4	3994.1	3996.9	3999.7	4002.4	4005.1	4007.9
Deposits & other assets	20.2	22.9	22.8	19.8	10.5	9.2	9.6	10.3
TOTAL ASSETS	19525.4	19048.1	19351.6	19271.7	19391.1	19223.3	19350	20032.2
Notes Payable	0	0	0	0	0	0	0	0
Accounts Payable	453.9	486	558.5	724.3	454.1	560.3	870.6	1248.8
Current Portion of Long-term Debt	1451.5	931.6	1093.8	822.3	633.8	424	436	1632.8
Current Portion of Capital Leases	0	0	0	0	0	0	0	0
Accrued Expenses	363.5	382.4	349.2	459.3	450.2	381.7	392.4	613.9
Income Taxes Payable	168.4	227.8	296.8	212.9	148	209.1	259.4	206.5
Other Current Liabilities	813.9	689.6	698.9	930.8	1223.6	1367.3	1319.6	881.4
Total Current Liabilities	**3251.2**	**2717.4**	**2997.2**	**3149.6**	**2909.7**	**2942.4**	**3278**	**4583.4**
Mortgages	0	0	0	0	0	0	0	0
Deferred Charges (taxes/income)	2319.7	2186.5	2172.3	2138.7	2120.8	1795.3	1733.6	1678.8
Convertible Debt	0	0	0	0	0	0	0	0
Long Term Debt	5964.3	5977.3	5963.9	5965.1	6560.7	6564.4	6451.9	5943.9
Non-Current Capital Leases	0	0	0	0	0	0	0	0
Other Long-Term Liabilities	3112.3	3272	3289.4	3164.2	3060.1	3128.8	3148.8	3097.3
Minority Interest (liabilities)	0	0	0	0	0	0	0	0
Total Liabilities	**14647.5**	**14153.2**	**14422.8**	**14417.6**	**14651.3**	**14430.9**	**14612.3**	**15303.4**
Preferred Stock	0	0	0	0	0	0	0	0
Common Stock, Net	2.8	2.8	2.8	2.8	2.8	2.8	2.7	2.7
Capital Surplus	4091.4	4080.4	4068.5	4057.6	4043.2	4032.7	4023	4020.3
Retained Earnings	868.5	899.5	935.3	865.5	776.3	855.1	923.3	901.1
Treasury Stock	27.4	27.4	27.4	25.9	24.2	24.2	24.1	23.3
Other Equity	-57.4	-60.4	-50.4	-45.9	-58.3	-74	-187.2	-172
Total Shareholders' Equity	**4877.9**	**4894.9**	**4928.8**	**4854.1**	**4739.8**	**4792.4**	**4737.7**	**4728.8**
Total Liabilites & Shareholders Equity	**19525.4**	**19048.1**	**19351.6**	**19271.7**	**19391.1**	**19223.3**	**19350**	**20032.2**

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ValueEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

QUARTERLY FINANCIALS (All items in Millions)

INCOME STATEMENT	201009	201006	201003	200912	200909	200906	200903	200812
Net Sales or Revenues	1138.1	1171.1	2358.3	1684.7	884.8	1009.2	2722.3	2385.5
Cost of Goods Sold	802.1	816.2	1725.7	1552.2	584.2	701.9	2133.1	2610.4
Gross Profit	336	354.9	632.6	483	300.6	307.3	587.1	-227.1
Research & Development Expense	0	0	0	0	0	0	0	0
Selling, General & Admin. Expense	63.1	64.5	87	91	58.1	52.6	101.4	-665.5
Income Before Depr., Depl., Amort.	272.9	290.4	545.6	392	242.5	254.7	485.7	438.4
Depreciation, Depletion, Amort.	153.1	151.6	149.8	148.3	148.7	148.2	143.8	142.9
Non-Operating Income	5.6	3	10	0.4	8.1	-3.8	5.4	-0.1
Interest Expense	97.6	98.4	98.7	98.4	104.8	105.3	90.5	100.7
Pretax Income	27.8	43.4	307.1	145.7	-2.9	-2.6	256.8	194.7
Provision for Income Taxes	5.6	15.4	109.8	55.4	6.8	6.1	97.5	67.9
Minority Interest	0	0	0	0	0	0	0	0
Investment Gains (Losses)	0	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0	0
Income Before Extraordinaries & Disc	33.2	28	197.3	88.5	-9.7	-8.7	159.3	127
Extraordinary Items & Discontinued	0	0.1	0	1	-5.7	3.9	-10.9	35
Net Income	33.2	28.1	197.3	89.5	-15.4	-4.8	148.4	162
Average Shares used for Diluted EPS	279.9	278.4	277.5	276.8	275.4	274.7	276.7	275.5
Average Shares used for Basic EPS	278.1	277.6	276.9	276	275.4	274.7	274.2	274
Income Before Non-Recurring Items	10.1	37	198.3	98.9	-6.8	6.2	170.2	126
Income From Non-Recurring Items	23.1	-9	-1	-10.4	-2.9	-14.9	-10.9	1
EPS - Basic, net	0.1	0.1	0.7	0.3	-0.1	-0	0.5	0.6
EPS - Diluted, net	0.1	0.1	0.7	0.3	-0.1	-0	0.5	0.6
EPS - Diluted, before non-recurring	0	0.1	0.7	0.3	-0	0	0.6	0.5
Preferred Dividends - Acc & Pd	--	--	--	--	--	--	--	--
Dividends (common)	64	63.7	63.7	63.4	63.3	63.2	63.1	63.1
Dividend per share (common)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

CASH FLOW STATEMENT								
Net Income (Cash Flow)	258.6	225.4	197.3	217.7	128.2	143.6	148.4	79
Depreciation, Depletion, Amortization-CF	462.6	306.8	152.5	602	450	298.1	145.9	574.9
Net Increase(decrease) in	-458	-108.8	-240.1	692.2	410.8	821.9	798.6	-457.4
Cash from(used in) Discontinued Oper.	-54.7	-44.9	-31.1	-241	-241.2	-70	-51.2	288.6
Other Adjustments - Net	123.9	24	4.6	413.2	372.4	55.6	16.2	100.2
Net Cash from (used by) Operating Act.	332.5	402.5	83.3	1666.2	1120.2	1240.2	1057.9	585.3
Increase/Decrease in Prop, Plant, & Equ.	-553.4	-336.6	-138.6	-771.5	-583.3	-383.5	-204.8	-1251.8
Acquisition/Disposition of Subsidiaires	0	0	0	0	0	0	0	0
Increase (decrease) in Investments	-84.2	0.2	0.5	39.2	61.4	54.6	52	7.5
Other Cash inflow from Investment Act.	-123.5	-57.5	-56.3	77.5	19	9	-43.6	130
Net Cash from (used by) Invesment Act.	-761.1	-393.9	-194.4	-654.8	-502.9	-319.9	-196.4	-1114.3
Issuance (purchase) of Equity Shares	9.2	5.4	2.2	8	-0.3	-0.5	-0.6	1.3
Issuance (repayment) of Debt Securities	-16.3	-5.2	-0.9	290.2	599.2	598.6	480.3	664.7
Increase (decrease) in Bank & Other	621.6	109.8	267.7	-1060.5	-963.4	-1163.5	-1163.5	102.5
Payment of Dividends & Other Cash	-191.4	-127.6	-63.7	-253.3	-189.6	-126.2	-63.1	-252.4
Other Cash from (used by) Financing	0	0	0	0	0	-0.4	0	-1.1
Net Cash from (used by) Financing Act.	423.1	-17.6	205.3	-1015.6	-554.1	-692	-746.9	515
Net Change in Cash & Cash Equivalents	-5.5	-9	63.5	-4.2	240.9	228.3	114.6	-14

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ValuEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

VALUENGINE SERVICE DESCRIPTIONS

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ValuEngine™ DETAILED RESEARCH REPORT

NISOURCE INC(NI)

VALUENGINE'S METHODOLOGY

ValuEngine's research combines the most advanced academic concepts with real world Wall Street practice. The result is state-of-the-art fair market valuation and price forecasting technologies.

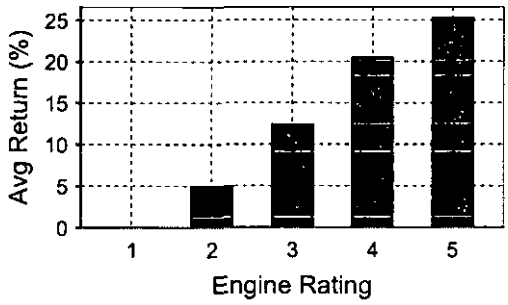
ValuEngine's stock valuation employs a sophisticated, three-factor approach. Fundamental variables, such as a company's trailing 12-month Earnings-Per-Share (EPS), the analyst consensus estimate of the company's future 12-month EPS, and the 30-year Treasury yield, are all used to create a more accurate reflection of a company's fair value. Together with eleven additional variables, ValuEngine paints a detailed picture of a company's fair value, represented by the model price.

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Engine Rating and Average Annual Return
(Jan 2001 - Feb 2011)



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2. Hold: Expected to perform in line with the SP500 with average returns.
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CREDIT SUISSE

06 February 2011
Americas/United States
Equity Research
Natural Gas

NiSource Inc (NI)

Rating	**NEUTRAL***
Price (04 Feb 11, US$)	18.40
Target price (US$)	(from 18.00) 19.00[1]
52-week price range	18.82 - 14.35
Market cap. (US$ m)	5,120.83
Enterprise value (US$ m)	12,243.93

*Stock ratings are relative to the relevant country benchmark.
[1]Target price is for 12 months.

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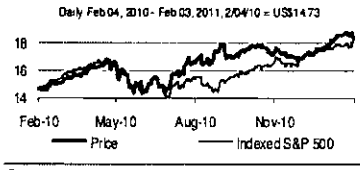
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INCREASE TARGET PRICE

Winning the Race with One Hurdle to Go

- **Bottom Line:** NI continues to demonstrate solid execution. We maintain our Neutral rating given NI's current valuation (13.8x 2011 P/E). However, multiple expansion may be warranted as NI moves closer to resolution on its second NIPSCO electric rate case and shifts to more gas focused earnings. Note that gas utility peers currently trade at an average 15-16x P/E.
- **2011 EPS guidance of $1.25 – 1.35 is achievable and may be conservative, in our view:** Guidance embeds a slow economic recovery and ~$20MM of park and loan optimization at Natural Gas Transmission & Storage, which is at the low end of its historic average. Key upside drivers include a faster economic recovery, greater park and loan optimization (tied to natural gas price volatility) and an early NIPSCO rate case settlement (2011 guidance assumes no impact from the rate case).
- **NI focused on settling the second NIPSCO rate case:** NI aims for settlement before the end of 2Q11. If fully litigated, then an order may not be rendered until late 4Q11 with new rates effective 2012.
- **No impending change to structure contemplated:** An MLP remains on the "back burner", but is continually evaluated. In addition, NI is satisfied with its current portfolio and its standalone organic growth opportunities.
- **Bumping up our estimates**: Our EPS estimates increase by $0.01 per year from 2011 through 2015 due to lower interest expense, lower tax rate and slightly higher electric utility earnings, partially offset by slightly lower Natural Gas Transmission & Storage earnings.
- **Maintain Neutral rating; increasing PT to $19 from $18:** We derive our PT through a combination of P/E and sum of the parts analysis. Our target price implies a P/E ratio of 13.9x our new 2011 EPS estimate of $1.33.

Share price performance



On 02/03/11 the S&P 500 index closed at 1307.1

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.71	0.13	0.04	0.33
2011E	0.76	0.17	0.06	0.35
2012E	0.78	0.20	0.09	0.38

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US$)	1.21	1.33	1.44	1.50
Prev. EPS (US$)	—	1.32	1.43	—
P/E (x)	15.1	13.8	12.8	12.2
P/E rel. (%)	100.3	104.9	109.5	—
Revenue (US$ m)	5,817.9	6,522.2	6,877.3	7,139.3
EBITDA (US$ m)	1,513.6	1,629.3	1,755.1	1,835.4
OCFPS (US$)	2.58	4.77	3.57	3.63
P/OCF (x)	6.8	3.9	5.1	5.1
EV/EBITDA (current)	8.2	7.5	7.0	6.7
Net debt (US$ m)	7,344	7,123	7,112	7,263
ROIC (%)	4.80	5.12	5.47	5.58
Number of shares (m)	278.31	IC (12/11E, US$ m)		11,237.22
BV/share (current, US$)	18.5	EV/IC (x)		1.1
Net debt (current, US$ m)	7,188.6	Dividend (current, US$)		0.92
Net debt/tot. cap. (current, %)	140.4	Dividend yield (%)		5.0

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. U.S. 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.

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 15,500 miles of pipe and 640 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 450,000 customers.

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. In addition to expansion projects within the growing Marcellus Shale, NI also has a $4.35 billion, 20-plus year infrastructure replacement program at its gas utilities that should drive stable growth over the next several years. Through its recent forward equity sale, we believe NI has the liquidity in place to pursue an average annual capex program of approximately $1 billion starting in 2011 (note that 2011 capex is targeted at up to $1.1 billion).

Other Takeaways

- Based on its current outlook for sources and uses of cash, NI does not foresee a need to access the debt markets in 2011, however, management indicated that it may do so opportunistically (potentially to pre-fund a 2012 maturity of $315MM).
- NI is in the process of renewing its revolver. NI plans to maintain the size at $1.5 billion, however, rates are expected to move higher with new facility rates of LIBOR + ~200bps vs. old facility of LIBOR + 50 to 60bps.

Exhibit 1: NI Quarterly Variance Table

	4Q10 Actual	4Q10 CS Estimate	Diff.	Diff. (%)	4Q09 Actual
Segment EBITDA					
Gas Distribution	163	165	(3)	-2%	176
NIPSCO Electric	96	89	7	7%	88
Gas Transmission & Storage	136	149	(13)	-9%	148
Other	(4)	1	(5)	-490%	(5)
Total EBITDA (recurring)	**390**	**405**	**(14)**	**-4%**	**407**
Segment EBIT					
Gas Distribution	113	101	12	12%	115
NIPSCO Electric	44	35	9	25%	36
Gas Transmission & Storage	100	117	(17)	-14%	117
Other	(8)	(3)	(5)	194%	(8)
Total EBIT (recurring)	**249**	**250**	**(1)**	**-1%**	**259**
Interest Expense	98	98	(0)	0%	99
Other Expenses	4	0	4	NM	(1)
Taxes	54	57	(4)	-6%	62
Recurring Net Income	**94**	**95**	**(1)**	**-1%**	**99**
Diluted Wtd Avg shares outstanding	283	280	2	1%	277
Recurring EPS - Diluted	**$0.33**	**$0.34**	**($0.01)**	**(2%)**	**$0.36**
Dividend per share	**$0.23**	**$0.23**	**$0.00**	**0%**	**$0.23**

Source: Company data, Credit Suisse estimates

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Exhibit 2: Changes to Model

	Old estimates						New estimates					
	2010E	2011E	2012E	2013E	2014E	2015E	2010	2011E	2012E	2013E	2014E	2015E
Segment EBITDA												
Gas Distribution	585	639	669	698	728	760	582	642	671	700	730	762
NIPSCO Electric	423	434	498	518	534	551	429	439	504	520	537	552
Gas Transmission & Storage	521	559	592	627	670	716	508	551	583	618	660	705
Other	(1)	(1)	(0)	0	1	2	(6)	(3)	(3)	(2)	(2)	(2)
Total EBITDA (recurring)	1,528	1,632	1,759	1,844	1,934	2,028	1,514	1,629	1,755	1,835	1,925	2,017
Segment EBIT												
Gas Distribution	331	373	391	408	427	446	343	375	391	408	426	446
NIPSCO Electric	210	214	272	285	295	305	218	219	276	286	297	306
Gas Transmission & Storage	394	424	447	473	505	542	377	416	438	463	496	531
Other	(16)	(16)	(16)	(16)	(16)	(16)	(21)	(19)	(19)	(19)	(19)	(20)
Total EBIT (recurring)	919	995	1,094	1,149	1,211	1,277	917	990	1,086	1,138	1,199	1,263
Interest Expense	392	386	405	408	429	462	392	388	402	405	424	457
Other Expenses	(7)	0	0	0	0	0	(4)	0	0	(0)	0	0
Taxes	193	228	258	278	293	305	189	217	246	264	279	290
Recurring Net Income	341	381	430	463	489	509	340	385	438	469	496	516
Diluted Wtd Avg shares outstanding	279	288	302	310	312	314	280	290	304	312	314	316
Recurring EPS - Diluted	$1.22	$1.32	$1.43	$1.49	$1.57	$1.62	$1.22	$1.33	$1.44	$1.50	$1.58	$1.63
Dividend per share	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92
Financing & Credit Metrics												
Total Debt / Total Cap	60.2%	58.0%	56.4%	56.3%	55.9%	55.2%	59.9%	57.6%	56.0%	55.8%	55.4%	54.7%
Net Debt / Total Cap	60.0%	57.9%	56.4%	56.2%	55.7%	55.2%	59.9%	57.6%	55.9%	55.6%	55.3%	54.6%
Net Debt / Equity	149.9%	137.4%	129.1%	128.1%	126.0%	123.1%	149.2%	135.8%	126.8%	125.4%	123.7%	120.1%
Book Value Per Share	$17.59	$18.16	$18.48	$18.58	$19.11	$19.69	$17.61	$18.10	$18.45	$18.57	$19.13	$19.74
Net Debt / TTM EBITDA	4.8x	4.4x	4.1x	4.0x	3.9x	3.8x	4.9x	4.4x	4.1x	4.0x	3.9x	3.7x

Source: Company data, Credit Suisse estimates

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Exhibit 3: NI Abbreviated Financial Statements 2007 – 2015E

NiSource Inc. (NYSE: NI)
Abbreviated Financial Statements

Credit Suisse - Master Limited Partnerships and Natural Gas
Elvira Scotto, CFA (212) 538-7097
Yves Siegel, CFA (212) 325-8462
Joseph Siano, CFA (212) 538-2585

Year ending December 31
($ millions, except per share data)

Abbreviated Income Statement	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	2011E	2012E	2013E	2014E	2015E
Segment EBITDA													
Gas Distribution	584.7	556.0	577.4	297.2	99.3	23.2	162.5	582.2	642.0	670.9	700.0	730.4	762.0
NIPSCO Electric	460.7	429.8	368.0	98.5	101.2	133.7	95.8	429.2	439.4	503.8	519.9	536.6	552.1
Gas Transmission & Storage	488.9	494.3	530.3	157.4	106.4	108.2	135.8	507.8	550.9	583.0	617.8	659.8	705.0
Other	2.8	5.0	(7.1)	1.6	(1.3)	(2.0)	(3.9)	(5.6)	(3.0)	(2.5)	(2.3)	(2.0)	(1.6)
Total EBITDA (recurring)	1,537.1	1,485.1	1,468.6	554.7	305.5	263.1	390.2	1,513.6	1,629.3	1,755.1	1,835.4	1,924.8	2,017.5
Segment EBIT													
Gas Distribution	350.2	327.3	329.3	234.7	35.9	(40.7)	113.0	342.9	374.7	390.8	408.0	426.4	446.0
NIPSCO Electric	285.8	220.2	162.4	46.2	48.3	80.0	43.8	218.3	218.6	276.3	286.2	296.6	305.8
Gas Transmission & Storage	371.8	376.7	408.8	125.9	74.9	76.4	100.0	377.2	415.7	438.2	463.3	495.5	531.0
Other	(12.9)	(6.3)	(21.3)	(1.9)	(5.1)	(5.8)	(6.3)	(21.1)	(18.7)	(18.9)	(19.2)	(19.4)	(19.6)
Total EBIT (recurring)	997.9	917.9	879.2	404.9	154.0	109.9	248.5	917.3	990.3	1,086.5	1,138.3	1,199.0	1,263.2
Interest Expense	400.7	375.3	399.2	98.7	98.4	97.6	97.5	392.2	388.3	402.0	405.3	424.0	456.9
Other Expenses	6.5	(0.9)	1.6	(2.6)	(2.6)	(2.1)	3.5	(3.8)	0.0	0.0	(0.0)	0.0	0.0
Earnings Before Taxes	590.7	543.5	478.4	308.8	58.2	14.4	147.5	528.9	602.0	684.5	733.0	775.1	806.3
Taxes	214.9	194.6	184.3	110.5	21.2	4.1	53.5	189.3	216.7	246.4	263.9	279.0	290.3
Recurring Net Income	375.8	348.9	294.1	198.3	37.0	10.3	94.0	339.6	385.3	438.1	469.1	496.0	516.0
Recurring EPS													
Basic	$1.37	$1.27	$1.07	$0.72	$0.13	$0.04	$0.34	$1.22	$1.35	$1.46	$1.52	$1.60	$1.65
Diluted	$1.37	$1.27	$1.07	$0.71	$0.13	$0.04	$0.33	$1.22	$1.33	$1.44	$1.50	$1.58	$1.63
YoY %Change		*-7.4%*	*-15.9%*	*16.2%*	*488.8%*	*-46.1%*	*-6.9%*	*14.0%*	*9.3%*	*8.4%*	*4.3%*	*5.1%*	*3.4%*
Weighted Average Shares Outstanding													
Basic	273.8	274.0	275.1	276.9	277.6	278.1	278.6	277.8	285.9	300.0	308.0	310.0	311.9
Diluted	274.8	275.4	275.9	277.5	278.4	279.9	282.6	279.6	289.9	304.0	312.0	313.9	315.9
Dividend/Share	$0.92	$0.92	$0.92	$0.23	$0.23	$0.23	$0.23	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92
Payout Ratio	*67.1%*	*72.3%*	*86.1%*					*75.3%*	*68.3%*	*63.0%*	*60.4%*	*57.5%*	*55.6%*
Abbreviated Balance Sheet													
Cash and Equivalents	50.0	20.6	16.4	110.6	7.4	10.9	9.2	9.2	2.7	12.6	55.9	38.6	55.3
Restricted Cash	59.4	286.6	174.7	220.8	212.7	276.5	202.9	202.9	202.9	202.9	202.9	202.9	202.9
Accounts Receivables	977.6	1,143.2	808.6	949.9	568.9	517.8	1,079.3	1,079.3	954.3	1,006.8	1,007.6	1,008.6	1,028.3
Inventories	458.2	511.8	384.8	79.0	230.6	436.8	298.2	298.2	170.0	180.0	187.3	185.8	171.1
Other Current Assets	950.0	1,448.3	839.1	836.9	873.8	951.5	859.3	859.3	913.4	988.1	1,093.0	1,240.6	1,448.8
Current Assets	2,495.2	3,410.5	2,223.6	2,197.2	1,893.4	2,195.5	2,448.9	2,448.9	2,243.4	2,390.4	2,545.7	2,676.5	2,906.5
Net PP&E	9,693.0	10,276.0	10,654.0	10,605.8	10,766.9	10,829.3	11,002.3	11,002.3	11,463.3	11,794.7	12,097.6	12,371.8	12,617.5
Other Assets	5,856.9	6,345.7	6,394.1	6,548.6	6,387.8	6,500.6	6,487.6	6,487.6	6,487.6	6,487.6	6,487.6	6,487.6	6,487.6
Total Assets	18,045.1	20,032.2	19,271.7	19,351.6	19,048.1	19,525.4	19,938.8	19,938.8	20,194.3	20,672.7	21,131.9	21,535.9	22,011.6
Accounts Payable	743.3	693.9	502.3	407.1	278.9	242.9	581.8	581.8	668.0	732.2	760.5	791.1	863.8
Current Portion of LT Debt	35.9	469.3	719.7	723.1	718.8	726.9	34.2	34.2	34.2	34.2	34.2	34.2	34.2
Other Short Term Borrowings	1,061.0	1,163.5	103.0	370.7	212.8	724.6	1,382.5	1,382.5	1,182.5	1,182.5	1,382.5	1,532.5	1,607.5
Other Current Liabilities	1,584.6	2,256.7	1,824.6	1,496.3	1,506.9	1,556.8	1,650.9	1,650.9	1,724.8	1,777.6	1,829.0	1,845.1	1,944.0
Current Liabilities	3,422.8	4,583.4	3,149.6	2,997.2	2,717.4	3,251.2	3,649.4	3,649.4	3,609.5	3,726.5	4,006.2	4,202.9	4,449.5
Long Term Debt	5,594.4	5,943.9	5,969.1	5,963.9	5,977.3	5,964.3	5,936.1	5,936.1	5,909.1	5,908.2	5,901.9	5,898.4	5,898.4
Other Liabilities	3,941.2	4,776.1	5,298.9	5,461.7	5,458.5	5,432.0	5,430.1	5,430.1	5,430.1	5,430.1	5,430.1	5,430.1	5,430.1
Total Liabilities	12,958.4	15,303.4	14,417.6	14,422.8	14,153.2	14,647.5	15,015.6	15,015.6	14,948.7	15,064.8	15,338.2	15,531.4	15,778.0
Shareholders Equity	5,086.7	4,728.8	4,854.1	4,928.8	4,894.9	4,877.9	4,923.2	4,923.2	5,245.6	5,607.9	5,793.7	6,004.5	6,233.6
Total Liabilities and Equity	18,045.1	20,032.2	19,271.7	19,351.6	19,048.1	19,525.4	19,938.8	19,938.8	20,194.3	20,672.7	21,131.9	21,535.9	22,011.6
Total Capital Expenditures	763.9	1,306.6	798.6	228.0	228.0	228.0	228.0	912.0	1,100.0	1,000.0	1,000.0	1,000.0	1,000.0
Financial Metrics													
Total Debt / Total Cap	56.8%	61.6%	58.3%	58.9%	58.5%	60.3%	59.9%	59.9%	57.6%	56.0%	55.8%	55.4%	54.7%
Net Debt / Total Cap	56.6%	61.5%	58.3%	58.5%	58.5%	60.3%	59.9%	59.9%	57.6%	55.9%	55.6%	55.3%	54.6%
Net Debt / Equity	130.5%	159.6%	139.6%	140.9%	141.0%	151.8%	149.2%	149.2%	135.8%	126.8%	125.4%	123.7%	120.1%
Book Value Per Share	$18.51	$17.17	$17.59	$17.76	$17.58	$17.43	$17.42	$17.61	$18.10	$18.45	$18.57	$19.13	$19.74
Net Debt / TTM EBITDA	4.3x	5.1x	4.6x	4.6x	4.5x	4.8x	4.9x	4.9x	4.4x	4.1x	4.0x	3.9x	3.7x

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 04 Feb 11)*
NiSource Inc (NI, $18.40, NEUTRAL, TP $19.00)

Disclosure Appendix

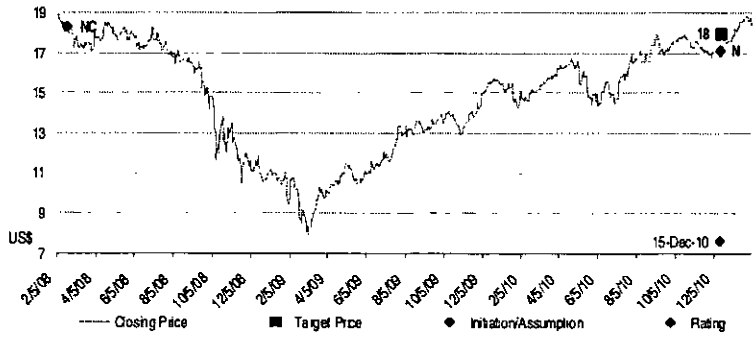
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3-Year Price, Target Price and Rating Change History Chart for NI

NI Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
2/20/08	18.28		NC	
12/15/10	17.09	18	N	X



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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Price Target: (12 months) for (NI)
Method: We derive our 12-month price target of $19 for NiSource through a combination of P/E and sum of the parts valuation. Our price is based on a P/E multiple of 13.9 times our 2011 EPS estimate of $1.33, which is at the upper end of NI's historic trading range. We believe this to be appropriate as NI has resolved several key regulatory issues and is well positioned for growth. Our price target is also consistent with our sum of the parts valuation.
Risks: Main risks to our 12-month price target of $19 for NiSource include a less favorable outcome to its second electric rate case, pipeline re-contracting risk and economic risk as NI's electric utility is levered to the economy.

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06 February 2011
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Morgan Stanley

January 2011

Industry View
Attractive

Diversified Natural Gas
Stock Positioning Guide for 2011

Playbook

We reiterate our Attractive industry view on Diversified Natural Gas stocks. We have Overweight ratings on EP, NFG, and WMB.

Four themes should drive stock performance in 2011:

- Low-cost and improving E&P asset portfolios. While our commodities team is bullish on oil ($100/bbl 2011 forecast) and less constructive on natural gas ($4.00 2011 forecast), we think more than just oil exposure will matter on the E&P side. Unique acreage positions (e.g., NFG in Marcellus for gas, EP in the Eagle Ford for oil) have the ability to drive higher returns and growth on both commodities. We think EP, NFG, WMB (Bakken) will continue to see an improvement in their E&P segments, with MDU growing a unique Niobrara oil play as well.
- Midstream economics (strong NGL prices) and new infrastructure projects will drive earnings acceleration in 2011-12. We think 7% in 2011 and 13% in 2012 is achievable based on a visible backlog.
- Meaningful general partner (GP) stakes will continue to drive valuations. We expect the market to ascribe higher valuations to diversified stocks with levered GP interests in MLPs due to substantial cash flows that can be deployed to higher-return projects at the parent. Most exposed names in order: WMB, OKE, EP, SE.
- Corporate announcements (e.g., E&P and midstream joint ventures, new projects, asset sales, asset spin-offs) will have positive impacts. We see almost all of our coverage as having leverage to this theme.

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What's Changed

	Rating		Price Tgt ($)	
Ticker (Price)	New	Prior	New	Prior
EP ($13.64)	O	O	17	16
WMB ($24.54)	O	O	30	30
NFG ($67.2)	O	–	82	–
SUG ($24.67)	E	E	27	27
NI ($17.86)	E	–	19	–
OKE ($55.62)	E	E	60	57
SE ($25.21)	E	E	27	25
MDU ($20.68)	E	–	22	–
STR ($17.45)	U	U	18	18

Source: Morgan Stanley Research
O = Overweight E = Equal-weight U = Underweight
See page 37 for EPS estimates

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Prices and ratings herein are as of January 4, 2011

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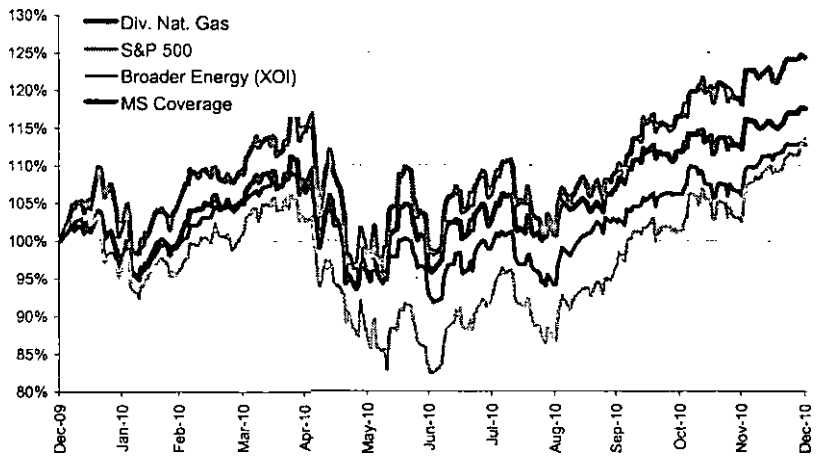
2010 Review

A Solid Year for the Diversified Natural Gas Universe

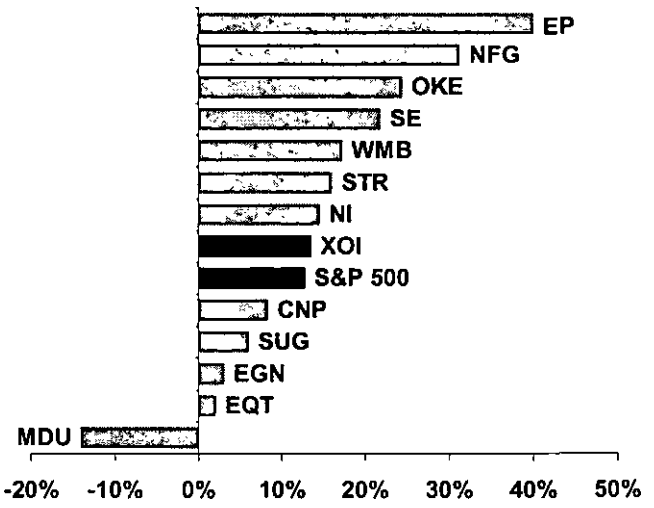
• Diversified natural gas stocks were up 17.5% on a price return basis in 2010, surpassing the S&P 500 (up 12.8%) and the broader Energy sector (up 13.6%).

• For stocks under Morgan Stanley coverage, the universe returned 24.4% on a market cap-weighted basis. Group outperformers include EP (up 40.0%), driven by its addressing its funding gap and renewed focus on its E&P operations on lower-risk, lower-cost geographies; and NFG (up 31.2%) due to its emerging Marcellus E&P prospects and associated midstream opportunities.

2010 Price Performance



2010 Price Performance



Source: FactSet; Morgan Stanley Research, NOTE: XOI is index of leading petroleum companies.

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Key Themes for 2011

We believe there are 4 key themes that will determine performance and stock selection for the diversified names in 2011. Our views include:

- **Stocks with low-cost, high-reserve, improving E&P portfolios should outperform**

  While the Morgan Stanley Commodities team is bullish on oil (driven by the need for increased OPEC production) and less constructive on natural gas prices (high inventory balances in North America, elevated drilling despite vast supplies and a substantial backlog of well inventory) in 2011, companies with overall low-cost E&P exposure (oil and liquids are a plus) should outperform given an improvement in returns.

  Risks: A significant decline in oil prices from current levels would have a negative impact on stocks like EP, WMB, MDU while even further gas price weakness would call into question all names that have gas exposure.

- **Strong midstream economics and new infrastructure projects will drive earnings acceleration.**

  Strong midstream economics (elevated processing margins, fractionation spreads, and higher oil prices) will have a substantial influence on earnings for midstream heavy companies, but new infrastructure projects will also be key in helping earnings up 7% in '11e and 13% in '12e.

  Risks: Current race to develop midstream infrastructure creates a saturated market for ethane, propane, etc.; better natural gas fundamentals push up the natural gas/crude ratio for extended periods, causing petrochemical customers to use crude-based feedstocks.

- **Meaningful general partner (GP) stakes will get more noticed by the market.**

  We believe the market will begin ascribing higher valuations to diversified stocks with levered GP interests in MLPs due to substantial cash flows that can be then deployed to higher return projects at the parent level.

  Risks: GP stakes reaching their highest distributions splits, limiting perceived cash flow growth outlook for the GP stake; increase in GP offerings that flood the market with varied opportunities for investing in GPs.

- **Corporate announcements (e.g., joint ventures, asset spin-offs) will remain a topic of debate**

  Following the successful E&P spin-off of QEP from STR, the market has been looking for others to follow suit (e.g., WMB and EP). However, we think 2011 can also be marked by increased joint ventures on the E&P and midstream side that can highlight value and drive higher cash flows.

  Risks: The market could pursue opportunities in stocks that show a "restructuring potential," and could be quickly discouraged if it does not see managements take a decisive approach in a restructuring path, leading to lower market valuation for those stocks.

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Key Themes for 2011

KEY THEME	MORGAN STANLEY VIEW	WHO STANDS TO BENEFIT?	COMPANIES IMPACTED
Theme #1: Low-cost and improving E&P reserves are a benefit, even for those with gas exposure	Morgan Stanley Commodities team is bullish on oil ($100 forecast), but less constructive on natural gas ($4 forecast) heading into 2011.	Companies with footprints near low-cost oil and oil shale plays have the upper hand, but we still believe plays like the Marcellus (NFG) can be productive.	EP (Eagle Ford), MDU (Bakken and Niobrara), NFG (California), and WMB to a lesser extent (Bakken) on the E&P side
Theme #2: Midstream economics and infrastructure project developments will continue to be a positive for levered players	Margins and spreads will remain elevated above historical levels given strong petrochemical company demand for light feedstocks (i.e., natural gas liquids like ethane).	Companies with existing midstream footprints especially in emerging shale plays.	EP (potential build in Eagle Ford), SE (Marcellus pipeline JV with EP), WMB (through WPZ ownership), SUG (W. Texas), MDU (Bakken), NI (Marcellus), OKE (through OKS ownership, Bakken and Midcon).
Theme #3: Companies with GP stakes will receive more favorable valuation	GP stakes provide a stable and growing inflows of cash that the market underappreciates.	We expect the market to value these stakes more appropriately as it becomes a more significant funding mechanism.	In order: WMB, OKE, EP, and SE will benefit the most as they all have a GP interest with associated incentive payments in MLPs. Recent public company filings have placed a higher value on GPs.
Theme #4: Corporate announcements (joint ventures, asset sales, projects) will remain a key topic of debate	Future announcements of restructurings (e.g., joint ventures, asset sales, break-ups), could serve as catalysts for stocks.	Companies who can unlock shareholder value through new JVs, asset sales, or spin-offs stand to benefit.	WMB (the markets have been calling for a strategic restrucuring following the tax-free spin-off of STR's E&P business), potential EP Eagle Ford joint venture, NFG (Marcellus joint venture)

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Key Themes and Positioning for 2011

Key Theme #1: Improving E&P asset portfolios will be a plus

• Robust global demand, evidenced by strong inventory draws, and falling supplies leaves us constructive on oil and natural gas liquids (NGLs).

• The Morgan Stanley Commodities Research team sees global demand growing 1.5 mmb/d driven by the non-OECD in 2011.

• They see non-OPEC supply falling slightly (~380 kb/d) in 2011, and that increases in production from Canadian oil sands, US oil shale plays, deepwater Brazil and EOR methods in Colombia are not enough to offset declines in the North Sea, Mexico and Asia. As a result, they expect spare capacity to tighten considerably with demand remaining largely agnostic to price fluctuations in the short-term.

• Morgan Stanley Commodities Research team forecasts crude oil prices to average $100/bbl in 2011.

Natural gas prices may face headwinds given an over-supplied market, but it is only one part of a larger equation for Diversified stocks

• The Morgan Stanley Commodities Research team believes natural gas prices will face significant headwinds in 2011 due to an over-supplied environment with high inventory levels, high drilling activities in low-cost shale plays resulting in higher production, and limited growth in natural gas demand.

• Morgan Stanley Commodities Research team forecasts natural gas prices to average $4/mmbtu in 2011.

Who Benefits?

• There are numerous beneficiaries from higher crude oil prices. From the E&P perspective, EP through its Eagle Ford and Altamont exposure, MDU through Bakken and Niobrara acreage, NFG from its stable California production, and to a lesser extent WMB through its recently acquired Bakken acreage. From a midstream perspective, MDU and OKE have the largest exposure to crude oil gathering in the Bakken. But, still the majority of production is gas for these names and for some they are in the right basins (e.g., NFG Marcellus) and we believe will see growth.

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Key Themes and Positioning for 2011

Key Theme #2: Midstream Economics Should Remain a Positive for Levered Players

• NGL prices have recovered after a sharp 2Q10 pull-back driven by strong demand from ethane crackers (utilization rates running at +90% and conversions to accept the light-end feed). We believe this trend will continue into 2011 as natural gas fundamentals will remain challenged relative to crude oil, causing the petrochemical industries to choose light-feeds (derived from natural gas) over heavy-feeds (derived from crude oil).

• The Morgan Stanley E&P team believes gas drilling will remain relatively active in 2011, despite low gas prices. Continued drilling will keep volumes flowing through midstream assets (long-haul, gathering systems, processing and fractionation facilities), especially in liquids-rich areas.

• We believe processing margins and fractionation spreads will remain elevated in 2011, above historical averages (page 23), since processing liquids-rich gas is nondiscretionary, tight fractionation capacity, and regional bottlenecks.

• As production continues to shift to unconventional, liquids-rich, low-cost shale resources, we see the need for more infrastructure build (such as gathering and processing capacity, y-grade NGL pipelines, fractionation facilities, etc.).

• We believe this will effectively continue creating high return opportunities for those exposed to emerging shale plays. In the case of gathering and processing assets, we expect future contracts will be underwritten with minimal keep whole exposure and more percent-of-proceeds (POP) and percent-of-liquids (POL).

Who Benefits?

• Companies with substantial midstream exposure (NFG, NI, OKE, SE, SUG, WMB) stand to benefit from elevated price levels and new projects, while the majority of new projects are constructed under a fee-based revenue model to offset some of the commodity price risk exposure. Also benefiting, to a lesser extent, are EP (Eagle Ford opportunities and possible Marcellus ethane pipeline with SE) and MDU (Bakken build out).

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Key Themes and Positioning for 2011

Key Theme #3: Companies with GP Stakes Likely to Be Valued More Favorably

• Following a year when GP takeouts were the key theme for the MLP universe, typically at premium multiple valuations, we believe the market will place higher values on the cash flows for the remaining companies with levered GP interests. This theme is also bolstered by recent public filings for c-Corp GPs.

2010 GP Transactions

Announcement	Buyer LP	Seller GP	Multiple paid P/DCF
Jun-10	BPL	BGH	22x
Aug-10	NRGY	NRGP	25x
Sep-10	EPD	EPE	22x
Sep-10	PVR	PVG	17x
Sep-10	NRP	Private	17x
		average	**21x**

GP Valuations in C-Corps

Ticker	GP C/F *($ in m)*	Implied GP Multiple in Stock	Implied Market Value	Implied Per share Value	New Multiple	New Per share Value
EP	$57	4.0x	$228	$0	20.5x	$2
WMB	$282	2.0x	$564	$1	20.5x	$10
OKE	$140	12.5x	$2,103	$20	20.5x	$27
SE	$20	2.0x	$40	$0	20.5x	$1

Source: Company data, Morgan Stanley Research

• We believe that owning a GP stake and associated incentive rights in a growing MLP provides a considerable competitive advantage to diversified stocks in terms of a stable cash inflow and funding capital expenditure needs.

• Looking at cash flow multiples paid for GP stakes in 2010, we see on average that the GP stake was taken out at a 22x multiple. However, we apply conservative cash flow multiples to our sum-of-the-parts valuation models. We believe multiple expansion is a high probability event given investor interest in alternative ways to play the public GP theme, and relative valuation to public GP alternatives.

Who Benefits?

• Current diversified stocks with levered interests (EP, WMB, OKE and SE) have the immediate advantage. However, if a company decides to structure an MLP and retain the GP and incentive rights will also benefit.

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Key Themes and Positioning for 2011

Key Theme #4: Corporate Announcements Will Remain Key Catalysts

• We believe the diversified natural gas stocks continue to screen as undervalued relative to their sum-of-the-parts and multiple valuation, irrespective of visible growth projects.

• In 2010, we saw two companies (WMB and STR) address depressed valuation levels by undergoing corporate restructurings.

• In the case of WMB, it "dropped down" the vast majority of its midstream assets into its MLP (WPZ), whereas STR spun off its unregulated E&P and field services businesses into a new stand alone company. STR stock has worked whereas WMB initially lagged the group and the broader market (though outperforming recently after management changes, asset purchases, and the specter of further action).

• Future announcements of strategic restructurings / asset sales or purchases could be positive catalysts for stocks if they create shareholder value. We believe EP and WMB are looking for strategic joint venture partners on their E&P assets. EP in the Eagle Ford and WMB in all parts of E&P. NFG has publicly announced it is pursuing joint venture plans in the Marcellus and we feel all three companies stand to benefit from valuation markers and also asset monetization and the ability to then be able to execute growth plans on E&P and midstream with new liquidity. We also believe execution by OKS in the Bakken stands to benefit OKE greatly and we could see more announcements from MDU on its Niobrara acreage.

Who Benefits?

• Companies that can unlock shareholder value through asset sales or purchases or tax-free spin-offs stand to benefit, for instance, WMB (the markets have been calling for another strategic restructuring following the successful tax-free spin-off of STR's E&P and field services business), potential E&P spin-off at EP has been brought up, and MDU through divesting non-core assets and focusing on high quality, strategic business.

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Coverage Universe Total Return Potential

Ticker	Current Price	Old Target Price	New Target Price	Next 4 Qtrs Yield Forecast	Total Return Pot'l	Bull Case Target Price	*Implied % Change*	Bear Case Target Price	*Implied % Change*	Stock Rating
EP	$13.64	$16	$17	0.3%	24.9%	$20	46.6%	$11	-19.4%	O
WMB	$24.54	$30	$30	2.0%	24.3%	$34	38.5%	$20	-18.5%	O
NFG	$67.20	--	$82	2.1%	24.1%	$97	44.3%	$55	-18.2%	O
SUG	$24.67	$27	$27	2.4%	11.9%	$31	25.7%	$20	-18.9%	E
NI	$17.86	--	$19	5.2%	11.5%	$22	23.2%	$15	-16.0%	E
OKE	$55.62	$57	$60	3.6%	11.5%	$67	20.5%	$47	-15.5%	E
SE	$25.21	$25	$27	4.1%	11.2%	$30	19.0%	$21	-16.7%	E
MDU	$20.68	--	$22	3.1%	9.5%	$25	20.9%	$17	-17.8%	E
STR	$17.45	$18	$18	3.5%	6.6%	$20	14.6%	$15	-14.0%	U
Average					**15.1%**		**28.1%**		**-17.2%**	

EP, NFG, and WMB are our top picks; NI, OKE, SE, and SUG show upside

- We forecast an average 15.1% total return potential for the diversified natural gas stocks under coverage, with overweight names EP, NFG and WMB showing the most upside.
- We increased our price targets for EP to $17 from $16, SE to $27 from $25 and OKE to $60 from $57.
- Additionally, we adjusted EPS estimates for SE (upwards) and SUG (downwards). *Please see page 38 for EPS changes.*

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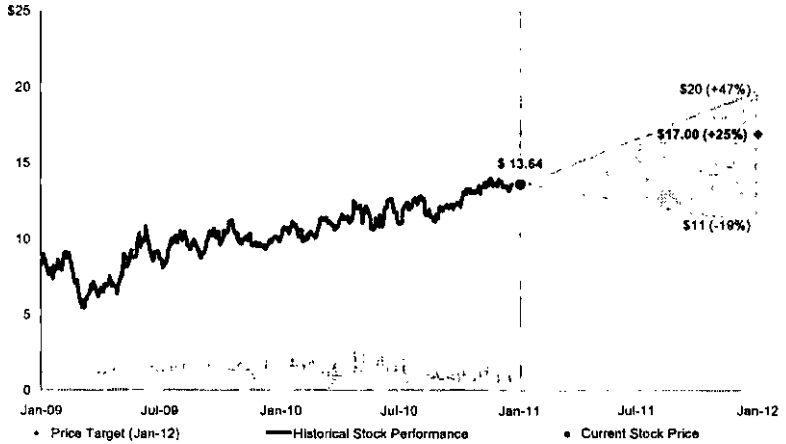
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies

El Paso Corp. (EP, $13.64, Overweight, Price Target $17)

Risk-Reward View: Expect Rerating as Stable Pipeline EBITDA is Added



El Paso Corporation	Value ($m)	$/Share
Exploration & Production	$7,773	**$10**
Pipelines	12,969	**17**
El Paso Pipeline Partners	4,246	**6**
Net Debt	(11,609)	**(15)**
Net Equity Value		**$18**
Shares Outstanding (including dilution)		762

Why Overweight?

- Premier US natural gas pipeline network. Significant backlog of pipeline projects ($3+b, multiple projects with 90% of capacity subscribed at 10- to 30-year terms.
- Growing E&P presence with 2.75 Tcfe of proved reserves (75% of total US onshore production). Focus on low- to medium-risk repeatable plays in growing unconventional shales.
- Liquidity and E&P has improved.
- Execution on E&P segment and pipeline construction schedule should serve as catalysts.

Key Value Drivers

- Pipeline growth capex budget "de-risked" and lowered (Ruby JV, EPB dropdowns), fixed/ incentive-based construction costs, improved construction environment.
- Steady pursuit of dropdowns to EPB to raise/redeploy capital while growing levered general partner interest
- Significant price protection with natural gas hedges matched (75% of 2011e domestic production has price floors around $6 gas) with focus on lower-risk drilling.

Potential Catalysts

- Announcements of drilling success in unconventional shales, particularly in Eagle Ford and west Texas.
- Joint venture in Eagle Ford.
- Further asset sales into EPB.
- January 27, 2011 will release 2011 guidance.

Where We Could Be Wrong

- Prolonged challenging natural gas conditions that weigh on production.
- Capital markets seize and financing becomes a major issue again.

Source: Company data; Morgan Stanley Research; FactSet

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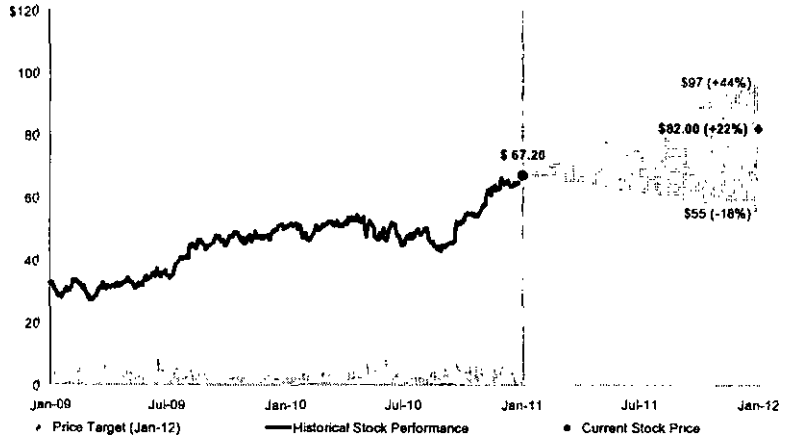
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies

National Fuel Gas Co. (NFG, $67.20, Overweight, Price Target $82)

Risk-Reward View: Marcellus E&P and Midstream Heavyweight



National Fuel Gas Company	Value ($ m)	$/Share
Exploration and Production	$5,735	$69
Pipeline & Storage	1,122	14
Utility	1,367	17
Energy Marketing & Other	38	0
Value per Share	**$8,262**	**$100**
Net Debt	(1,043)	(13)
Net Equity Value	**$7,219**	**$87**
Shares Outstanding (in mm)		83

Why Overweight?

- Expansive Marcellus footprint in the heart of the fairway with best-in-class production economics.
- Abundant midstream opportunities to serve the ramp-up in Marcellus production over the long term.
- Utility segment balances the business and provides stable and predictable earning to pay the dividend.

Key Value Drivers

- Capital spend is allocated toward E&P and midstream infrastructure in the Marcellus region.
- Rate base growth and implementing diverse rate mechanisms (e.g., revenue decoupling) allow improved return on equity for utility.
- Maintaining consistent Californian production provides oil exposure to offset natural gas exposure.

Potential Catalysts

- Better-than-expected well results across its Marcellus acreage (e.g., improvements in EOG JV wells with longer laterals).
- Announcement of sale of Marcellus acreage in a new JV (allows acceleration of midstream opportunities); possibly 1Q11.
- Utility rate increases to allow higher return on equity.
- 1Q11 fiscal earnings released on February 3, 2011.

Where We Could Be Wrong

- Marcellus acreage proves to be less prolific than initial expectations.
- Midstream opportunities fail to materialize given less Marcellus production.
- Natural gas prices remain muted/decline further depressing Marcellus economics.

Source: Company data; Morgan Stanley Research; FactSet

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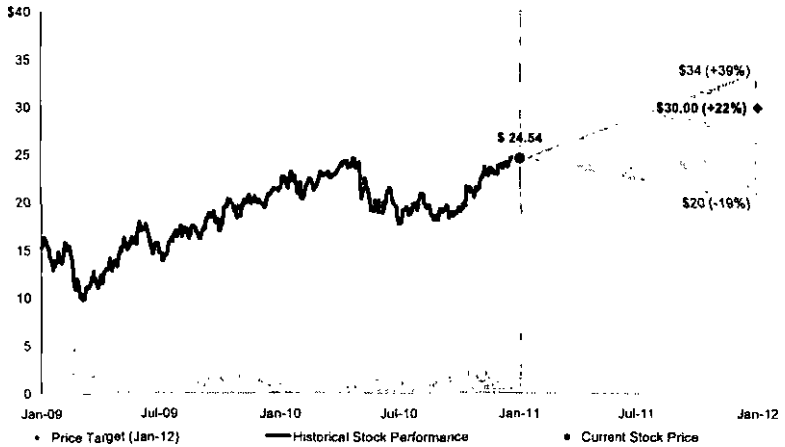
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies

The Williams Companies (WMB, $24.54, Overweight, Price Target $30)

Risk-Reward View: Getting Little Credit for Asset Values



The Williams Companies, Inc.	Value ($ m)	$/Share
Exploration and Production	$7,297	$12
WPZ LP interest	7,350	13
WPZ GP interest	4,200	7
Gulfstream/Canada/Other	798	1
Value per Share	**$19,645**	**$34**
Net Debt	(1,700)	(3)
Net Equity Value	**$17,945**	**$31**
Shares Outstanding (in mm)		585

Why Overweight?

- WMB is a principal beneficiary of long-term demand in natural gas infrastructure and gas processing.
- Attractive E&P portfolio, with a levered interest to its MLP (70+% ownership in WPZ post-restructure).
- "Conglomerate discount" is unwarranted. Most observers agree about WMB's top-tier midstream assets tied to growing shales, and recent restructuring transaction will allow them to expand more.
- Rockies are an underappreciated resource play for WMB. We think the Piceance generates substantial value for WMB that is underappreciated by the market given its lower cost and WMB's benefits of scale in the area.

Key Value Drivers

- Focused deployment of $1.5-2 billion capex.
- Low cost leader amongst other E&P companies.
- WPZ provides cash flow growth, monetization of assets, and levered play on distributions.

Potential Catalysts

- Industrial activity rises significantly, pushing NGL demand higher.
- E&P spinoff announcement.
- Further expansion into Marcellus region, and/or positive well economics and production data.
- 4Q10 earnings released on February 17, 2011.

Where We Could Be Wrong

- Industrial demand deteriorates as economic recovery stalls.
- Value extraction from MLP proves harder than anticipated.
- Reserve replacement ratio deteriorates.

Source: Company data; Morgan Stanley Research; FactSet

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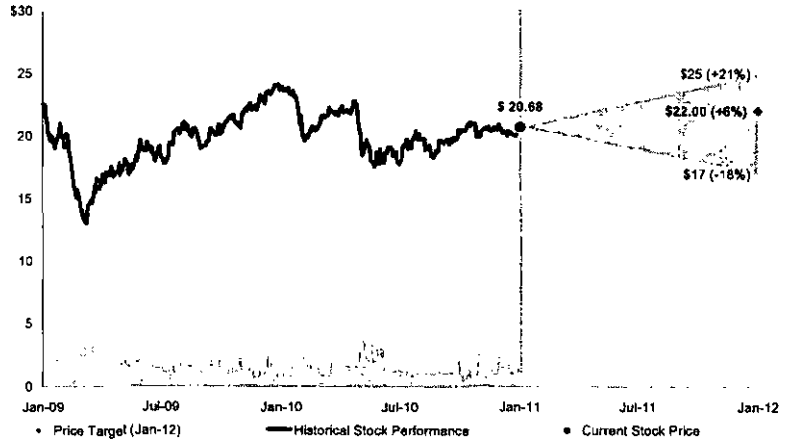
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies

MDU Resources Group (MDU, $20.68, Equal-weight, Price Target $22)

Risk-Reward View: Bakken and Niobrara are Essential to LT Growth



MDU Resources Group, Inc.	Value ($ m)	$/Share
Exploration and Production	$1,785	$9
Pipeline & Energy Services	814	4
Electric & Gas Utilities	1,564	8
Construction & Other	1,097	6
Value per Share	**$5,261**	**$28**
Net Debt	(1,341)	(7)
Net Equity Value	**$3,919**	**$21**
Shares Outstanding (in mm)		188

Why Equal-weight?

- Substantial portion of E&P revenues derived from natural gas prices, offset slightly by growing oil exposure.
- Construction Materials & Contracting and Construction Services segments are largely levered to the broader economy.
- Regulated electric and gas utilities and pipeline businesses offer stable returns.

Key Value Drivers

- Diversifying E&P portfolio to provide a more balanced oil and gas mix (e.g., increased oil production from Bakken and Niobrara).
- Selection for public and private construction projects increases demand for construction materials which supports growth.
- Providing reliable and cost-efficient power allows regulated businesses to earn allowable rate of return.

Potential Catalysts

- Better-than-expected E&P well results (e.g., announcements in Heart River formation in the Bakken and initial results from Niobrara acreage).
- A pick-up in the US economy drives demand for construction businesses and project announcements.
- Utility rate case increase (currently two outstanding electric rate cases).
- 4Q10 fiscal earnings released on February 3, 2011 / Investor Day March 17, 2011.

Where We Could Be Wrong

- Natural gas prices remain muted for an extended period.
- US economy fails to rebound proving to be a drag on the construction businesses.
- E&P acreage proves to be less than optimal.

Source: Company data; Morgan Stanley Research; FactSet

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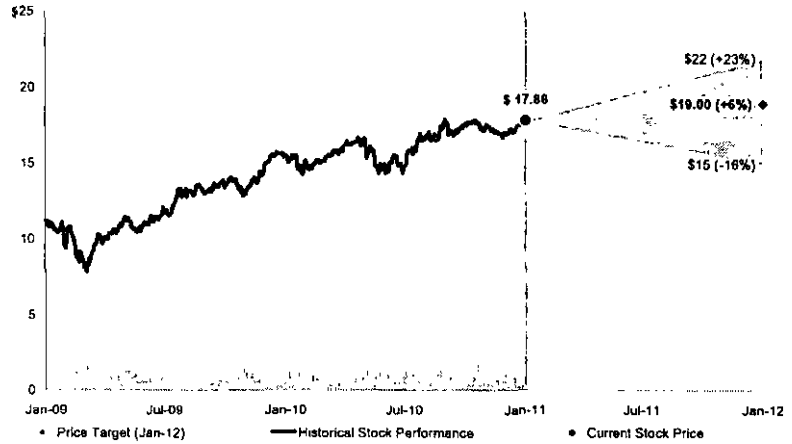
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies

NiSource Inc. (NI, $17.86, Equal-weight, Price Target $19)

Risk-Reward View: Marcellus Midstream and Regulated Utilities



NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$5,531	$20
Gas Transmission & Storage	4,818	17
Electric Utility	2,760	10
Value per Share	**$13,109**	**$47**
Net Debt	(7,405)	(26)
Net Equity Value	**$5,704**	**$20**
Shares Outstanding (in mm)		280

Why Equal-weight?

- Near-term headwinds associated with restoring earnings power at regulated utilities segments (e.g., successful rate case outcomes and earning ROEs that are closer to the allowable rate).
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus provide exceptional long-term value.
- Expect earnings uplift from recovery in business units to pick up in 2012.

Key Value Drivers

- Executing Marcellus midstream projects on time and below budget (targeting $200m of projects per year over the next 3-4 years).
- Execution on it regulatory agenda (e.g., filing rate cases, operational improvement, implementing trackers / cost recovery mechanisms).
- Stable and predictable dividend.

Potential Catalysts

- Updates related to rate cases (e.g., NI filed second rate case at the end of November).
- Announcement of additional Marcellus project or acquisition beyond those include in guidance (e.g. Renovo to corning expansion).
- 4Q10 fiscal earnings released on January 25, 2011.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

Source: Company data; Morgan Stanley Research; FactSet

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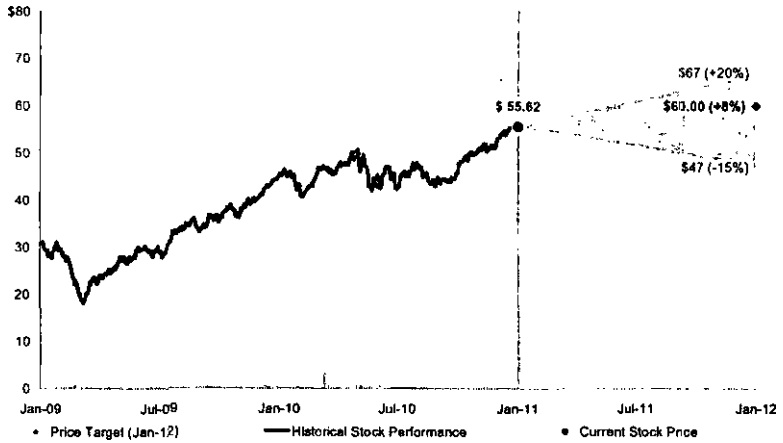
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies.

ONEOK Inc. (OKE, $55.62, Equal-weight, Price Target $60)

Risk-Reward View: Stable Business Mix, Bakken Growth Pot'l



ONEOK Inc. (OKE)	Value ($ m)	$/Share
ONEOK Partners	$5,143	$48
Distribution	2,640	25
Energy Services	426	4
Value per Share	**$8,209**	**$77**
Net Debt	(1,603)	(15)
Net Equity Value	**$6,606**	**$62**
Shares Outstanding (in mm)		106

Why Equal-weight?

- Free cash flow positive story that is getting better with new projects at OKS.
- OKE's interest in ONEOK Partners (OKS) is its primary growth engine (OKE owns ~40% of outstanding OKS stock plus the general partner). The GP interest provides strong growth.
- Gas distribution business provides low-risk, stable and sustainable cash flows. Focus on filing smaller and more frequent rate cases, structuring innovative rates.

Key Value Drivers

- OKS assets connected to prolific supply basins and key markets. Diverse supply sources and largely fee-based contracts (~70% of margin) help reduce volatility somewhat. Focus of future organic growth spending is on NGL business.
- Bakken growth spending of $1.5 – 2.0b at OKS.
- New rate mechanisms have led to an improved return on equity for the Distribution segment.
- Majority of Energy Services margin (75% of which is storage and transportation) is locked in for 2011, with reductions in leased storage capacity further diminishing volatility.

Potential Catalysts

- February 2, 2011, 4Q10 earnings release.
- Acquisition or identification of other strategic uses of liquidity.
- Dividend increase, stock buybacks

Where We Could Be Wrong

- Bakken does not develop at OKS due to outside pressures/competition, thus hurting OKE's growth profile.

Source: Company data; Morgan Stanley Research; FactSet

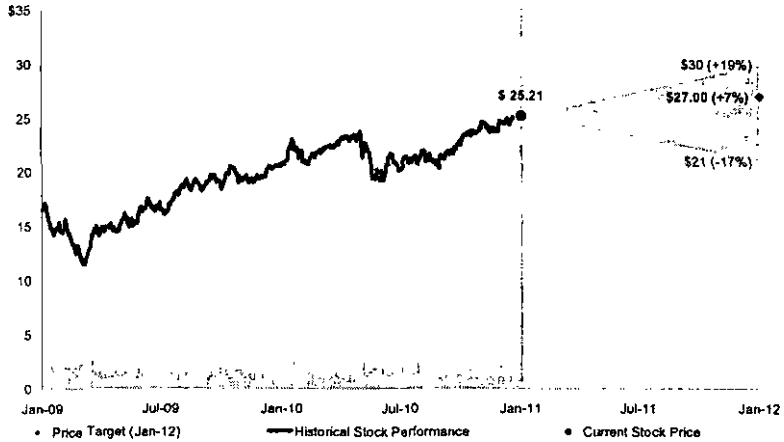
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies

Spectra Energy Corp. (SE, $25.21, Equal-weight, Price Target $27)

Risk-Reward View: Balanced R/R from an Infrastructure Heavyweight



Spectra Energy Corp.	Value ($ m)	$/Share
U.S. Transmission	$12,907	$20
Distribution	5,683	9
Western Canada	4,909	8
Field Services	4,329	7
Value per Share	**$27,827**	**$43**
Net Debt	(9,369)	(14)
Net Equity Value	**$18,458**	**$28**
Shares Outstanding (in mm)		650

Why Equal-weight?

- We see SE shares earning moderate risk-adjusted returns.
- SE's strategically positioned assets, track record of industry-leading ROIC and prudent financial management make the company a leading player in natural gas infrastructure.

Key Value Drivers

- Natural gas storage assets in the current environment.
- Ownership stakes in MLPs – SEP and DPM – drive cash flow growth.
- Active counterparty risk management approach assures stability in earnings.
- Focus on key shale plays: Haynesville, Horn River, and Marcellus.

Potential Catalysts

- Achieving ROIC beyond the 12-14% SE targets.
- Decline in rig count reaches a nadir, positively affecting natural gas prices.
- Debt offering or 'drop down' asset sale into SEP to raise capital for growth spending.
- January 20, 2011 analyst meeting / February 3, 2011 4Q10 earnings release.

Where We Could Be Wrong

- Deterioration in economic activity takes hold as varied methods for jumpstarting the economy fail.
- Cost overruns, execution issues and political/environment concerns make SE's growth projects less attractive.

Source: Company data; Morgan Stanley Research; FactSet

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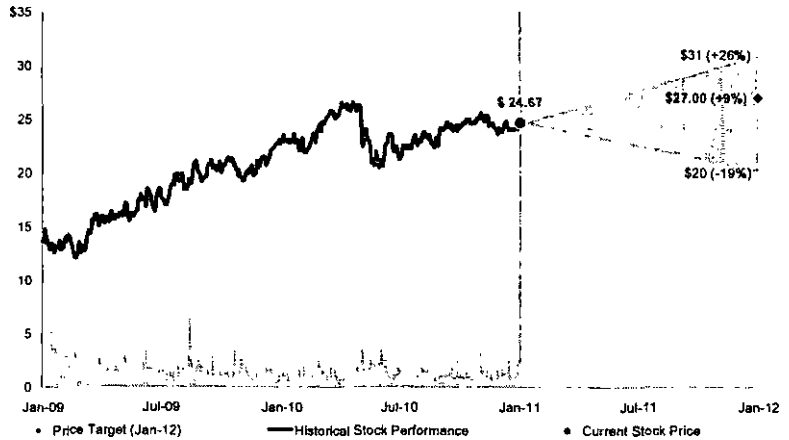
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies

Southern Union Co. (SUG, $24.67, Equal-weight, Price Target $27)

Risk-Reward View: Limited Near-term Catalysts



Southern Union Company	Value ($ m)	$/Share
Transportation and Storage	$6,298	$50
Gathering and Processing	833	7
Distribution	636	5
Value per Share	**$7,766**	**$62**
Net Debt	(4,639)	(37)
Net Equity Value	**$3,127**	**$25**
Shares Outstanding (in mm)		125

Why Equal-weight?

- Midstream processing exposure could weigh on results, particularly given volume risk in depressed natural gas environment.
- Strong pipeline growth from capital spending, but may take time to get executed and recognized.
- Vast interstate natural gas pipeline (7.8 Bcf/d capacity) and storage (100 Bcf capacity) network, including newly in-service LNG import terminal.

Key Value Drivers

- Access to diverse supply sources and growing markets in its transportation and storage network creates longer-term opportunities for growth projects. Major projects such as FGT Phase VIII Expansion and Trunkline LNG provide new growth.
- Leverage to natural gas prices and processing spreads through processing business.
- Distribution growth tied to customer growth and rate increase approvals.

Potential Catalysts

- Recovery in natural gas prices drives gathering/processing volumes.
- Announcement of Permian Basin projects.

Where We Could Be Wrong

- Deterioration in natural gas production fundamentals and continued recovery in processing spreads.

Source: Company data; Morgan Stanley Research; FactSet

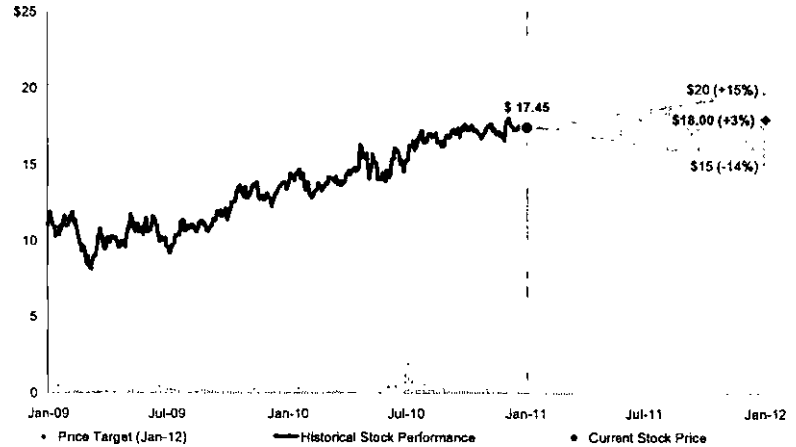
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Investment Theses & Risks

Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies

Questar Corp. (STR, $17.50, Underweight, Price Target $18)

Risk-Reward View: One of a Kind Return on Capital Agreements at Wexpro



Questar Corporation	Value ($ m)	$/Share
Wexpro	1,855	10
Quest Gas	1,214	7
Quest Pipeline	1,352	8
Value per Share	**$2,566**	**$25**
Net Debt	1,232	7
Net Equity Value	**$3,798**	**$18**
Shares Outstanding (in mm)		178

Why Underweight?

- Outperformance since the spin-off of QEP closed on June 30, 2010, has substantially closed the NAV/price discount at which STR was trading. The focus now is on growth in STR's remaining segments, but the market appears to have mostly priced that in .
- Despite attractive assets, clear growth initiatives and a strong management team, we believe STR's valuation falls in line relative to our coverage universe.
- Medium term we look to execution of the capex program to support better cash flow generation.
- Solid balance sheet and free cash flow metrics are priced into stock already; not a high growth company.

Key Value Drivers

- Regulated businesses provide $1/annum dividend support.
- Wexpro generates 19–20% return on capital employed given a 1981 agreement.
- Reduced commodity exposure, long-term contracts focus and dedicated growth outlook are strong pillars for the stock

Potential Catalysts

- More drilling announcements in Wexpro.
- February 8, 2011 4Q10 earnings release.

Where We Could Be Wrong

- Increased drilling at Wexpro beyond our expectations.
- New pipeline expansion announcements add materially to growth profile.

Source: Company data; Morgan Stanley Research; FactSet

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Investment Theses & Risks

Ticker	Overweight	Equal-weight	Underweight	MS Estimate	2011e EPS MS v. Consensus	% difference from current price (Bear / Base / Bull; -100% -50% 0% 50% 100%)	Investment Thesis
EP	OW			$1.14	6%		•We believe shares currently trade at an unjustified discount to fair value despite steps taken to address its funding gap and refocus its E&P operations on lower-risk, lower-cost geographies. As investors gain greater confidence that these risks have abated, we believe shares will more fully reflect the most attractive natural gas pipeline footprint in North America.
NFG	OW			$2.68	2%		•We believe NFG is the best levered play on the Marcellus shale through both E&P and midstream operations. NFG has an expansive footprint with best in-class production economics, and a substantial backlog of midstream projects to support increased production volumes.
WMB	OW			$1.19	-6%		•We think WMB is an attractive play on a growing Marcellus presence with opportunities to expand operations in more "oily" plays (e.g. Eagle Ford, Bakken and Niobrara). We believe its recent sale of midstream and pipeline assets into WPZ will serve to highlight value and turn WMB into a more financially flexible E&P company with ample free cash flow. Our overweight rating on WMB incorporates these views.
MDU		EW		$1.39	-2%		•We believe MDU has a d verse mix of businesses that serves to mitigate volatility in earnings. However, we believe the Construction Materials & Contraction and Construction Services segments are tied to closely a recovery to the broader economy. We also believe long-term growth will largely be a function and execution of its Bakken and Niobrara opportunities.
NI		EW		$1.27	-4%		•We believe NI will face near-term headwinds associated with restoring earnings power at its regulated utilities segments. However, we believe the company is on the right track, and we expect an earnings uplift from a recovery in business units in 2012.
OKE		EW		$3.31	3%		•We believe upside potential to share price exists given its levered interest in OKS (OKE owns GP and incentive fees), underpinned by a renewed growth outlook at Bakken. We see free cash flow acceleration and the flexibility for strategic growth as a consequence, and expect the discount to NAV to narrow as investors come to appreciate OKE's benefit from OKS.
SE		EW		$1.68	0%		•We see the shares trading in-line, primarily on weak (but stable) natural gas prices, better NGL fundamentals and currency exchange fluctuations. A strong natural gas infrastructure network and gas storage position bolster SE's asset base. Much of its growth will come from western Canadian gas shale exposure along with northeastern U.S. infrastructure projects.
SUG		EW		$1.91	-3%		•We believe the market is missing SUG's growth potential from its 50% interest in Florida Gas Transmission Phase VIII project, which will add significantly to earnings and cash flow in 2011. Possible contracting risk for the remainder of the FGT project is a slight headwind.
STR			UW	$1.09	-3%		•We believe the E&P spin-off leaves STR as a more stable regulated Rockies-based integrated natural gas company. However, recent stock performance post-spin has narrowed its discount to NAV significantly. This coupled with a lack of clear catalysts on the horizon keeps us on the sidelines for now.

Source: Company data; Morgan Stanley Research estimates; FactSet

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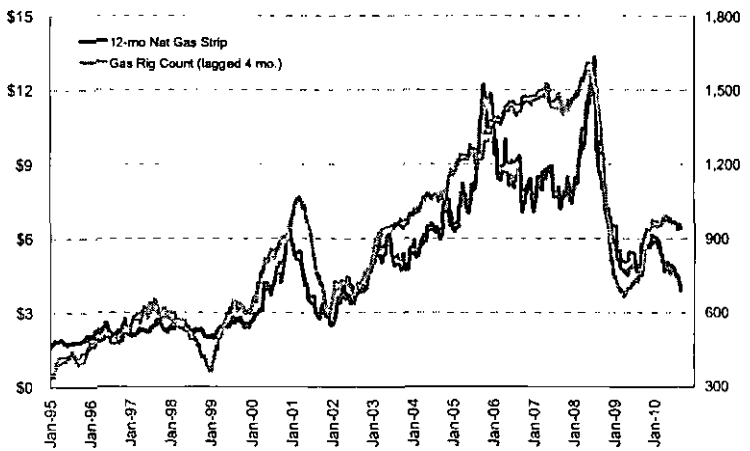
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Industry Review and Outlook

Uptick in Rigs Despite Downward Pressure on Nat Gas

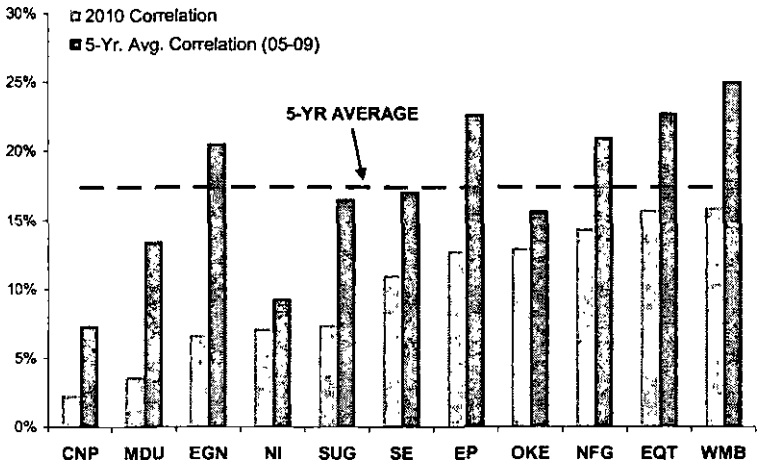
• Increased drilling keeps the gas flowing through midstream assets, which bodes well for operators. For those with E&P exposure, hedging helps mitigate downside risk evidenced by lower correlations to gas.

Nat Gas Price vs. U.S. Nat Gas-Oriented Drilling Activity



Note: Rig count lagged four months, Source: Baker Hughes, FactSet, Morgan Stanley commodity Research, Morgan Stanley Research

Overall Low Stock Correlation to Gas Prices



Note: FactSet, Morgan Stanley Research

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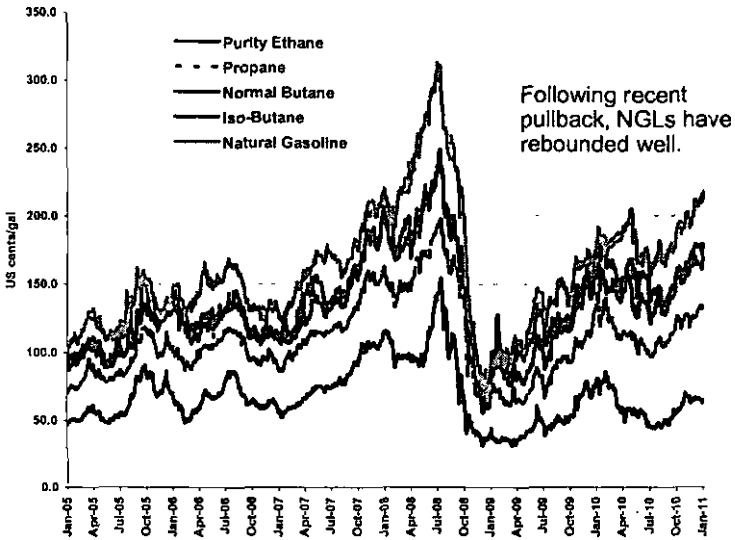
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Industry Review and Outlook

Midstream economics have recovered

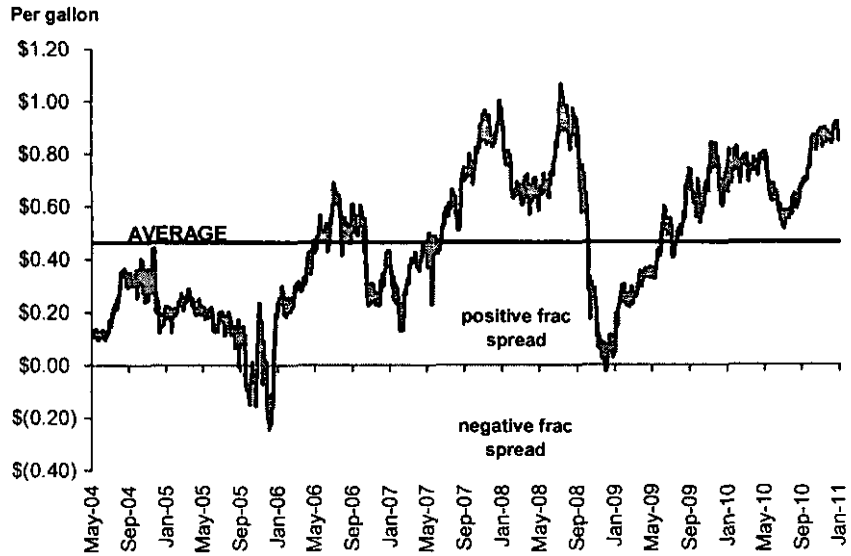
• Longer term, we believe NGLs will continue to be the preferred feedstock for steam crackers given their low cost advantage versus heavier feedstocks derived from crude oil. The fractionation spread declined materially during 2Q and early 3Q, but has rebounded and is still positive and above long term averages.

NGL Component Pricing *(cents/gallon)*



Source: Bloomberg; Morgan Stanley Research

NGL Fractionation Spread *(dollars/gallon)*



Source: Bloomberg; Morgan Stanley Research

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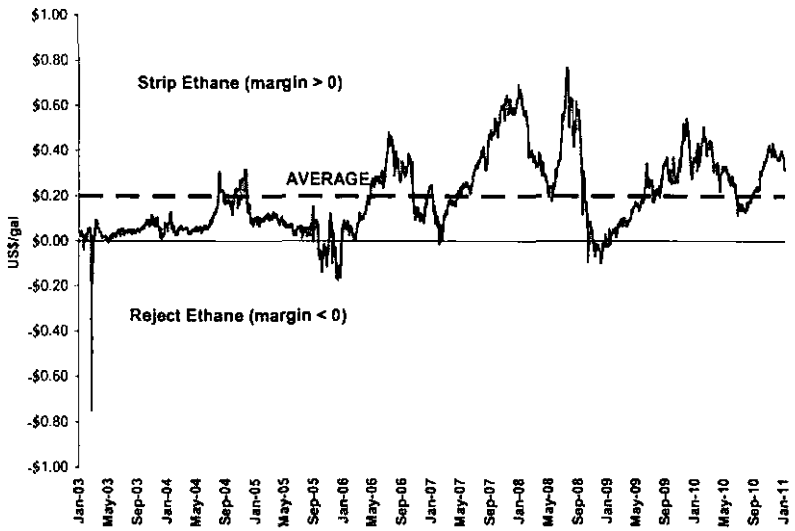
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Industry Review and Outlook

Ethane and Propane margins are healthy

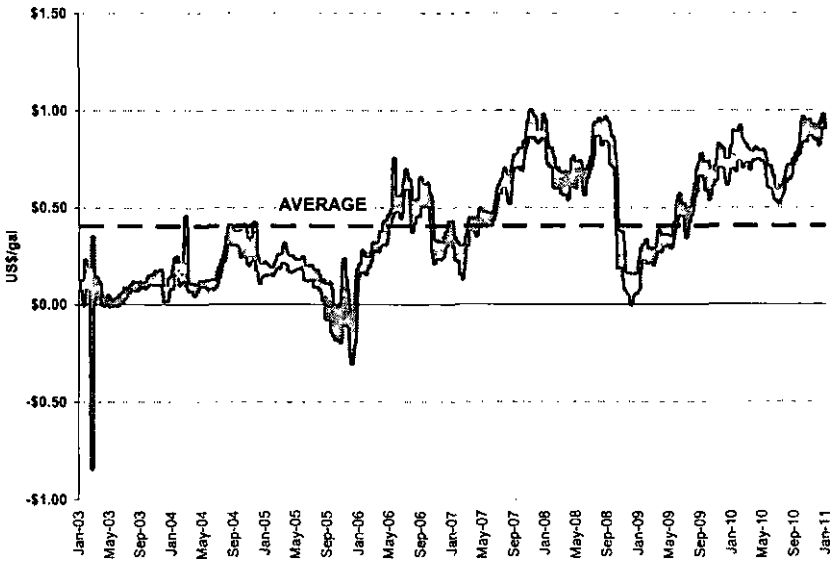
• NGL strength seems to be mainly driven by a demand pull from the petrochemical industry (offsetting increased production from Shale gas activity).

Ethane Margins *($/gal)*



Source: Bloomberg; Morgan Stanley Research

Propane Margins *($/gal)*



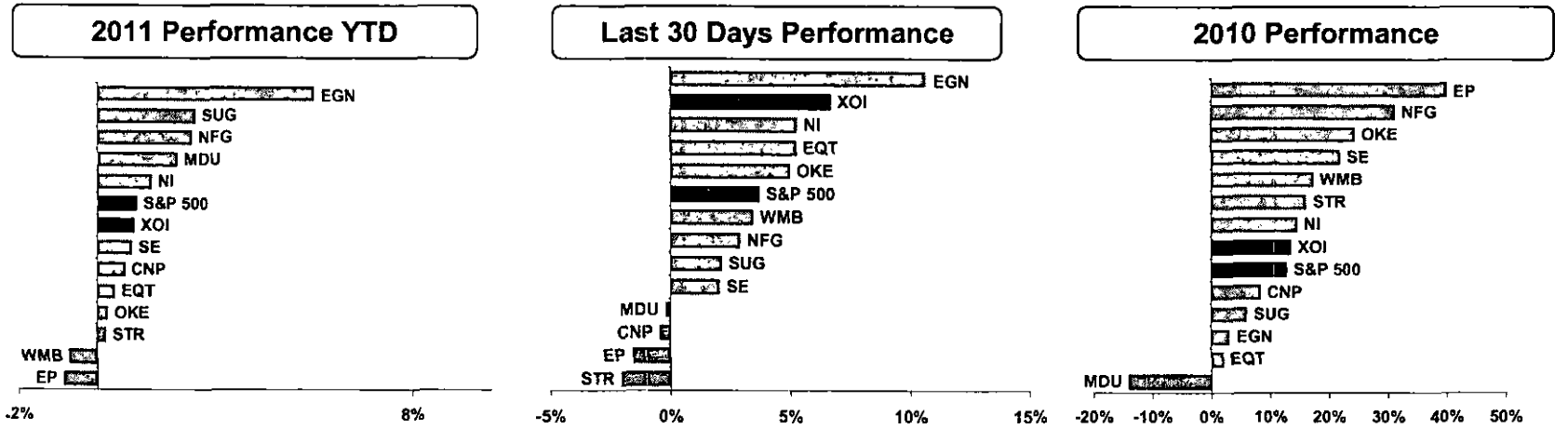
Source: Bloomberg; Morgan Stanley Research

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Price Performance

EP was the top performer in 2010, while NFG / OKE / SE / WMB / STR / NI outperformed broader energy and the market.



Company	Symbol	Price USD	52-wk High	52-wk Low	% Below 52W-HI	% Above 52W-LO	Last Week	Last 4-Wks	Last 3-Mos	2009	2010	2011 YTD
Centerpoint Energy Inc	CNP	15.83	17.00	5.54	-6.9%	185.7%	-0.1%	-0.4%	0.8%	15.0%	8.3%	0.7%
Energen Corp	EGN	50.92	50.58	40.25	New High	26.5%	5.7%	10.7%	11.5%	59.6%	3.1%	5.5%
El Paso Corp	EP	13.64	14.08	9.55	-3.1%	42.8%	-0.2%	-1.6%	7.8%	25.5%	40.0%	-0.9%
EQT Corp	EQT	45.04	47.43	32.23	-5.0%	39.7%	0.5%	5.3%	21.2%	30.9%	2.1%	0.4%
MDU Resources Group Inc	MDU	20.68	24.20	17.11	-14.5%	20.9%	3.5%	0.6%	1.9%	9.4%	-14.1%	2.0%
National Fuel Gas Co	NFG	67.20	66.78	42.83	New High	56.9%	4.8%	3.5%	27.9%	59.6%	31.2%	2.4%
NiSource Inc	NI	17.86	17.96	14.13	-0.6%	26.4%	1.4%	5.3%	3.1%	40.2%	14.6%	1.4%
ONEOK Inc	OKE	55.62	56.58	29.56	-1.7%	88.2%	0.2%	5.0%	18.3%	53.1%	24.5%	0.3%
Spectra Energy Corp	SE	25.21	25.45	18.57	-0.9%	35.8%	0.0%	2.1%	10.4%	30.3%	21.8%	0.9%
Questar Corp	STR	17.45	18.30	12.62	-4.6%	38.3%	0.1%	-2.1%	1.1%	27.2%	16.1%	0.2%
Southern Union Co	SUG	24.67	26.68	20.00	-7.5%	23.4%	3.0%	2.8%	1.7%	74.1%	6.0%	2.5%
Williams Cos	WMB	24.54	25.20	17.53	-2.6%	40.0%	-0.3%	4.0%	27.7%	45.6%	17.3%	-0.7%

Source: Company data; Morgan Stanley Research; FactSet

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Natural Gas Markets

Natural Gas Prices Remain Low

- But basis differentials are converging as more takeaway options become available (especially for Rockies gas).

Natural Gas Prices

(US$/mmbtu)	This Week 3-Jan-11	Last Week 27-Dec-10	Last Year 4-Jan-10
Futures			
NYMEX NG 12 Month Strip	$4.64	$4.32	$5.87
North Am Markets			
NY Transco 6	$5.31	$8.75	$8.06
New York City Gate	$4.83	$7.20	$7.19
North East Average	$4.88	$6.50	$7.44
Dominion/ Appalacian	$4.29	$4.54	$6.28
Chicago City Gate	$4.42	$4.27	$6.13
Henry Hub	$4.23	$4.08	$5.83
Dawn Ontario, Canada	$4.49	$4.33	$5.90
Midcon Average	$4.36	$4.22	$5.97
PGE Citygate	$4.40	$4.15	$6.15
Cal Border Average	$4.31	$4.23	$5.99
SOCAL Border	$4.24	$3.98	$5.86
Permian Basin	$4.12	$3.88	$5.63
AECO Canada	$3.94	$3.70	$5.50
Rocky Mtn Average	$4.22	$4.01	$5.67
San Juan Basin	$4.17	$3.78	$5.57
Rockies Opal	$4.15	$3.85	$5.43

Source: Natural Gas Week, Bloomberg, Morgan Stanley Research estimates
Note: The fractionation spread on the following page refers to the difference in value between natural gas liquids (ethane, propane, normal butane, isobutane and natural gasoline) recovered through processing and the energy equivalent value of unprocessed natural gas

Natural Gas Price Forecast

Natural Gas	Q1	Q2	Q3	Q4	Annual
2011E	$4.00	$4.00	$4.00	$4.00	$4.00
2012E	$5.50	$5.50	$5.50	$5.50	$5.50
Long-term	$5.50	$5.50	$5.50	$5.50	$5.50

Morgan Stanley Rig Count Forecast (Oil + Gas)

	2010				2011			
	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E
United States	1,340	1,508	1,622	1,615	1,603	1,591	1,588	1,586
Canada	453	166	359	377	415	130	335	360
North America	1,793	1,674	1,981	1,992	2,018	1,721	1,923	1,946
Gulf of Mexico	44	40	18	17	17	17	17	17
Europe	88	96	92	96	99	102	105	107
Middle East	260	256	273	264	270	276	283	288
Africa	80	85	84	87	93	92	94	96
Latin America	378	384	385	418	429	448	463	476
Asia Pacific	257	267	276	267	277	287	297	304

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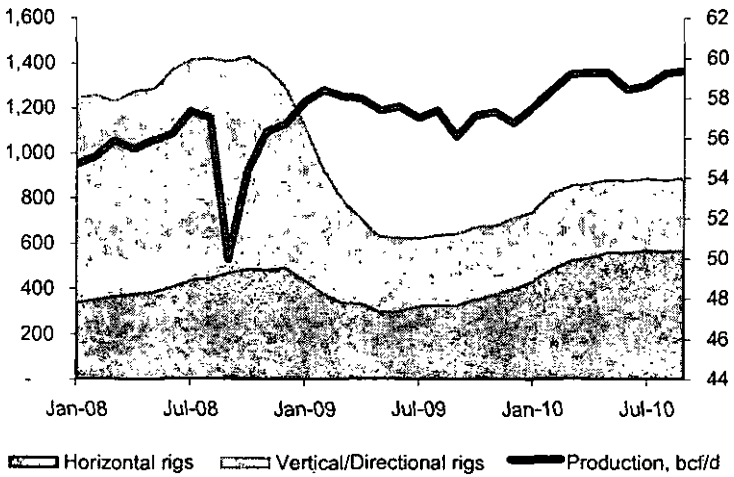
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Natural Gas Markets

Rig Counts Continue to Increase Despite Low Gas Prices

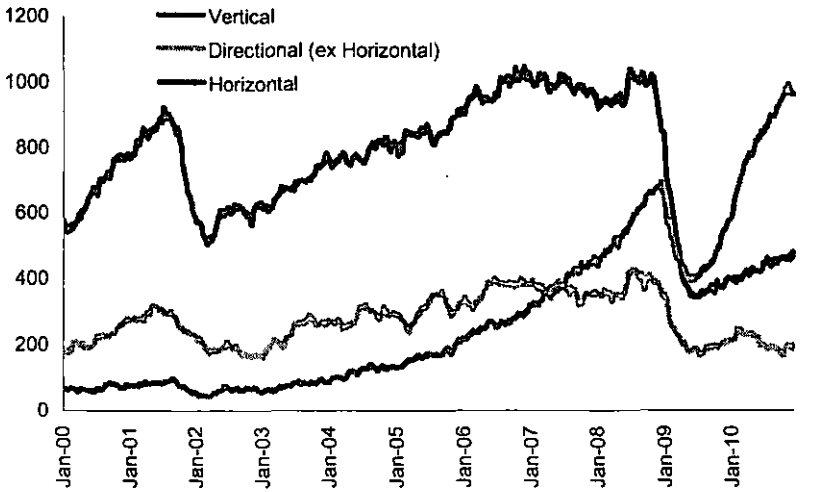
- The horizontal rig count currently stands at all-time highs, fostering onshore production growth
- However, this creates downward pressure on gas prices (evidenced by a decline in the 12-month strip)

Nat Gas Production vs. Rig Activity



Note: EIA, Smith International, Morgan Stanley Commodity Research

US Rig Count by Drilling Classification



Note: Smith International, Morgan Stanley Research

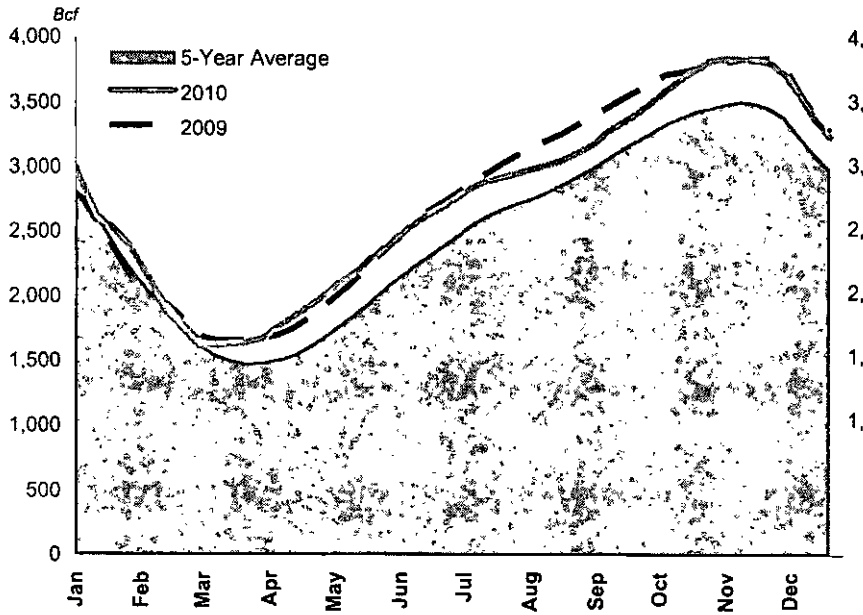
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Natural Gas Markets

Elevated Storage Levels Heading into 2011

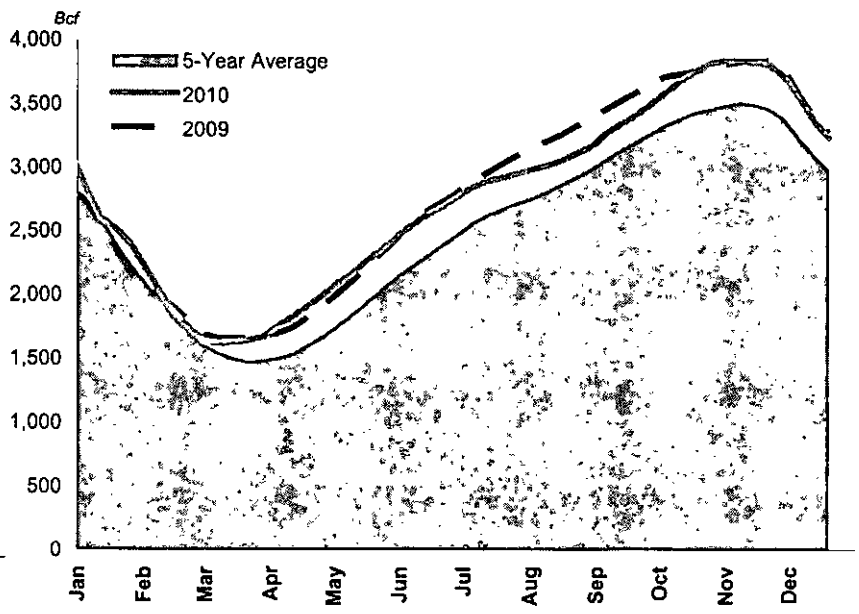
• US natural gas storage is entering 2011 well above its historical 5-year average following increased drilling activity and production, and limited demand growth.

US Natural Gas Storage (Bcf)



Source: EIA, Morgan Stanley Research

Canadian Natural Gas Storage (Bcf)



Source: Canadian Enerdata, (historically adjusted); Morgan Stanley Research

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Crude Oil Markets

Morgan Stanley Commodities Team Remains Constructive on Crude Fundamentals

Petroleum Complex

(US$/bbl)	This Week 3-Jan-11	Last Week 27-Dec-10	Last Year 4-Jan-10
Global Benchmarks			
WTI Cushing	$91.38	$90.91	$79.36
Dated Brent	$94.30	$92.99	$77.20
Tapis	$92.28	$96.11	$82.43
Bonny Light	$96.36	$96.14	$79.22
Dubai Fateh	$88.54	$91.61	$78.29
Futures			
ICE Brent front month	$94.75	$93.77	$77.93
North Am Spot Crudes			
LLS St James	$97.08	$96.26	$81.21
Syncrude Sweet	$88.38	$88.06	$81.36
Alaska N Slope	$92.73	$92.26	$80.76
WTS Midland	$88.68	$88.71	$77.36
Mars Blend	$92.08	$91.56	$77.26
Venezuela	$0.00	$83.76	$71.46
Mx Maya	$80.86	$81.25	$72.19
Global Refining Margins			
USGC/ WTI Cush	$10.22	$11.42	$6.14
NWE/ Brent	$5.00	$8.00	$8.70
Singapore Tapis	$12.00	$9.91	$4.75
AG/ Dubai	$15.74	$14.41	$8.89
NYMEX Refining Margins			
NYMEX Front 321	$10.22	$11.42	$6.14
NYMEX 321 Strip	$10.93	$10.91	$8.23
NYMEX CL HO	$15.40	$15.65	$9.50
NYMEX HO CL 12 strip	$14.34	$14.33	$9.43
NYMEX CL XB	$10.69	$10.39	$6.86
NYMEX XB CL 12 strip	$9.22	$9.20	$7.63

Source: Bloomberg, Morgan Stanley Research estimates

Crude Oil Price Forecast

WTI ($/bbl)	Base	Bull	Bear
2011E	100	120	65
2012E	105	150	70
Long Term	105	150	70

** Average Year Price*

Weekly US Oil Inventory Data (mbbls)

	12/24/10	Week	Change	Year	Avg.
API					
Crude Oil	**345.1**	342.0	3.1	330.5	315.3
Motor Gasoline	**216.4**	219.5	(3.1)	214.5	214.8
Middle Distillate:	**205.0**	204.9	0.1	204.4	186.2
Distillates	***162.6***	*161.3*	*1.4*	*161.6*	*145.8*
Kerosene	***42.4***	*43.7*	*(1.3)*	*42.7*	*40.4*
Naphtha	-	-	-	-	-
Residual	**40.9**	41.5	(0.6)	36.3	38.8
Unfinished	**80.3**	81.7	(1.5)	82.4	84.8
Total Oil	**887.7**	**889.7**	**(2.0)**	**868.0**	**839.8**
DOE					
Crude Oil	**339.4**	340.7	(1.3)	326.0	313.8
Motor Gasoline	**214.9**	217.2	(2.3)	216.0	213.3
Distillates	**161.0**	160.7	0.2	159.3	140.1
Total Oil	**715.2**	**718.6**	**(3.3)**	**701.3**	**667.1**

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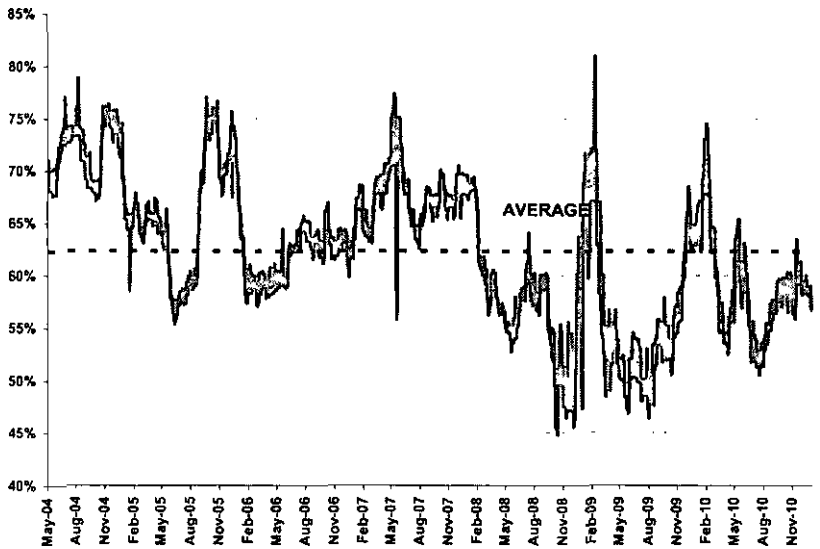
Morgan Stanley

Midstream Fundamentals

NGL/Crude Ratio Beginning to Recover, whereas Crude/Nat Gas Continues Expanding

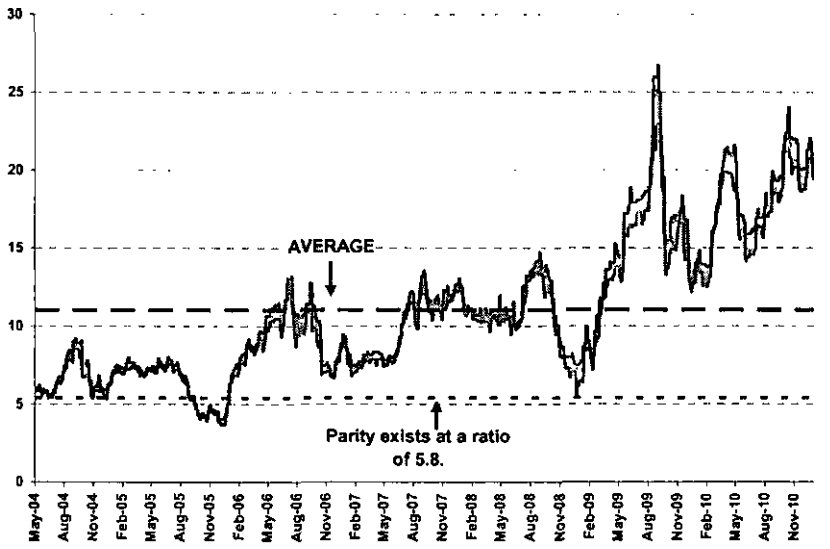
- The NGL/crude ratio dipped below its 5-year historical average of 62% given a pullback in NGL prices (unplanned steam cracker outages led to a building of inventory, thus depressing prices) and relatively strong crude prices.
- We're starting to see the NGL/crude relationship to rebound given the restart of steam cracker units.
- Natural gas prices continue to face secular headwinds given the lack of producer discipline amidst low expectations.

NGL/Crude Oil Ratio *($/bbl)*



Source: Bloomberg; Morgan Stanley Research

Crude Oil/Natural Gas Ratio *($/mmbtu)*



Source: Bloomberg, Morgan Stanley Research

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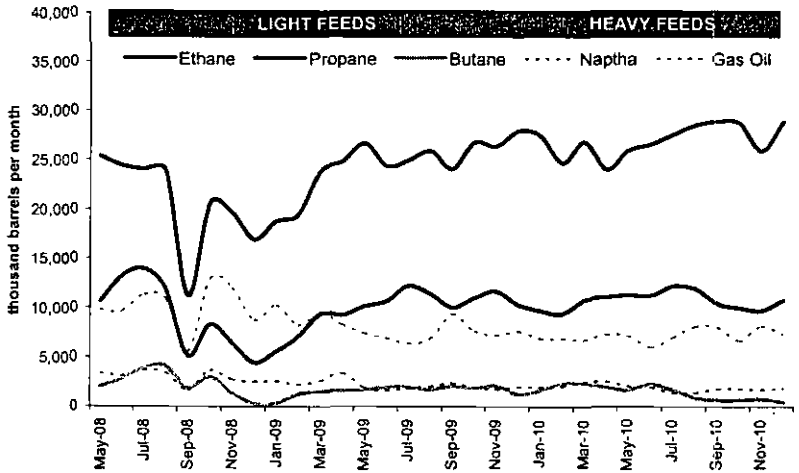
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Midstream Fundamentals

Steam Crackers Continue to Favor Light-end Feedstocks

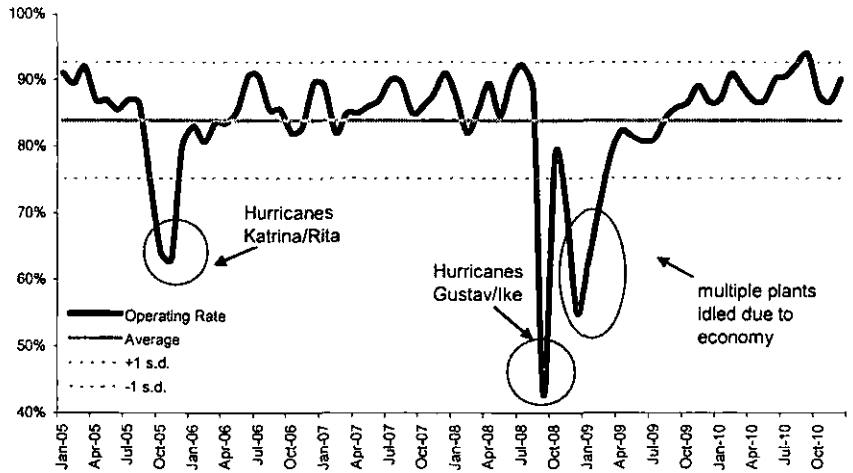
- Petrochemical facilities continue to retrofit units to accept light feeds given its cost advantage relative to heavy feeds
- In November, the percentage of light feedstock usage of the overall steam cracker feed slate totaled 78.7% down from 82.2% last month. The first month since April that light feeds fell short of 80% of the total feed.
- U.S. steam cracker operating rates have fell 2.8% following planned/unplanned unit outages. The latest data (November) shows an operating rate of 84.4%, a decrease from 87.2% in October.

US Steam Cracker Feedstocks



Source: Jacobs Consultancy Inc., Hodson Report; Morgan Stanley Research

US Steam Cracker Operating Rates



Source: Jacobs Consultancy Inc., Hodson Report; Morgan Stanley Research

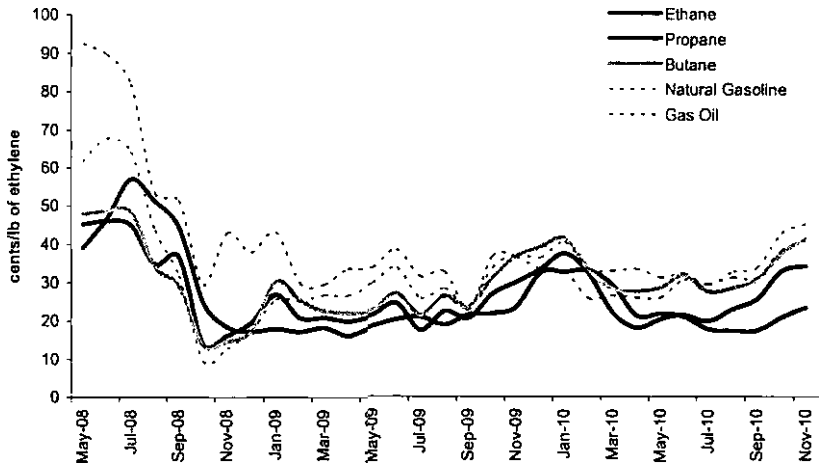
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Midstream Fundamentals

Ethane Continues to be the Low-cost Feedstock of Choice for Ethylene

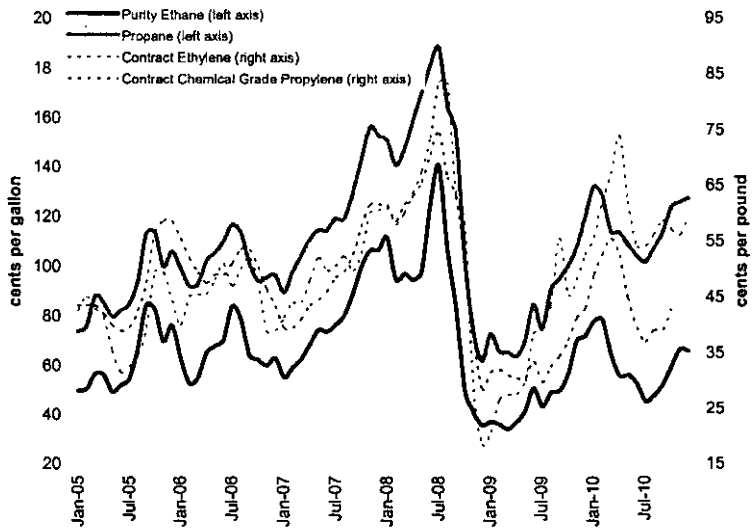
- The ethylene cash cost for ethane (for November, the latest data) came in at $0.2567/Lb of ethylene up 4.5 cents over October. Propane screened as the best alternative, registering an ethylene cash cost of $0.3433/lb for November.
- The average ethylene spot price for November was $0.518/lb, a $0.146 increase over October following higher ethane feed prices, as well as multiple steam cracker outages.
- The chemical grade propylene spot price averaged $0.5263/lb in November, compared to $0.5268/lb in August. The September contract settled at $0.56/lb, down from $0.57.

Ethylene Feedstock Cash Costs



Source: Jacobs Consultancy Inc, Hodson Report; Morgan Stanley Research

Olefin Feedstock & Product Prices



Source: Jacobs Consultancy Inc, Hodson Report; Morgan Stanley Research

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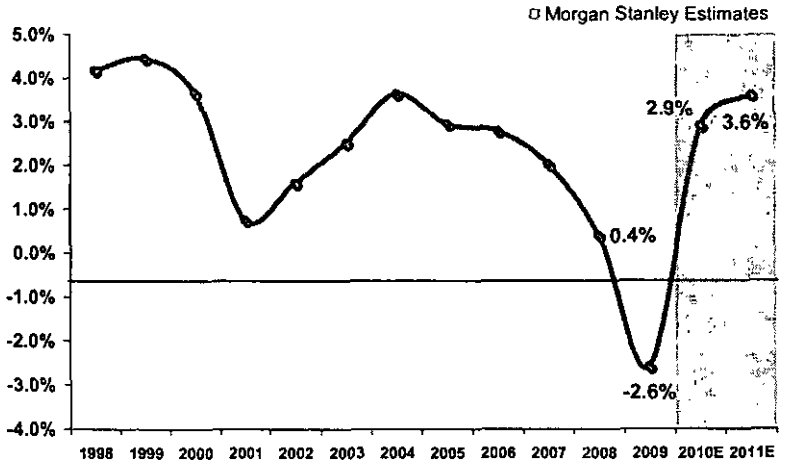
Economic Indicators & Forecasts

MS Economic Forecast: GDP Growth %

(last updated 12/15/2010)

Region	2006A	2007A	2008A	2009A	2010E	2011E
Global Economy	5.1	5.0	2.8	-0.8	4.9	4.4
US	2.8	2.1	0.4	-2.6	2.9	3.6
Europe	3.0	2.7	0.6	-4.0	1.7	1.5
Asia ex-Japan	9.3	10.1	6.9	6.2	9.1	7.9
China	11.6	13.0	9.0	9.1	10.2	9.0
India	9.8	9.3	7.5	6.7	8.6	8.7
Japan	2.4	2.3	-0.7	-5.2	4.4	1.2
Latin America	5.4	5.7	4.1	-2.0	6.1	4.1
Argentina	8.5	8.7	7.0	0.9	8.6	5.0
Brazil	3.7	5.7	5.1	-0.2	7.5	4.0
Mexico	4.9	3.2	1.3	-6.5	5.2	3.9
Venezuela	10.3	8.2	4.8	-3.3	-1.8	0.3

Annual US Real GDP Change and MS Forecast



US Forecast at a Glance

(Year-over-year percent change)

	2009	2010E	2011E
Real GDP	-2.6%	2.9%	3.6%
Inflation (CPI)	-0.3	1.6	1.4
Unit Labor Costs	-1.4	-2.0	1.2
After-Tax "Economic" Profits	5.1	20.6	7.5
After-Tax "Book" Profits	3.6	32.6	7.5

Interest Rate Outlook

	Fed Funds		LIBOR	Treasury Yield Curve					
Date*	Target	Prime	3-Mo.	3-Mo.	6-Mo.	2-Yr.	5-Yr.	10-Yr.	30-Yr.
12/3/2010	0.13	3.25	0.30	0.13	0.19	0.47	1.63	3.02	4.32
10Q4	0.13	3.25	0.30	0.13	0.18	0.47	1.62	3.00	4.35
11Q1	0.13	3.25	0.30	0.15	0.20	0.50	1.65	3.00	4.40
11Q2	0.13	3.25	0.30	0.15	0.20	0.60	1.70	3.00	4.45
11Q3	0.13	3.25	0.30	0.15	0.20	0.75	1.75	3.25	4.70
11Q4	0.13	3.25	0.40	0.20	0.30	1.00	2.08	3.75	5.25

**All forecast values are for the end of the designated period.*

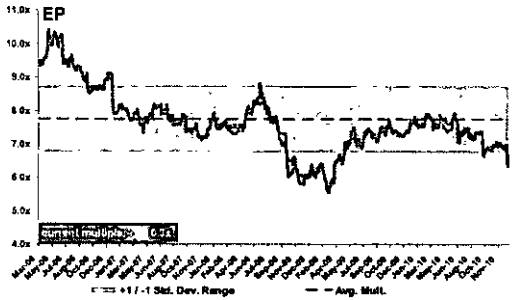
Source: Bloomberg, Morgan Stanley Research

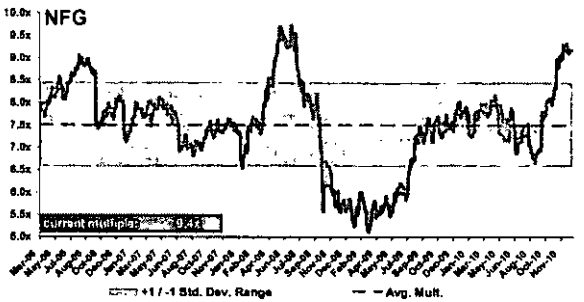
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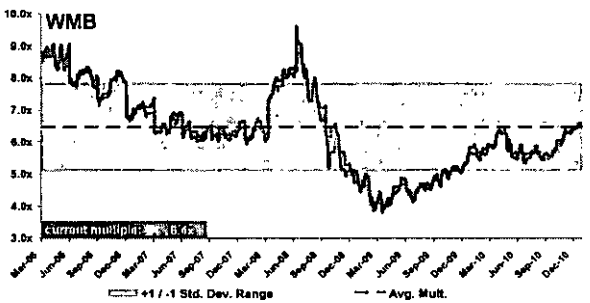
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EV / EBITDA Multiples

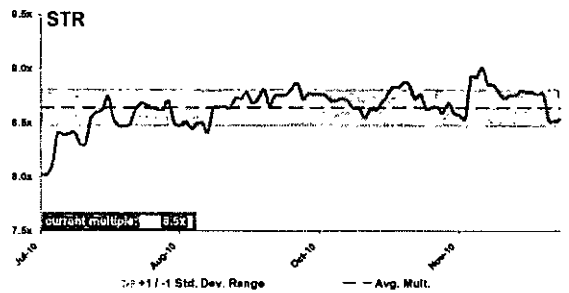
Overweight







Underweight



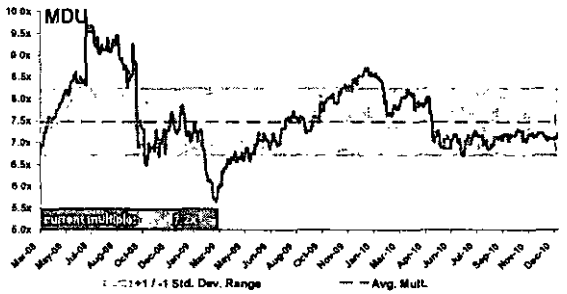
Source: Company data; Morgan Stanley Research; FactSet

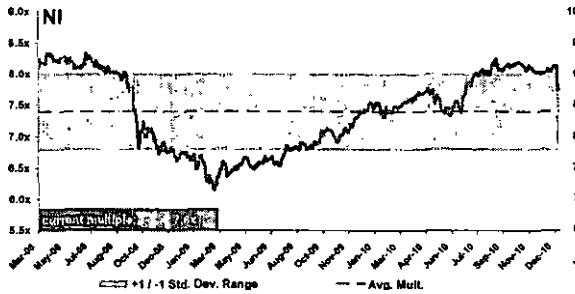
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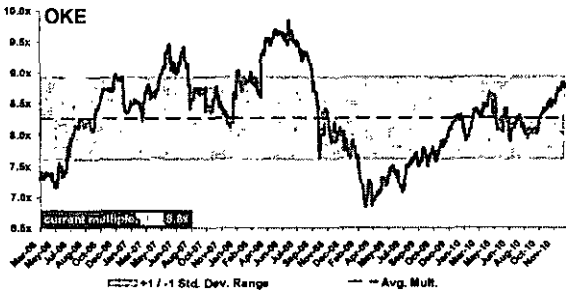
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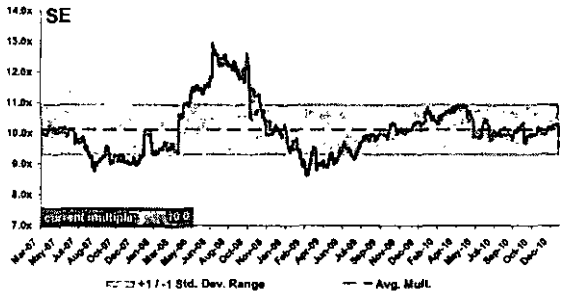
EV / EBITDA Multiples

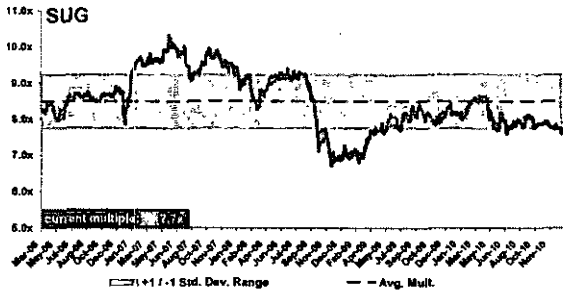
Equal-weight



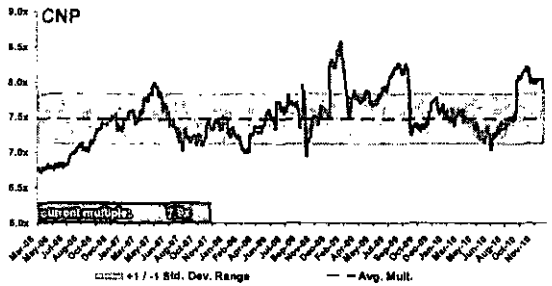


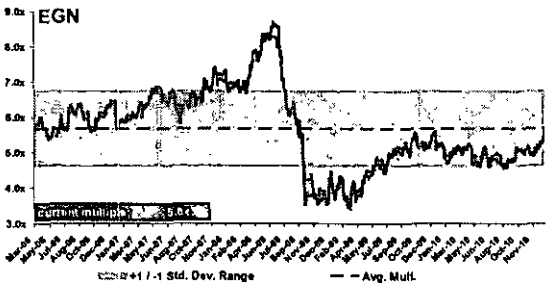


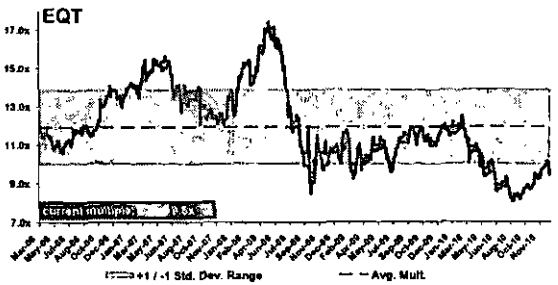




Not Covered







Source: Company data; Morgan Stanley Research; FactSet

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Morgan Stanley

Valuation: Market Multiples and Ratios; Reserves and Production

Company	Symbol	MS Rating	Recent Price	Target Price	Next 4 qtrs yield	Total Return Pot'l	Equity Mkt Cap ($m)	Total EV ($m)	52-W Avg. Daily Vol ($m)	52-W Avg. Daily Vol (000s)	EV / EBITDA 10E	EV / EBITDA 11E	EV / EBITDA 12E	EV / EBITDA 13E	Price / Earnings 10E	Price / Earnings 11E	Price / Earnings 12E	Price / Earnings 13E	Net Debt / Total Book Cap. 10E	Net Debt / Total Book Cap. 11E	Net Debt / Total Book Cap. 12E	Net Debt / Total Book Cap. 13E
Diversified Gas																						
Centerpoint Energy Inc	CNP	NA	15.83	-	4.9%	-	$6,698	$15,735	$62	3,921	7.7x	7.2x	6.9x	6.4x	14.9x	13.4x	12.7x	11.6x	72%	64%	63%	62%
Energen Corp	EGN	NA	50.92	-	1.0%	-	$3,652	$4,137	$19	368	5.5x	5.8x	5.4x	4.7x	11.7x	14.1x	13.9x	10.1x	21%	17%	16%	15%
El Paso Corp	EP	O/w	13.64	$17	0.3%	24.9%	$10,394	$22,719	$111	8,165	7.6x	6.7x	6.0x	5.5x	13.5x	12.0x	10.7x	9.5x	68%	44%	15%	22%
EQT Corp	EQT	NA	45.04	-	2.0%	-	$6,717	$8,672	$66	1,458	12.4x	10.2x	8.7x	NA	29.7x	24.6x	18.6x	NA	48%	39%	38%	36%
MDU Resources Group Inc	MDU	E/w	20.68	$22	3.1%	9.5%	$3,895	$5,296	$16	769	6.8x	6.3x	5.8x	5.7x	16.3x	14.9x	12.8x	12.8x	28%	28%	28%	28%
National Fuel Gas Co	NFG	O/w	67.20	$82	2.1%	24.1%	$5,576	$6,229	$30	454	9.8x	8.9x	7.4x	6.5x	25.3x	25.1x	21.8x	18.5x	55%	58%	59%	59%
NiSource Inc	NI	E/w	17.86	$19	5.2%	11.5%	$4,999	$10,952	$50	2,810	7.2x	6.9x	6.7x	6.5x	14.7x	14.0x	13.7x	12.8x	61%	58%	57%	56%
ONEOK Inc	OKE	E/w	55.62	$60	3.6%	11.5%	$5,988	$12,080	$44	796	9.0x	8.7x	8.1x	7.5x	17.5x	16.8x	15.1x	13.4x	53%	50%	47%	45%
Spectra Energy Corp	SE	E/w	25.21	$27	4.1%	11.2%	$16,387	$25,508	$85	3,376	10.0x	8.5x	8.0x	7.8x	17.2x	15.0x	14.0x	13.5x	55%	55%	53%	51%
Questar Corp	STR	U/w	17.45	$18	3.5%	6.6%	$3,110	$3,759	$37	2,112	7.8x	7.2x	6.7x	6.4x	16.5x	16.1x	15.2x	14.6x	57%	57%	57%	56%
Southern Union Co	SUG	E/w	24.67	$27	2.4%	11.9%	$3,088	$6,591	$18	714	8.5x	7.8x	7.4x	7.1x	13.8x	12.9x	11.6x	10.8x	58%	55%	53%	50%
Williams Cos	WMB	O/w	24.54	$30	2.0%	24.3%	$14,350	$21,337	$168	6,837	5.9x	5.8x	5.0x	4.7x	21.4x	20.6x	14.9x	13.9x	53%	53%	52%	50%
Total:							**$84,852**	**$143,014**	**$706**	**31,781**												
Average:					**2.9%**	**15.1%**	**$7,071**	**$11,918**	**$59**	**2,648**	**8.2x**	**7.5x**	**6.8x**	**6.2x**	**17.7x**	**16.6x**	**14.6x**	**12.9x**	**53%**	**48%**	**45%**	**40%**
Median:					**2.8%**	**11.5%**	**$5,782**	**$9,812**	**$47**	**1,785**	**7.7x**	**7.2x**	**6.8x**	**6.4x**	**16.4x**	**14.9x**	**13.9x**	**12.8x**	**55%**	**54%**	**52%**	**50%**

Company	Symbol	2011E Production Mmcfe	2011E Production Liquids	2011E Production Nat Gas	Production Growth y-o-y (%) '09	'10E	'11E	'12E	2009 Proved reserves Mmcfe	Liquids	Nat Gas	PUDs	Reserve Life '07	'08	'09	Implied EV/mmcfe Reserves
Diversified Gas																
Energen Corp	EGN	–	–	–	*8.7%*	–	–	–	1,546,866	*35%*	*48%*	*17%*	17.8	15.5	13.9	–
EQT Corp	EQT	–	–	–	*15.8%*	–	–	–	4,068,155	*0%*	*51%*	*49%*	32.3	34.3	38.8	–
El Paso Corp	EP	292,118	*17%*	*83%*	*-6.7%*	*2.4%*	*2.4%*	*4.0%*	2,749,120	*8%*	*61%*	*30%*	9.1	7.8	9.9	$1.75
MDU Resources Group Inc	MDU	72,544	*31%*	*69%*	*-8.5%*	*-6.0%*	*2.5%*	*2.6%*	653,721	*25%*	*49%*	*26%*	9.2	9.8	8.7	$2.69
National Fuel Gas Co	NFG	69,966	*27%*	*73%*	*4.3%*	*16.8%*	*40.9%*	*25.9%*	699,847	*32%*	*42%*	*25%*	10.5	12.3	12.4	$5.82
Williams Cos	WMB	449,415	*5%*	*95%*	*8.1%*	*-3.5%*	*3.2%*	*4.5%*	4,255,000	*1%*	*55%*	*44%*	12.4	10.4	9.4	$0.87
Total:																
Average:		**221,011**	***20%***	***80%***	***3.6%***	***2%***	***12%***	***9%***	**2,328,785**	***17%***	***51%***	***32%***	**15.2**	**15.0**	**15.5**	**$2.78**
Median:		**182,331**	***22%***	***78%***	***6.2%***	***-1%***	***3%***	***4%***	**2,147,993**	***16%***	***50%***	***28%***	**11.4**	**11.4**	**11.1**	**$2.22**

Source: Company data; Morgan Stanley Research; FactSet; Morgan Stanley Research estimates except for non-covered companies (NA), which are FactSet estimates

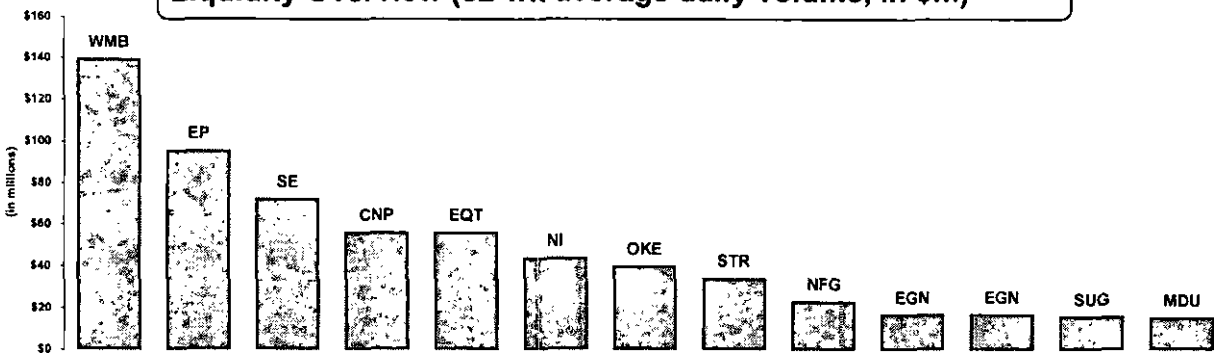
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Morgan Stanley

Valuation: Capital and Returns; Trading Volume

Company	Symbol	Beta v. S&P500 60mo	Beta v. NYSE 52wk	Moody's LT Rating	S&P LT Rating	ROIC 10E	ROIC 11E	ROIC 12E	ROIC 13E	Capex ($m) 10E	Capex ($m) 11E	Capex ($m) 12E	Capex ($m) 13E
Diversified Gas:													
Centerpoint Energy Inc	CNP	0.71	0.60	Ba1	BBB	7.0%	7.5%	7.7%	8.3%	$1,581	$1,343	$1,156	$1,058
Energen Corp	EGN	1.04	0.96	Baa3	BBB	14.1%	12.7%	13.2%	16.5%	$402	$753	$503	$378
El Paso Corp	EP	1.07	1.20	Baa3	BB	8.4%	7.9%	8.1%	8.3%	$3,666	$2,720	$1,820	$1,702
EQT Corp	EQT	0.82	1.15	Baa1	BBB	7.4%	8.9%	11.2%	NA	$1,425	$844	$1,266	NA
MDU Resources Group Inc	MDU	1.15	0.90	Baa1	BBB+	6.6%	7.1%	7.7%	7.6%	$443	$525	$600	$600
National Fuel Gas	NFG	0.83	1.06	Baa1	BBB	9.4%	9.7%	11.4%	11.9%	$456	$671	$681	$657
NiSource Inc	NI	0.86	0.69	WR	BBB-	5.0%	5.2%	5.1%	5.2%	$879	$800	$900	$891
ONEOK Inc	OKE	1.07	1.02	Baa2	BBB	10.6%	9.5%	10.1%	10.7%	$547	$1,038	$840	$740
Spectra Energy Corp	SE	0.91	0.97	-	BBB+	8.1%	9.5%	9.8%	9.8%	$1,231	$1,392	$1,313	$1,211
Questar Corp	STR	0.47	0.92	A3	A	12.8%	13.3%	13.5%	13.5%	$358	$342	$325	$309
Southern Union Co	SUG	0.96	0.97	Baa3	BBB-	6.3%	6.8%	7.2%	7.4%	$282	$270	$270	$270
Williams Cos	WMB	1.19	1.32	Baa3	BBB-	9.6%	9.3%	11.5%	12.5%	$4,273	$2,983	$2,940	$2,919
Average:		**0.92**	**0.98**			**8.8%**	**9.0%**	**9.7%**	**10.1%**	**$1,269**	**$1,122**	**$1,042**	**$968**
Median:		**0.93**	**0.97**			**8.3%**	**9.1%**	**9.9%**	**9.8%**	**$547**	**$800**	**$840**	**$699**

Liquidity Overview (52-wk average daily volume, in $m)



Source: Company data; Morgan Stanley Research; FactSet; Morgan Stanley Research estimates except for CNP, EGN, and EQT, which are FactSet estimates

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Morgan Stanley

Valuation: EPS Estimates

Ticker Symbol	Earnings Per Share ($) 1Q10	2Q10	3Q10	4Q10E	2009	2010E	2011E	2012E	2013E	Growth Rate (%) 11 vs 10	12 vs 11	13 vs 12
CNP	-	-	-	-	NA	-	-	-	-	-	-	-
Consensus	0.32	0.20	0.25	0.28	1.06	1.06	1.18	1.25	1.37	11%	6%	9%
EGN	-	-	-	-	NA	-	-	-	-	-	-	-
Consensus	1.62	0.91	0.73	1.09	3.53	4.36	3.61	3.67	5.05	-17%	2%	38%
EP	0.33	0.22	0.22	0.25	1.28	1.01	1.14	1.27	1.44	12%	12%	13%
Consensus	0.33	0.22	0.22	0.22	1.29	1.00	1.07	1.16	1.28	7%	8%	11%
EQT	-	-	-	-	NA	-	-	-	-	-	-	-
Consensus	0.65	0.20	0.24	0.41	1.54	1.52	1.83	2.43	NA	21%	32%	NA
MDU	0.22	0.26	0.41	0.38	2.67	1.27	1.39	1.61	1.61	9%	16%	0%
Consensus	0.22	0.26	0.32	0.35	1.40	1.24	1.42	1.53	NA	15%	8%	NA
NFG	0.97	0.51	0.39	0.80	2.61	2.66	2.68	3.08	3.63	1%	15%	18%
Consensus	0.97	0.51	0.39	0.76	2.60	2.65	2.63	2.96	3.47	-1%	12%	17%
NI	0.71	0.13	0.04	0.34	1.07	1.21	1.27	1.31	1.40	5%	3%	7%
Consensus	0.13	0.04	0.35	0.76	1.07	1.23	1.33	1.43	1.50	8%	8%	5%
OKE	1.44	0.39	0.46	0.88	2.85	3.17	3.31	3.69	4.16	4%	11%	13%
Consensus	1.44	0.39	0.51	0.76	2.87	3.03	3.23	3.48	3.84	6%	8%	10%
SE	0.53	0.27	0.31	0.36	1.17	1.47	1.68	1.80	1.86	15%	7%	4%
Old Estimates	*0.53*	*0.27*	*0.31*	*0.36*	*1.17*	*1.47*	*1.68*	*1.78*	*1.65*			
Consensus	0.53	0.27	0.31	0.39	1.18	1.48	1.69	1.83	NA	14%	8%	NA
STR	0.40	0.20	0.16	0.29	0.93	1.06	1.09	1.15	1.20	2%	6%	4%
Consensus	0.24	0.20	0.16	0.31	0.91	1.08	1.12	1.20	1.35	4%	7%	12%
SUG	0.44	0.40	0.40	0.55	1.82	1.79	1.91	2.13	2.29	7%	12%	8%
Old Estimates	*0.44*	*0.40*	*0.40*	*0.55*	*1.82*	*1.79*	*2.05*	*2.41*	*2.59*			
Consensus	0.44	0.42	0.40	0.57	1.82	1.83	1.97	2.20	2.17	7%	11%	-1%
WMB	0.36	0.28	0.24	0.26	1.14	1.14	1.19	1.65	1.76	4%	38%	7%
Consensus	0.36	0.28	0.22	0.29	0.94	1.16	1.30	1.59	1.77	12%	22%	12%
								MS Average		**7%**	**13%**	**8%**

Source: Company data; Morgan Stanley Research; FactSet; Morgan Stanley Research estimates except for CNP, EGN, and EQT, which are FactSet estimates

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Valuation: EBITDA Estimates

Ticker Symbol	EBITDA ($ in 000s) 1Q10	2Q10	3Q10	4Q10E	2010E	2011E	2012E	2013E	% Growth Rate (%) 11 vs 10	12 vs 11	13 vs 12
CNP	-	-	-	-	-	-	-	-	-	-	-
Consensus	516	480	584	475	2,055	2,179	2,293	2,457	6%	5%	7%
EGN	-	-	-	-	-	-	-	-	-	-	-
Consensus	254	165	136	201	755	717	763	884	-5%	6%	16%
EP	783	752	719	745	2,999	3,411	3,766	4,098	14%	10%	9%
Consensus	1,032	765	749	818	2,883	3,132	3,517	NA	9%	12%	NA
EQT	-	-	-	-	-	-	-	-	-	-	-
Consensus	232	147	158	201	700	848	1,002	NA	21%	18%	NA
MDU	164	172	223	214	773	837	918	936	8%	10%	2%
Consensus	166	175	225	216	596	687	NM	NA	15%	NM	NA
NFG	199	140	123	191	634	704	838	960	11%	19%	15%
Consensus	200	140	123	177	585	630	765	909	8%	22%	19%
NI	555	306	263	401	1525	1593	1630	1691	4%	2%	4%
Consensus	555	295	268	401	1,524	1,579	1,709	1,855	4%	8%	9%
OKE	437	275	277	352	1,341	1,393	1,499	1,601	4%	8%	7%
Consensus	415	254	272	335	1,195	1,242	1,309	1,477	4%	5%	13%
SE	752	555	575	665	2547	2991	3186	3285	17%	7%	3%
Old Estimates	*752*	*555*	*575*	*665*	*2,547*	*2,991*	*3,164*	*3,080*			
Consensus	779	581	615	735	2,736	3,047	3,267	3,195	11%	7%	-2%
STR	162	101	94	126	483	524	559	587	8%	7%	5%
Consensus	433	106	96	152	507	536	566	NA	6%	6%	NA
SUG	188	185	188	216	777	844	895	932	9%	6%	4%
Old Estimates	*188*	*185*	*188*	*216*	*777*	*873*	*951*	*992*			
Consensus	195	216	176	235	869	948	960	1,159	9%	1%	21%
WMB	964	878	875	874	3,591	3,698	4,298	4,534	3%	16%	6%
Consensus	596	817	717	818	2,951	3,315	3,687	NA	12%	11%	NA
							MS Average		**9%**	**9%**	**6%**

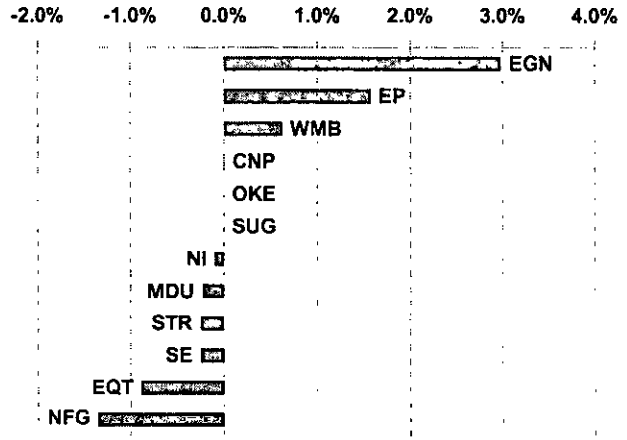
Source: Company data; Morgan Stanley Research; FactSet; Morgan Stanley Research estimates except for CNP, EGN, and EQT, which are FactSet estimates

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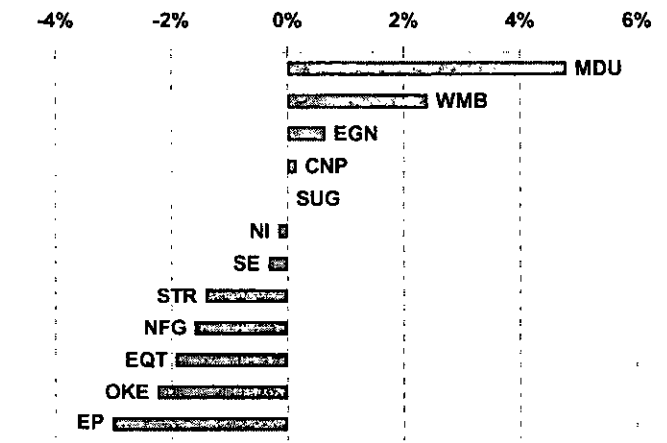
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Valuation: Consensus EPS/DPS Revisions; Short Interest Ratios

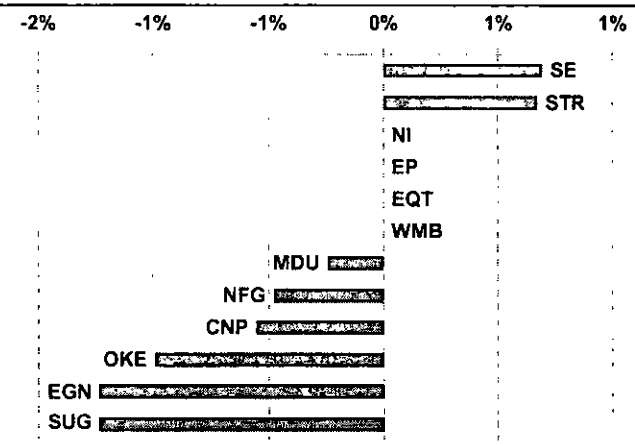
2011E Consensus EPS Revisions (Past 4-Wks)



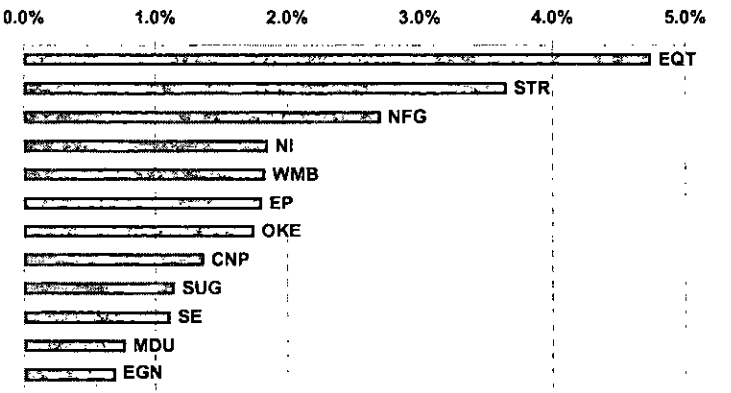
2012E Consensus EPS Revisions (Past 4-Wks)



2011E Consensus DPS Revisions (Past 4-Wks)



Short Interest Ratio



Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: EP

El Paso Corporation	Value ($m)	Risked Poten. (Bcfe)	Implied $/Mcfe	$/Share
Proved Reserves (PV10)				
Consolidated	$5,508	2,742	$2.01	**$7.2**
Four Star (Unconsolidated)	$446	222	$2.01	**$0.6**
Resource Potential				
Haynesville	$247	2,049	$0.12	**$0.3**
Risked unproved inventory	$1,074	5,100	$0.21	**$1.4**
Hedge Book	$499			**$0.7**
Exploration & Production	$7,773			**$10.2**
Pipelines	$12,969			**$17.0**
El Paso Pipeline Partners	$4,246			**$5.6**
Net Debt	(11,609)			**(15.2)**
Net Equity Value				**$18**
Shares Outstanding (including dilution)				762

Exploration and Production	
Net Asset Value	
Consolidated proved reserves (PV10)	$5,508
Four Star proved reserves	446
Resource potential	1,320
Hedge book	499
Enterprise value / share	$10

Pipelines	
Forward EBITDA (2011E)	$1,526
Forward multiple	8.5x
Enterprise value	$12,969
Enterprise value / share	$17

El Paso Pipeline Partners	in mm
Limited Partner Interest	$1,452
Common units owned	55
Discounted EPB unit price	$26
Subordinated Unit Interest	$728
Subordinated units owned	28
Discount to common	0%
General Partner Interest	$2,066
Discount rate	12%
Terminal growth rate	1%
Implied GP multiple on 2011e cash flow	36.2x
Enterprise value / share	$6

Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: NFG

National Fuel Gas Company	Value ($m)	Risked Pot'l (Bcfe)	Implied $/Mcfe	$/Share
Proved Reserves (PV10)	$1,669	700	$2.38	**$20**
Resource Potential				
Onshore US				
Marcellus	$3,492	8,330	$0.42	**$42**
Risked unproved inventory	$521	995	$0.52	**$6**
E&P Hedge Book	$53			**$1**
Midstream + Utilities + Other				
Pipeline & Storage	$1,122			**$14**
Utility	$1,367			**$17**
Energy Marketing	$25			**$0**
Other	$13			**$0**
Value per share				**$100**
Net Debt	$1,043			**$13**
Net Equity Value				**$87**
Shares Outstanding (in m)				82.7

PIPELINE AND STORAGE	
Forward EBITDA (2011E)	$125
Forward multiple	9.0x
Enterprise value	**$1,122**

UTILITY	
Forward EBITDA (2011E)	$182
Forward multiple	7.5x
Enterprise value	**$1,367**

ENERGY MARKETING	
Forward EBITDA (2011E)	$6
Forward multiple	4.0x
Enterprise value	**$25**

OTHER	
Forward EBITDA (2011E)	$6
Forward multiple	2.0x
Enterprise value	**$13**

Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: WMB

The Williams Companies	Value ($m)	Shares (m)	GP c/f ($ m)	GP Multiple	WPZ Price	Risked Pot'l (Bcfe)	Implied $/mcfe	$/Share
Proved Reserves (PV10)	$5,210					4,255	$1.22	**$9**
Resource Potential								
Onshore US								
Powder River	$36					88	$0.41	**$0.1**
Piceance	$167					1,592	$0.11	**$0.3**
San Juan	$27					221	$0.12	**$0.0**
Mid-Continent (Barnett)	$77					358	$0.22	**$0.1**
Marcellus	$557					5,543	$0.10	**$1.0**
Green River / International	$50					1,000	$0.05	**$0.1**
Bakken - Current Production	$198							**$0.3**
Bakken - Acreage	$608					419	$1.45	**$1.0**
E&P Hedge Book	$368							**$0.6**
Midstream								
WPZ (LP, ~77%)	$7,350	210			$35			**$13**
WPZ (GP)	$4,200		$280	15x				**$7**
Gulfstream/Canada/Other	$798							**$1**
Value per share								**$34**
Net Debt	$1,700							**$3**
Net Equity Value								**$31**
Shares Outstanding (in m)								585

Gulfstream/Canada/Other	
Forward EBITDA (2011E)	$135
Forward multiple	8.0x
Enterprise value	$1,080
Gulfstream net debt	(282)
Equity value	$798
Enterprise value / share (ex WMZ)	$1.36

Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: MDU

MDU Resources Group Inc.	Value ($m)	Risked Pot'l (Bcfe)	Implied $/mcfe	$/Share
Proved Reserves (PV10)	$1,378	654	$2.11	**$7**
Resource Potential				
Bakken - Heart River	$179	176	$1.02	**$1.0**
Bakken - East Nesson	$47	58	$0.81	**$0.3**
Risked unproved inventory	$149	163	$0.91	**$0.8**
E&P Hedge Book	$32			**$0.2**
Midstream + Utilities + Other				
Pipeline & Energy Services	$814			**$4**
Electric Utility	$585			**$3**
Gas Utility	$979			**$5**
Construction Materials & Contracting	$840			**$4**
Construction Services	$249			**$1**
Other	$7			**$0**
Value per share				**$28**
Net Debt	$1,341			**$7**
Net Equity Value				**$21**
Shares Outstanding (in m)				188

PIPELINE AND ENERGY SERVICES	
Forward EBITDA (2011E)	$102
Forward multiple	8.0x
Enterprise value	**$814**

ELECTRIC UTILITY	
Forward EBITDA (2011E)	$73
Forward multiple	8.0x
Enterprise value	**$585**

GAS UTILITY	
Forward EBITDA (2011E)	$122
Forward multiple	8.0x
Enterprise value	**$979**

CONSTRUCTION MATERIALS	
Forward EBITDA (2011E)	$140
Forward multiple	6.0x
Enterprise value	**$840**

CONSTRUCTION SERVICES	
Forward EBITDA (2011E)	$42
Forward multiple	6.0x
Enterprise value	**$249**

OTHER	
Forward EBITDA (2011E)	$1
Forward multiple	5.0x
Enterprise value	**$7**

Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: NI

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$5,531	**$20**
Gas Transmission & Storage	$4,818	**$17**
Electric Utility	$2,760	**$10**
Value per share		**$47**
Net Debt	$7,405	**$26**
Net Equity Value		**$20**
Shares Outstanding (in m)		280

GAS DISTRIBUTION	
Forward EBITDA (2011E)	$790
Forward multiple	7.0x
Enterprise value	**$5,531**

GAS TRANSMISSION & STORAGE	
Forward EBITDA (2011E)	$602
Forward multiple	8.0x
Enterprise value	**$4,818**

ELECTRIC UTILITY	
Forward EBITDA (2011E)	$460
Forward multiple	6.0x
Enterprise value	**$2,760**

Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: OKE

ONEOK Inc. (OKE)	Value ($m)	$/Share
ONEOK Partners	$5,143	$48
Distribution	2,640	25
Energy Services	426	4
Value per Share	**$8,209**	**$77**
Net Debt	(1,603)	(15)
Net Equity Value	**$6,606**	**$62**
Shares Outstanding (in mm)		106

ONEOK Partners	In mm
Limited Partner Interest	$2,729
Common units owned	41
Discounted OKS price	$66.00
General Partner Interest	$2,414
Discount rate	12%
Terminal growth rate	1%
Implied 2011 multiple on GP cash flow	17.2x
Enterprise value / share	$48.33

Distribution	
Forward EBITDA (2011E)	$377
Forward multiple	7.0x
Enterprise value	$2,640
Enterprise value / share	$24.80

Energy Services	
Forward EBITDA (2011E)	$85
Forward multiple	5.0x
Enterprise value	$426
Enterprise value / share	$4.00

Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: SE

Spectra Energy Corp.	Value ($m)	LP Shares	GP take ($m)	Multiple	Discounted Price	$/Share
US Transmission						
Core business	$11,461					$18
SEP (LP)	$1,045	37			$28	$2
SEP (GP)	$400		$20	20x		$1
Distribution	$5,683					$9
Western Canada Trans. and Proc.	$4,909					$8
Field Services	$4,329					$7
Value per share						$43
Net Debt	($9,369)					($14)
Net Equity Value						$28
Shares Outstanding (m)						650

US TRANSMISSION	
US Transmission 2011e EBITDA	$1,399
SEP portion of EBITDA	*9%*
US Transmission EBITDA (ex SEP)	$1,273
Forward multiple	9.0x
Enterprise value	$11,461
Enterprise value / share (ex SEP)	$17.63
SE stake in SEP (LP)	*72%*
SE stake in SEP (GP)	*2%*

DISTRIBUTION	
Distribution 2011e EBITDA	$812
Forward multiple	7.0x
Enterprise value	$5,683

WESTERN CANADA TRANS & PROC.	
Western Canada 2011e EBITDA	$701
Forward multiple	7.0x
Enterprise value	$4,909

FIELD SERVICES	
Field Services 2011e EBITDA	$618
Forward multiple	7.0x
Enterprise value at 100% of EBITDA	$4,329
SE's stake in DCP Midstream LLC	*50.0%*
DCP Midstream LLC's stake in DPM (GP + LP)	*35.0%*

Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: SUG

Southern Union Company	Value ($ m)	$/Share
Transportation and Storage	$6,298	$50
Gathering and Processing	833	7
Distribution	636	5
Value per Share	**$7,766**	**$62**
Net Debt	(4,639)	(37)
Net Equity Value	**$3,127**	**$25**
Shares Outstanding (in mm)		125

Transportation and Storage	in mm
Forward EBITDA (2011E)	$741
Forward multiple	8.5x
Enterprise value	$6,298
Enterprise value / share	$50.32

Gathering and Processing	
Forward EBITDA (2011E)	$128
Forward multiple	6.5x
Enterprise value	$833
Enterprise value / share	$6.65

Distribution	
Forward EBITDA (2011E)	$98
Forward multiple	6.5x
Enterprise value	$636
Enterprise value / share	$5.08

Source: Company data; Morgan Stanley Research; FactSet estimates

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Sum-of-the-Parts Models: STR

Questar Corporation	2011e EBITDA	Multiple	Value ($m)	$/Share
Wexpro E&P	$206	9.0x	$1,855	**$10**
Questar Pipeline	159	8.5x	1,352	**8**
Questar Gas	162	7.5x	1,214	**7**
Value per share				**$25**
Net Debt			(1,232)	**(7)**
Net Equity Value				**$18**
Shares Outstanding (in mm)				178

Questar Pipeline	
Pipeline Forward EBITDA (2011E)	$159
Forward multiple	8.5x
Enterprise value	$1,352
Enterprise value / share	$7.61

Questar Gas	
Gas Forward EBITDA (2011E)	$162
Forward multiple	7.5x
Enterprise value	$1,214
Enterprise value / share	$6.83

Wexpro	
Wexpro Forward EBITDA (2011E)	$206
Forward multiple	9.0x
Enterprise value	$1,855
Enterprise value / share	$10.44

Source: Company data; Morgan Stanley Research; FactSet estimates

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Morgan Stanley

Discounted Cash Flow (DCF) Models: EP

El Paso Corporation
Discounted Cash Flow Analysis

($ US Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT + Equity Income (Pre Tax)	**2,174,596**	**2,375,962**	**2,612,680**	**2,679,724**	**2,749,296**	**2,821,559**	**2,896,645**	**2,974,689**	**3,055,832**	**3,140,225**
- Adjusted taxes	782,855	855,346	940,565	964,701	989,747	1,015,761	1,042,792	1,070,888	1,100,100	1,130,481
NOPLAT	**1,391,741**	**1,520,615**	**1,672,115**	**1,715,023**	**1,759,550**	**1,805,798**	**1,853,853**	**1,903,801**	**1,955,733**	**2,009,744**
% change	*6%*	*9%*	*10%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
EBITDA	**3,410,681**	**3,766,142**	**4,097,911**	**4,197,853**	**4,301,154**	**4,408,027**	**4,518,655**	**4,633,228**	**4,751,952**	**4,875,052**
% change	*14%*	*10%*	*9%*	*2%*	*2%*	*2%*	*3%*	*3%*	*3%*	*3%*
+ D&A	1,236,085	1,390,180	1,485,231	1,518,128	1,551,858	1,586,469	1,622,010	1,658,539	1,696,119	1,734,827
- CAPEX	2,720,000	1,820,408	1,701,793	2,013,237	1,787,878	1,800,934	1,814,252	1,827,838	1,841,699	1,855,838
+ Change in NWC	31,470	32,105	32,752	33,411	34,085	34,772	35,472	36,187	36,916	37,660
Unlevered Free Cash Flow (UFCF)	**(60,703)**	**1,122,492**	**1,488,305**	**1,253,327**	**1,557,614**	**1,626,104**	**1,697,084**	**1,770,689**	**1,847,070**	**1,926,393**
% change	*96.4%*	*NM*	*32.6%*	*-15.8%*	*24.3%*	*4.4%*	*4.4%*	*4.3%*	*4.3%*	*4.3%*
Free Cash Flow Per Share	**($0.09)**	**$1.59**	**$2.11**	**$1.78**	**$2.21**	**$2.31**	**$2.41**	**$2.52**	**$2.62**	**$2.74**
Average # of Shares Outstanding	703,966	703,966	703,966	703,966	703,966	703,966	703,966	703,966	703,966	703,966
Year count	-	1	2	3	4	5	6	7	8	9
Discounting factor	**1.00**	**0.94**	**0.88**	**0.82**	**0.77**	**0.72**	**0.68**	**0.64**	**0.60**	**0.56**
Discounted Unlevered Free Cash Flow (UFCF)	**(60,703)**	**1,051,983**	**1,307,203**	**1,031,671**	**1,201,607**	**1,175,646**	**1,149,892**	**1,124,402**	**1,099,229**	**1,074,424**

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-20)	35%	10,155,354
PV of Terminal Value	65%	19,029,867
PV of NOLs	0%	0
Enterprise Value	**100%**	**29,185,221**
2011E EV/EBITDA		*8.6x*
Less: Net Debt		12,891,923
Equity Value		**16,293,298**
Less: Minority Interests		1,752,000
Common Equity Value		**14,541,298**
Fully Diluted C/S Outstanding (mn)		762,000
DCF per share US$		**$19**

WACC Assumptions	
Cost of Equity (CAPM)	**9.1%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.27
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	40.0%
Cost of Debt	**5.1%**
Interest Rate	8.0%
Effective Tax Rate	36.0%
LT Debt/Capital Ratio	60.0%
WACC	**6.7%**

Assumptions	
Statutory Tax Rate	36%
LT Growth Rate	1.0%
Equity Interest in EPB	100%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2020	34,119,695
Implied EBITDA Multiple	7.0x
UFCF Multiple	17.7x

Source: Company data; Morgan Stanley Research; FactSet estimates

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Morgan Stanley

Discounted Cash Flow (DCF) Models: NFG

National Fuel Gas Company

Discounted Cash Flow Analysis

($ Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBIT + Equity Income (Pre Tax)	489,709	596,864	692,513	723,635	739,188	751,991	766,361	786,495	804,212	821,449	835,564
- Adjusted taxes	176,295	214,871	249,305	260,509	266,108	270,717	275,890	283,138	289,516	295,722	300,803
NOPLAT	**313,414**	**381,993**	**443,208**	**463,127**	**473,080**	**481,274**	**490,471**	**503,357**	**514,695**	**525,728**	**534,761**
% change	*11%*	*22%*	*16%*	*4%*	*2%*	*2%*	*2%*	*3%*	*2%*	*2%*	*2%*
EBITDA	**703,644**	**837,789**	**960,078**	**1,015,780**	**1,053,893**	**1,088,656**	**1,120,566**	**1,155,688**	**1,188,193**	**1,220,318**	**1,249,321**
% change	*11%*	*19%*	*15%*	*6%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*	*2%*
+ D&A	213,835	240,925	267,585	292,145	314,705	336,665	354,205	369,093	383,981	398,869	413,757
- CAPEX	671,000	681,000	657,000	589,000	549,000	549,000	372,200	372,200	372,200	372,200	372,200
+ Change in NWC	10,682	(9,015)	(1,923)	(322)	4	334	311	360	15	(337)	(338)
Unlevered Free Cash Flow (UFCF)	**(133,069)**	**(67,097)**	**51,850**	**165,949**	**238,789**	**269,274**	**472,788**	**500,610**	**526,492**	**552,059**	**575,980**
% change	*-148.0%*	*49.6%*	*NM*	*220.1%*	*43.9%*	*12.8%*	*75.6%*	*5.9%*	*5.2%*	*4.9%*	*4.3%*
Free Cash Flow Per Share	**($1.60)**	**($0.81)**	**$0.62**	**$2.00**	**$2.88**	**$3.25**	**$5.70**	**$6.03**	**$6.35**	**$6.65**	**$6.94**
Average # of Shares Outstanding	82,969	82,969	82,969	82,969	82,969	82,969	82,969	82,969	82,969	82,969	82,969
Year count	-	1	2	3	4	5	6	7	8	9	10
Discounting factor	**1.00**	**0.93**	**0.86**	**0.80**	**0.74**	**0.69**	**0.64**	**0.60**	**0.55**	**0.51**	**0.48**
Discounted Unlevered Free Cash Flow (UFCF)	**(133,069)**	**(62,317)**	**44,726**	**132,948**	**177,674**	**186,082**	**303,444**	**298,410**	**291,479**	**283,860**	**275,060**

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-21)	30%	1,798,295
PV of Terminal Value	70%	4,157,926
PV of NOLs	0%	0
Enterprise Value	**100%**	**5,956,222**
2011E EV/EBITDA		*8.5x*
Less: Net Debt		884,341
Equity Value		**5,071,881**
Less: Minority Interests		-
Common Equity Value		**5,071,881**
Fully Diluted C/S Outstanding (mn)		82,661
DCF per share US$		**$61**

WACC Assumptions	
Cost of Equity (CAPM)	**9.4%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.34
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	60.0%
Cost of Debt	**5.1%**
Interest Rate	8.0%
Effective Tax Rate	36.0%
LT Debt/Capital Ratio	40.0%
WACC	**7.7%**

Assumptions	
Statutory Tax Rate	36%
LT Growth Rate	1.0%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2021	8,706,763
Implied EBITDA Multiple	7.0x
UFCF Multiple	15.1x

Source: Company data; Morgan Stanley Research; FactSet estimates

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Morgan Stanley

Discounted Cash Flow (DCF) Models: WMB

The Williams Companies, Inc.

Discounted Cash Flow Analysis

($ Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT + Equity Income (Pre Tax)	2,085,839	2,601,508	2,756,462	3,141,061	3,358,824	3,623,941	3,897,578	4,032,283	4,228,264	4,503,301
- Adjusted taxes	750,902	936,543	992,326	1,130,782	1,209,177	1,304,619	1,403,128	1,451,622	1,522,175	1,621,188
NOPLAT	1,334,937	1,664,965	1,764,136	2,010,279	2,149,647	2,319,322	2,494,450	2,580,661	2,706,089	2,882,113
% change	*-1%*	*25%*	*6%*	*14%*	*7%*	*8%*	*8%*	*3%*	*5%*	*7%*
EBITDA	3,698,099	4,297,530	4,534,136	5,000,074	5,299,497	5,646,603	6,002,567	6,219,943	6,498,951	6,857,378
% change	*3%*	*16%*	*6%*	*10%*	*6%*	*7%*	*6%*	*4%*	*4%*	*6%*
+ D&A	1,612,260	1,696,023	1,777,674	1,859,013	1,940,673	2,022,662	2,104,988	2,187,661	2,270,687	2,354,076
- CAPEX	2,983,000	2,940,000	2,919,250	2,928,731	2,938,450	2,948,411	2,958,621	2,969,087	2,979,814	2,990,809
+ Change in NWC	(12,724)	(59,686)	(8,214)	(8,395)	(8,088)	(9,764)	(10,837)	560	(2,579)	(6,045)
Unlevered Free Cash Flow (UFCF)	(48,527)	361,301	614,345	932,165	1,143,782	1,383,809	1,629,980	1,799,795	1,994,383	2,239,335
% change	*94.0%*	*NM*	*70.0%*	*51.7%*	*22.7%*	*21.0%*	*17.8%*	*10.4%*	*10.8%*	*12.3%*
Free Cash Flow Per Share	($0.08)	$0.62	$1.05	$1.59	$1.96	$2.37	$2.79	$3.08	$3.41	$3.83
Average # of Shares Outstanding	584,744	584,744	584,744	584,744	584,744	584,744	584,744	584,744	584,744	584,744
Year count	-	1	2	3	4	5	6	7	8	9
Discounting factor	1.00	0.93	0.87	0.81	0.75	0.70	0.65	0.61	0.56	0.53
Discounted Unlevered Free Cash Flow (UFCF)	(48,527)	336,346	532,408	752,040	859,028	967,511	1,060,909	1,090,522	1,124,957	1,175,878

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-20)	28%	7,037,882
PV of Terminal Value	72%	18,499,791
PV of NOLs	0%	0
Enterprise Value	**100%**	**25,537,672**
2011E EV/EBITDA		*6.9x*
Less: Net Debt		2,300,000
Equity Value		**23,237,672**
Less: Minority Interests		1,151,000
Common Equity Value		**22,086,672**
Fully Diluted C/S Outstanding (mn)		584,744
DCF per share US$		**$38**

WACC Assumptions	
Cost of Equity (CAPM)	**9.3%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.33
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	55.0%
Cost of Debt	**5.1%**
Interest Rate	8.0%
Effective Tax Rate	36.0%
LT Debt/Capital Ratio	45.0%
WACC	**7.4%**

Assumptions	
Statutory Tax Rate	36%
LT Growth Rate	1.0%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2020	35,230,875
Implied EBITDA Multiple	5.1x
UFCF Multiple	15.7x

Source: Company data; Morgan Stanley Research; FactSet estimates

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Morgan Stanley

Discounted Cash Flow (DCF) Models: MDU

MDU Resources Group, Inc.

Discounted Cash Flow Analysis

($ Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBIT + Equity Income (Pre Tax)	486,549	552,853	554,430	580,255	596,266	614,842	635,478	654,933	675,657	697,120	718,833
- Adjusted taxes	175,158	199,027	199,595	208,892	214,656	221,343	228,772	235,776	243,236	250,963	258,780
NOPLAT	**311,391**	**353,826**	**354,835**	**371,363**	**381,610**	**393,499**	**406,706**	**419,157**	**432,420**	**446,157**	**460,053**
% change	*10%*	*14%*	*0%*	*5%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
EBITDA	**836,587**	**918,097**	**935,686**	**978,377**	**1,012,157**	**1,049,458**	**1,089,831**	**1,130,095**	**1,172,762**	**1,217,369**	**1,263,498**
% change	*8%*	*10%*	*2%*	*5%*	*3%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
+ D&A	350,038	365,244	381,256	398,122	415,891	434,616	454,353	475,162	497,105	520,249	544,665
- CAPEX	525,000	600,000	600,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000
+ Change in NWC	(5,148)	(17,679)	(13,793)	(16,051)	(14,703)	(16,591)	(17,059)	(17,531)	(18,566)	(19,278)	(20,078)
Unlevered Free Cash Flow (UFCF)	**131,281**	**101,391**	**122,297**	**203,434**	**232,798**	**261,524**	**294,000**	**326,787**	**360,959**	**397,128**	**434,640**
% change	*163.9%*	*-22.8%*	*20.6%*	*66.3%*	*14.4%*	*12.3%*	*12.4%*	*11.2%*	*10.5%*	*10.0%*	*9.4%*
Free Cash Flow Per Share	**$0.70**	**$0.54**	**$0.65**	**$1.08**	**$1.24**	**$1.39**	**$1.56**	**$1.74**	**$1.92**	**$2.11**	**$2.31**
Average # of Shares Outstanding	188,338	188,338	188,338	188,338	188,338	188,338	188,338	188,338	188,338	188,338	188,338
Year count	-	1	2	3	4	5	6	7	8	9	10
Discounting factor	**1.00**	**0.93**	**0.87**	**0.81**	**0.76**	**0.70**	**0.65**	**0.61**	**0.57**	**0.53**	**0.49**
Discounted Unlevered Free Cash Flow (UFCF)	**131,281**	**94,417**	**106,051**	**164,275**	**175,054**	**183,128**	**191,708**	**198,429**	**204,102**	**209,107**	**213,116**

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-20)	36%	1,870,667
PV of Terminal Value	64%	3,370,132
PV of NOLs	0%	0
Enterprise Value	**100%**	**5,240,799**
2011E EV/EBITDA		*6.3x*
Less: Net Debt		1,295,924
Equity Value		**3,944,875**
Less: Minority Interests		-
Common Equity Value		**3,944,875**
Fully Diluted C/S Outstanding (mn)		188,338
DCF per share US$		**$21**

WACC Assumptions	
Cost of Equity (CAPM)	**9.0%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.24
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	65.0%
Cost of Debt	**4.5%**
Interest Rate	7.0%
Effective Tax Rate	36.0%
LT Debt/Capital Ratio	35.0%
WACC	**7.4%**

Assumptions	
Statutory Tax Rate	36%
LT Growth Rate	1.0%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2021	6,873,224
Implied EBITDA Multiple	5.6x
UFCF Multiple	17.3x

Source: Company data; Morgan Stanley Research; FactSet estimates

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Morgan Stanley

Discounted Cash Flow (DCF) Models: NI

NiSource, Inc.

Discounted Cash Flow Analysis

($ Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBIT + Equity Income (Pre Tax)	1,000,133	1,022,422	1,067,762	1,096,958	1,133,392	1,167,752	1,206,016	1,243,471	1,283,409	1,324,224	1,366,525
- Adjusted taxes	360,048	368,072	384,394	394,905	408,021	420,391	434,166	447,649	462,027	476,721	491,949
NOPLAT	**640,085**	**654,350**	**683,368**	**702,053**	**725,371**	**747,361**	**771,851**	**795,821**	**821,382**	**847,503**	**874,576**
% change	*9%*	*2%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
EBITDA	**1,593,190**	**1,630,440**	**1,691,118**	**1,736,038**	**1,788,594**	**1,839,481**	**1,894,691**	**1,949,518**	**2,007,267**	**2,066,341**	**2,127,364**
% change	*4%*	*2%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
+ D&A	593,057	608,018	623,356	639,080	655,202	671,730	688,675	706,047	723,858	742,118	760,838
- CAPEX	800,000	900,000	891,000	864,270	838,342	813,192	788,796	765,132	742,178	719,913	698,315
+ Change in NWC	(107,216)	(34,367)	(9,359)	(43,441)	(28,173)	(28,837)	(36,199)	(33,357)	(35,260)	(37,634)	(38,099)
Unlevered Free Cash Flow (UFCF)	**325,927**	**328,001**	**406,364**	**433,422**	**514,058**	**577,062**	**635,530**	**703,379**	**767,802**	**832,074**	**899,001**
% change	*NM*	*0.6%*	*23.9%*	*6.7%*	*18.6%*	*12.3%*	*10.1%*	*10.7%*	*9.2%*	*8.4%*	*8.0%*
Free Cash Flow Per Share	**$1.09**	**$1.08**	**$1.34**	**$1.43**	**$1.69**	**$1.90**	**$2.09**	**$2.31**	**$2.52**	**$2.74**	**$2.96**
Average # of Shares Outstanding	298,082	304,142	304,142	304,142	304,142	304,142	304,142	304,142	304,142	304,142	304,142
Year count	-	1	2	3	4	5	6	7	8	9	10
Discounting factor	**1.00**	**0.94**	**0.88**	**0.83**	**0.78**	**0.74**	**0.69**	**0.65**	**0.61**	**0.58**	**0.54**
Discounted Unlevered Free Cash Flow (UFCF)	**325,927**	**308,556**	**359,611**	**360,817**	**402,576**	**425,126**	**440,443**	**458,566**	**470,891**	**480,056**	**487,920**

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-21)	33%	4,520,489
PV of Terminal Value	67%	9,294,735
PV of NOLs	0%	0
Enterprise Value	**100%**	**13,815,225**
2011E EV/EBITDA		*8.7x*
Less: Net Debt		7,153,200
Equity Value		**6,662,025**
Less: Minority Interests		-
Common Equity Value		**6,662,025**
Fully Diluted C/S Outstanding (mn)		282,930
DCF per share US$		**$24**

WACC Assumptions	
Cost of Equity (CAPM)	**7.1%**
Risk Free Rate	4.0%
Beta (Long-Term)	0.77
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	60.0%
Cost of Debt	**5.1%**
Interest Rate	8.0%
Effective Tax Rate	36.0%
LT Debt/Capital Ratio	40.0%
WACC	**6.3%**

Assumptions	
Statutory Tax Rate	36%
LT Growth Rate	1.0%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2021	17,125,693
Implied EBITDA Multiple	8.1x
UFCF Multiple	19.0x

Source: Company data; Morgan Stanley Research; FactSet estimates

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Morgan Stanley

Discounted Cash Flow (DCF) Models: OKE

ONEOK Inc.
Discounted Cash Flow Analysis

($ US Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT + Equity Income (Pre Tax)	**721,738**	**770,504**	**822,035**	**882,995**	**905,621**	**951,577**	**996,110**	**1,044,097**	**1,093,997**	**1,145,875**
- Adjusted taxes	259,826	277,382	295,933	310,678	326,023	342,568	358,600	375,875	393,839	412,515
NOPLAT	**461,912**	**493,123**	**526,102**	**552,317**	**579,597**	**609,009**	**637,510**	**668,222**	**700,158**	**733,360**
% change	*1%*	*7%*	*7%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
EBITDA	**930,944**	**986,077**	**1,044,669**	**1,093,102**	**1,143,645**	**1,197,995**	**1,251,437**	**1,308,886**	**1,368,845**	**1,431,424**
% change	*0%*	*6%*	*6%*	*5%*	*5%*	*5%*	*4%*	*5%*	*5%*	*5%*
+ D&A	209,205	215,573	222,634	230,107	238,024	246,418	255,327	264,789	274,848	285,550
- CAPEX	582,526	493,365	448,531	381,060	381,064	381,064	381,064	381,064	381,064	381,064
+ Change in NWC	13,338	13,607	13,881	14,161	14,446	14,738	15,035	15,338	15,647	15,962
Unlevered Free Cash Flow (UFCF)	**101,931**	**228,938**	**314,087**	**415,525**	**451,004**	**489,101**	**526,808**	**567,284**	**609,588**	**653,807**
% change	*-69.9%*	*124.6%*	*37.2%*	*32.3%*	*8.5%*	*8.4%*	*7.7%*	*7.7%*	*7.5%*	*7.3%*
Free Cash Flow Per Share	**$0.95**	**$2.13**	**$2.92**	**$3.86**	**$4.19**	**$4.54**	**$4.89**	**$5.27**	**$5.66**	**$6.07**
Average # of Shares Outstanding	107,651	107,651	107,651	107,651	107,651	107,651	107,651	107,651	107,651	107,651
Year count	1	2	3	4	5	6	7	8	9	10
Discounting factor	**0.94**	**0.88**	**0.83**	**0.78**	**0.73**	**0.69**	**0.65**	**0.61**	**0.57**	**0.54**
Discounted Unlevered Free Cash Flow (UFCF)	**95,782**	**202,151**	**260,607**	**323,976**	**330,426**	**336,722**	**340,803**	**344,851**	**348,213**	**350,943**

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-20)	33%	3,273,024
PV of Terminal Value	67%	6,540,318
PV of NOLs	0%	0
Enterprise Value	**100%**	**9,813,343**
2011E EV/EBITDA		*10.5x*
Less: Net Debt		2,818,563
Equity Value		**6,994,779**
Less: Minority Interests		1,480,916
Common Equity Value		**5,513,863**
Fully Diluted C/S Outstanding (mn)		106,415
DCF per share US$		**$52**

WACC Assumptions	
Cost of Equity (CAPM)	**8.6%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.14
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	60.0%
Cost of Debt	**3.2%**
Interest Rate	5.0%
Effective Tax Rate	36.0%
LT Debt/Capital Ratio	40.0%
WACC	**6.4%**

Assumptions	
Statutory Tax Rate	36%
LT Growth Rate	1.0%
Equity Interest in OKS	45%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2020	12,184,598
Implied EBITDA Multiple	8.5x
UFCF Multiple	18.6x

Source: Company data; Morgan Stanley Research; FactSet estimates

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Morgan Stanley

Discounted Cash Flow (DCF) Models: SE

Spectra Energy Corp.
Discounted Cash Flow Analysis

($ US Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT + Equity Income (Pre Tax)	**2,200,583**	**2,324,696**	**2,361,397**	**2,376,482**	**2,375,294**	**2,344,353**	**2,347,830**	**2,390,129**	**2,435,343**	**2,492,239**
- Adjusted taxes	(465,047)	(491,276)	(499,032)	(502,642)	(501,968)	(495,430)	(496,165)	(505,104)	(514,658)	(526,682)
NOPLAT	**1,735,536**	**1,833,421**	**1,862,365**	**1,875,840**	**1,873,325**	**1,848,924**	**1,851,666**	**1,885,026**	**1,920,684**	**1,965,557**
% change	*21%*	*6%*	*2%*	*1%*	*0%*	*-1%*	*0%*	*2%*	*2%*	*2%*
EBITDA	**2,864,967**	**3,053,106**	**3,148,972**	**3,219,959**	**3,264,621**	**3,275,525**	**3,314,643**	**3,388,702**	**3,465,226**	**3,553,308**
% change	*18%*	*7%*	*3%*	*2%*	*1%*	*0%*	*1%*	*2%*	*2%*	*3%*
+ D&A	664,383	728,410	787,575	841,477	889,327	931,171	966,813	998,573	1,029,883	1,061,069
- CAPEX	1,320,000	1,244,283	1,147,687	1,032,127	913,734	788,599	669,794	627,783	625,276	622,778
+ Change in NWC	(121,138)	(41,313)	(36,426)	(36,596)	(34,071)	(12,368)	(32,499)	(45,834)	(49,316)	(52,924)
Unlevered Free Cash Flow (UFCF)	**958,782**	**1,276,235**	**1,465,826**	**1,648,594**	**1,814,847**	**1,979,128**	**2,116,186**	**2,209,981**	**2,275,976**	**2,350,924**
% change	*75.7%*	*33.1%*	*14.9%*	*12.5%*	*10.1%*	*9.1%*	*6.9%*	*4.4%*	*3.0%*	*3.3%*
Free Cash Flow Per Share	**$1.48**	**$1.96**	**$2.26**	**$2.54**	**$2.79**	**$3.04**	**$3.26**	**$3.40**	**$3.50**	**$3.62**
Average # of Shares Outstanding	650,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000
Year count	-	1	2	3	4	5	6	7	8	9
Discounting factor	**1.00**	**0.93**	**0.86**	**0.80**	**0.75**	**0.70**	**0.65**	**0.60**	**0.56**	**0.52**
Discounted Unlevered Free Cash Flow (UFCF)	**958,782**	**1,186,931**	**1,267,863**	**1,326,167**	**1,357,748**	**1,377,044**	**1,369,376**	**1,330,002**	**1,273,873**	**1,223,747**

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-20)	41%	13,217,075
PV of Terminal Value	59%	18,945,360
PV of NOLs	0%	0
Enterprise Value	**100%**	**32,162,435**
2011E EV/EBITDA		*11.2x*
Less: Net Debt		9,602,000
Equity Value		**22,560,435**
Less: Minority Interests		765,000
Common Equity Value		**21,795,435**
Fully Diluted C/S Outstanding (mn)		649,750
DCF per share US$		**$34**

WACC Assumptions	
Cost of Equity (CAPM)	**8.5%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.13
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	55.0%
Cost of Debt	**6.3%**
Interest Rate	8.0%
Effective Tax Rate	21.1%
LT Debt/Capital Ratio	45.0%
WACC	**7.5%**

Assumptions	
Statutory Tax Rate	-21%
LT Growth Rate	1.0%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2020	36,395,659
Implied EBITDA Multiple	10.2x
UFCF Multiple	15.5x

Source: Company data; Morgan Stanley Research; FactSet estimates

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Discounted Cash Flow (DCF) Models: SUG

Southern Union Company

Discounted Cash Flow Analysis

($ US Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT + Equity Income (Pre Tax)	**654,945**	**701,858**	**734,416**	**768,627**	**802,730**	**835,216**	**868,981**	**904,077**	**940,557**	**978,473**
- Adjusted taxes	235,780	252,669	264,390	276,670	288,983	300,678	312,833	325,468	338,600	352,250
NOPLAT	**419,165**	**449,189**	**470,026**	**491,858**	**513,747**	**534,538**	**556,148**	**578,610**	**601,956**	**626,223**
% change	*11%*	*7%*	*5%*	*5%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
EBITDA	**969,573**	**1,036,108**	**1,075,396**	**1,116,373**	**1,157,580**	**1,197,211**	**1,238,265**	**1,280,797**	**1,324,862**	**1,370,516**
% change	*11%*	*7%*	*4%*	*4%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*
+ D&A	314,628	334,250	340,980	347,846	354,850	361,995	369,284	376,719	384,305	392,043
- CAPEX	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000
+ Change in NWC	2,753	2,809	2,865	2,923	2,982	3,042	3,104	3,166	3,230	3,295
Unlevered Free Cash Flow (UFCF)	**366,546**	**415,248**	**443,872**	**472,627**	**501,579**	**529,575**	**558,535**	**588,495**	**619,491**	**651,560**
% change	*NM*	*13.6%*	*6.6%*	*6.5%*	*6.1%*	*5.6%*	*5.5%*	*5.4%*	*5.3%*	*5.2%*
Free Cash Flow Per Share	**$2.93**	**$3.33**	**$3.55**	**$3.78**	**$4.01**	**$4.23**	**$4.46**	**$4.70**	**$4.95**	**$5.21**
Average # of Shares Outstanding	125,160	125,160	125,160	125,160	125,160	125,160	125,160	125,160	125,160	125,160
Year count	-	1	2	3	4	5	6	7	8	9
Discounting factor	**1.00**	**0.94**	**0.88**	**0.83**	**0.78**	**0.73**	**0.68**	**0.64**	**0.60**	**0.57**
Discounted Unlevered Free Cash Flow (UFCF)	**366,546**	**390,735**	**391,126**	**390,938**	**389,456**	**385,990**	**382,146**	**377,966**	**373,485**	**368,742**

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-20)	34%	3,467,352
PV of Terminal Value	66%	6,735,231
PV of NOLs	0%	0
Enterprise Value	**100%**	**10,202,584**
2011E EV/EBITDA		*10.5x*
Less: Net Debt		4,638,712
Equity Value		**5,563,871**
Less: Minority Interests		-
Common Equity Value		**5,563,871**
Fully Diluted C/S Outstanding (mn)		125,160
DCF per share US$		**$44**

WACC Assumptions	
Cost of Equity (CAPM)	**6.3%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.06
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	50.0%
Cost of Debt	**4.8%**
Interest Rate	7.5%
Effective Tax Rate	36.0%
LT Debt/Capital Ratio	50.0%
WACC	**6.5%**

Assumptions	
Statutory Tax Rate	36%
LT Growth Rate	1.0%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2020	11,901,023
Implied EBITDA Multiple	8.7x
UFCF Multiple	18.3x

Source: Company data; Morgan Stanley Research; FactSet estimates

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Discounted Cash Flow (DCF) Models: STR

Questar Corporation

Discounted Cash Flow Analysis

($ US Thousands, Except Per Share Data)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	359,072	383,111	400,498	420,555	438,016	454,132	471,514	490,202	510,240	518,810
- Adjusted taxes	129,266	137,920	144,179	151,400	157,686	163,488	169,745	176,473	183,686	186,772
NOPLAT	229,806	245,191	256,319	269,155	280,330	290,645	301,769	313,729	326,553	332,039
% change	*9%*	*7%*	*5%*	*5%*	*4%*	*4%*	*4%*	*4%*	*4%*	*2%*
EBITDA	523,927	559,023	586,898	617,061	644,395	670,186	697,047	725,022	754,159	771,645
% change	*8%*	*7%*	*5%*	*5%*	*4%*	*4%*	*4%*	*4%*	*4%*	*2%*
+ D&A	164,855	175,911	186,400	196,506	206,380	216,054	225,533	234,820	243,919	252,835
- CAPEX	342,000	324,900	308,505	300,000	293,940	288,001	282,181	276,478	270,888	265,410
+ Change in NWC	4,467	2,111	1,193	1,248	1,188	1,237	1,287	1,340	1,395	264
Unlevered Free Cash Flow (UFCF)	57,128	98,313	135,406	166,910	193,958	219,934	246,408	273,412	300,980	319,747
% change	*670.9%*	*72.1%*	*37.7%*	*23.3%*	*16.2%*	*13.4%*	*12.0%*	*11.0%*	*10.1%*	*6.2%*
Free Cash Flow Per Share	$0.32	$0.55	$0.76	$0.94	$1.09	$1.23	$1.38	$1.53	$1.69	$1.79
Average # of Shares Outstanding	178,200	178,200	178,200	178,200	178,200	178,200	178,200	178,200	178,200	178,200
Year count	-	1	2	3	4	5	6	7	8	9
Discounting factor	1.00	0.94	0.88	0.82	0.77	0.72	0.67	0.63	0.59	0.55
Discounted Unlevered Free Cash Flow (UFCF)	57,128	91,994	118,559	136,749	148,694	157,771	165,400	171,730	176,894	175,845

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2011-20)	33%	1,408,175
PV of Terminal Value	67%	2,920,446
PV of NOLs	0%	0
Enterprise Value	**100%**	**4,328,621**
2011E EV/EBITDA		*8.3x*
Less: Net Debt		1,232,100
Equity Value		**3,096,521**
Less: Minority Interests		-
Common Equity Value		**3,096,521**
Fully Diluted C/S Outstanding		178,200
DCF per share US$		**$17**

WACC Assumptions	
Cost of Equity (CAPM)	**9.3%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.34
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	55.0%
Cost of Debt	**3.8%**
Interest Rate	6.0%
Effective Tax Rate	36.0%
LT Debt/Capital Ratio	45.0%
WACC	**6.9%**

Assumptions	
Statutory Tax Rate	36%
LT Growth Rate	1%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2020	5,310,394
Implied EBITDA Multiple	6.9x
UFCF Multiple	16.6x

Source: Company data; Morgan Stanley Research; FactSet estimates

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(as of December 31, 2010)

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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	**1145**	**40%**	**437**	**44%**	**38%**
Equal-weight/Hold	**1192**	**42%**	**422**	**42%**	**35%**
Not-Rated/Hold	**119**	**4%**	**25**	**3%**	**21%**
Underweight/Sell	**382**	**13%**	**109**	**11%**	**29%**
Total	**2,838**		**993**		

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January 6, 2011

Industry View
Attractive

Initiation

Diversified Natural Gas

Adding NFG to Overweights

Initiating coverage of NFG, MDU, and NI, expanding our diversified natural gas coverage to nine stocks. On average, we project a 15% total return through 2011 for the group, driven by two-year EPS CAGRs of 10% and average dividend yields of 3%. These stocks still screen undervalued on a net asset value and EV/EBITDA basis, and we expect the group to outperform the market over the next 12 months. Drivers of our Attractive view: 1) improving E&P portfolios in unconventional gas/oil plays; 2) strong demand for midstream infrastructure; and 3) potential corporate announcements to unlock shareholder value.

Where we differ: Because of their diversified business model, the markets have tended to apply a discount to share prices. We think events in 2011 have the potential to lead unlocking of value (e.g., joint ventures, asset spin-offs, new infrastructure projects). Further, while the market seems to think NFG has priced in its Marcellus acreage upside, we believe more room is left.

Investors should position themselves for rising gas infrastructure demand and in lower-cost shale plays. We believe investors will be rewarded through exposure to: 1) low-cost and improving unconventional shale plays on the E&P side (and corresponding pipeline and processing infrastructure needs); and 2) the ongoing strength in gas processing/frac demand given higher oil/gas ratio. We believe these traits will be a factor in accelerating earnings 7% in 2011 and 13% in 2012.

Overweight NFG: A unique and undervalued Marcellus position. We estimate NFG prices in ~$48 / share in total for its E&P segment, below our ~$70 estimate. We see big opportunities in E&P (aggressively growing Marcellus production / possible joint venture) and midstream (building out necessary infrastructure).

Equal-weight MDU and NI: While MDU and NI are levered to emerging shale plays and show upside, we see better risk-reward in Overweight-rated NFG (along with EP and WMB). Part of MDU's outperformance hinges on construction (and thus a strong economic recovery); NI's, on restoring earnings power in its electric utility (likely driven by resolution of rate cases).

New Coverage: Diversified Natural Gas

Name	Ticker	MS Rating	Current Price	MS Price Target	Equity Mkt Cap ($ B)	Price / 2011e EPS	Total EV / 2011e EBITDA
National Fuel Gas	NFG	O/w	$66.53	$82	$5.5	24.8x	8.8x
MDU Resources	MDU	E/w	$20.61	$22	$3.9	14.6x	6.3x
NiSource Inc.	NI	E/w	$17.83	$19	$5.0	14.0x	6.9x

Source: Morgan Stanley Research
O = Overweight E = Equal-weight U = Underweight

Diversified Natural Gas
New Coverage Segment Matrix

	NFG	MDU	NI
rating	O	E	E
Business focus:			
E&P	✓	✓	
pipelines & storage	✓	✓	✓
gas utility	✓	✓	✓
electric utility		✓	✓
construction		✓	

Source: Morgan Stanley Research

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Diversified Natural Gas

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Conglomerate discounts have plagued diverse gas companies (E&P, pipelines, utility, other assets) in the past

Debate Summary: What Drives Diversified Gas Stocks? 7
We think the group can perform well even if natural gas prices are not rising. We expect strong balance sheets, fee-based growth projects (e.g., pipelines, gathering & processing), positive exposure to NGL and oil prices, and E&P growth for some to be drivers of stock prices.

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Full financial models and assumptions, valuation details.

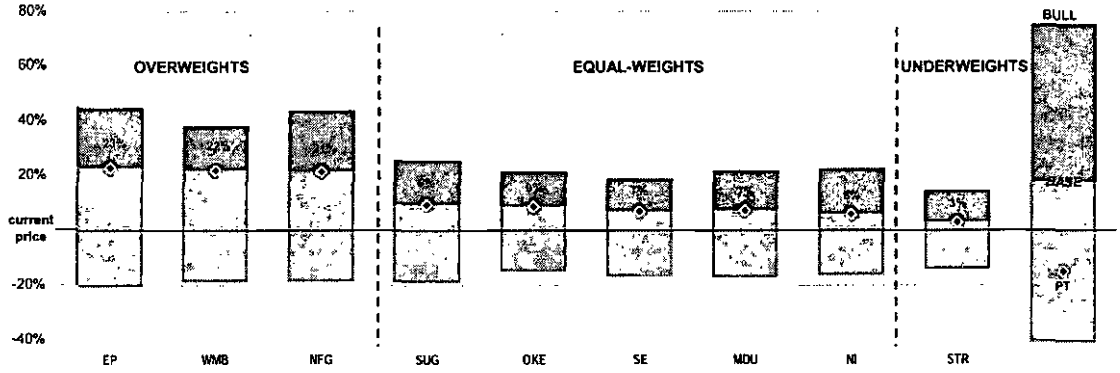
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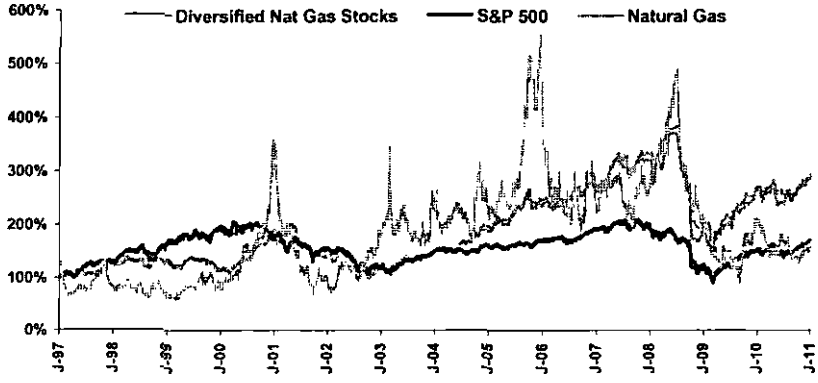
Diversified Natural Gas: Relative Value in Unconventional Assets

Exhibit 1
New Coverage (NFG, MDU and NI): NFG Is Our Top New Pick as Marcellus Acreage Is Underappreciated



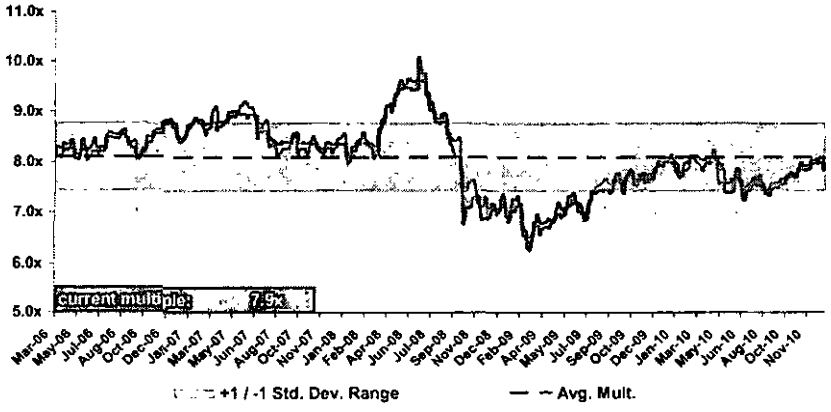
Source: Morgan Stanley Research

Exhibit 2
Diversified Gas Stocks can Continue to Outperform the Market



Source: Company data; FactSet; Morgan Stanley Research

Exhibit 3
EV / EBITDA Has Trended Higher as Growth Becomes more Apparent



Source: Company data, Morgan Stanley Research

Investment Thesis

- Commodity prices play a role in stock performance, but access to capital, *exposure to low-cost reserves, and* valuation are more important.
- The variety of business lines makes it a stock picker's space, in our opinion.
- Long-term growth themes: 1) low-cost, high-reserve unconventional shales (and corresponding pipeline and processing needs); 2) ongoing strength in gas processing spreads given high oil / gas price ratio; 3) gradual economic recovery increasing demand and transmission throughput.
- Investors should seek exposure to these themes.
- MLP ownership is a positive for several companies (EP, OKE, SE, WMB).

Potential Catalysts

- Price outlook for gas market improves.
- Project announcements on midstream and joint ventures in E&P.
- Sale of assets (i.e., 'dropdowns') into MLPs to raise capital; supports growth.

Where We Could Be Wrong

- Energy demand falters in 2011.
- Muted natural gas prices impact drilling plans and infrastructure projects.
- Ability to finance new projects is hampered by higher interest rates.

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Diversified Natural Gas

Exhibit 4

Diversified Natural Gas New Coverage Snapshot

Business Drivers	Rating	Geography	Key Company Debate	
NFG - National Fuel Gas Co.	**Overweight**	**% of EBITDA**		
Exploration & Production, exploration, acquisition, development and production of natural gas and, to a lesser extent, oil and NGLs		**50%** Marcellus, Appalachia, Gulf of Mexico, California	**Debate**	Should NFG increase capital spending for Marcellus drilling in such a low natural gas price environment and what is the value of their Marcellus acreage?
Pipeline & Storage, interstate natural gas pipelines		**20%** Northeast, Pennsylvania, New York, Canada	**Market's View**	Waiting for a rebound in gas prices before ramping up production would be a more prudent decision and NFG's western Marcellus acreage is not that prolific.
Gas Utility, sells and delivers natural gas to customers, and provides gas transportation services		**25%** Northeast, Pennsylvania, New York, Canada	**Our View**	There is no guarantee prices will significantly recover amidst the current U.S. gas supply outlook. NFG's Marcellus drilling program will benefit other business segments (pipes & storage) and its drilling economics are at the top of the class among other Marcellus E&P peers. We believe a Marcellus joint venture can be announced in 1Q or 2Q and will materially add to the market's perceived value per acre of NFG's 745,000 net acre position. This could be worth 20 - 30% stock upside.
Energy Marketing, provide competitively priced gas supplies to customers		**5%** Northeast, Pennsylvania, New York, Canada		
MDU - MDU Resources Group Inc.	**Equal-weight**	**% of EBITDA**		
Exploration & Production, exploration, acquisition, development and production of natural gas and oil (shifting more towards oil)		**35%** Rockies, Mid-Continent, Gulf States	**Debate**	Will MDU's Bakken acreage provide enough oil production to bolster the E&P segment in the current gas environment?
Pipeline & Energy Services, both regulated and unregulated businesses that provide transportation, gathering and storage		**12%** Montana, N. and S. Dakota, Wyoming, Colorado	**Market's View**	MDU is ramping up production in the Bakken very rapidly. However, gas revenues still constitute over 70% of E&P revenues.
Electric Utility, regulated public electric utility		**8%** Montana, N. and S. Dakota,	**Our View**	MDU has opportunities in the Niobrara from acreage acquired earlier in the year. They expect to begin drilling in 2011. We think MDU will continue to increase its leverage to these oil and liquids rich plays via infrastructure building and increased drilling development. However, we still see oil production as only a small part of the profile of MDU overall and we believe other businesses (namely construction and electric utility) will need to rebound for MDU stock to outperform.
Gas Utility, regulated public natural gas utility		**15%** Northwest		
Construction Materials & Contracting, processes and sells construction aggregates, asphalt mixes, and ready-mix concrete		**23%** Northwest, Mid-Continent, Texas, Alaska, Hawaii		
Construction Services, constructs and maintains electric and communication lines, gas pipelines and other sophisticated systems		**7%** United States		
NI - NiSource Inc.	**Equal-weight**	**% of EBITDA**		
Gas Distribution, natural gas long haul pipelines and storage, LNG terminalling facilities		**40%** Northeast, Midwest, Mid-Atlantic	**Debate**	Will NI be able to restore the earnings power of its electric utility (NiPSCO Electric)?
Gas Transmission & Storage, exploration, acquisition, development and production of natural gas and, to a lesser extent, oil and NGLs		**35%** Appalachia, Marcellus, Louisiana, Midwest	**Market's View**	NIPSCO Electric earnings should increase modestly in 2011, but still underperform relative to other electric utilities.
Electric Operations, generates and distributes electricity to residential, and commercial customers		**25%** Northern Indiana	**Our View**	We agree NIPSCO Electric will face near-term headwinds that will adversely affect performance. However, we expect a significant recovery of earnings power in 2012 and believe the market underestimates the infrastructure potential of NI's gas transmission and storage business. Currently, the stock seems more fairly valued in our view.

Source: Company data, Morgan Stanley Research

New Industry Debate Summary

DEBATE	MARKET'S VIEW	OUR VIEW
Debate 1: **How much longer will the integrated gas model last?**	The integrated model is structurally disadvantaged, effectively creating "conglomerate" discounts to intrinsic value. Separate entities are easier to understand and ultimately increase the investor base and shareholder value.	**Our view:** In certain instances the integrated model can offer benefits (e.g., company diversification and synergies through related businesses and opportunities to self-finance through MLP stakes), but we think the discount is too great in many cases and that we will see some more separation over the next 12 – 24 months. **Where we could be wrong:** Management teams begin to view the integrated model as an optimal business model given its diversity and therefore do not undergo corporate restructurings / "non-core" asset sales.

Ongoing Industry Debates Summary

DEBATE	MARKET'S VIEW	OUR VIEW
Debate 1: **What drives diversified natural gas stocks?**	Higher commodity prices and production growth will take the stocks higher.	**Our view:** It is not simply a matter of prices. Exposure to low-cost shale reserves, shift towards more natural gas liquids and oil price exposure, and current valuation discounts have more of an impact. Drivers of long-term growth: 1) low-cost, high-reserve unconventional shale plays on E&P side; 2) shift towards oil exposure (e.g., Bakken, Niobrara); 3) the strength in gas processing spreads given higher crude oil versus natural gas prices; and 4) infrastructure projects to support increased shale drilling. **Where we could be wrong:** Stocks begin to show stronger correlation to weak natural gas prices, ignoring other infrastructure fundamentals.
Debate 2 **What will close valuation discounts (for those that have them)?**	Sum-of-the-parts (SOTP) valuation metrics highlight some stocks trading under net asset value; however, there are no clear catalysts for closing this discount and some of it may be permanent.	**Our view:** We think growing fee-based revenues from new projects as a percentage of overall profiles will highlight cash flow stability. Use of the MLP structure for some can enhance value as it provides a low-cost source of capital and other financial benefits (incentive payments as the MLP grows). We also believe more are contemplating corporate restructurings. **Where we could be wrong:** Execution risk remains as project delays, capex overruns, financing on less favorable terms than expected, and continued gas volatility heighten the risk that trading discounts to net asset value remain wide.
Debate 3 **How important is the commodity call (on gas prices, oil, and natural gas liquid prices)?**	Sensitivity to an oversupplied natural gas environment could cause near-term headwinds for the group until there is clearer visibility into demand recovery.	**Our view:** While near-term headwinds are possible, we have a more constructive long-term view of natural gas ($5.50) and oil ($105), supported by expected improvement in underlying demand fundamentals. **Where we could be wrong:** While lower gas spot prices have reduced drilling rigs and shut-in production, the absence of a strong economic response could potentially hamper significant recovery in natural gas markets.

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New Industry Debate: How Much Longer will Integrated Model Last?

Market's view: The integrated model is structurally disadvantaged, effectively creating a "conglomerate" discount. Separate and distinct entities are easier to value and ultimately increase the investor base.

Our view: While the integrated model offers benefits (e.g., company diversification and synergies through related businesses and opportunities to self-finance through MLP stakes), we believe more managements will heed the market's call and look to separate.

Some integrated companies could unlock shareholder value through a corporate break-up in certain instances. Overall, our diversified natural gas stocks trade at discounts to NAV. We think a corporate restructuring could be the optimal choice for creating shareholder value (similar to Questar).

For certain companies the integrated structure will remain in place for longer. It offers a way to diversify operations, using regulated assets to limit the downside of commodity prices; however, this strategy caps the upside during periods of high commodity prices. Another advantage of the integrated model is that it can create synergies across business segments. For instance, an integrated company with E&P, midstream, pipeline, and utility assets could vertically integrate by providing its own gathering, processing, and transportation services, and using produced gas for its utility. Finally, a company with MLP interests receives substantial cash flows from MLP distributions and can sell assets to its MLP to finance growth (NFG, NI, and MDU do not have MLP assets).

A discount to fair value may be appropriate in certain circumstances. Diversified natural gas stocks screen as undervalued on sum-of-the-parts fair value. We think one of the central debates is whether a discount to fair value is warranted. Areas where a discount could be appropriate:

⇒ **MLP units held,** which could be subject to re-offer discounts and underwriting spreads (if sold through secondary offerings) as well as triggering capital gains tax liability if a company wishes to monetize the assets.

⇒ **A broader conglomerate discount** as diversified stocks do not offer pure-play exposure to E&P, midstream assets, distribution operations, or general partner interests in an MLP. Investors looking for specific exposure could elect to invest more directly with other stocks.

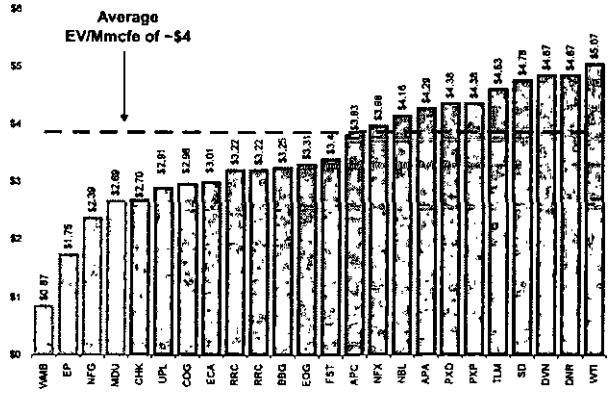
⇒ **Uncertainty with respect to uses of cash** and the long-term growth strategy at certain diversified companies.

Exhibit 5
E&P Segments are Undervalued on MS Forecast

($ / share)		Implied EV / mmcfe (Reserves)			Implied EV / mmcfe (Reserves)
WMB			**EP**		
Current price	$ 25		Current price	$ 14	
Midstream	(1)		Gas Pipelines	(17)	
WPZ (MLP)	(20)		EPB (MLP)	(6)	
Net Debt	3		Net Debt	15	
Implied E&P value	$ 8	$0.87	Implied E&P value	$ 6	$1.76
Forecasted value	$ 12	$1.71	Forecasted value	$ 10	$2.83
Upside	*66%*		*Upside*	*62%*	
NFG			**MDU**		
Current price	$ 67		Current price	$ 21	
Pipeline & Storage	(14)		Pipeline & Marketing	(4)	
Utility	(17)		Utilities	(8)	
Marketing & other	-		Construction & other	(6)	
Net Debt	13		Net Debt	7	
Implied E&P value	$ 40	$2.39	Implied E&P value	$ 9	$2.89
Forecasted value	$ 70	$3.40	Forecasted value	$ 10	$2.88
Upside	*42%*		*Upside*	*7%*	

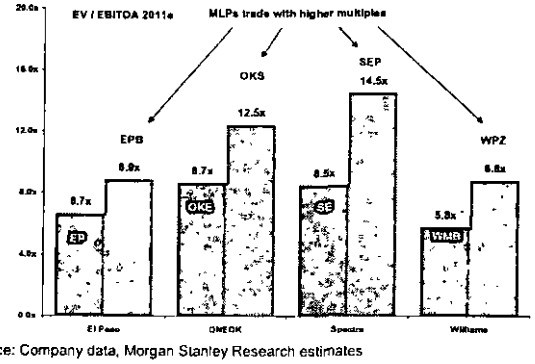
Source: Company data, Morgan Stanley Research estimates. NFG EV / mmcfe of proved reserves takes into account <10% of Marcellus potential.

Exhibit 6
Value per Reserve Shows Discounts Also



Source: Company data, Morgan Stanley Research estimates. NFG EV / mmcfe of proved reserves takes into account <10% of Marcellus potential.

Exhibit 7
Assets in an MLP Garner a Higher Multiple
Can benefit c-Corp stocks with MLP ownership



Source: Company data, Morgan Stanley Research estimates

Revisiting Industry Debate: What Drives these Stocks?

Market's view: These stocks exhibit tendency to trade with the commodities (oil, gas, NGL prices), making it difficult to analyze fundamental operating performance and make proper predictions about future stock returns.

Our view: We prefer a multi-layered approach to valuation, taking into account both market multiples and intrinsic valuation as a better foundation for arriving at price targets for our coverage universe.

In 2000–10, our new coverage stocks (NFG, MDU, and NI) have had mixed trading results versus the broader market, but have generally outperformed.

⇒ Over long periods, these names display very low *correlations to the underlying commodity (natural gas* and/or crude oil), as the diversified nature of their operations would suggest.

⇒ However, commodity prices play a more prominent role in the group's stock returns in environments that are short-term in nature and/or characterized by uncertainty. For instance, in the period around the financial crisis, the stocks displayed much higher sensitivity to commodity prices and "high beta" indices (e.g., E&P index).

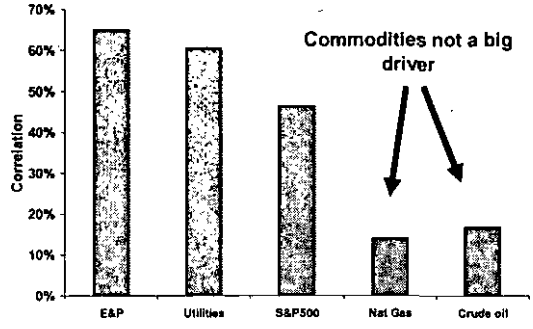
⇒ While the diversity of business segments in this group should make company-specific factors (e.g., liquidity, exposure to low-cost natural gas reserves, hedging, ROIC, etc.) a more important driver, we expect relative valuation to dominate returns expectations.

Cash flow generation supports relative valuation framework. As frameworks for shorter-term valuation, EV/EBITDA and dividend yield appear to be primary drivers of performance for the group. P/E is less useful, possibly because investors do not see earnings (whether GAAP or "operating") as a clear indication of the companies' cash generation abilities. EV/EBITDA and dividend yield allow investors to account for the varied growth profiles and expected project returns of each company.

Exhibit 8

Diversified Group's Long-Term Correlations

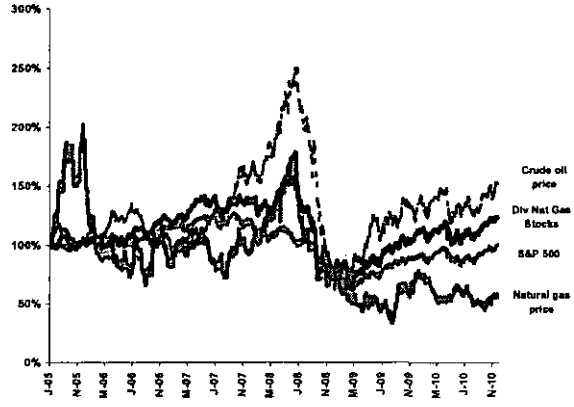
Reflects low commodity exposure overall



Source: Company data, Morgan Stanley Research

Exhibit 9

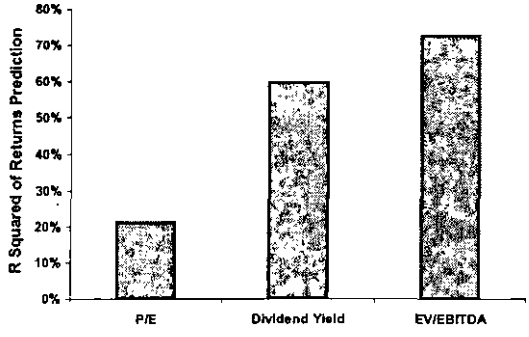
Diversified Gas Stocks have Outperformed Gas Prices and Broader Market in Medium-Term



Source: Company data, Morgan Stanley Research estimates

Exhibit 10

6-Month Return Outlook Will be Dominated by Relative Valuation



Source: Company data, Morgan Stanley Research

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January 6, 2011
Diversified Natural Gas

Our Estimates Versus Consensus

Exhibit 11
Morgan Stanley and Consensus EPS Estimates

Ticker Symbol	Earnings Per Share ($) 1Q10	2Q10	3Q10	4Q10E	2010E	2011E	2012E	2013E	Growth Rate (%) 11 vs 10	12 vs 11	13 vs 12
CNP	-	-	-	-	-	-	-	-	-	-	-
Consensus	0.32	0.20	0.25	0.28	1.06	1.18	1.25	1.37	11%	6%	9%
EGN	-	-	-	-	-	-	-	-	-	-	-
Consensus	1.62	0.91	0.73	1.09	4.36	3.61	3.67	5.05	-17%	2%	38%
EP	0.33	0.22	0.22	0.25	1.01	1.14	1.27	1.44	12%	12%	13%
Consensus	0.33	0.22	0.22	0.22	1.00	1.07	1.16	1.28	7%	8%	11%
EQT	-	-	-	-	-	-	-	-	-	-	-
Consensus	0.65	0.20	0.24	0.41	1.52	1.83	2.42	NA	20%	33%	NA
MDU	0.22	0.26	0.41	0.38	1.27	1.39	1.61	1.61	9%	16%	0%
Consensus	0.22	0.26	0.32	0.35	1.24	1.42	1.53	NA	15%	8%	NA
NFG	0.97	0.51	0.39	0.80	2.66	2.68	3.08	3.63	1%	15%	18%
Consensus	0.97	0.51	0.39	0.76	2.65	2.63	2.96	3.47	-1%	12%	17%
NI	0.71	0.13	0.04	0.34	1.21	1.27	1.31	1.40	5%	3%	7%
Consensus	0.13	0.04	0.35	0.77	1.23	1.33	1.43	1.50	8%	8%	5%
OKE	1.44	0.39	0.46	0.88	3.17	3.31	3.69	4.16	4%	11%	13%
Consensus	1.44	0.39	0.51	0.76	3.03	3.23	3.56	3.84	6%	10%	8%
SE	0.53	0.27	0.31	0.36	1.47	1.68	1.80	1.86	15%	7%	4%
Old Estimates	*0.53*	*0.27*	*0.31*	*0.36*	*1.47*	*1.68*	*1.78*	*1.65*			
Consensus	0.53	0.27	0.31	0.39	1.48	1.69	1.83	NA	14%	8%	NA
STR	0.40	0.20	0.16	0.29	1.06	1.09	1.15	1.20	2%	6%	4%
Consensus	0.24	0.20	0.16	0.31	1.08	1.12	1.20	1.35	4%	7%	12%
SUG	0.44	0.40	0.40	0.55	1.79	1.91	2.13	2.29	7%	12%	8%
Old Estimates	*0.44*	*0.40*	*0.40*	*0.55*	*1.79*	*2.05*	*2.41*	*2.59*			
Consensus	0.44	0.42	0.40	0.57	1.83	1.97	2.20	2.17	7%	11%	-1%
WMB	0.36	0.28	0.24	0.26	1.14	1.19	1.65	1.76	4%	38%	7%
Consensus	0.36	0.28	0.22	0.29	1.16	1.30	1.59	1.77	12%	22%	12%
						MS Average			7%	13%	8%

Source: FactSet, Morgan Stanley Research

Morgan Stanley

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January 6, 2011
Diversified Natural Gas

Exhibit 12

Morgan Stanley and Consensus EBITDA Estimates

Ticker Symbol	EBITDA ($ in 000s) 1Q10	2Q10	3Q10	4Q10E	2010E	2011E	2012E	2013E	Growth Rate (%) 11 vs 10	12 vs 11	13 vs 12
CNP	-	-	-	-	-	-	-	-	-	-	-
Consensus	516	480	584	475	2,055	2,179	2,293	2,457	6%	5%	7%
EGN	-	-	-	-	-	-	-	-	-	-	-
Consensus	254	165	136	201	755	717	763	884	-5%	6%	16%
EP	783	752	719	745	2,999	3,411	3,766	4,098	14%	10%	9%
Consensus	1,032	765	749	818	2,883	3,132	3,517	NA	9%	12%	NA
EQT	-	-	-	-	-	-	-	-	-	-	-
Consensus	232	147	158	201	700	847	1,001	NA	21%	18%	NA
MDU	164	172	223	214	773	837	918	936	8%	10%	2%
Consensus	166	175	225	216	596	687	NM	NA	15%	NM	NA
NFG	199	140	123	191	634	704	838	960	11%	19%	15%
Consensus	200	140	123	177	585	630	765	909	8%	22%	19%
NI	555	306	263	401	1525	1593	1630	1691	4%	2%	4%
Consensus	555	295	268	401	1,524	1,579	1,709	1,855	4%	8%	9%
OKE	437	275	277	352	1,341	1,393	1,499	1,601	4%	8%	7%
Consensus	415	254	272	335	1,195	1,242	1,309	1,477	4%	5%	13%
SE	752	555	575	665	2547	2991	3186	3285	17%	7%	3%
Old Estimates	*752*	*555*	*575*	*665*	*2,547*	*2,991*	*3,164*	*3,080*			
Consensus	779	581	615	735	2,736	3,047	3,267	3,195	11%	7%	-2%
STR	162	101	94	126	483	524	559	587	8%	7%	5%
Consensus	433	106	96	152	507	536	566	NA	6%	6%	NA
SUG	188	185	188	216	777	844	895	932	9%	6%	4%
Old Estimates	*188*	*185*	*188*	*216*	*777*	*873*	*951*	*992*			
Consensus	195	216	176	235	869	948	960	1,159	9%	1%	21%
WMB	964	878	875	874	3,591	3,698	4,298	4,534	3%	16%	6%
Consensus	596	817	717	818	2,992	3,315	3,687	NA	11%	11%	NA
							MS Average		**9%**	**9%**	**6%**

Source: FactSet, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

January 6, 2011
Diversified Natural Gas

Comparables, Valuation Multiples, and Operational Statistics

Exhibit 13

Diversified Natural Gas Group Trading Comps

Company	Symbol	MS Rating	Recent Price	Target Price	Next 4 qtrs yield	Total Return Pot'l	Equity Mkt Cap ($m)	Total EV ($m)	52-W Avg Daily Vol ($m)	52-W Avg Daily Vol (000s)	EV / EBITDA 10E	EV / EBITDA 11E	EV / EBITDA 12E	EV / EBITDA 13E	Price / Earnings 10E	Price / Earnings 11E	Price / Earnings 12E	Price / Earnings 13E	Net Debt / Total Book Cap. 10E	Net Debt / Total Book Cap. 11E	Net Debt / Total Book Cap. 12E	Net Debt / Total Book Cap. 13E
Diversified Gas																						
Centerpoint Energy Inc	CNP	NA	15.83	-	4.9%	-	$6,698	$15,735	$62	3,921	7.7x	7.2x	6.9x	6.4x	14.9x	13.4x	12.7x	11.6x	72%	64%	63%	62%
Energen Corp	EGN	NA	50.92	-	1.0%	-	$3,652	$4,137	$19	368	5.5x	5.8x	5.4x	4.7x	11.7x	14.1x	13.8x	10.1x	21%	17%	16%	15%
El Paso Corp	EP	O/w	13.64	$17	0.3%	24.9%	$10,394	$22,719	$111	8,165	7.6x	6.7x	6.0x	5.5x	13.5x	12.0x	10.7x	9.5x	68%	44%	15%	22%
EQT Corp	EQT	NA	45.04	-	2.0%	-	$6,717	$8,672	$66	1,458	12.4x	10.2x	8.7x	NA	29.7x	24.6x	18.6x	NA	48%	39%	38%	36%
MDU Resources Group Inc	MDU	E/w	20.68	$22	3.1%	9.5%	$3,895	$5,296	$16	769	6.8x	6.3x	5.8x	5.7x	16.3x	14.9x	12.8x	12.8x	28%	28%	28%	28%
National Fuel Gas Co	NFG	O/w	67.20	$82	2.1%	24.1%	$5,576	$6,229	$30	454	9.8x	8.9x	7.4x	6.5x	25.3x	25.1x	21.8x	18.5x	55%	58%	59%	59%
NiSource Inc	NI	E/w	17.86	$19	5.2%	11.5%	$4,999	$10,952	$50	2,810	7.2x	6.9x	6.7x	6.5x	14.7x	14.0x	13.7x	12.8x	61%	58%	57%	56%
ONEOK Inc	OKE	E/w	55.62	$60	3.6%	11.5%	$5,988	$12,080	$44	796	9.0x	8.7x	8.1x	7.5x	17.5x	16.8x	15.1x	13.4x	53%	50%	47%	45%
Spectra Energy Corp	SE	E/w	25.21	$27	4.1%	11.2%	$16,387	$25,508	$85	3,376	10.0x	8.5x	8.0x	7.8x	17.2x	15.0x	14.0x	13.5x	55%	55%	53%	51%
Questar Corp	STR	U/w	17.45	$18	3.5%	6.6%	$3,110	$3,759	$37	2,112	7.8x	7.2x	6.7x	6.4x	16.5x	16.1x	15.2x	14.6x	57%	57%	57%	56%
Southern Union Co	SUG	E/w	24.67	$27	2.4%	11.9%	$3,088	$6,591	$18	714	8.5x	7.8x	7.4x	7.1x	13.8x	12.9x	11.6x	10.8x	58%	55%	53%	50%
Williams Cos	WMB	O/w	24.54	$30	2.0%	24.3%	$14,350	$21,337	$168	6,837	5.9x	5.8x	5.0x	4.7x	21.4x	20.6x	14.9x	13.9x	53%	53%	52%	50%
Total:							**$84,852**	**$143,014**	**$706**	**31,781**												
Average:					**2.9%**	**15.1%**	**$7,071**	**$11,918**	**$59**	**2,648**	**8.2x**	**7.5x**	**6.8x**	**6.2x**	**17.7x**	**16.6x**	**14.6x**	**12.9x**	**53%**	**48%**	**45%**	**40%**
Median:					**2.8%**	**11.5%**	**$5,782**	**$9,812**	**$47**	**1,785**	**7.7x**	**7.2x**	**6.8x**	**6.4x**	**16.4x**	**14.9x**	**13.9x**	**12.8x**	**55%**	**54%**	**52%**	**50%**

Source: Company data, FactSet, and Morgan Stanley Research All estimates are those of Morgan Stanley Research except for Centerpoint, Energen, and EQT, which are FactSet consensus
O/w = Overweight E/w = Equal-weight U/w = Underweight for Morgan Stanley rating system.

Valuation Methodology and Risks

Our 12-month price targets are a blended average of four methodologies (Sum-of-the-Parts (SoTP), EV / EBITDA multiples, P/E multiples, and Discount Cash Flow Analysis), with a majority weight given to SoTP (i.e., net asset value). For our SoTP analysis, we calculate the enterprise value of each reported segment (and subtracts net debt) to reach fair value. For multiples analysis, we derive our multiple by looking at the historical trading range, average trading range, and relative peer trading ranges. Finally, our DCF uses a terminal growth rate of 1% and a WACC derived from company specific beta and an equity risk premium of 4% and a risk-free rate of 4%.

Investment Risks for our diversified natural gas companies include: 1) Commodity price volatility; directly for companies with E&P operations, and indirectly for companies with midstream presences. 2) Operational risk; failure to complete projects on time and on/below budget. 3) Political risk; change in regulations, and rate-making mechanisms. 4) Environmental risk; from pipeline spills and other accidents that can have a potentially adverse effect on the environment.

Morgan Stanley

MORGAN STANLEY RESEARCH

January 6, 2011
Diversified Natural Gas

Exhibit 14
Diversified Natural Gas Group Operational Stats

Company	Symbol	Beta v. S&P500 60mo	Beta v. NYSE 52wk	Moody's LT Rating	S&P	ROIC 10E	ROIC 11E	ROIC 12E	ROIC 13E	Capex ($m) 10E	Capex ($m) 11E	Capex ($m) 12E	Capex ($m) 13E
Diversified Gas:													
Centerpoint Energy Inc	CNP	0.71	0.60	Ba1	BBB	7.0%	7.5%	7.7%	8.3%	$1,581	$1,343	$1,156	$1,058
Energen Corp	EGN	1.04	0.96	Baa3	BBB	14.1%	12.7%	13.2%	16.5%	$402	$753	$503	$378
El Paso Corp	EP	1.07	1.20	Baa3	BB	8.0%	6.3%	5.6%	5.2%	$3,666	$2,720	$1,820	$1,702
EQT Corp	EQT	0.82	1.15	Baa1	BBB	7.4%	8.9%	11.2%	NA	$1,425	$844	$1,266	NA
MDU Resources Group Inc	MDU	1.15	0.90	Baa1	BBB+	6.6%	7.1%	7.7%	7.6%	$443	$525	$600	$600
National Fuel Gas	NFG	0.83	1.06	Baa1	BBB	9.4%	9.7%	11.4%	11.9%	$456	$671	$681	$657
NiSource Inc	NI	0.86	0.69	WR	BBB-	5.0%	5.2%	5.1%	5.2%	$879	$800	$900	$891
ONEOK Inc	OKE	1.07	1.02	Baa2	BBB	10.6%	9.5%	10.1%	10.7%	$547	$1,038	$840	$740
Spectra Energy Corp	SE	0.91	0.97	-	BBB+	8.1%	9.5%	9.6%	8.8%	$1,231	$1,392	$1,313	$1,211
Questar Corp	STR	0.47	0.92	A3	A	12.8%	13.3%	13.5%	13.5%	$358	$342	$325	$309
Southern Union Co	SUG	0.96	0.97	Baa3	BBB-	6.3%	7.2%	7.9%	8.1%	$282	$270	$270	$270
Williams Cos	WMB	1.19	1.32	Baa3	BBB-	9.6%	9.3%	11.5%	12.5%	$4,273	$2,983	$2,940	$2,919
Average:		**0.92**	**0.98**			**8.7%**	**8.8%**	**9.6%**	**9.8%**	**$1,269**	**$1,122**	**$1,042**	**$968**
Median:		**0.93**	**0.97**			**8.1%**	**9.1%**	**9.9%**	**8.8%**	**$547**	**$800**	**$840**	**$699**

Source: Company data, Moody's, S&P, Morgan Stanley Research estimates

Exhibit 15
Diversified Natural Gas Group Other Metrics

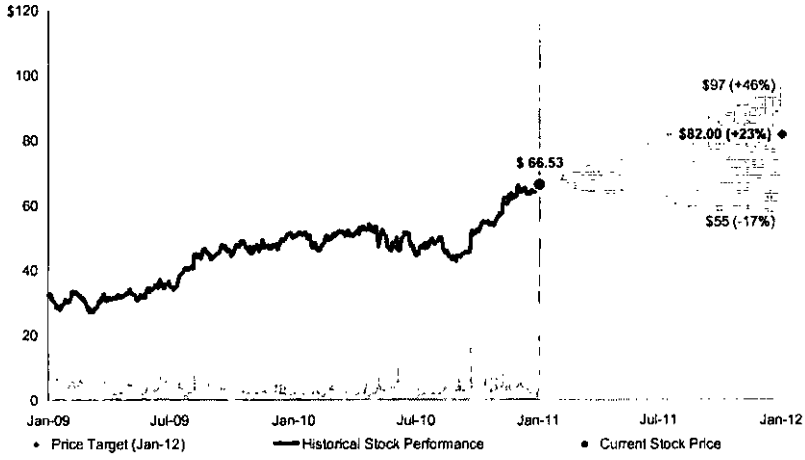
Company	Symbol	2011E Production Mmcfe	2011E Production Liquids	2011E Production Nat Gas	Production Growth y-o-y (%) 09	10E	11E	12E	2009 Proved reserves Mmcfe	Liquids	Nat Gas	PUDs	Reserve Life 07	08	09	Implied EV/mmcfe Reserves
Diversified Gas																
Energen Corp	EGN	–	–	–	*8.7%*	–	–	–	1,546,866	*35%*	*48%*	*17%*	17.8	15.5	13.9	–
EQT Corp	EQT	–	–	–	*15.8%*	–	–	–	4,068,155	*0%*	*51%*	*49%*	32.3	34.3	38.8	–
El Paso Corp	EP	292,118	*17%*	*83%*	*-6.7%*	*2.4%*	*2.4%*	*4.0%*	2,749,120	*8%*	*61%*	*30%*	9.1	7.8	9.9	$1.72
MDU Resources Group Inc	MDU	72,544	*31%*	*69%*	*-8.5%*	*-6.0%*	*2.5%*	*2.6%*	653,721	*25%*	*49%*	*26%*	9.2	9.8	8.7	$2.64
National Fuel Gas Co	NFG	69,966	*27%*	*73%*	*4.3%*	*16.8%*	*40.9%*	*25.9%*	699,847	*32%*	*42%*	*25%*	10.5	12.3	12.4	$5.56
Williams Cos	WMB	449,415	*5%*	*95%*	*8.1%*	*-3.5%*	*3.2%*	*4.5%*	4,255,000	*1%*	*55%*	*44%*	12.4	10.4	9.4	$0.81
Total:																
Average:		**221,011**	*20%*	*80%*	*3.6%*	*2%*	*12%*	*9%*	**2,328,785**	*17%*	*51%*	*32%*	**15.2**	**15.0**	**15.5**	**$2.68**
Median:		**182,331**	*22%*	*78%*	*6.2%*	*-1%*	*3%*	*4%*	**2,147,993**	*16%*	*50%*	*28%*	**11.4**	**11.4**	**11.1**	**$2.18**

Source: Company data, Morgan Stanley Research estimates. All estimates are those of Morgan Stanley Research except for Energen, EQT, and National Fuel Gas, which are FactSet consensus.

New Coverage

National Fuel Gas Co. (NFG, $67, Overweight, Price Target $82)

Risk-Reward View: Marcellus E&P and Midstream Heavyweight



Source: FactSet; Morgan Stanley Research

Price Target $82		Derived from an average of four methodologies (SotP, DCF, EV/EBITDA, and P/E). Long-term gas forecast of $5.50/mmbtu.
Bull Case $97	Same pipe/utility; Marcellus $7+k/acre	**Gas prices rebound; better-than-expected well economics.** Drilling efficiencies lower well costs and EURs come in higher than expected driving better than expected project returns. Gas prices recover modestly, which also benefit unhedged production
Base Case $82	9x '11e pipes EBITDA, 8x utility, Marcellus $5k/acre	**Marcellus provides growth.** NFG executes on its Marcellus production plans (+30%) and wells come online at expected rates. Californian production remains stable and midstream projects come online on time and on / below budget.
Bear Case $55	1 multiple down on pipes/utility, Marcellus $3k/acre	**Weak gas markets weigh on E&P.** Low natural gas prices weigh on production economics. Regional differentials narrow further, exacerbating midstream opportunities. Offset slightly by stable regulated utility business.

Sum-of-the-Parts Breakdown (see Appendix for details)

National Fuel Gas Company	Value ($ m)	$/Share
Exploration and Production	$5,735	$69
Pipeline & Storage	1,122	14
Utility	1,367	17
Energy Marketing & Other	38	0
Value per Share	**$8,262**	**$100**
Net Debt	(1,043)	(13)
Net Equity Value	**$7,219**	**$87**
Shares Outstanding (in mm)		83

Source: Morgan Stanley Research

Why Overweight?

- Expansive Marcellus footprint in the heart of the fairway with best-in-class production economics.
- Abundant midstream opportunities to serve the ramp-up in Marcellus production over the long term.
- Utility segment balances the business and provides stable and predictable earnings to pay the dividend.

Key Value Drivers

- Capital spend is allocated toward E&P and midstream infrastructure in the Marcellus region.
- Rate base growth and implementing diverse rate mechanisms (e.g., revenue decoupling) allow improved return on equity for utility.
- Maintaining consistent Californian production provides oil exposure to offset natural gas exposure.

Potential Catalysts

- Better-than-expected well results across its Marcellus acreage (e.g., improvements in EOG JV wells with longer laterals).
- Announcement of sale of Marcellus acreage in a new JV (allows acceleration of midstream opportunities); possibly 1Q11.
- Utility rate increases to allow higher return on equity.
- *1Q11 fiscal earnings released on February 3, 2011.*

Where We Could Be Wrong

- Marcellus acreage proves to be less prolific than initial expectations.
- Midstream opportunities fail to materialize given less Marcellus production.
- Natural gas prices remain muted/decline further depressing Marcellus economics.

A Burgeoning Marcellus Presence and Still Not Getting Full Credit

NFG: We see abundant opportunities for the company to capitalize on its Marcellus footprint. We expect NFG to outperform the diversified natural gas peers given its 1) substantial Marcellus acreage with best in-class production economics and aggressive fiscal 2011 (ends September) production plan, and 2) sizable midstream footprint to service increased Marcellus production from its own and third-party producers.

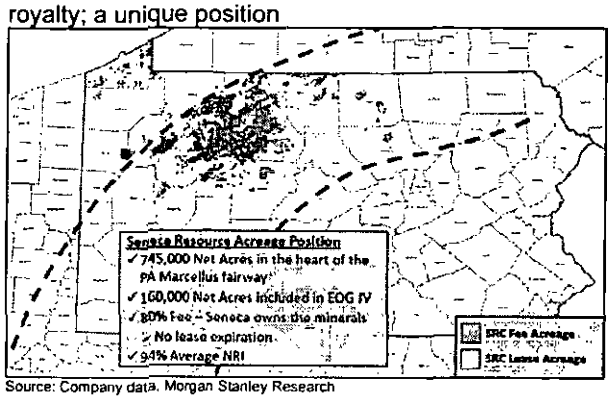
Our 12-month price target is $82, derived from a blended average of our SOTP, DCF, price/earnings, and EV/EBITDA methodologies.

Key Debate: Should NFG increase capital spend for Marcellus drilling in such a low natural gas price environment?

Market's view: Even if returns are strong in the current price environment, waiting for a rebound in gas prices before ramping up production would be prudent.

Our view: We agree that waiting for a rebound in gas prices would be ideal. However, there is no guarantee prices will significantly recover amid the current US gas supply outlook. Besides, NFG's Marcellus drilling program will benefit other business segments and its economics are best in class among other Marcellus E&P peers. We think a joint venture announcement in 1Q or 2Q11 will provide valuation support for its ~750k net acreage position and also provide ample funding for NFG to execute its drilling plan.

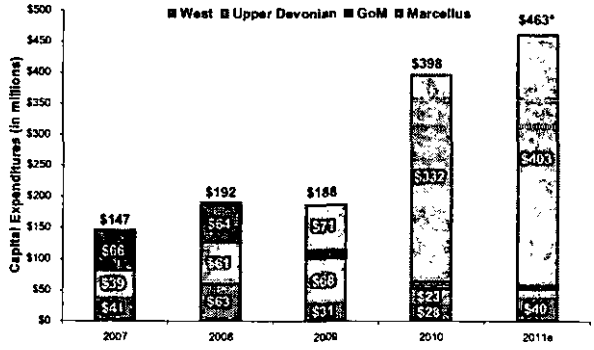
Exhibit 16
NFG's Marcellus Shale Acreage in Pennsylvania
Splitting the middle of the fairway; mostly fee and no royalty; a unique position



Source: Company data, Morgan Stanley Research

We see abundant long-term growth opportunities across multiple business segments tied to the Marcellus. NFG's expansive Marcellus acreage position (~745,000 net acres in the middle of the Marcellus fairway in Pennsylvania), ~80% fee structure with no lease expirations, and an average 94% net revenue interest make it one of the most attractive E&P plays in the Marcellus, in our view. Average initial production (IP) rates from NFG operated wells have been 6.6 MMcf/d, though some wells in Tioga and Lycoming counties are averaging ~8.5 MMcf/d. Additionally, the last four wells fracked within its JV with EOG have come on at an average of 8.2 MMcf/d. Given strong initial results, management plans to significantly ramp up Marcellus production in F2011 (it expects an increase of +275%), which we believe will create additional opportunities to expand the company's midstream operations to service the incremental volumes associated with a more robust drilling program.

Exhibit 17
E&P Capital Expenditures by Region
+85% of 2011 E&P spend is planned for Marcellus



Source: Company data, Morgan Stanley Research. Note * denotes midpoint guidance

Marcellus shale economics: a strategic positive in today's gas environment. NFG intends to invest modestly across its other E&P properties as a result of attractive Marcellus shale production economics. Assuming a $4.00/MMBtu NYMEX gas price, NFG's pre-tax IRRs range from 46% to 68% compared to a 30% IRR for competitor wells with a 15% royalty.

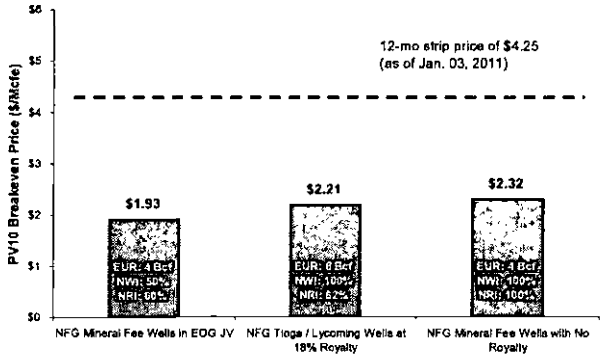
Exhibit 18
Marcellus Shale Pre-Tax IRR Comparisons
EOG JV wells offer the highest returns

Description	EUR	Well Cost ($MM)	Net Work Int	Net Rev Int	Pre-Tax IRR (NYMEX - $/MMBtu) $4.00	$5.00	$6.00
NFG Tioga County Wells at 18% Royalty	6 Bcf	$4.6	100%	82%	63%	100+%	100+%
NFG Mineral Fee Wells in EOG JV	4 Bcf	$4.0	50%	60%	68%	100+%	100+%
NFG Mineral Fee Wells - No Royalty	4 Bcf	$4.0	100%	100%	46%	75%	100+%
Competitor Well with 15% Royalty Rate	4 Bcf	$4.0	100%	85%	30%	51%	76%

Source: Company data, Morgan Stanley Research

Marcellus shale economics: low-cost gas supply and a joint venture partner can provide a boost. Breakeven pricing at PV10 for NFG's three main types of wells fall within the range of $1.93-2.32/Mcfe, which we believe positions NFG as one of the low-cost leaders in the area. This low cost source of natural gas coupled with proximity to high demand markets, provide opportunities for additional midstream infrastructure and remain of strategic importance for long-term value creation at NFG. At the end of F2010 (September 30), the exit rate for Marcellus net production totaled 53 MMcfe/d with a total 65 wells drilled.

Exhibit 19
Marcellus Breakeven Pricing at PV10
Some wells are profitable at ~$2 gas

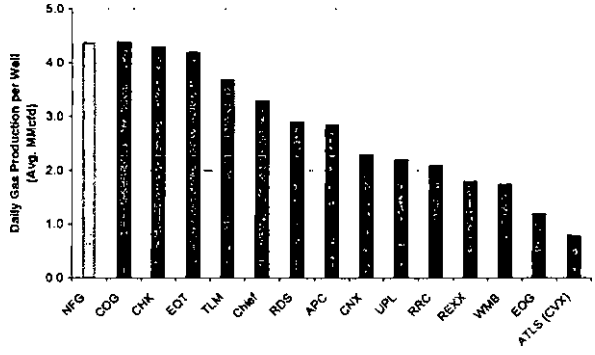


Source: Company data, Morgan Stanley Research estimates

NFG management is exploring joint venture opportunities across its Marcellus Shale acreage, and we believe this could be a positive catalyst for the stock. If NFG were to enter into a joint venture agreement, we believe it would be value enhancing to shareholders by shifting a significant portion of the early drilling costs of the Marcellus to a minority-interest partner while still allowing NFG to continue operating across most of its acreage.

We believe NFG's position in the Marcellus Shale provides a competitive advantage for a potential joint venture partner as a majority of the acreage carries no royalty payments, no lease expirations, and large, contiguous acreage blocks allow for operating- and cost-efficiency through multi-well pad drilling. We think NFG's acreage in the Marcellus is currently being valued at roughly $3,000/acre; a valuation marker from a partner at $5,000/acre or more has the potential to highlight an additional $20–25/share of value that is not being credited in NFG stock.

Exhibit 20
Marcellus (Pennsylvania) Average Daily Gas Production per Horizontal Well
NFG's E&P operations lead the pack



Source: NFG, Pennsylvania Department of Environmental Protection, Morgan Stanley

Key Debate: Are NFG midstream expansion projects adequate to offset challenges from unsold capacity in Empire?

Market's view: Near-term, midstream revenues will be impacted negatively because of unsold capacity. However project phase-ins will offset the declines.

Our view: We agree contract expirations and unsold capacity will weigh on results in 2011 and to a lesser extent 2012. We also believe announced projects will offset the declines.

Pipeline revenues may face headwinds in F2011, but project expansions will alleviate volume concerns. The emergence of the Marcellus shale has dramatically changed the regional pricing dynamics of natural gas. In NFG's case, a significant portion of its FERC regulated pipeline systems (67-70%) relied on gas from outside regions, primarily Western Canada, to serve its local markets. But the advent of Marcellus gas has caused regional price differentials to change. As a result, NFG plans to retrofit its system to be able to provide Marcellus gas with access to those outside market regions. Additionally, NFG has received some non-renewals on expiring contracts, potentially decreasing F2011 revenues by

approximately $4.5 million and F2012 revenues of $6.0 million. To offset this unsold capacity, NFG is undertaking its Northern Access project and Empire Connector expansion (Tioga County Extension). These projects will essentially afford the existing pipelines the ability to flow bi-directionally (allows NFG to appropriately serve demand depending on the basis differentials).

Exhibit 21

Pipeline & Storage/Midstream Expansion Projects

+$100m in growth projects to come online in 2H11

Project Name	Capacity (Dth/d)	Est. Capex (in $m)	In-Service Date
Lamont Phase II Project	50,000	$7	7/11
Line "N" Expansion	160,000	$23	9/11
Tioga County Extension	350,000	$46	9/11
Trout Run Gathering System	250,000	$27	Fall 2011
Northern Access Expansion	320,000	$60	Late 2012
Line "N" Phase II Expansion	195,000	$40	11/12
W2E Overbeck to Leidy	425,000	$260	2013

Source: Company data, Morgan Stanley Research estimates

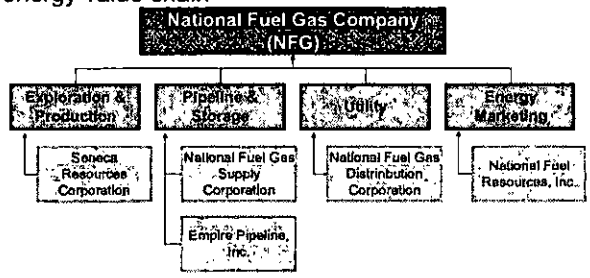
Marcellus opportunity: Midstream. NFG management expects to sell a significant percentage of NFG's Marcellus acreage, allowing the company to pursue a more aggressive drilling schedule. Management said it would take some of the proceeds from the sale, and invest in the necessary infrastructure (e.g., gathering pipelines) to provide takeaway capacity for the expected increase in production. We believe such a transaction would allow NFG to accelerate its midstream growth opportunities, further serving to offset the unsold capacity discussed earlier. Additionally, management forecasts revenue from project expansions to total approximately $0.2 million in F2011 and approximately $32.0 million in F2012. We believe the forecast project revenue in 2011 could be higher given earlier-than-expected project phase-ins following a partnership announcement.

Where we could be wrong: We have two main concerns which we believe could potentially have negative implications on our thesis. First, a JV deal does not materialize causing NFG to bear the brunt of upfront drilling costs. This also causes its Marcellus development plans (both production and midstream expansions) to decelerate, effectively prolonging value generation. Second, wells drilled within its JV with EOG (highest IRR wells) with bigger fracs fail to materially improve from smaller fracs (last four well completions using bigger fracs averaged 8.2 MMcf/d).

NFG Overview: A True Diversified Gas Co.

A diversified energy holding company with businesses spread across the energy value chain. NFG operates four main business segments: gas and oil exploration and production, interstate natural gas transportation and storage, a regulated utility, and an energy marketing business. The E&P business focuses in the areas of California, the Appalachian region, and the Gulf Coast region of Texas and Louisiana. The remaining business lines operate primarily in the Northeast markets.

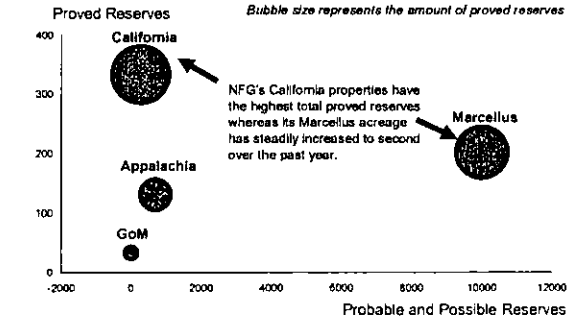
Exhibit 22
NFG Business Structure
Four operating segments broadly spread across the energy value chain



Source: Company data, Morgan Stanley Research

Exploration & Production (Seneca): Migrating capital spend to build a prominent Marcellus presence. NFG's E&P business operates across the U.S. in areas including California, Appalachia, and the Gulf Coast. Historically NFG focused mainly in the Gulf and West coast markets, but is now strategically focusing production towards the prolific Marcellus (87% of 2011e E&P capex will be allocated to Marcellus).

Exhibit 23
E&P Reserves
California constitutes the majority of NFG's proved reserves. Marcellus will get some action soon.

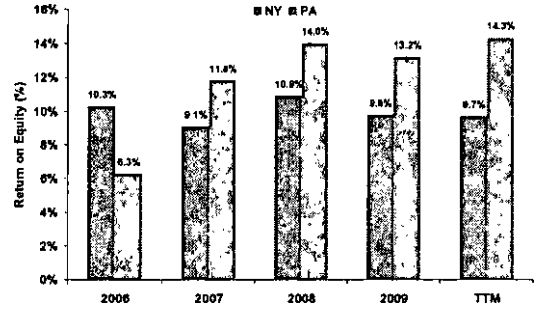


Source: Company data, Morgan Stanley Research estimates

The Pipeline and Storage (Supply Co. and Empire): Provides interstate natural gas transportation and storage services for customers. Supply Co.'s assets include an interstate natural gas pipeline system (extends from southwestern Pennsylvania to the border between New York and Canada at the Niagara river and eastward to Ellisburg and Leidy, Pennsylvania) and 31 underground natural gas storage fields (solely own and operate 27 fields and four fields owned and operated jointly with others). Empire consists of the Empire State Pipeline, which runs from an interconnection with TransCanada Pipeline near Buffalo, New York, and terminates near Syracuse, New York; and the Empire Connector, an extension that begins near Rochester, New York, and connects with Millennium pipeline in Corning, New York.

Utility (Distribution Co.): Sells natural gas and provides gas transportation services to customers. NFG's utility business services approximately 727,000 customers through its local distribution system in New York (Buffalo, Niagara Falls, and Jamestown) and Pennsylvania (Erie and Sharon). The utility provides predictable and stable earnings by operating a safe system, controlling costs, providing superior customer service, and being strong in the regulatory environment.

Exhibit 24
Utility Return on Equity (ROE)



Source: Company data, Morgan Stanley Research, TTM = trailing 12 months

The Energy and Marketing (NFR): Provide competitively supplied gas for its customers. The Energy and Marketing segment is the smallest business arm at NFG. NFR markets natural gas to industrial, wholesale, commercial, public authority and residential customers primarily in western and central New York and northwestern Pennsylvania.

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NFG: Valuation

Our 12-month price target is a blended average of four methodologies with a majority weight given to sum-of-the-parts (i.e., net asset value). We temper our valuation outlook by taking into consideration publicly-traded multiples for the stock.

- *Discounted cash flow (DCF) analysis: fair value of $68.* Our 10-year DCF uses a terminal growth rate of 1.0% and a WACC of 7.5%, derived using an equity risk premium of 4.0% and a risk-free rate of 4%.

- *Sum of the Parts (SOTP) analysis: fair value of $87.* Our methodology calculates the enterprise value of each reported segment (and subtracts net debt) to reach fair value. For the pipelines and storage, utility, and energy marketing segments, we apply multiples to 2011e EBITDA; for E&P, we run a PV10 analysis using Morgan Stanley's base case commodity price forecasts ($4.00/mcf 2011e gas, $5.50/mcf long-term gas / $100/bbl 2011e oil, $105/bbl long-term oil), applying our own assumptions for risked resource potential (Marcellus and other).

- *Price/earnings analysis: fair value* of $67. We derive our P/E multiple by looking at the historical trading range and average. We applied a 25.0x multiple to 2011e EPS (at the higher end of NFG's historical range).

- *EV/EBITDA analysis: fair value of $64.* We use a 9.0x multiple, in line with its historical average, and 2011e EBITDA to derive EV. We divide EV by period-end shares outstanding to get the EV on a per share basis, then subtract net debt.

Exhibit 25
NFG: Sum-of-the-Parts Calculation

National Fuel Gas Company	Value ($m)	Risked Pot'l (Bcfe)	Implied $/Mcfe	$/Share
Proved Reserves (PV10)	$1,669	700	$2.38	**$20**
Resource Potential				
Onshore US				
Marcellus	$3,492	8,330	$0.42	**$42**
Risked unproved inventory	$521	995	$0.52	**$6**
E&P Hedge Book	$53			**$1**
Midstream + Utilities + Other				
Pipeline & Storage	$1,122			**$14**
Utility	$1,367			**$17**
Energy Marketing	$25			**$0**
Other	$13			**$0**
Value per share				**$100**
Net Debt	$1,043			**$13**
Net Equity Value				**$87**
Shares Outstanding (in m)				82.7

Source: Company data, Morgan Stanley Research

Exhibit 26
NFG Price Target Methodology
75% weight given to SOTP given unique Marcellus pot'l

Target price derivation		Per share
Discounted cash flow model		**$68**
Price/Earnings		**$67**
EV/EBITDA		**$64**
Sum-of-the-Parts (per share)		
Proved Reserves (PV10)	20.2	
Resource Potential	48.5	
E&P Hedge Book	0.6	
Pipeline & Storage	13.6	
Utility	16.5	
Energy Marketing	0.3	
Other	0.2	
Net Debt	(12.6)	
Sum-of-the-Parts Total		**$87**
Price target:		**$82**

Source: Company data, Morgan Stanley Research estimates

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January 6, 2011
Diversified Natural Gas

Exhibit 27

NFG Model & Metrics Snapshot
National Fuel Gas Company

NFG
NFG.N
01/03/11

Current Price:	$66.74

Shares Outstanding: (m)	82.97
Market Capitalization: ($m)	$5,537.4
Enterprise Value: ($m)	$6,191.2

(In $m, except per share data)

Valuation & Multiples (at year-end)	2010	2011E	2012E	2013E
P/E	19.5x	24.6x	23.0x	20.8x
Operating EPS	$2.66	$2.65	$2.83	$3.13
Consensus EPS (FactSet)	$2.66	2.63	2.96	$3.47
Dividends / Share	$1.36	$1.40	$1.44	$1.48
Dividend Yield	*2.6%*	*2.1%*	*2.2%*	*2.3%*
EBITDA	$634	$699	$801	$891
EV / EBITDA	9.8x	8.9x	7.7x	6.9x

Trading History	1/3/2011
52-week High	$66.52
52-week Low	$42.83
% from High	*0%*
% from Low	*56%*
Average Daily Trading Volume - 6/mo	$26.2
Short Interest (m shares)	2.2
Short Interest Ratio (% of share issue)	*2.7%*

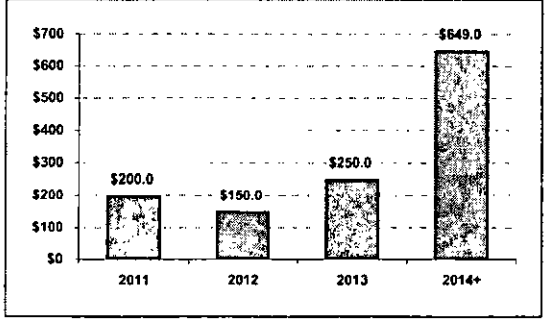
Free Cash flow & Capital Intensity	2010	2011E	2012E	2013E
EBIT + Equity Income	$442	$486	$560	$623
Adj. taxes (@ 33%)	($146)	($160)	($185)	($206)
NOPLAT	$296	$325	$375	$418
EBITDA	$634	$699	$801	$891
% change		*10%*	*15%*	*11%*
D&A	$192	$214	$241	$268
CAPEX	($456)	($671)	($681)	($657)
Change in NWC	($72)	$11	($8)	($1)
Unlevered FCF	($40)	($121)	($72)	$27

Summary Income Statement (at year-end)	2010	2011E	2012E	2013E
Revenues, net	$1,769	$1,841	$2,012	$2,173
Operating costs	($663)	($648)	($669)	($692)
G&A & Other costs	($473)	($494)	($542)	($590)
Depreciation	($192)	($214)	($241)	($268)
EBIT	$442	$486	$560	$623
EBITDA	$634	$699	$801	$891
Reported Net Income	$220	$220	$235	$260
Operating EPS	$2.66	$2.65	$2.83	$3.13

Leverage Details	2010	2011E	2012E	2013E
Debt				
Short-term	$200.0	$200.0	$380.5	$598.3
Long-term	$1,049	$1,149	$1,149	$1,299
Total debt	$1,249	$1,349	$1,529	$1,897
Leverage Ratio				
Net debt	$1,287	$1,627	$1,957	$2,209
EBITDA	$634	$699	$801	$891
Net debt / EBITDA	2.0x	2.3x	2.4x	2.5x

Summary Balance Sheet (at year-end)	2010	2011E	2012E	2013E
Cash	$395	$155	$5	$122
PPE, net	$3,450	$3,907	$4,347	$4,737
Other Assets	$1,260	$1,275	$1,297	$1,314
Total Assets	$5,106	$5,338	$5,650	$6,172
Curr. / LT Liabilities	$2,111	$2,139	$2,155	$2,173
ST + LT Debt	$1,249	$1,349	$1,529	$1,897
Shareholders Equity	$1,746	$1,850	$1,965	$2,102
Total Liabilities and SE	$5,106	$5,338	$5,650	$6,172
Net Debt	$1,287	$1,627	$1,957	$2,209
Book Capital	$2,360	$2,806	$3,254	$3,644
Net Debt / Book Capital	*54.5%*	*58.0%*	*60.2%*	*60.6%*

Debt Maturities & Other Obligations
(based on 2010 end of year investor day presentation)



Summary Statement of Cash Flows (at year-end)	2010	2011E	2012E	2013E
Net Income (GAAP)	$220	$220	$235	$260
Depr & Amort	$192	$214	$241	$268
Chg. in WC / Other	$48	$13	($6)	$1
C/F Operations	$460	$447	$470	$529
Capex	($456)	($671)	($681)	($657)
Other	$54	$0	$0	$0
C/F Investing	($402)	($671)	($681)	($657)
Change in Debt	$0	$100	$180	$368
Dividends	($110)	($116)	($119)	($123)
Change in Equity	$26	$0	$0	$0
Other	$13	$0	$0	$0
C/F Financing	($70)	($16)	$61	$245
Change in Cash	($13)	($240)	($150)	$117
Cash - end of year	$395	$155	$5	$122

Source: Company data, Morgan Stanley Research E = Morgan Stanley Research estimates

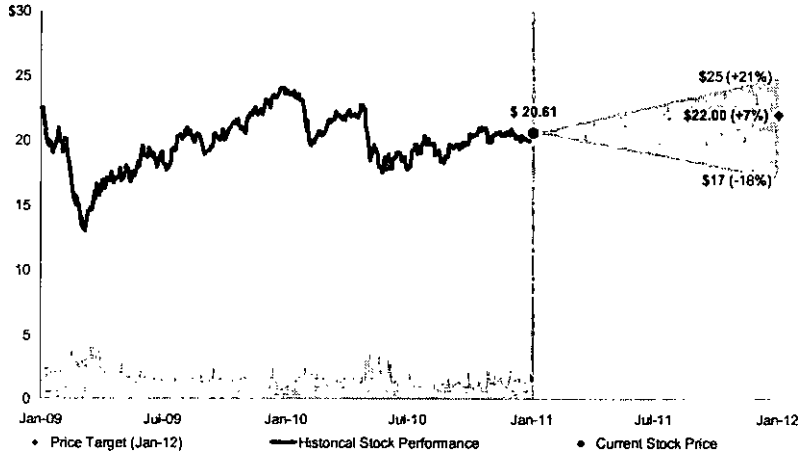
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January 6, 2011
Diversified Natural Gas

MDU Resources Group (MDU, $21, Equal-weight, Price Target $22)

Risk-Reward View: Bakken and Niobrara Are Essential to LT Growth



Source: FactSet; Morgan Stanley Research

Price Target $22		Derived from base case average of four valuation methodologies
Bull Case $25	9.0x utility EV/ '11e EBITDA, $2.50 EV / reserves	**Economy begins to recover.** Demand for commodities (natural gas and oil), construction materials, and construction services pick up fostering better than expected growth in the E&P and construction businesses. Additionally, initial results from Niobrara acreage prove fruitful.
Base Case $22	8.0x utility EV / '11e EBITDA, $2.00 EV / reserves	**Getting more 'oily.'** MDU focuses more drilling in oil-rich shale (i.e., Bakken and Niobrara), with well results in-line with expectations. Construction businesses continue to face headwinds amidst a weak economy and regulated utilities perform continue to provide steady results.
Bear Case $17	6.5x utility EV / '11e EBITDA, $1.25 EV / reserves	**Commodity markets and economy falter.** Lackluster economic recovery weighs on commodity markets, curtailing attractiveness of low-cost shale reserves. Cyclical businesses are a drag on earnings, and rate increases at its regulated utilities prove harder to achieve.

Sum-of-the-Parts Breakdown (see Appendix for details)

MDU Resources Group, Inc.	Value ($ m)	$/Share
Exploration and Production	$1,785	$9
Pipeline & Energy Services	814	4
Electric & Gas Utilities	1,564	8
Construction & Other	1,097	6
Value per Share	**$5,261**	**$28**
Net Debt	(1,341)	(7)
Net Equity Value	**$3,919**	**$21**
Shares Outstanding (in mm)		188

Source: Morgan Stanley Research

Why Equal-weight?

- Substantial portion of E&P revenues derived from natural gas prices, offset slightly by growing oil exposure.
- Construction Materials & Contracting and Construction Services segments levered to broader economy.
- Regulated electric and gas utilities and pipeline businesses offer stable returns.

Key Value Drivers

- Diversifying E&P portfolio to provide a more balanced oil and gas mix (e.g., increased oil production from Bakken and Niobrara).
- Selection for public and private construction projects increases demand for construction materials which supports growth.
- Providing reliable and cost-efficient power allows regulated businesses to earn allowable rate of return.

Potential Catalysts

- Better then expected E&P well results (e.g., announcements in Heart River formation in the Bakken and initial results from Niobrara acreage).
- A pick-up in the US economy drives demand for construction businesses and project announcements.
- Utility rate case increases (currently two outstanding electric rate cases).
- *4Q10 earnings release February 3, 2011 / Analyst Day March 17, 2011 in New York City.*

Where We Could Be Wrong

- Natural gas prices remain muted for an extended period.
- US economy fails to rebound proving to be a drag on the construction businesses.
- E&P acreage proves to be less than optimal.

Diverse Businesses, but Lack of Clarity Leaves Us Equal-weight

MDU: We expect the stock to perform in line with its diversified gas peers given 1) leverage to natural gas prices, offset slightly by transitioning to more "oily" production, and 2) uncertainty surrounding potential growth within its construction businesses (~1/3 of MDU's total EBITDA). Longer term, we think MDU is poised to benefit substantially if we experience a pick-up in the economy and higher natural gas prices. However, we are Equal-weight on the shares until a recovery scenario is reflected in the fundamentals of its business segments.

Our 12-month price target is $22, derived from a blended average of our SOTP, DCF, price/earnings, and EV/EBITDA.

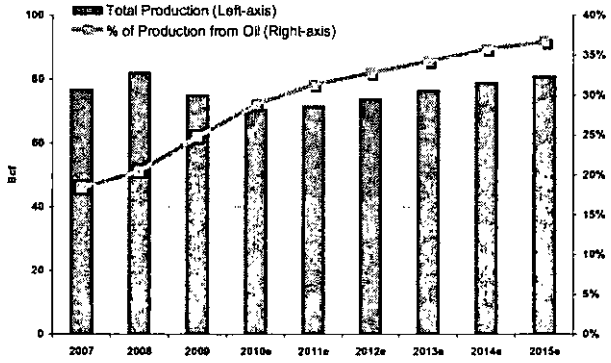
Key Debate: Will MDU's Bakken acreage provide enough oil production to bolster the E&P segment in the current gas environment?

Market's view: MDU is ramping up production in the Bakken very rapidly. However, gas revenues still constitute over 70% of E&P revenues.

Our view: We agree, but MDU has opportunities in the Niobrara, from acreage acquired earlier in the year. MDU expects to begin drilling in 2011, bolstering its liquids production.

Pursuing more 'oily' production. In today's current low gas price and elevated crude price environments, we look for E&Ps with oil exposure to outperform those predominantly levered to natural gas. In 2010, oil represented ~28% of MDU's total production, driven primarily from its Bakken acreage. Management indicated plans to increase investment in oil assets in order to increase the ratio of crude production relative to natural gas. MDU has taken steps towards diversifying its production profile as evidenced by its Bakken Heart River project and its recent acquisition of Niobrara acreage. However, until we learn the possible resource potential of the acquired Niobrara acreage, we believe oil production will remain at 30-35% of total production. MDU plans to drill its first test wells in 2011. We therefore remain on the sideline, and see drilling results announcements as potential catalysts for the stock.

Exhibit 28
MDU Actual and MS Forecasted Production
Oil will continue to contribute more to total production



Source: Company data, Morgan Stanley Research estimates

A paradigm shift in E&P: Bakken will be a key driver. Historically natural gas production has been the primary growth driver for MDU's E&P business. However the company has began transitioning towards more "oily" production, more notably the Bakken, to stabilize performance. Year-to-date, Bakken production has increased 44% and MDU's operated and non-operated Bakken wells produce roughly 3,700 net barrels per day. The company recently acquired an additional 10,000 acres in the Heart River area of the play (focusing primarily in the Three-Forks formation), bringing total Bakken acreage to more than 67,000 acres. MDU began drilling its first well in the Heart River in early October, and estimates potential reserves to have gross EURs (expected ultimate recovery) of 250-500 MBOE. In the East Nesson area, MDU owns 16,000 net acres held by production (currently producing) and also participates in non-operated wells. It expects potential reserves in this area to total 250-400 MBOE per well.

Exhibit 29
MDU Commodity Price Hedges
Gas hedges appear a little light

NATURAL GAS & OIL HEDGES	
Natural Gas	**15%-20%**
Weighted average swap price	$6.14
Weighted average collar floor/ceiling	$5.92 / $6.50
Oil	**45%-50%**
Weighted average swap price	$81.35
Weighted average collar floor/ceiling	$78.86 / $90.64

Source: Company data, Morgan Stanley Research

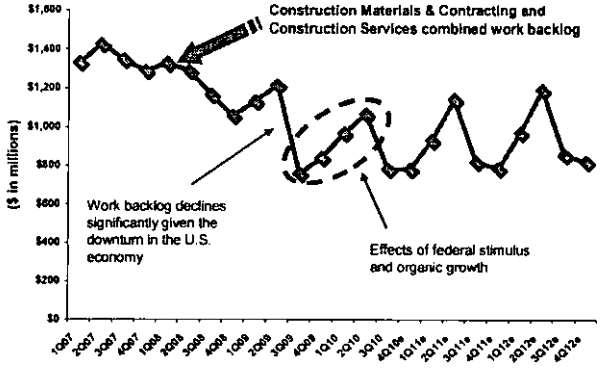
Key Debate: Will the Construction Services and Construction Materials and Contracting segments weigh on near-term growth?

Market's view: These segments are highly cyclical and need a pickup in the economy to spur growth.

Our view: We agree improvements in these segments are levered to an improving economy. However, we believe near-term growth is possible for MDU.

Construction businesses should hold up in 2011. Cost containment efforts, potential federal transportation stimulus spend, and the possible extension of the SAFETEA-LU transportation bill (provided $48 billion a year over the past six years in transportation projects), should help support MDU's construction segments in 2011 (Management expects to receive stimulus funds in the range of $2.6-2.8 billion in 2011). With work backlogs of $464 million and $317 million in the construction materials & contracting and construction services segments, respectively, we believe MDU is favorably positioned in the event of no incremental federal stimulus. Additionally, MDU has indentified potential growth opportunities including work on the Fort Hood, Texas Army Base, Long Beach Harbor, and Hawaii Light Rail projects, which could serve as an added bonus to near-term growth.

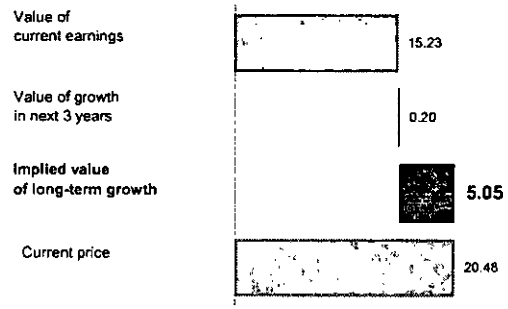
Exhibit 30
MDU Construction Businesses' Work Backlogs
We expect choppiness in the near-term, but stay around $800m with organic growth and federal stimulus



Source: Company data, Morgan Stanley Research estimates

Exhibit 31
What's in the Price?
The current price implies virtually no near-term growth

The current price implies that the market is attributing 25.0% of the current value to growth post-2012



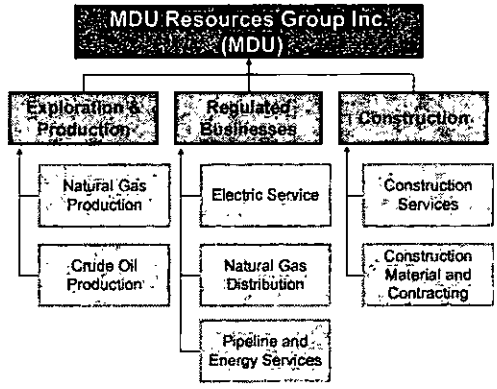
Source: Company data, Morgan Stanley Research estimates

Markets underestimate MDU's near term growth. According to Morgan Stanley's proprietary "What's in the Price" analyzer, the market is attributing essentially 0% growth over the next three years in MDU shares. While we do believe the construction businesses will face cyclical headwinds in 2011 driven by a lackluster economy, we also believe the market is overestimating the segments' leverage to an economic recovery. Additionally, we believe the market is underestimating growth within the E&P and utilities segments (recent electric rate case increase of $2.7 million in Wyoming and an interim electric rate increase of $7.6 million in North Dakota).

MDU Overview: A Little Bit of Everything

A balanced trio of E&P, Regulated Utilities and Pipelines, and Construction: MDU Resources Inc. is an energy holding company whose subsidiaries operate in three main business areas: E&P, Regulated Electric and Gas Utilities, and Construction. These core assets essentially equally contributed to 2010 earnings (one-third for each segment), displaying MDU's balanced approach.

Exhibit 32
MDU Business Structure
A balanced and diverse mix of assets

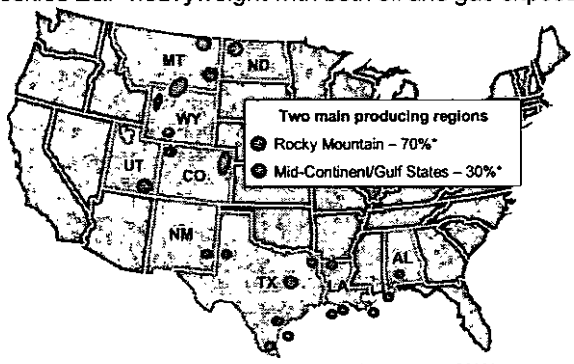


Source: Company data, Morgan Stanley Research

MDU E&P (Fidelity): A mix of crude oil and natural gas resources. MDU's E&P operations are focused primarily in the Rocky Mountains and Mid-Continent/Gulf States. In the Rockies, its properties are located in Colorado, Montana, North Dakota, Utah, and Wyoming. The Mid-Continent and Gulf States regions include properties in Alabama, Louisiana, New Mexico, Texas, and shallow water Gulf of Mexico. Recently, MDU production has begun to shift towards oil given the economics of crude production versus natural gas.

In 2008, 20.5% of production came from crude oil; in 2009, 24.8%; and in 2011, we forecast 31%. Longer term we expect the ratio of crude relative to gas to continue increasing given MDU's exposure to the Bakken and Niobrara.

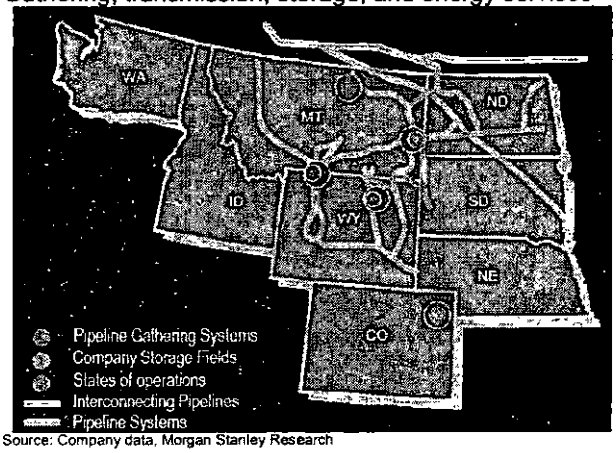
Exhibit 33
Natural Gas & Oil Production Map
Rockies E&P heavyweight with both oil and gas exposure



Source: Company data, Morgan Stanley Research. Note * Percentage of 2009 reserves

Pipeline & Energy Services (WBI Holdings): Transmission, Gathering and Storage. The regulated business owns and operates 3,700 miles of transportation, gathering and storage lines and operates 33 compressor stations in Montana, North and South Dakota, and Wyoming for LDCs (local distribution companies), producers, marketers and others. The unregulated pipeline business (Bitter Creek) owns and operates gathering pipeline in Colorado, Kansas, Montana and Wyoming and an interest in various offshore gathering pipelines. Bitter Creek also provides numerous energy-related services (e.g., water hauling, contract compression, measurement services, etc.). The energy services business provides gas purchase and sales services to LDCs, producers, other marketers and others by using gas produced by the E&P segment.

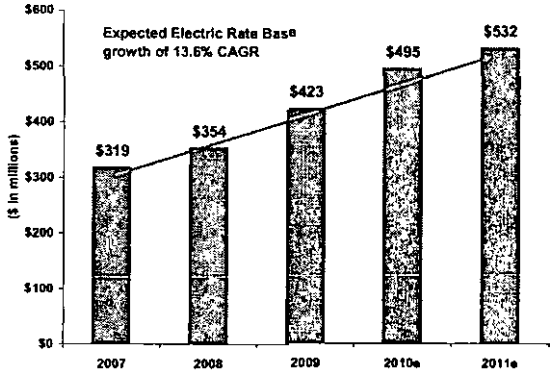
Exhibit 34
Pipeline & Energy Services Asset Map
Gathering, transmission, storage, and energy services



Source: Company data, Morgan Stanley Research

Electric Generation (Montana-Dakota): Provides electric service to retail, commercial, industrial and municipal customers. Montana-Dakota owns interests in nine electric generating facilities with approximately 3,000 and 4,600 miles of transmission and distribution lines, respectively. Montana-Dakota participates in the Midwest ISO (a regional transmission organization responsible for operational control of the transmission systems of its members) wholesale energy and ancillary services market. As a result of membership, Montana-Dakota's generation is sold into and purchases its energy needs from the MISO energy market. As of the end of 2009, MDU net electric plant investment totaled $514.5 million.

Exhibit 35
Projected Electric Rate Base
Rate base is expected to grow 7.5% in 2011

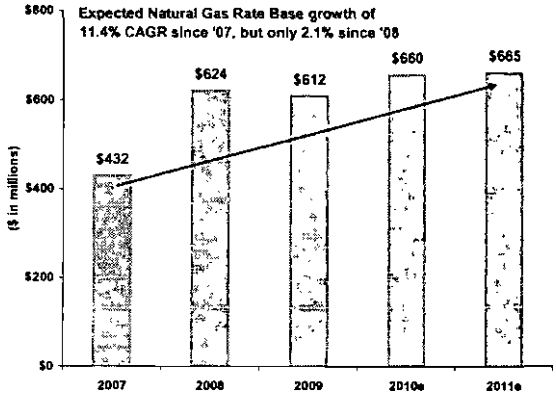


Source: Company data, Morgan Stanley Research estimates

Natural Gas Distribution (Montana-Dakota, Great Plains, Cascade, and Intermountain): Servicing customers across eight states. The Natural Gas Distribution subsidiaries sell natural gas to retail, commercial and industrial customers in Idaho, Minnesota, Montana, North Dakota, Oregon, South Dakota, Washington, and Wyoming. They also provide natural gas transportation services to some customers on their systems (totaling approximately 17,000 miles). As of the end of 2009, the natural gas distribution segment net plant investment totaled $909.9 million.

Construction Materials and Contracting (Knife River): A highly cyclical business. Knife River mines, processes and sells construction aggregates (crushed stone, sand and gravel), produces and sells asphalt mix and liquid asphalt for road construction, and supply ready-mixed concrete for use in most types of construction. Sometimes this segment sells cement and other finished concrete products.

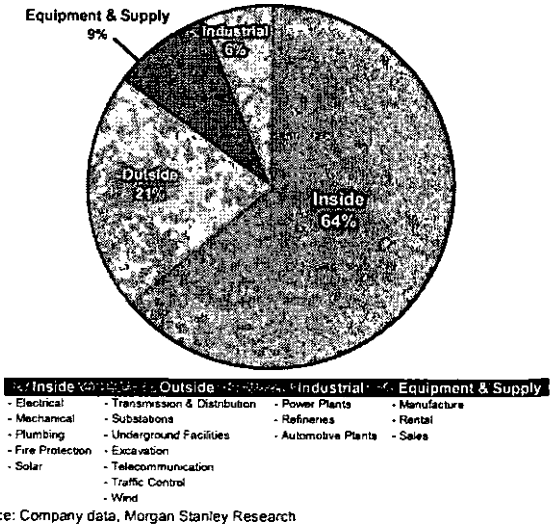
Exhibit 36
Projected Natural Gas Rate Base
Rate base expected to be relatively flat in 2011



Source: Company data, Morgan Stanley Research estimates

Construction Services (MDU Construction Services): Services utilities, large manufacturing, commercial, industrial, institutional and government customers. MDU Construction Services segment constructs and maintains electric and communication lines, gas pipelines, and other sophisticated systems. Additionally, the segment also provides utility excavation, electrical wiring, cabling, and mechanical services, sells and distributes electrical materials, and manufactures and sells specialty equipment.

Exhibit 37
Construction Services Revenue Diversity
Vast majority comes from inside services



Source: Company data, Morgan Stanley Research

MDU: Valuation

Our 12-month price target is a blended average of:

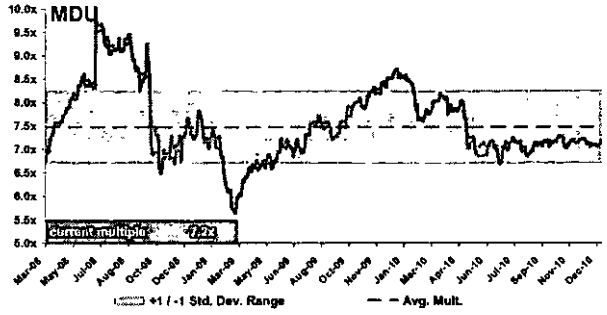
- *DCF: fair value of $22.* Our DCF uses a terminal growth rate of 1% and a WACC of 7.5%, derived using an equity risk premium of 4% and a risk-free rate of 4%.

- *SOTP analysis: fair value of $21.* In our methodology, we calculate the enterprise value for the E&P segment by running a PV10 analysis for proved reserves and risked resource potential. For other reported segments, we apply a multiple on 2011e EBITDA.

- *Price/earnings: fair value of $21.* We derive our P/E multiple by looking at the historical trading range, average trading range, and relative peer trading ranges. We applied a 15.0x multiple to 2011e EPS.

- *EV/EBITDA: fair value of $24.* We use a 7.0x multiple, in line with its historical average, and 2011e EBITDA to derive EV. We divide EV by period-end shares outstanding to get the EV on a per share basis, then subtract net debt.

Exhibit 38
MDU: Historical EV/EBITDA
Multiple suffered during economic downturn given construction business exposure



Source: Company data, Morgan Stanley Research

Exhibit 39
MDU Price Target Methodology

Target price derivation		Per share
Discounted cash flow model		**$22**
Price/Earnings		**$21**
EV/EBITDA		**$24**
Sum-of-the-Parts (per share)		
Proved Reserves (PV10)	7.3	
Resource Potential	2.0	
E&P Hedge Book	0.2	
Pipeline & Energy Services	4.3	
Electric Utility	3.1	
Gas Utility	5.2	
Construction Materials & Contracti	4.5	
Construction Services	1.3	
Other	0.0	
Net Debt	(7.1)	
Sum-of-the-Parts Total		**$21**
Price target:		**$22**

Source: Company data, Morgan Stanley Research estimates

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Exhibit 40

MDU Model & Metrics Snapshot

MDU Resources Group, Inc.

MDU
MDU.N
01/03/11

Current Price:	$20.60

Shares Outstanding: (m)	188.34
Market Capitalization: ($m)	$3,879.0
Enterprise Value: ($m)	$5,189.4

(In $m, except per share data)

Valuation & Multiples (at year-end)	2009	2010E	2011E	2012E
P/E	8.8x	15.9x	14.7x	12.4x
Operating EPS	$2.67	$1.27	$1.38	$1.62
Consensus EPS (FactSet)	$2.67	1.24	1.42	$1.53
Dividends / Share	$0.62	$0.64	$0.68	$0.68
Dividend Yield	*2.6%*	*3.1%*	*3.2%*	*3.3%*
EBITDA	$806	$773	$833	$921
EV / EBITDA	6.4x	6.7x	6.2x	5.6x

Trading History	1/3/2011
52-week High	$24.20
52-week Low	$17.11
% from High	*-15%*
% from Low	*20%*
Average Daily Trading Volume - 6/mo	$13.0
Short interest (m shares)	1.5
Short Interest Ratio (% of share issue)	*0.8%*

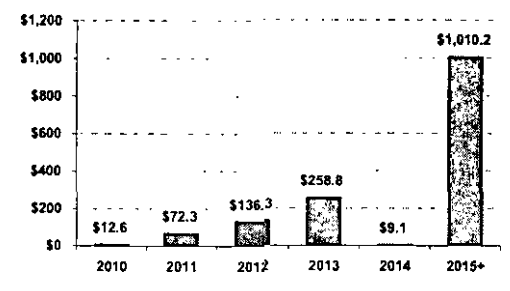
Free Cash flow & Capital Intensity	2009	2010E	2011E	2012E
EBIT + Equity Income	$475	$443	$483	$556
Adj. taxes (@ 33%)	($157)	($146)	($159)	($183)
NOPLAT	$319	$297	$323	$372
EBITDA	$806	$773	$833	$921
% change		*-4%*	*8%*	*11%*
D&A	$331	$330	$350	$365
CAPEX	($455)	($550)	($525)	($600)
Change in NWC	$197	($14)	($4)	($24)
Unlevered FCF	$391	$63	$144	$114

Summary Income Statement (at year-end)	2009	2010E	2011E	2012E
Revenues, net	$4,177	$3,874	$3,907	$4,160
Operating costs	($805)	($678)	($705)	($748)
G&A & Other costs	($2,574)	($2,432)	($2,380)	($2,502)
Depreciation	($331)	($330)	($350)	($365)
Equity Income	$8	$9	$10	$10
EBIT	$475	$443	$483	$556
EBITDA	$806	$773	$833	$921
Reported Net Income	($123)	$223	$260	$306
Operating EPS	$2.67	$1.27	$1.38	$1.62

Leverage Details	2009	2010E	2011E	2012E
Debt				
Short-term	$22.9	$78.1	$78.1	$138.9
Long-term	$1,487	$1,437	$1,437	$1,437
Total debt	$1,510	$1,515	$1,515	$1,576
Leverage Ratio				
Net debt	$1,201	$1,251	$1,295	$1,375
EBITDA	$806	$773	$833	$921
Net debt / EBITDA	1.5x	1.6x	1.6x	1.5x

Summary Balance Sheet (at year-end)	2009	2010E	2011E	2012E
Cash	$175	$127	$83	$63
PPE, net	$3,894	$4,125	$4,300	$4,535
Other Assets	$1,922	$1,975	$1,990	$2,040
Total Assets	$5,991	$6,228	$6,373	$6,638
Curr. / LT Liabilities	$1,925	$2,025	$2,034	$2,059
ST + LT Debt	$1,510	$1,515	$1,515	$1,576
Shareholders Equity	$2,557	$2,688	$2,824	$3,002
Total Liabilities and SE	$5,991	$6,228	$6,373	$6,638
Net Debt	$1,201	$1,251	$1,295	$1,375
Book Capital	$4,231	$4,426	$4,606	$4,866
Net Debt / Book Capital	*28.4%*	*28.3%*	*28.1%*	*28.3%*

Debt Maturities & Other Obligations
(based on 2009 10-K)

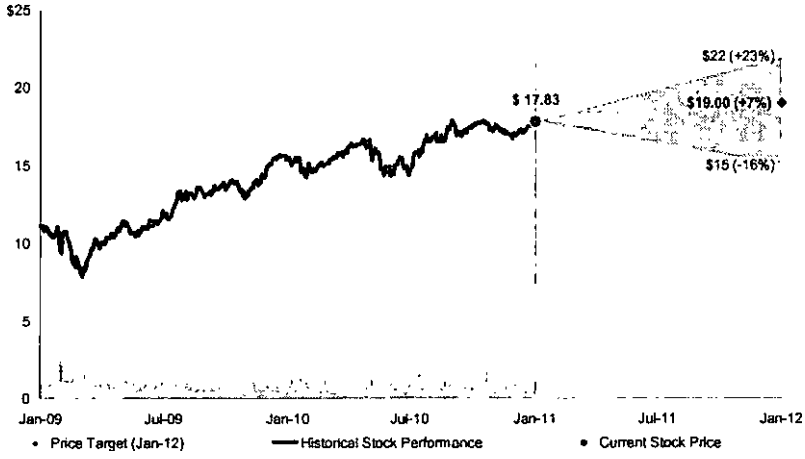


Summary Statement of Cash Flows (at year-end)	2009	2010E	2011E	2012E
Net Income (GAAP)	($123)	$223	$260	$306
Depr & Amort	$331	$330	$350	$365
Chg. In WC / Other	$639	$43	($5)	($24)
C/F Operations	$847	$596	$605	$647
Capex	($455)	($550)	($525)	($600)
Other	$23	$18	$0	$0
C/F Investing	($432)	($532)	($525)	($600)
Change in Debt	($243)	$5	$0	$61
Dividends	($115)	($120)	($124)	($128)
Change in Equity	$65	$3	$0	$0
Other	$1	$1	$0	$0
C/F Financing	($292)	($112)	($124)	($67)
Change in Cash	$123	($48)	($44)	($20)
Cash - end of year	$175	$127	$83	$63

Source: Company data, Morgan Stanley Research E = Morgan Stanley Research estimates

NiSource (NI, $18, Equal-weight, Price Target $19)

Risk-Reward View: Marcellus Midstream and Regulated Utilities



Source: FactSet; Morgan Stanley Research

Price Target $19		Derived from base case average of four valuation methodologies
Bull Case $22	9.0x GT&S '11e EBITDA, 8.0x Electric EBITDA	**Increasing Marcellus market share, and utilities outperform.** NI gains larger market share than its anticipated 25% from new production, fostering additional capital spend in the GT&S segment. Regulated utilities restore earnings power sooner than expected and earn ROEs at allowable rates.
Base Case $19	8.0x GT&S '11e EBITDA, 7.0x Electric EBITDA	**Executing on Marcellus opportunities with a modest recovery in utility segments.** NI places targeted $200m of Marcellus growth projects on budget and on-time. Industrial electric generation deliveries continue to stabilize/slightly recover, coupled with fair rate case outcomes.
Bear Case $15	7.0x GT&S '11e EBITDA, 6.0x 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. Utility rate case outcomes prove unfavorable.

Sum-of-the-Parts Breakdown (see Appendix for details)

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$5,531	$20
Gas Transmission & Storage	4,818	17
Electric Utility	2,760	10
Value per Share	**$13,109**	**$47**
Net Debt	(7,405)	(26)
Net Equity Value	**$5,704**	**$20**
Shares Outstanding (in mm)		280

Source: Morgan Stanley Research

Why Equal-weight?

- Near-term headwinds associated with restoring earnings power at regulated utilities segments (e.g. successful rate case outcomes and earning ROEs that are closer to the allowable rate).
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus provide exceptional long-term value.
- Expect earnings uplift from recovery in business units to pick up in 2012.

Key Value Drivers

- Executing Marcellus midstream projects on time and below budget (targeting $200m of projects per year over the next 3-4 years).
- Execution on its regulatory agenda (e.g., filing rate cases, operational improvement, implementing trackers / cost recovery mechanisms).
- Stable and predictable dividend.

Potential Catalysts

- Updates related to rate cases (e.g., NI filed second electric rate case at the end of November).
- Announcement of additional Marcellus project or acquisition beyond those included in guidance (e.g., Renovo to Corning expansion).
- *NI plans to report 4Q10 earnings on January 25, 2011.*

Where We Could Be Wrong

- Regulatory risks associated with Marcellus drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

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Marcellus Opportunities Abound, but Utilities Are Area of Concern

NI: A stock with longer-term upside potential; however, a low likelihood of significant near-term earnings surprises leaves us on the sidelines. We expect NI to face near-term headwinds related to its utility segments, more specifically the electric utility. However, longer-term Marcellus midstream opportunities and restoring the earnings power at the utilities bode well for the stock.

Our 12-month price target is $19, derived from a blended average of our SOTP, DCF, price/earnings, and EV/EBITDA.

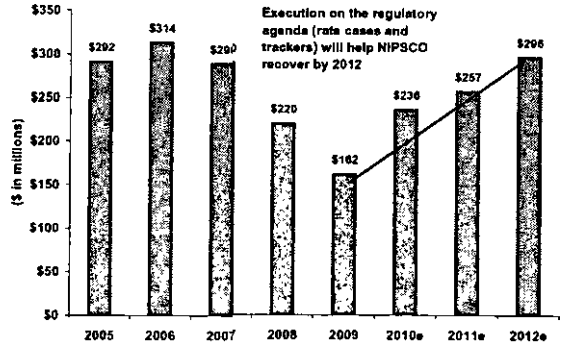
Key Debate: Will NI be able to restore the earnings power of its electric utility (NIPSCO Electric)?

Market's view: NIPSCO Electric earnings should increase modestly in 2011, but still underperform relative to other electric utilities.

Our view: We agree NIPSCO Electric will face near-term headwinds that will adversely affect performance. However, we expect a significant recovery of earnings power in 2012.

Restoring the earnings power to the electric utility will be a long process, in our view. However, we believe management is more than capable of delivering. Management has already initiated the necessary steps (executing on its regulatory agenda, strengthening stakeholder relationships, ongoing operational improvement, and longer term through environmental investment opportunities) toward achieving sustainable earnings in a transparent and straight-forward manner. As a base case we see returns of 11–12% in this segment.

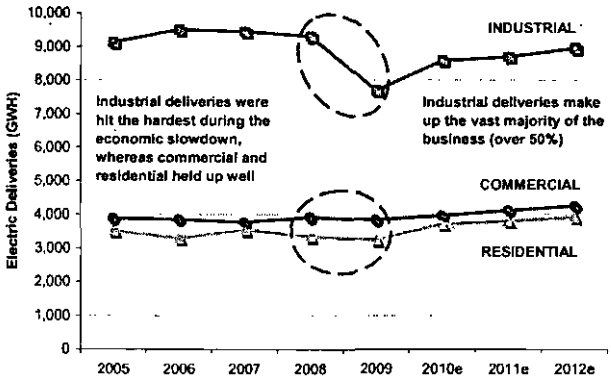
Exhibit 41
Electric Utility Operating Earnings
Bottomed out in 2009 and fully recovering in 2012



Source: Company data, Morgan Stanley Research estimates

Getting aggressive about opportunities to restore earnings. On the regulatory front, NI filed a new electric rate case in mid-November, seeking to increase residential, commercial and industrial rates by approximately 8% per month (this increase would be less than the amount authorized in NI's 2008 rate case order received in August for residential customers). NI is attempting to expedite the review procedure so it can implement the new rates in 2011, which we think would be a positive catalyst for the stock. Additionally, NI can generate all of its internal electric needs with the recent acquisition of the Sugar Creek facility and identified +$600 million of potential environmental investments to where NI will be able to earn a return on its investment in ~11 months using its tracker.

Exhibit 42
NIPSCO Electric Deliveries (GWH)
Residential and commercial loads held up well during the economic downturn, unlike the industrial load



Source: Company data, Morgan Stanley Research estimates

NIPSCO is highly levered to industrial electric demand. A key arbiter of returns in its electric utility segment is overall electricity demand, more specifically northern Indiana for NIPSCO. Over 50% of its total deliveries are derived from the industrial load, which was impacted more during the economic downturn compared to the residential and commercial loads. If the economy remains muted for longer than expected, then returning the long-term earnings power of the utility segment could be delayed further. However, the markets NIPSCO serves have been improving slightly. We expect industrial deliveries to increase 2.1% in 2011 to 8,667 GWH from 8,486 GWH in 2010.

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Key Debate: How will Marcellus production affect the flow of natural gas on NI's gas transmission and storage segment (NGT&S)?

Market's view: NI has identified numerous growth opportunities in order to capture incremental Marcellus volumes. However, its Columbia Gulf system may face pressure given further potential widening of basis differentials.

Our view: We agree NI's Columbia Gas system is favorably positioned to benefit from Marcellus production, and on a near-term basis Columbia Gulf is fairly protected given its capacity firm basis contracts and customer diverse supply requirements.

Marcellus opportunity: A double-edged sword? We don't think so. NI has two main operating businesses in its gas transmission and storage segment: Columbia Gas, a diverse web-like system, which services Appalachia, and more importantly the Marcellus; and Columbia Gulf, which services the mid-Atlantic regions and Ohio. With the advent of the Marcellus, a myriad of opportunities have surfaced pertaining to Columbia Gas expansions. However, concerns related to potential deterioration of Columbia Gulf's value have also come to the forefront.

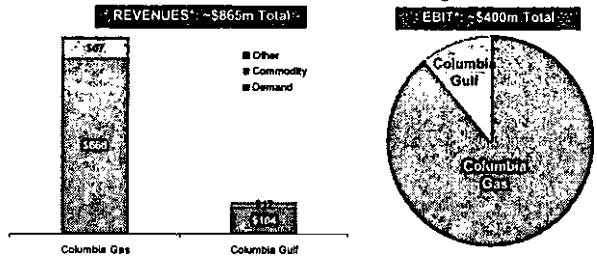
Columbia Gulf concerns are overdone, in our view. We believe these concerns to be overdone based on three key reasons.

⇒ First, over 85% of Columbia Gulf's revenues are contracted under "ship-or-pay" agreements with an average weighted contract length of approximately 4 years. To the extent that regional basis differentials widen, a small proportion of capacity would be affected.

⇒ Second, most public service commissions in the northeast require local distribution companies (LDCs) to source gas from multiple supplies in order to diversify its portfolio in case of sudden supply disruptions. Additionally, Columbia Gulf sources gas from numerous low cost shale plays such as the Barnett, Haynesville and Fayetteville.

⇒ Third, Columbia Gulf contributes less than 15% of total earnings to NGT&S, and after stripping out the firm portion of earnings, less than 2% of overall NGT&S earnings are derived from the commodity sensitive portion of Columbia Gulf.

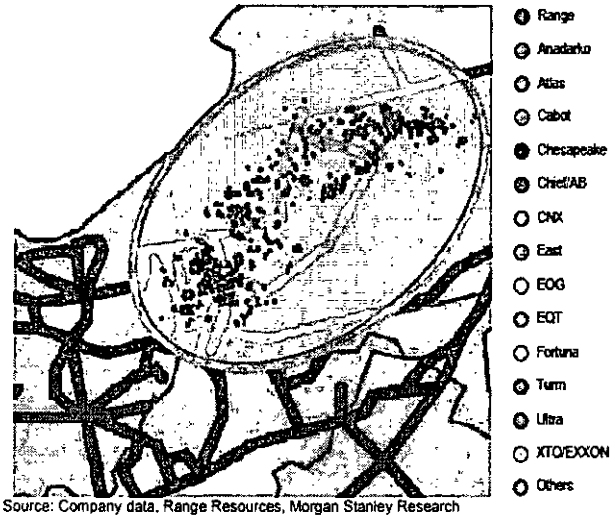
Exhibit 43
NGT&S Earnings Contributions
Columbia Gas contributes most to earnings



Source: Company data, Morgan Stanley Research. Note * based on 2009 results

Marcellus opportunity: Columbia Gas is ideally positioned. NI intends to use its existing Marcellus footprint to maximize value by "touching" production multiple times across the value chain (through leasing mineral rights, gathering, delivery to local markets and downstream transportation and storage). The bulk of capital spend over the next 3-4 years will be allocated toward expanding gathering systems and transportation systems related to moving gas from the tail-end of processing plants to market areas ($700-750 million through 2014). A smaller portion of capex, ~$200 million, will be used to expand storage capacity over a similar time frame.

Exhibit 44
New Permitted Marcellus Wells
Straddling existing NI pipeline systems



Source: Company data, Range Resources, Morgan Stanley Research

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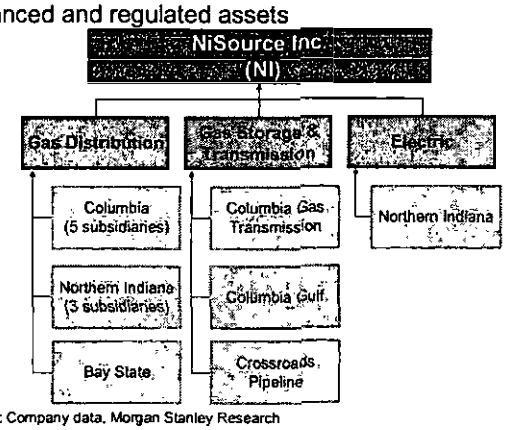
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NI Overview: A Regulated Business Model

Regulated infrastructure assets with investment-driven growth. NiSource Inc. is an energy holding company whose subsidiaries operate in three main business areas: Gas Distribution, Gas Transmission and Storage, and Electric operations. These core, rate-regulated assets generate essentially 100% of its operating income from rate-regulated businesses.

Exhibit 45
NI Business Structure
Balanced and regulated assets

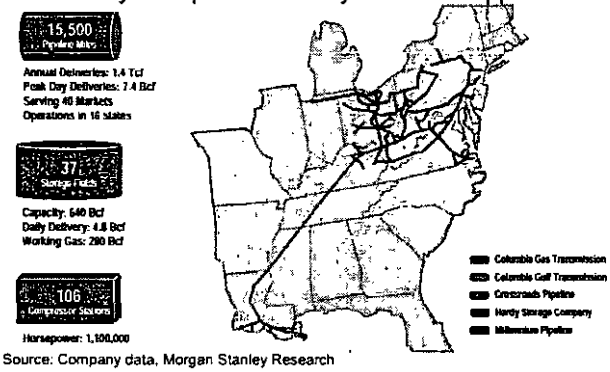


Source: Company data, Morgan Stanley Research

NiSource Gas Distribution segment: Delivering growth through long-term, low-risk infrastructure investments. The natural gas distribution segment serves more than 3.3 million residential, commercial, and industrial customers in the Northeast, Midwest and Mid-Atlantic US. NI plans to grow the segment through long-term, low-risk infrastructure investments synched with regulatory recovery mechanisms, de-risk earnings by lowering the volatility of bad debt expense, gas costs, regulatory lag and usage per customer declines. NI has identified a backlog of infrastructure replacement projects totaling $4.3 billion, with an annual range of spend of $190-250 million.

Gas Transmission and Storage segment: A strategic footprint in the Marcellus shale. NI owns and operates ~15 thousand miles of interstate pipeline (an expansive grid-like system) and one of the nation's largest underground natural gas storage systems with total capacity of 639 Bcf. Current operations and future growth projects are focused primarily on supporting increased Marcellus shale production, and also providing services to high demand market areas.

Exhibit 46
Gas Transmission and Storage Asset Map
Web-like system provides many Marcellus opportunities



Source: Company data, Morgan Stanley Research

Electric Generation and Distribution (NIPSCO) segment: Operations focused mainly in Northern Indiana. NI generates and distributes electricity to ~457 thousand industrial, commercial and residential customers in northern Indiana, and also engages in wholesale and transmission transactions. NIPSCO sells and delivers about 15,500 gigawatt hours of electricity from is generation fleet which consists of 3,300 megawatts of generation capability (78% is coal powered and the remainder by natural gas). Industrial load makes up the majority of deliveries (about 50%), followed by commercial and residential (about evenly split).

Exhibit 47
Gas Distribution Infrastructure Replacement Investments. An extensive long-term backlog of $4.35 billion

	OH	PA	MA	VA	KY	MD	Totals
Total Tracked Investment Opportunity	$1.8B	$1.7B	$400M	$150M	$200M	$100M	$4.35B
Annual Tracked Investment Range	$90-$110M	$65-$85M	$20-$30M	$5-$10M	$7-$10M	$4-$5M	$190-$250M
AMR* Investment Opportunity	$80M	$22M	Complete	$9M	$9M	Complete	$120M
Program Length (Years)	25	20	15	NA	30	20	--
Regulatory Treatment	Tracker	Rate Case	Tracker	Tracker	Tracker	Rate Case	--

Source: Company data, Morgan Stanley Research, *Automated Meter Reader

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NI: Valuation

Our 12-month price target is a blended average of:

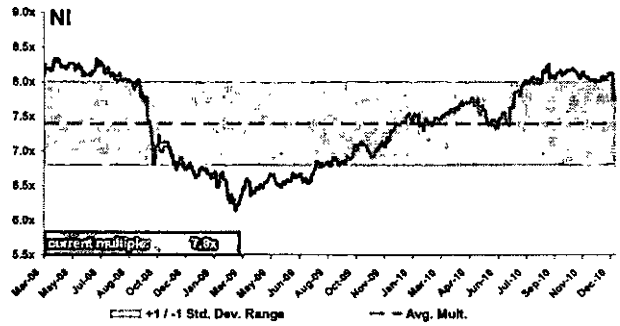
- *DCF analysis: fair value of $27.* Our DCF uses a terminal growth rate of 1% and a WACC of 5.7%, derived using an equity risk premium of 4% and a risk-free rate of 4%.

- *SOTP analysis: fair value of $20.* We calculate each segment as follows: We apply multiples on 2011e EBITDA for all business segments. We then subtract out net debt to arrive at fair value.

- *Price/earnings analysis: fair value of $16.* We derive our P/E multiple by looking at the historical trading range and average, and relative peers. We applied a 12.5x multiple to 2011e EPS.

- *EV/EBITDA analysis: fair value of $19.* We use a 8.0x multiple, which is in line with its historical average, and 2011e EBITDA to derive EV. We divide EV by period-end shares outstanding to get the EV on a per share basis, then subtract net debt.

Exhibit 48
NI: Historical EV/EBITDA



Source: Company data, Morgan Stanley Research

Exhibit 49
NI Price Target Methodology

Target price derivation		Per share
Discounted cash flow model		**$27**
Price/Earnings		**$16**
EV/EBITDA		**$19**
Sum-of-the-Parts (per share)		
Gas Distribution	19.8	
Gas Transmission & Storage	17.2	
Electric Utility	9.9	
Net Debt	(26.5)	
Sum-of-the-Parts Total		**$20**
Price target:		**$19**

Source: Company data, Morgan Stanley Research estimates

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Exhibit 50

NI Model & Metrics Snapshot

NiSource, Inc.

NI
NI.N
01/03/11

Current Price:	$17.81

Shares Outstanding: (m)	282.93
Market Capitalization: ($m)	$5,037.6
Enterprise Value: ($m)	$10,991.9

(In $m, except per share data)

Valuation & Multiples (at year-end)	2009	2010E	2011E	2012E
P/E	14.4x	14.6x	13.8x	13.5x
Operating EPS	$1.07	$1.21	$1.27	$1.31
Consensus EPS (FactSet)	$1.07	1.23	1.33	$1.43
Dividends / Share	$0.92	$0.92	$0.92	$0.92
Dividend Yield	*6.0%*	*5.2%*	*5.2%*	*5.2%*
EBITDA	$1,469	$1,525	$1,593	$1,630
EV / EBITDA	7.5x	7.2x	6.9x	6.7x

Trading History	1/3/2011
52-week High	$17.96
52-week Low	$14.13
% from High	*-1%*
% from Low	*26%*
Average Daily Trading Volume - 6/mo	$48.6
Short Interest (m shares)	5.2
Short Interest Ratio (% of share issue)	*1.8%*

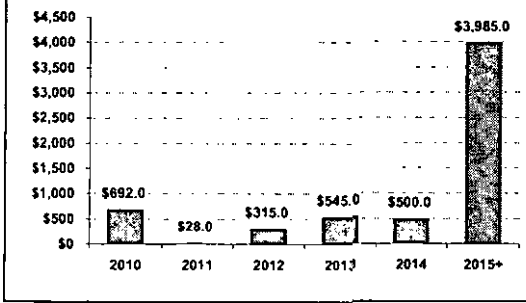
Free Cash flow & Capital Intensity	2009	2010E	2011E	2012E
EBIT + Equity Income	$879	$921	$1,000	$1,022
Adj. taxes (@ 35%)	($308)	($322)	($350)	($358)
NOPLAT	$571	$598	$650	$665
EBITDA	$1,469	$1,525	$1,593	$1,630
% change		*4%*	*4%*	*2%*
D&A	$589	$604	$593	$608
CAPEX	($777)	($879)	($800)	($900)
Change in NWC	$701	($444)	($107)	($34)
Unlevered FCF	$1,085	($120)	$336	$338

Summary Income Statement (at year-end)	2009	2010E	2011E	2012E
Revenues, net	$6,147	$5,913	$6,583	$6,863
Operating costs	($2,805)	($2,375)	($2,699)	($2,813)
G&A & Other costs	($1,889)	($2,028)	($2,305)	($2,434)
Depreciation	($589)	($604)	($593)	($608)
Equity Income	$16	$15	$14	$14
EBIT	$879	$921	$1,000	$1,022
EBITDA	$1,469	$1,525	$1,593	$1,630
Reported Net Income	$229	$356	$380	$398
Operating EPS	$1.07	$1.21	$1.27	$1.31

Leverage Details	2009	2010E	2011E	2012E
Debt				
Short-term	$822.3	$1,451.5	$1,451.5	$1,451.5
Long-term	$5,965	$5,964	$5,964	$5,964
Total debt	$6,787	$7,416	$7,416	$7,416
Leverage Ratio				
Net debt	$7,625	$8,022	$7,841	$7,805
EBITDA	$1,469	$1,525	$1,593	$1,630
Net debt / EBITDA	5.2x	5.3x	4.9x	4.8x

Summary Balance Sheet (at year-end)	2009	2010E	2011E	2012E
Cash	$16	$10	$191	$227
PPE, net	$10,684	$11,097	$11,304	$11,596
Other Assets	$8,571	$8,804	$8,965	$9,071
Total Assets	$19,272	$19,911	$20,460	$20,894
Curr. / LT Liabilities	$7,630	$7,452	$7,506	$7,577
ST + LT Debt	$6,787	$7,416	$7,416	$7,416
Shareholders Equity	$4,854	$5,043	$5,538	$5,901
Total Liabilities and SE	$19,272	$19,911	$20,460	$20,894
Net Debt	$7,625	$8,022	$7,841	$7,805
Book Capital	$12,472	$13,121	$13,435	$13,761
Net Debt / Book Capital	*61.1%*	*61.1%*	*58.4%*	*56.7%*

Debt Maturities & Other Obligations
(based on 2009 10-K and investor day presentation)



Summary Statement of Cash Flows (at year-end)	2009	2010E	2011E	2012E
Net Income (GAAP)	$218	$356	$380	$398
Depr & Amort	$589	$604	$593	$608
Chg. in WC / Other	$860	($371)	($107)	($34)
C/F Operations	$1,667	$589	$866	$971
Capex	($777)	($879)	($800)	($900)
Other	$122	($207)	$0	$0
C/F Investing	($655)	($1,086)	($800)	($900)
Change in Debt	($770)	$688	$135	$144
Dividends	($253)	($256)	($269)	($279)
Change in Equity	$8	$59	$250	$100
Other	$0	$0	$0	$0
C/F Financing	($1,016)	$491	$116	($35)
Change in Cash	($4)	($6)	$181	$36
Cash - end of year	$16	$10	$191	$227

Source: Company data, Morgan Stanley Research E = Morgan Stanley Research estimates

Appendix: Financial Statements and Valuation

National Fuel Gas Co.

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NiSource Resources Inc.

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Morgan Stanley

MORGAN STANLEY RESEARCH

January 6, 2011
Diversified Natural Gas

Exhibit 51

NFG Income Statement

(amounts in thousands except per share data)	2010	2011E	2012E	2013E	2014E
Operating Revenues					
Exploration & Production	438,027	526,898	675,914	808,761	863,591
Pipeline & Storage	218,882	227,819	252,793	287,066	299,856
Utility	819,791	847,717	879,903	907,390	938,763
Energy Marketing	344,802	354,842	372,584	391,213	399,038
Other	44,154	28,676	28,676	28,676	28,676
Corporate	4,422	4,900	4,900	4,900	4,900
Intercompany Eliminations	(101,164)	(151,552)	(168,597)	(184,830)	(192,961)
Total operating revenues	**1,768,914**	**1,839,301**	**2,046,173**	**2,243,177**	**2,341,863**
Operating Expenses					
Purchased Gas	662,640	643,646	659,575	678,045	693,995
Operation and Maintenance	396,849	419,567	470,255	519,533	542,998
Property, Franchise and Other Taxes	75,886	74,014	81,469	89,310	93,257
D&A	191,699	213,835	240,925	267,565	292,145
Other	-	-	-	-	-
Total operating expenses	**1,327,074**	**1,351,063**	**1,452,224**	**1,554,454**	**1,622,395**
EBIT	**441,840**	**488,238**	**593,949**	**688,724**	**719,467**
EBITDA	**633,539**	**702,073**	**834,874**	**956,289**	**1,011,612**
Other Income (Expense):					
Income from Unconsol. Subs.	2,489	2,459	2,415	2,363	2,312
Interest Income	7,369	7,256	5,525	5,111	5,659
Interest Expense	(93,967)	(99,485)	(109,493)	(127,065)	(146,448)
Income (Loss) Before Taxes	**357,731**	**398,469**	**492,396**	**569,133**	**580,989**
Income Tax Expense	137,826	176,997	238,116	270,443	276,654
Net Income (Loss)	**219,905**	**221,472**	**254,280**	**298,690**	**304,335**
Net Income per Share (Operating)	**$2.66**	**$2.67**	**$3.06**	**$3.60**	**$3.67**
Net Income per Share (GAAP)	$2.66	$2.67	$3.06	$3.60	$3.67
Average # of Shares Outstanding	82,661	82,969	82,969	82,969	82,969
Dividends per share	$1.36	$1.40	$1.44	$1.48	$1.52

Source: Company data, Morgan Stanley Research estimates

Exhibit 52
NFG Operating Data

	2010	2011E	2012E	2013E	2014E
EXPLORATION AND PRODUCTION					
Reference Prices:					
Natural gas price ($ / Mcf)	$4.64	$4.09	$5.13	$5.50	$5.50
Crude Oil ($ per bbl)	$77.35	$98.75	$103.75	$105.00	$105.00
Realized natural gas price ($ / Mcf)	$0.00	$5.14	$5.55	$5.55	$5.50
Realized Crude Oil ($ per bbl)	$0.00	$84.34	$92.40	$102.36	$105.00
Natural Gas Production (MMcf)					
Gulf Coast	10,303	8,242	8,432	8,744	9,093
West Coast	3,820	3,782	3,755	3,707	4,003
Appalachia	16,221	38,403	55,828	72,389	79,628
Canada	-	-	-	-	-
Total natural gas production	**30,344**	**50,427**	**68,015**	**84,839**	**92,724**
% increase year-over-year	*36.2%*	*66.2%*	*34.9%*	*24.7%*	*9.3%*
Crude Oil Production (MBbls)					
Gulf Coast	503	402	402	410	419
West Coast	2,668	2,721	2,776	2,831	2,888
Appalachia	48	50	53	58	61
Canada	-	-	-	-	-
Total crude oil production	**3,219**	**3,174**	**3,231**	**3,300**	**3,368**
% increase year-over-year	*-4.6%*	*-1.4%*	*1.8%*	*2.1%*	*2.1%*
Total Production (MMcfe)	**49,658**	**69,472**	**87,401**	**104,639**	**112,930**
% increase year-over-year	*16.8%*	*39.9%*	*25.8%*	*19.7%*	*7.9%*
PIPELINE AND STORAGE					
Pipeline & Storage Throughput (MMcf)					
Firm transportation - affiliated	99,450	101,439	111,583	122,741	126,423
Firm transportation - non-affiliated	197,457	201,406	211,476	222,050	226,491
Interruptible Transportation	4,459	4,682	4,916	5,162	5,317
Total pipeline & storage throughput	**301,366**	**307,527**	**327,975**	**349,953**	**358,231**
% increase year-over-year	*-16.5%*	*2.0%*	*6.6%*	*6.7%*	*2.4%*
Revenue per MMcf (affiliated)	**$0.80**	**$0.82**	**$0.84**	**$0.92**	**$0.94**
% increase year-over-year	*8.0%*	*2.0%*	*2.0%*	*10.0%*	*2.0%*
Revenue per MMcf (unaffiliated)	**$0.69**	**$0.70**	**$0.74**	**$0.77**	**$0.78**
% increase year-over-year	*25.6%*	*2.0%*	*5.0%*	*4.0%*	*2.0%*
UTILITY					
Utility Throughput (MMcf)					
Retail Sales					
Residential Sales	54,012	54,552	55,643	56,756	57,891
Commercial Sales	8,203	8,285	8,451	8,620	8,792
Industrial Sales	646	664	684	711	725
Total retail utility throughput	**62,861**	**63,501**	**64,778**	**66,087**	**67,409**
Off-System Sales	5,899	7,460	7,460	7,460	7,460
Transportation	60,105	60,706	61,313	61,926	62,546
Total utility throughput	**128,865**	**131,667**	**133,551**	**135,473**	**137,414**
% increase year-over-year	*-0.2%*	*2.2%*	*1.4%*	*1.4%*	*1.4%*
Revenue per MMcf	**$0.0171**	**$0.0173**	**$0.0176**	**$0.0180**	**$0.0183**
% increase year-over-year	*-26.5%*	*1.0%*	*2.1%*	*1.9%*	*2.0%*
ENERGY MARKETING					
Natural Gas Volumes (MMcf)	58,299	61,214	64,275	67,488	68,838
% increase year-over-year	*-4.2%*	*5.0%*	*5.0%*	*5.0%*	*2.0%*
Revenue per Mcf	**$0.0059**	**$0.0058**	**$0.0058**	**$0.0058**	**$0.0058**
% increase year-over-year	*-9.6%*	*-2.0%*	*0.0%*	*0.0%*	*0.0%*

Source: Company data, Morgan Stanley Research estimates

Exhibit 53

NFG Balance Sheet

(amounts in thousands except per share data)	2010	2011E	2012E	2013E	2014E
ASSETS					
Cash and Temporary Cash Investments	395,171	156,091	5,000	140,281	142,923
Escrow funds	2,000	2,000	2,000	2,000	2,000
Hedging Collateral Deposits	11,134	11,134	11,134	11,134	11,134
Recivables/Unbilled Utility Revenue	153,056	166,911	194,569	215,960	226,695
Gas Stored Underground	48,584	48,584	48,584	48,584	48,584
Materials, Supplies, Unrecovered Gas Costs, Prepaid	24,987	28,872	31,827	34,908	36,554
Deferred Income Taxes	24,476	24,476	24,476	24,476	24,476
Other Current Assets	115,969	115,969	115,969	115,969	115,969
Total Current Assets	**775,377**	**554,037**	**433,559**	**593,312**	**608,336**
Net Property, Plant and Equipment	**3,450,229**	**3,907,394**	**4,347,469**	**4,736,904**	**5,033,759**
Recoverable Future Taxes	149,712	149,712	149,712	149,712	149,712
Unamortized Debt Expense	12,550	12,550	12,550	12,550	12,550
Other Regulatory Assets	542,801	542,801	542,801	542,801	542,801
Deferred Charges	9,646	9,646	9,646	9,646	9,646
Other Investments including Unconsilidated Subsidiaries	92,667	90,664	88,698	86,774	84,891
Goodwill	5,476	5,476	5,476	5,476	5,476
Intangible Assets	1,677	1,677	1,677	1,677	1,677
Prepaid Retirement Benefit Costs and Other	65,490	65,490	65,490	65,490	65,490
Total Other Assets	**880,019**	**878,016**	**876,050**	**874,126**	**872,243**
Total Assets	**5,105,625**	**5,339,448**	**5,657,078**	**6,204,341**	**6,514,338**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current and Accrued Liabilities	-	-	-	-	-
Current Portion of Long-Term Debt	200,000	200,000	361,143	559,912	579,605
Accounts Payable, including to Customers	183,332	211,839	233,521	256,120	268,202
Dividends Payable	28,316	28,316	28,316	28,316	28,316
Interest Payable on Long-Term Debt	30,512	30,512	30,512	30,512	30,512
Fair Value of Derivative Financial Instruments	20,160	20,160	20,160	20,160	20,160
Other Liabilities (deposits, accruals, discont' operations)	62,004	62,004	62,004	62,004	62,004
Total Current and Accrued Liabilities	**524,324**	**552,831**	**735,657**	**957,024**	**988,798**
Deferred Income Taxes	800,758	800,758	800,758	800,758	800,758
Taxes Refundable to Customers	69,585	69,585	69,585	69,585	69,585
Unamortized Investment Tax Credit	3,288	3,288	3,288	3,288	3,288
Cost of Removal Regulatory Liability	124,032	124,032	124,032	124,032	124,032
Pension and Other Post-Retirement Liabilities	446,082	446,082	446,082	446,082	446,082
Other / Ret. Oblig. / Regulatory Liab.	342,585	342,585	342,585	342,585	342,585
Long-Term Debt, Net of Current Portion	1,049,000	1,149,000	1,149,000	1,299,000	1,399,000
Total Liabilities	**3,359,654**	**3,488,161**	**3,670,987**	**4,042,354**	**4,174,128**
Common Stock	82,075	82,075	82,075	82,075	82,075
Paid in Capital	645,619	645,619	645,619	645,619	645,619
Earnings Reinvested in the Business	1,063,262	1,168,577	1,303,382	1,479,279	1,657,501
Accumulated Other Comprehensive Income (Loss)	(44,985)	(44,985)	(44,985)	(44,985)	(44,985)
Total Comprehensive Shareholders' Equity	**1,745,971**	**1,851,286**	**1,986,091**	**2,161,988**	**2,340,210**
Total Capitalization and Liabilities	**5,105,625**	**5,339,448**	**5,657,078**	**6,204,341**	**6,514,338**
CONSOLIDATED DEBT METRICS					
Average Total Debt	2,498,000	2,498,000	2,759,143	3,188,483	3,557,560
Average Net Debt	847,388	1,023,369	1,349,026	1,611,887	1,777,156
Net Debt/ Total Book Capitalization	33.7%	36.3%	41.3%	43.7%	44.1%
Average Debt/ EBITDA	1.0x	0.9x	0.8x	0.8x	0.9x
Average Interest Rate	3.8%	4.0%	4.0%	4.0%	4.1%

Source: Company data, Morgan Stanley Research estimates

Exhibit 54

NFG Cash Flow Statement

(amounts in thousands except per share data)	2010	2011E	2012E	2013E	2014E
Cash Flow From Operating Activities					
Net Income Available for Common Stock	219,905	221,472	254,280	298,690	304,335
Gain on Sale of Discontinued Operations	(10,334)	-	-	-	-
Impairment of Oil and Gas Producing Properties	-	-	-	-	-
Depreciation, Depletion and Amortization	191,809	213,835	240,925	267,565	292,145
Deferred Income Taxes	134,679	-	-	-	-
Income from Unconsol. Subs., Net of Cash Distr.	112	2,003	1,967	1,924	1,882
Minority Interest in Foreign subsidiaries	-	-	-	-	-
Excess Tax Benefits Assoc. with Stock-Based Comp. Awards	(13,207)	-	-	-	-
Other	9,108	-	-	-	-
Change in WC:	(72,377)	10,767	(8,931)	(1,873)	(300)
Net Cash Provided by Operating Activities	**459,695**	**448,076**	**488,241**	**566,307**	**598,062**
Cash Flow From Investing Activities					
Capital Expenditures	(455,764)	(671,000)	(681,000)	(657,000)	(589,000)
Investment in Subsidiary, Net of Cash Acquired	-	-	-	-	-
Other	53,519	-	-	-	-
Net Cash Used in Investing Activities	**(402,245)**	**(671,000)**	**(681,000)**	**(657,000)**	**(589,000)**
Cash Flow From Financing Activities					
Shares Repurchased under Repurchase Plan	-	-	-	-	-
Increase / (reduction) in Short-Term Debt	-	-	161,143	198,768	19,693
Increase / (reduction) in Long-Term Debt	-	100,000	-	150,000	100,000
Dividends Paid on Common Stock	(109,596)	(116,157)	(119,475)	(122,794)	(126,113)
Dividends Paid to Minority Interest	-	-	-	-	-
Proceeds From Issuance of Common Stock	26,057	-	-	-	-
Other	13,207	-	-	-	-
Net Cash Provided by (Used In) Financing Activities	**(70,332)**	**(16,157)**	**41,668**	**225,974**	**(6,420)**
Net Change in Cash	**(12,882)**	**(239,080)**	**(151,091)**	**135,281**	**2,642**
Cash at Beginning of Period	**408,053**	**395,171**	**156,091**	**5,000**	**140,281**
Cash at the end of Period	**395,171**	**156,091**	**5,000**	**140,281**	**142,923**

Source: Company data, Morgan Stanley Research estimates

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January 6, 2011
Diversified Natural Gas

Exhibit 55

NFG Discounted Cash Flow Analysis

National Fuel Gas Company
Discounted Cash Flow Analysis

($ Thousands, Except Per Share Data)

	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBIT + Equity Income (Pre Tax)	441,840	488,238	593,949	688,724	719,467	734,812	747,483	761,718	781,713	799,286	816,376	830,338
- Adjusted taxes	145,807	161,119	196,003	227,279	237,424	242,488	246,669	251,367	257,965	263,764	269,404	274,012
NOPLAT	296,033	327,120	397,946	461,445	482,043	492,324	500,814	510,351	523,747	535,522	546,972	556,327
% change	*7%*	*11%*	*22%*	*16%*	*4%*	*2%*	*2%*	*2%*	*3%*	*2%*	*2%*	*2%*
EBITDA	633,539	702,073	834,874	956,289	1,011,612	1,049,517	1,084,148	1,115,923	1,150,806	1,183,267	1,215,245	1,244,095
% change	*9%*	*11%*	*19%*	*15%*	*6%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*	*2%*
+ D&A	191,699	213,835	240,925	267,565	292,145	314,705	336,665	354,205	369,093	383,981	398,869	413,757
- CAPEX	455,764	671,000	681,000	657,000	589,000	549,000	549,000	372,200	372,200	372,200	372,200	372,200
+ Change in NWC	(72,377)	10,767	(8,931)	(1,873)	(300)	18	342	318	368	24	(329)	(329)
Unlevered Free Cash Flow (UFCF)	**(40,409)**	**(119,279)**	**(51,060)**	**70,137**	**184,888**	**258,045**	**288,821**	**492,676**	**521,009**	**547,326**	**673,312**	**597,555**
% change	*NM*	*-195.2%*	*57.2%*	*NM*	*163.6%*	*39.6%*	*11.9%*	*70.6%*	*5.6%*	*5.1%*	*4.7%*	*4.2%*
Free Cash Flow Per Share	**($0.49)**	**($1.44)**	**($0.62)**	**$0.85**	**$2.23**	**$3.11**	**$3.48**	**$5.94**	**$6.28**	**$6.60**	**$6.91**	**$7.20**
Average # of Shares Outstanding	82,661	82,969	82,969	82,969	82,969	82,969	82,969	82,969	82,969	82,969	82,969	82,969
Year count		-	1	2	3	4	5	6	7	8	9	10
Discounting factor		**1.00**	**0.93**	**0.87**	**0.80**	**0.75**	**0.70**	**0.65**	**0.60**	**0.56**	**0.52**	**0.48**
Discounted Unlevered Free Cash Flow (UFCF)		**(119,279)**	**(47,493)**	**60,581**	**148,787**	**193,154**	**201,089**	**319,060**	**313,840**	**306,663**	**298,785**	**289,666**

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2010-20)	30%	1,964,953
PV of Terminal Value	70%	4,486,852
PV of NOLs	0%	0
Enterprise Value	**100%**	**6,451,806**
2011E EV/EBITDA		*9.2x*
Less: Net Debt		884,341
Equity Value		**5,567,465**
Less: Minority Interests		-
Common Equity Value		**5,567,465**
Fully Diluted C/S Outstanding (mn)		82,661
DCF per share US$		**$67**

WACC Assumptions	
Cost of Equity (CAPM)	**9.4%**
Risk Free Rate	4.0%
Beta (Long-Term)	1.35
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	60.0%
Cost of Debt	**4.7%**
Interest Rate	7.0%
Effective Tax Rate	33.0%
LT Debt/Capital Ratio	40.0%
WACC	**7.5%**

Assumptions	
Statutory Tax Rate	33%
LT Growth Rate	1.0%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2021	9,255,974
Implied EBITDA Multiple	7.4x
UFCF Multiple	15.5x

Source: Company data, Morgan Stanley Research estimates

Exhibit 56

NFG Sum of the Parts Valuation

National Fuel Gas Company	Value ($m)	Risked Pot'l (Bcfe)	Implied $/Mcfe	$/Share
Proved Reserves (PV10)	$1,669	700	$2.38	**$20**
Resource Potential				
Onshore US				
Marcellus	$3,492	8,330	$0.42	**$42**
Risked unproved inventory	$531	845	$0.63	**$6**
E&P Hedge Book	$53			**$1**
Midstream + Utilities + Other				
Pipeline & Storage	$1,122			**$14**
Utility	$1,367			**$17**
Energy Marketing	$25			**$0**
Other	$13			**$0**
Value per share				**$100**
Net Debt	$1,043			**$13**
Net Equity Value				**$87**
Shares Outstanding (in m)				82.7

PIPELINE AND STORAGE	
Forward EBITDA	$125
Forward multiple	9.0x
Enterprise value	**$1,122**

UTILITY	
Forward EBITDA	$182
Forward multiple	7.5x
Enterprise value	**$1,367**

ENERGY MARKETING	
Forward EBITDA	$6
Forward multiple	4.0x
Enterprise value	**$25**

OTHER	
Forward EBITDA	$6
Forward multiple	2.0x
Enterprise value	**$13**

Source: Company data, Morgan Stanley Research estimates

Exhibit 57

MDU Income Statement

(amounts in thousands, except per unit data)	2009	2010E	2011E	2012E	2013E
Total operating revenues	**4,176,501**	**3,873,942**	**3,914,912**	**4,118,727**	**4,265,830**
Operating costs and expenses					
Fuel and purchased power	65,717	62,946	67,870	71,374	72,870
Purchased natural gas sold	739,678	614,986	638,265	677,625	691,642
Operation and Maintenance	2,407,064	2,260,139	2,206,710	2,279,162	2,383,324
Taxes, other than income	166,597	171,952	175,592	182,580	192,421
Depreciation, depletion and amortization	330,542	330,290	350,038	365,244	381,256
Total operating costs and expenses	**3,709,598**	**3,440,313**	**3,438,475**	**3,575,985**	**3,721,512**
EBIT	**466,903**	**433,629**	**476,437**	**542,741**	**544,318**
EBITDA	**797,445**	**763,919**	**826,475**	**907,985**	**925,574**
Other income					
Earnings from equity method investments	8,499	9,499	10,112	10,112	10,112
Other income	9,331	8,668	8,000	8,000	8,000
Interest expense	(84,099)	(82,785)	(90,917)	(92,049)	(94,335)
Total other income	**(66,269)**	**(64,618)**	**(72,805)**	**(73,937)**	**(76,223)**
Income (loss) before income taxes	**400,634**	**369,011**	**403,631**	**468,805**	**468,095**
Income taxes	96,092	(129,350)	(141,271)	(164,082)	(163,833)
Net income (Operating)	**496,726**	**239,661**	**262,360**	**304,723**	**304,262**
Preferred Stock Dividend	685	687	688	688	688
Earnings (loss) on common stock	**496,041**	**238,974**	**261,672**	**304,035**	**303,574**
Net Income per share (Operating)	**$2.67**	**$1.27**	**$1.39**	**$1.61**	**$1.61**
Net Income per share (GAAP)	**($0.67)**	**$1.18**	**$1.39**	**$1.61**	**$1.61**
Weighted Avg Diluted Units Outstanding	185,503	188,291	188,338	188,338	188,338
Dividends per share	$0.62	$0.64	$0.66	$0.68	$0.70

Source: Company data, Morgan Stanley Research estimates

Exhibit 58
MDU Operating Data

	2009	2010E	2011E	2012E	2013E
EXPLORATION & PRODUCTION					
Reference Prices:					
Natural gas price ($/Mcf)	$4.17	$4.50	$4.00	$5.50	$5.50
Crude Oil ($/Bbl)	$62.03	$82.07	$100.00	$105.00	$105.00
MDU E&P Realized Price (ex. Hedges):					
Natural Gas ($/Mcf)	$2.98	$3.66	$3.11	$4.61	$4.61
WTI ($/Bbl)	$49.46	$69.49	$87.25	$92.21	$92.21
Production:					
Natural gas (MMcf)	56,632	50,351	49,848	50,346	50,850
% increase year-over-year	*-13.5%*	*-11.1%*	*-1.0%*	*1.0%*	*1.0%*
Oil (MBbls)	3,111	3,408	3,783	4,010	4,250
% increase year-over-year	*10.8%*	*9.5%*	*11.0%*	*6.0%*	*6.0%*
Total Production (MMcfe)	**75,298**	**70,798**	**72,544**	**74,404**	**76,351**
% increase year-over-year	*-8.5%*	*-6.0%*	*2.5%*	*2.6%*	*2.6%*
PIPELINE & ENERGY SERVICES					
Total Transportation volumes (MMdk)	163.2	145.4	146.8	149.8	152.8
% increase year-over-year	*18.3%*	*-10.9%*	*1.0%*	*2.0%*	*2.0%*
Gathering volumes (MMdk)	92.5	75.8	76.6	78.1	79.7
% increase year-over-year	*-9.4%*	*-18.0%*	*1.0%*	*2.0%*	*2.0%*
Total Transportation & Gathering volumes (MMdk)	**255.7**	**221.2**	**223.4**	**227.9**	**232.4**
Avg. revenue per transportation & gathering ($/MDk)	$1.20	$1.51	$1.52	$1.56	$1.59
ELECTRIC					
Retail sales (million kWh)	2,663.6	2,779.8	2,835.4	2,892.1	2,950.0
% increase year-over-year	*0.0%*	*4.4%*	*2.0%*	*2.0%*	*2.0%*
Sales for resale (million kWh)	90.8	100.2	102.2	104.3	106.4
% increase year-over-year	*-59.4%*	*10.4%*	*2.0%*	*2.0%*	*2.0%*
Total sales (million kWh)	**2,754.4**	**2,880.1**	**2,937.7**	**2,996.4**	**3,056.3**
% increase year-over-year	*-4.6%*	*4.6%*	*2.0%*	*2.0%*	*2.0%*
Implied sales price ($/kWh)	$0.071	$0.073	$0.074	$0.076	$0.077
% increase year-over-year	*-1.3%*	*2.1%*	*2.0%*	*2.0%*	*2.0%*
NATURAL GAS DISTRIBUTION					
Sales volumes (MMdk)	102.6	100.9	101.9	103.9	106.0
% increase year-over-year	*16.9%*	*-1.7%*	*1.0%*	*2.0%*	*2.0%*
Transportation volumes (MMdk)	132.7	137.8	139.1	141.9	144.8
% increase year-over-year	*28.1%*	*3.8%*	*1.0%*	*2.0%*	*2.0%*
Total throughput (MMdk)	**235.3**	**238.6**	**241.0**	**245.8**	**250.7**
% increase year-over-year	*22.9%*	*1.4%*	*1.0%*	*2.0%*	*2.0%*
Implied revenue per throughput ($/MMdk)	$4.559	$4.044	$4.085	$4.166	$4.250
% increase year-over-year	*-15.8%*	*-11.3%*	*1.0%*	*2.0%*	*2.0%*
CONSTRUCTION MATERIALS & CONTRACTING					
Sales (000's):					
Aggregates (tons)	23,995	22,695	22,241	22,686	23,140
% increase year-over-year	*-22.9%*	*-5.4%*	*-2.0%*	*2.0%*	*2.0%*
Asphalt (tons)	6,360	6,215	6,091	6,213	6,337
% increase year-over-year	*8.8%*	*-2.3%*	*-2.0%*	*2.0%*	*2.0%*
Ready-mixed concrete (cubic yards)	3,042	2,821	2,680	2,680	2,680
% increase year-over-year	*-18.4%*	*-7.3%*	*-5.0%*	*0.0%*	*0.0%*
Revenue per sales	$45.37	$44.53	$45.42	$46.11	$46.80
% increase year-over-year	*12.5%*	*-1.8%*	*2.0%*	*1.5%*	*1.5%*
CONSTRUCTION SERVICES					
Work Backlog	$383,000	$344,700	$361,935	$369,174	$380,249
% increase year-over-year	*-36.6%*	*-10.0%*	*5.0%*	*2.0%*	*3.0%*
% increase quarter-over-quarter	*45.1%*	*8.7%*	*8.7%*	*8.7%*	*8.7%*

Source: Company data, Morgan Stanley Research estimates

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Diversified Natural Gas

Exhibit 59
MDU Balance Sheet

(amounts in thousands, except per unit data)	2009	2010E	2011E	2012E	2013E
ASSETS					
Cash and cash equivalents	175,114	126,788	84,471	58,697	45,851
Receivables, net	531,980	523,541	531,033	560,681	579,248
Inventories	249,804	224,996	230,482	237,741	246,618
Deferred income taxes	28,145	25,680	26,197	26,725	27,264
Short-term investments	2,833	251	256	261	267
Commodity derivative instruments	7,761	26,937	27,480	28,034	28,598
Prepayments and other current assets	66,021	99,963	101,978	104,033	106,129
CAs held for sale and related to disc. ops.	-	-	-	-	-
Total current assets	**1,061,658**	**1,028,156**	**1,001,897**	**1,016,172**	**1,033,974**
Property and equipment, net	3,894,117	4,125,395	4,300,357	4,535,113	4,753,657
Investments	145,416	152,577	152,577	152,577	152,577
Goodwill	629,463	634,633	634,633	634,633	634,633
Other intangible assets, net	28,977	26,112	26,112	26,112	26,112
Other	231,321	260,722	260,722	260,722	260,722
Non-CAs held for sale and related to disc. ops.	-	-	-	-	-
Total assets	**5,990,952**	**6,227,595**	**6,376,298**	**6,625,329**	**6,861,876**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Short-term borrowings	10,300	4,700	4,700	4,700	4,700
Long-term debt due within one year	12,629	73,417	73,417	123,698	271,250
Accounts payable	281,906	267,449	271,276	286,422	295,907
Taxes payable	55,540	47,163	48,113	49,082	50,072
Deferred income taxes	-	-	-	-	-
Dividends payable	29,749	29,959	30,563	31,179	31,807
Accrued compensation	47,425	41,856	42,700	43,560	44,438
Commodity derivative instruments	36,907	25,803	25,803	25,803	25,803
Other accrued liabilities	192,729	206,806	210,973	215,224	219,561
CLs held for sale and related to disc. ops.	-	-	-	-	-
Total current liabilities	**667,185**	**697,153**	**707,545**	**779,669**	**943,537**
Long-term debt	1,486,677	1,437,171	1,437,171	1,437,171	1,337,171
Deferred income taxes	590,968	672,155	672,155	672,155	672,155
Other liabilities	674,475	718,331	718,331	718,331	718,331
Non-CLs held for sale and related to disc. ops.	-	-	-	-	-
Total Liabilities	**3,419,305**	**3,524,810**	**3,535,202**	**3,607,326**	**3,671,194**
Preferred stock	15,000	15,000	15,000	15,000	15,000
Common stock	188,389	188,732	188,732	188,732	188,732
Other paid-in capital	1,015,678	1,022,469	1,022,469	1,022,469	1,022,469
Retained earnings	1,377,039	1,479,714	1,618,025	1,794,932	1,967,611
Accumulated other comprehensive income (loss)	(20,833)	496	496	496	496
Treasury stock	(3,626)	(3,626)	(3,626)	(3,626)	(3,626)
Total stockholders' equity	**2,571,647**	**2,702,785**	**2,841,096**	**3,018,003**	**3,190,682**
Total liabilities and equity	**5,990,952**	**6,227,595**	**6,376,298**	**6,625,329**	**6,861,876**
CONSOLIDATED DEBT METRICS					
Average Total Debt	1,631,004	1,512,447	1,515,288	1,540,429	1,589,345
Average Net Debt	1,359,775	1,210,151	1,244,873	1,303,511	1,371,178
Net Debt/ Total Book Capitalization	33.8%	31.5%	31.0%	30.8%	30.6%
Average Debt/ EBITDA	2.0x	2.0x	1.8x	1.7x	1.7x
Average Interest Rate	5.2%	5.5%	6.0%	6.0%	5.9%

Source: Company data, Morgan Stanley Research estimates

Exhibit 60

MDU Cash Flow Statement

(amounts in thousands, except per unit data)	2009	2010E	2011E	2012E	2013E
Cash from operating activities					
Net income	(123,274)	223,160	262,360	304,723	304,262
Depreciation, depletion and amortization	330,542	330,290	350,038	365,244	381,256
Earnings, net of dist., from equity method investmts.	(3,018)	(2,502)	-	-	-
Deferred income taxes	(169,764)	71,194	(517)	(528)	(539)
Write-down of natural gas and oil properties	620,000	-	-	-	-
Total changes in working capital	196,883	(14,152)	(5,148)	(17,679)	(13,793)
Other noncurrent changes	(4,683)	(11,959)	-	-	-
Net cash used in discontinued operations	-	-	-	-	-
Net cash from operating activities	**846,686**	**596,031**	**606,733**	**651,760**	**671,186**
Cash from investing activities					
Capital expenditures	(448,675)	(443,452)	(525,000)	(600,000)	(600,000)
Acquisitions, net of cash acquired	(6,410)	(106,548)	-	-	-
Net proceeds from sale or disposition of property	26,679	16,496	-	-	-
Investments	(3,740)	1,106	-	-	-
Proceeds from sale of equity method investments	-	-	-	-	-
Net cash used in discontinued operations	-	-	-	-	-
Net cash from investing activities	**(432,146)**	**(532,398)**	**(525,000)**	**(600,000)**	**(600,000)**
Cash from financing activities					
Issuance of short-term borrowings	10,300	4,700	-	-	-
Repayment of short-term borrowings	(105,100)	(10,300)	-	50,281	147,552
Issuance of long-term debt	145,000	17,799	-	-	-
Repayment of long-term debt	(292,907)	(7,545)	-	-	(100,000)
Proceeds from issuance of common stock	65,207	2,735	-	-	-
Dividends paid	(115,023)	(120,124)	(124,049)	(127,816)	(131,583)
Tax benefit on stock-based compensation	601	721	-	-	-
Net cash from financing activities	**(291,922)**	**(112,014)**	**(124,049)**	**(77,535)**	**(84,031)**
Effect of exchange rate changes on cash	782	55	-	-	-
Net change in cash	**123,400**	**(48,326)**	**(42,317)**	**(25,775)**	**(12,846)**
Cash at beginning of period	**51,714**	**175,114**	**126,788**	**84,471**	**58,697**
Cash at end of period	**175,114**	**126,788**	**84,471**	**58,697**	**45,851**

Source: Company data, Morgan Stanley Research estimates

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Exhibit 61

MDU Discounted Cash Flow Analysis

MDU Resources Group, Inc.
Discounted Cash Flow Analysis
($ Thousands, Except Per Share Data)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT + Equity Income (Pre Tax)	443,128	486,549	552,853	554,430	580,255	596,266	614,842	635,478	654,933	675,657	697,120
- Adjusted taxes	146,232	160,561	182,442	182,962	191,484	196,768	202,898	209,708	216,128	222,967	230,050
NOPLAT	296,896	325,988	370,412	371,468	388,771	399,498	411,944	425,770	438,805	452,690	467,070
% change	*-7%*	*10%*	*14%*	*0%*	*5%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
EBITDA	773,418	836,587	918,097	935,686	978,377	1,012,157	1,049,458	1,089,831	1,130,095	1,172,762	1,217,369
% change	*-4%*	*8%*	*10%*	*2%*	*5%*	*3%*	*4%*	*4%*	*4%*	*4%*	*4%*
+ D&A	330,290	350,038	365,244	381,256	398,122	415,891	434,616	454,353	475,162	497,105	520,249
- CAPEX	550,000	525,000	600,000	600,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000
+ Change in NWC	(14,152)	(5,148)	(17,679)	(13,793)	(16,051)	(14,703)	(16,591)	(17,059)	(17,531)	(18,566)	(19,278)
Unlevered Free Cash Flow (UFCF)	63,034	145,877	117,977	138,930	220,842	250,686	279,969	313,065	346,435	381,228	418,042
% change	*nm*	*131.4%*	*-19.1%*	*17.8%*	*59.0%*	*13.5%*	*11.7%*	*11.8%*	*10.7%*	*10.0%*	*9.7%*
Free Cash Flow Per Share	$0.33	$0.77	$0.63	$0.74	$1.17	$1.33	$1.49	$1.66	$1.84	$2.02	$2.22
Average # of Shares Outstanding	188,291	188,338	188,338	188,338	188,338	188,338	188,338	188,338	188,338	188,338	188,338
Year count		-	1	2	3	4	5	6	7	8	9
Discounting factor		1.00	0.93	0.86	0.80	0.75	0.70	0.65	0.60	0.56	0.52
Discounted Unlevered Free Cash Flow (UFCF)		145,877	109,698	120,117	177,539	187,389	194,594	202,329	208,185	213,018	217,198

DCF Valuation - Firm Total (US$ Thousands)		
NPV of FCFF (2010-20)	37%	1,996,339
PV of Terminal Value	63%	3,400,288
PV of NOLs	0%	0
Enterprise Value	100%	5,396,627
2011E EV/EBITDA		*6.5x*
Less: Net Debt		1,295,924
Equity Value		4,100,703
Less: Minority Interests		-
Common Equity Value		4,100,703
Fully Diluted C/S Outstanding (mn)		188,338
DCF per share US$		$22

WACC Assumptions	
Cost of Equity (CAPM)	9.1%
Risk Free Rate	4.0%
Beta (Long-Term)	1.27
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	65.0%
Cost of Debt	4.7%
Interest Rate	7.0%
Effective Tax Rate	33.0%
LT Debt/Capital Ratio	35.0%
WACC	7.5%

Assumptions	
Statutory Tax Rate	33%
LT Growth Rate	1.0%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2020	7,038,438
Implied EBITDA Multiple	5.8x
UFCF Multiple	16.8x

Source: Company data, Morgan Stanley Research estimates

Exhibit 62

MDU Sum of the Parts Valuation

MDU Resources Group Inc.	Value ($m)	Risked Pot'l (Bcfe)	Implied $/mcfe	$/Share
Proved Reserves (PV10)	$1,378	654	$2.11	$7
Resource Potential				
Bakken - Heart River	$179	176	$1.02	$1.0
Bakken - East Nesson	$47	58	$0.81	$0.3
Risked unproved inventory	$149	163	$0.91	$0.8
E&P Hedge Book	$32			$0.2
Midstream + Utilities + Other				
Pipeline & Energy Services	$814			$4
Electric Utility	$585			$3
Gas Utility	$979			$5
Construction Materials & Contracting	$840			$4
Construction Services	$249			$1
Other	$7			$0
Value per share				$28
Net Debt	$1,341			$7
Net Equity Value				$21
Shares Outstanding (in m)				188

PIPELINE AND ENERGY SERVICES	
Forward EBITDA	$102
Forward multiple	8.0x
Enterprise value	**$814**

ELECTRIC UTILITY	
Forward EBITDA	$73
Forward multiple	8.0x
Enterprise value	**$585**

GAS UTILITY	
Forward EBITDA	$122
Forward multiple	8.0x
Enterprise value	**$979**

CONSTRUCTION MATERIALS	
Forward EBITDA	$140
Forward multiple	6.0x
Enterprise value	**$840**

CONSTRUCTION SERVICES	
Forward EBITDA	$42
Forward multiple	6.0x
Enterprise value	**$249**

OTHER	
Forward EBITDA	$1
Forward multiple	5.0x
Enterprise value	**$7**

Source: Company data, Morgan Stanley Research estimates

Morgan Stanley

MORGAN STANLEY RESEARCH

January 6, 2011
Diversified Natural Gas

Exhibit 63
NI Income Statement

(amounts in thousands, except per unit data)	2009	2010E	2011E	2012E	2013E
Revenues					
Gas Distribution	3,303,100	3,234,072	3,935,639	4,094,606	4,218,341
Gas Transportation and Storage	1,240,800	1,172,975	1,085,205	1,126,606	1,154,543
Electric	1,244,600	1,446,507	1,562,531	1,641,718	1,724,919
Other	358,700	59,200	-	-	-
Total Revenues	**6,147,200**	**5,912,754**	**6,583,375**	**6,862,930**	**7,097,803**
Operating Costs					
Cost of Sales	2,805,400	2,374,961	2,699,026	2,812,997	2,908,507
Operation and maintenance	1,607,600	1,738,350	1,988,123	2,108,631	2,173,830
Depreciation and amortization	589,400	604,000	593,057	608,018	623,356
Other taxes	281,600	289,378	316,875	325,051	338,893
Total Operating Costs	**5,284,000**	**5,006,689**	**5,597,081**	**5,854,696**	**6,044,587**
Equity Earnings (Loss) in Uncon. Affiliates	**16,000**	**14,700**	**13,839**	**14,188**	**14,546**
EBIT	**879,200**	**920,765**	**1,000,133**	**1,022,422**	**1,067,762**
EBITDA	**1,468,600**	**1,524,765**	**1,593,190**	**1,630,440**	**1,691,118**
Other Income					
Interest expense, net	(399,200)	(395,754)	(404,215)	(404,215)	(404,215)
Other income	(1,600)	9,400	8,400	8,400	8,400
Inc. from continuing operations bef inc. taxes	**478,400**	**534,411**	**604,318**	**626,607**	**671,947**
Income tax (provision)	184,300	191,729	224,534	228,880	247,489
Operating Net Income (Loss)	**294,100**	**342,683**	**379,784**	**397,727**	**424,458**
Net Income per Share (Operating)	**$1.07**	**$1.21**	**$1.27**	**$1.31**	**$1.40**
Net Income per Share (GAAP)	**$0.83**	**$1.26**	**$1.27**	**$1.31**	**$1.40**
Weighted Avg Diluted Units Outstanding	275,800	282,930	298,082	304,142	304,142
Dividends per share	0.92	0.92	0.92	0.92	0.92

Source: Company data, Morgan Stanley Research estimates

Exhibit 64
NI Operating Data

	2009	2010E	2011E	2012E	2013E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	265.2	258.0	268.9	274.3	278.4
Commercial	169.4	168.8	174.4	177.8	180.5
Industrial	335.9	391.9	431.0	439.6	446.2
Off System	59.7	71.8	77.2	78.7	79.9
Other	0.8	0.9	0.4	0.4	0.4
Total Sales and Transports	**831.0**	**891.4**	**951.8**	**970.9**	**985.4**
Weather Adjustment	1.4	14.6	-	-	-
Sales and Transport Vols — Excluding Weather	**832.4**	**906.0**	**951.8**	**970.9**	**985.4**
y/y change	*-9.1%*	*8.8%*	*5.1%*	*2.0%*	*1.5%*
Sales Price ($ / Dth)	$4.69	$4.04	$4.13	$4.22	$4.28
y/y change	*-25.1%*	*-13.8%*	*2.4%*	*2.0%*	*1.5%*
COGS Price ($ / Dth)	$2.75	$2.20	$2.22	$2.27	$2.30
y/y change	*-39.9%*	*-20.1%*	*0.8%*	*2.5%*	*1.3%*
Gross Margin ($ / Dth)	$1.93	$1.84	$1.92	$1.94	$1.98
y/y change	*15.5%*	*-4.9%*	*4.2%*	*1.5%*	*1.8%*
GAS TRANSMISSION & STORAGE					
Throughput (MMDth):					
Columbia Transmission	1,029.8	1,057.6	1,129.6	1,174.8	1,198.3
Columbia Gulf	894.1	820.0	872.2	898.4	916.4
Crossroads Gas Pipeline	33.9	26.9	28.3	29.1	29.7
Total throughput	**1,957.8**	**1,904.5**	**2,030.1**	**2,102.3**	**2,144.4**
Intrasegment eliminations	(566.4)	(576.0)	(582.2)	(617.3)	(631.3)
Total third-party throughput	**1,391.4**	**1,328.6**	**1,447.9**	**1,485.0**	**1,513.0**
y/y change	*-6.5%*	*-4.5%*	*9.0%*	*2.6%*	*1.9%*
Tariff ($ / Dth)	$0.52	$0.55	$0.59	$0.60	$0.61
y/y change	*13.5%*	*6.4%*	*7.3%*	*1.7%*	*1.0%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,241.4	3,668.9	3,746.5	3,840.1	3,936.1
Commercial	3,833.9	3,963.7	4,120.8	4,223.8	4,329.4
Industrial	7,690.9	8,486.1	8,666.6	8,883.3	9,105.3
Wholesale	600.6	894.2	958.6	982.6	1,007.1
Other	158.9	177.0	184.5	190.0	195.7
Total sales	**15,525.7**	**17,189.9**	**17,676.9**	**18,119.7**	**18,573.7**
Weather Adjustment	343.4	(484.4)	-	-	-
Total sales volumes — Adj. for weather impacts	**15,869.1**	**16,705.5**	**17,676.9**	**18,119.7**	**18,573.7**
y/y change	*-9.4%*	*5.3%*	*5.8%*	*2.5%*	*2.5%*
Revenue ($ / Gigawatt hour)	$78.95	$86.31	$88.39	$90.60	$92.87
y/y change	*1.1%*	*9.3%*	*2.4%*	*2.5%*	*2.5%*
COGS ($ / Gigawatt hour)	$28.77	$31.76	$33.21	$33.42	$34.43
y/y change	*-9.5%*	*10.4%*	*4.6%*	*0.6%*	*3.0%*
Gross Margin ($ / Gigawatt hour)	$50.18	$54.55	$55.19	$57.18	$58.44
y/y change	*8.4%*	*8.7%*	*1.2%*	*3.6%*	*2.2%*

Source: Company data, Morgan Stanley Research estimates

Exhibit 65

NI Balance Sheet

(amounts in thousands, except per unit data)	2009	2010E	2011E	2012E	2013E
ASSETS					
Cash and cash equivalents	16,400	10,000	191,295	227,218	208,650
Restricted cash	174,700	276,500	276,500	276,500	276,500
Accounts receivable	808,600	833,171	943,155	994,647	1,003,121
Income tax receivable	24,900	97,600	97,600	97,600	97,600
Gas inventory	384,800	334,429	385,542	439,487	417,910
Regulatory assets	238,300	194,300	194,300	194,300	194,300
Other	127,700	103,000	103,000	103,000	103,000
Total Current Assets	**2,223,600**	**2,405,599**	**2,747,992**	**2,889,351**	**2,857,681**
Net Property, Plant and Equipment	**10,683,900**	**11,097,100**	**11,304,043**	**11,596,025**	**11,863,669**
Unconsolidated affiliates	165,800	201,800	201,800	201,800	201,800
Other investments	129,200	144,500	144,500	144,500	144,500
Price risk management assets	237,600	280,200	280,200	280,200	280,200
Regulatory assets	1,644,100	1,641,000	1,641,000	1,641,000	1,641,000
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	319,600	311,400	311,400	311,400	311,400
Deferred charges, Postretiremen, other	171,900	144,000	144,000	144,000	144,000
TOTAL ASSETS	**19,271,700**	**19,911,099**	**20,460,435**	**20,893,776**	**21,129,750**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	719,300	726,900	726,900	726,900	726,900
Short-term borrowings	103,000	724,600	724,600	724,600	724,600
Accounts payable	502,100	463,528	517,410	588,480	566,018
Dividends payable	200	64,200	64,200	64,200	64,200
Customer deposits and credits	301,200	290,500	290,500	290,500	290,500
Taxes accrued	212,900	168,400	168,400	168,400	168,400
Interest accrued	125,400	85,600	85,600	85,600	85,600
Price risk management liabilities	190,100	256,500	256,500	256,500	256,500
Exchange gas payable	222,200	211,000	211,000	211,000	211,000
Deferred revenue	27,300	4,500	4,500	4,500	4,500
Regulatory liabilities	43,800	98,700	98,700	98,700	98,700
Acc liab for post-retirement / -employment benefits	23,600	7,600	7,600	7,600	7,600
Other accruals	310,300	270,300	270,300	270,300	270,300
Total Current Liabilities	**3,149,600**	**3,471,828**	**3,525,710**	**3,596,780**	**3,574,318**
Long-term debt, excl amounts due within one year	5,965,100	5,964,300	5,964,300	5,964,300	5,964,300
Price risk management liabilities	170,200	218,700	218,700	218,700	218,700
Deferred income taxes	2,018,200	2,207,700	2,207,700	2,207,700	2,207,700
Deferred inc. taxes, credits, other	120,500	112,000	112,000	112,000	112,000
Acc liability for post-retirement/-employment benefits	1,134,200	1,029,500	1,029,500	1,029,500	1,029,500
Regulatory liabilities and other removal costs	1,558,800	1,562,300	1,562,300	1,562,300	1,562,300
Asset retirement obligations	138,200	134,300	134,300	134,300	134,300
Other noncurrent liabilities	152,600	167,500	167,500	167,500	167,500
Total Other Liabilities and Deferred Credits	**11,268,000**	**11,396,300**	**11,396,300**	**11,396,300**	**11,396,300**
Common stock	2,800	2,800	2,800	2,800	2,800
Additional paid-in capital	4,057,600	4,141,400	4,391,400	4,491,400	4,491,400
Retained earnings	865,500	900,509	1,010,936	1,129,549	1,274,196
Treasury stock	(25,900)	55,663	190,689	334,347	448,136
Accumulated other comprehensive loss	(45,900)	(57,400)	(57,400)	(57,400)	(57,400)
Total Common Stockholders' Equity	**4,854,100**	**5,042,971**	**5,538,425**	**5,900,696**	**6,159,133**
TOTAL CAPITALIZATION & LIABILITIES	**19,271,700**	**19,911,099**	**20,460,435**	**20,893,776**	**21,129,750**
CONSOLIDATED DEBT METRICS					
Average Total Debt	7,182,050	7,101,600	7,415,800	7,415,800	7,415,800
Average Net Debt	7,163,550	7,088,400	7,315,152	7,206,544	7,197,866
Net Debt/ Total Book Capitalization	59.9%	58.9%	58.0%	55.8%	54.4%
Average Debt/ EBITDA	4.9x	4.7x	4.7x	4.5x	4.4x
Average Interest Rate	5.6%	5.6%	5.5%	5.5%	5.5%

Source: Company data, Morgan Stanley Research estimates

Exhibit 66

NI Cash Flow Statement

(amounts in thousands, except per unit data)	2009	2010E	2011E	2012E	2013E
Cash from Operating Activities					
Net Income	217,700	355,683	379,784	397,727	424,458
Gain on Early Extinguishment of Debt	4,500	-	-	-	-
Depreciation and Amortization	589,000	604,000	593,057	608,018	623,356
Net Changes in Price Risk Mgmt A / L	(9,100)	(4,200)	-	-	-
Deferred Income Taxes and Inv. Tax Credits	378,200	130,600	-	-	-
Deferred Revenue	4,300	(22,700)	-	-	-
Stock Compensation Expense	9,600	23,200	-	-	-
(Gain) Loss on Sale of Assets	(3,600)	(100)	-	-	-
Loss on Impairment of Assets	22,800	1,100	-	-	-
Income from Unconsolidated Affiliates	(15,100)	(11,100)	-	-	-
(Gain) Loss on Disposition of Disc Operations	2,800	(100)	-	-	-
Loss from Disc Operations - Net of Taxes	10,700	300	-	-	-
Amortization of Discount/Premium on Debt	13,000	8,100	-	-	-
AFUDC Equity	(5,400)	(4,900)	-	-	-
Dist. of Earnings Received from Equity Investee	-	7,900	-	-	-
Other	(254,500)	(55,000)	-	-	-
Changes in Assets and Liabilities:	701,300	(444,171)	(107,216)	(34,367)	(9,359)
Net cash from operating activities	**1,666,200**	**588,611**	**865,626**	**971,378**	**1,038,454**
Cash from Investing Activities					
Capital Expenditures	(777,200)	(878,700)	(800,000)	(900,000)	(891,000)
Insurance Recoveries	62,700	3,500	-	-	-
Proceeds from Disposition of Assets	5,700	300	-	-	-
Restricted Cash Deposits (Borrowings)	111,900	(101,800)	-	-	-
Contributions to Equity Investments	(23,500)	(87,700)	-	-	-
Other Investing Activities	(34,400)	(21,700)	-	-	-
Net cash from investing activities	**(654,800)**	**(1,086,100)**	**(800,000)**	**(900,000)**	**(891,000)**
Cash from Financing Activities					
Issuance of Long-Term Debt	1,460,000	-	-	-	-
Retirement/Repurchase of Long-Term Debt	(1,169,800)	(16,300)	-	-	-
Change in Short-Term Borrowings, Net	(1,060,500)	704,663	135,026	143,658	113,789
Issuance of Common Stock	10,600	60,600	250,000	100,000	-
Acquisition of Treasury Stock	(2,600)	(1,400)	-	-	-
Dividends Paid - Common Stock	(253,300)	(256,474)	(269,356)	(279,114)	(279,811)
Other	-	-	-	-	-
Net cash from financing activities	**(1,015,600)**	**491,089**	**115,670**	**(35,456)**	**(166,022)**
Net change in cash	**(4,200)**	**(6,400)**	**181,295**	**35,922**	**(18,567)**
Cash at beginning of period	**20,600**	**16,400**	**10,000**	**191,295**	**227,218**
Cash at end of period	**16,400**	**10,000**	**191,295**	**227,218**	**208,650**

Source: Company data, Morgan Stanley Research estimates

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MORGAN STANLEY RESEARCH

January 6, 2011
Diversified Natural Gas

Exhibit 67

NI Discounted Cash Flow Analysis

NiSource, Inc.
Discounted Cash Flow Analysis
($ Thousands, Except Per Share Data)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT + Equity Income (Pre Tax)	920,765	1,000,133	1,022,422	1,067,762	1,096,958	1,133,392	1,167,752	1,206,016	1,243,471	1,283,409	1,324,224
- Adjusted taxes	322,268	350,046	357,848	373,717	383,935	396,687	408,713	422,106	435,215	449,193	463,478
NOPLAT	598,497	650,086	664,574	694,045	713,023	736,705	759,039	783,911	808,256	834,216	860,745
% change	5%	9%	2%	4%	3%	3%	3%	3%	3%	3%	3%
EBITDA	1,524,765	1,593,190	1,630,440	1,691,118	1,736,038	1,788,594	1,839,481	1,894,691	1,949,518	2,007,267	2,066,341
% change	4%	4%	2%	4%	3%	3%	3%	3%	3%	3%	3%
+ D&A	604,000	593,057	608,018	623,356	639,080	655,202	671,730	688,675	706,047	723,858	742,118
- CAPEX	878,700	800,000	900,000	891,000	864,270	838,342	813,192	788,796	765,132	742,178	719,913
+ Change in NWC	(444,171)	(107,216)	(34,367)	(9,359)	(43,441)	(26,173)	(28,837)	(36,199)	(33,357)	(35,260)	(37,634)
Unlevered Free Cash Flow (UFCF)	(120,374)	335,928	338,226	417,042	444,391	525,392	588,740	647,591	715,814	780,636	845,316
% change	*nm*	*NM*	*0.7%*	*23.3%*	*6.6%*	*18.2%*	*12.1%*	*10.0%*	*10.5%*	*9.1%*	*8.3%*
Free Cash Flow Per Share	($0.43)	$1.13	$1.11	$1.37	$1.46	$1.73	$1.94	$2.13	$2.35	$2.57	$2.78
Average # of Shares Outstanding	282,930	298,082	304,142	304,142	304,142	304,142	304,142	304,142	304,142	304,142	304,142
Year count		-	1	2	3	4	5	6	7	8	9
Discounting factor		1.00	0.95	0.89	0.85	0.80	0.76	0.72	0.68	0.64	0.61
Discounted Unlevered Free Cash Flow (UFCF)		335,928	319,881	372,984	375,864	420,248	445,348	463,267	484,269	499,447	511,465

DCF Valuation - Firm Total (US$ Thousands)	%	
NPV of FCFF (2010-20)	32%	4,750,912
PV of Terminal Value	68%	10,013,515
PV of NOLs	0%	0
Enterprise Value	100%	14,764,426
2011E EV/EBITDA		*9.3x*
Less: Net Debt		7,153,200
Equity Value		7,611,226
Less: Minority Interests		-
Common Equity Value		7,611,226
Fully Diluted C/S Outstanding (mn)		282,930
DCF per share US$		$27

WACC Assumptions	%
Cost of Equity (CAPM)	6.8%
Risk Free Rate	4.0%
Beta (Long-Term)	0.69
Equity Risk Premium	4.0%
LT Equity/Capital Ratio	60.0%
Cost of Debt	4.2%
Interest Rate	6.5%
Effective Tax Rate	35.0%
LT Debt/Capital Ratio	40.0%
WACC	5.7%

Assumptions	
Statutory Tax Rate	35%
LT Growth Rate	0.5%

Terminal Value (TV) - US$ Thousands	
NOL Tax Credits	0
Terminal Value at 2020	17,499,876
Implied EBITDA Multiple	8.2x
UFCF Multiple	19.2x

Source: Company data, Morgan Stanley Research estimates

Exhibit 68
NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$5,531	**$20**
Gas Transmission & Storage	$4,818	**$17**
Electric Utility	$2,760	**$10**
Value per share		**$47**
Net Debt	$7,405	**$26**
Net Equity Value		**$20**
Shares Outstanding (in m)		280

GAS DISTRIBUTION	
Forward EBITDA	$790
Forward multiple	7.0x
Enterprise value	**$5,531**

GAS TRANSMISSION & STORAGE	
Forward EBITDA	$602
Forward multiple	8.0x
Enterprise value	**$4,818**

ELECTRIC UTILITY	
Forward EBITDA	$460
Forward multiple	6.0x
Enterprise value	**$2,760**

Source: Company data, Morgan Stanley Research estimates

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MORGAN STANLEY RESEARCH

January 6, 2011
Diversified Natural Gas

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Global Stock Ratings Distribution

(as of December 31, 2010)

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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	**1145**	**40%**	**437**	**44%**	**38%**
Equal-weight/Hold	**1192**	**42%**	**422**	**42%**	**35%**
Not-Rated/Hold	**119**	**4%**	**25**	**3%**	**21%**
Underweight/Sell	**382**	**13%**	**109**	**11%**	**29%**
Total	**2,838**		**993**		

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.
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.
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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.

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Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (01/04/2011)
Stephen J. Maresca, CFA		
El Paso Corp. (EP.N)	O (05/10/2010)	$13.64
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$20.68
National Fuel Gas Co (NFG.N)	O (01/06/2011)	$67.20
NiSource, Inc. (NI.N)	E (01/06/2011)	$17.86
Oneok Inc. (OKE.N)	E (10/29/2010)	$55.62
Questar Corp. (STR.N)	U (10/29/2010)	$17.45
Southern Union Company (SUG.N)	E (11/10/2009)	$24.67
Spectra Energy Corp. (SE.N)	E (11/10/2009)	$25.21
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$24.54

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* Historical prices are not split adjusted.

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EQUITY RESEARCH
Power & Utilities | U.S. Utilities | 1 May 2012

NISOURCE, INC.

Good Q1 from NI, Continuing to Execute

NI reported good Q1'12 results and reaffirmed their '12 guidance range. NI reported non-GAAP Q1'12 EPS of $0.76 and reaffirmed '12 EPS guidance of $1.40-$1.50. The most important drivers for the quarter were incremental projects and Columbia Gulf rate relief at midstream, while recovery of infrastructure investments at the LDCs drove results Y/Y. Results at NIPSCO-Electric were flattish as rate relief from the 2011 settlement will likely be phased in during 2H'12.

Most important takeaways from the quarter were in the midstream segment. 1) NI announced a $220M midstream project known as the "west side expansion," 2) Another open season for the "east side expansion" closed with good interest and negotiations with shippers are underway, 3) NI is in "advanced negotiations" with a producer counterparty around a JV to optimize the company's mineral rights position in the Utica that should be announced "in the next month or so", with acreage dedications in the ~100K range, and 4) Most importantly, is making good progress on the pipeline modernization program for CGT that will spend ~$4B over the next 10-15 years.

We think pipeline modernization could be a good opportunity for the NI story. NI has support from the federal government to undertake a $4B modernization plan on their Columbia Gas Transmission system. This spending will improve reliability and safety. While it is not yet clear if recovery will be made through FERC rate cases or potentially a settlement, NI will be spending this money, likely starting in 2013. We are assuming that NI's capex profile rises from $1.4B in '12 to $1.7B+ in '13/'14.

Raising PT and out year estimates due to adjusted CapEx outlook. Our PT moves to $25 and our '13/'14 estimates go to $1.57/$1.69. Price target methodology is on pg 3.

NI: Quarterly and Annual EPS (USD)

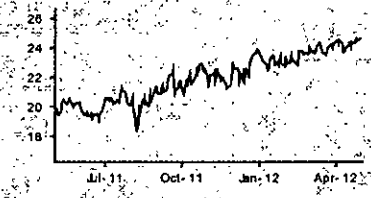
	2011	2012			2013			Change Y/Y	
FY/Dec	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.71A	0.76E	0.76A	0.71E	N/A	N/A	0.72E	7%	N/A
Q2	0.17A	N/A	N/A	0.19E	N/A	N/A	0.21E	N/A	N/A
Q3	0.11A	N/A	N/A	0.16E	N/A	N/A	0.17E	N/A	N/A
Q4	0.35A	N/A	N/A	0.38E	N/A	N/A	0.40E	N/A	N/A
Year	1.35A	1.46E	1.46E	1.44E	1.56E	1.57E	1.52E	8%	8%
P/E	18.3		16.9			15.7			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT Unchanged
Sector View	1-POSITIVE Unchanged
Price Target	USD 25.00 raised 9% from USD 23.00
Price (30-Apr-2012)	USD 24.65
Potential Upside/Downside	+1%
Tickers	NI
Market Cap (USD mn)	6995
Shares Outstanding (mn)	283.79
Free Float (%)	99.20
52 Wk Avg Daily Volume (mn)	3.2
Dividend Yield (%)	3.7
Return on Equity TTM (%)	6.12
Current BVPS (USD)	17.73

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 24.76-17.95



Link to Barclays Live for interactive charting

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COMPANY SNAPSHOT

NiSource, Inc. — U.S. Utilities

Income statement ($mn)	2011A	2012E	2013E	2014E	CAGR
EBITDA (adj)	1,500	1,624	1,735	1,866	7.6%
EBIT (adj)	961	1,076	1,178	1,300	10.6%
Pre-tax income (adj)	577	640	729	806	11.8%
Net income (adj)	378	424	482	533	12.1%
EPS (adj) ($)	1.35	1.46	1.57	1.69	7.8%
Diluted shares (mn)	280	290	307	315	4.0%
DPS ($)	0.92	0.92	0.92	0.92	0.0%

Margin and return data					Average
EBITDA (adj) margin (%)	25.9	27.4	28.5	29.9	27.9
EBIT (adj) margin (%)	16.6	18.1	19.4	20.8	18.7
Pre-tax (adj) margin (%)	10.0	10.8	12.0	12.9	11.4
Net (adj) margin (%)	6.5	7.2	7.9	8.5	7.5
ROIC (%)	4.9	5.2	5.2	5.3	5.2
ROA (%)	3.0	3.2	3.4	3.6	3.3
ROE (%)	7.6	7.6	8.3	8.2	8.0

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	11,800	12,652	13,823	14,985	8.3%
Total net assets	20,708	21,639	22,724	23,921	4.9%
Capital employed	12,940	13,591	14,762	15,924	7.2%
Shareholders' equity	4,997	5,555	5,785	6,458	8.9%
Net debt/(funds)	7,942	8,036	8,977	9,467	6.0%
Cash flow from operations	870	1,172	1,039	1,099	8.1%
Capital expenditure	-1,131	-1,399	-1,728	-1,728	N/A
Free cash flow	-518	-494	-971	-919	N/A
Pre-dividend FCF	-260	-227	-689	-629	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	18.3	16.9	15.7	14.6	16.4
EV/EBITDA (adj) (x)	9.9	9.2	9.2	8.8	9.3
EV/EBIT (adj) (x)	15.4	13.9	13.5	12.6	13.9
Price/BV (x)	1.4	1.3	1.3	1.2	1.3
Dividend yield (%)	3.7	3.7	3.7	3.7	3.7
Total debt/capital (%)	38.4	37.1	39.5	39.6	38.6
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics				
Payout ratio (%)	68.3	62.9	58.5	54.5
Interest cover (x)	2.6	2.5	2.6	2.6
Regulated (%)	100.0	100.0	100.0	100.0

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

Stock Rating	2-EQUAL WEIGHT
Sector View	1-POSITIVE
Price (30-Apr-2012)	USD 24.65
Price Target	USD 25.00
Ticker	NI

Investment case

Why a 2-Equal Weight? We rate NI as 2-EW because while the company has taken large steps recently to alleviate regulatory concerns, we see limited upside potential for the base business, which we value at a 5% premium to NI's regulated peers.

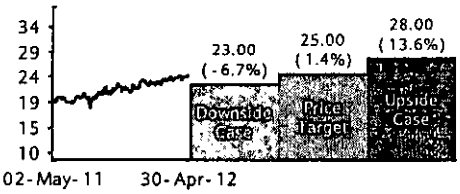
Upside case — USD 28.00

Our upside case on NI's base business embeds a 10% premium to the regulated group's multiple while additional upside may exist through the company's position around shale acreage that we assign $2/sh of value to.

Downside case — USD 23.00

Our downside case assumes NI trades in line with its regulated peers on '13 EPS.

Upside/downside scenarios



Source: FactSet Fundamentals

Price Target Methodology

Our $25 price target is premised upon our '14E EPS of $1.69 and the '14 group PE multiple of 13.9x, adjusted upwards by 5% for NI's gas heavy business mix.

Our prior $23 price target was premised upon our '13E EPS of $1.56 and the '13 group PE multiple of 14.0x, adjusted upwards by 5% for NI's gas heavy business mix.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 30-Apr-2012, USD 24.65), 2-Equal Weight/1-Positive

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In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-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

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

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Duke Energy (DUK)	Edison International (EIX)	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)

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Progress Energy (PGN)	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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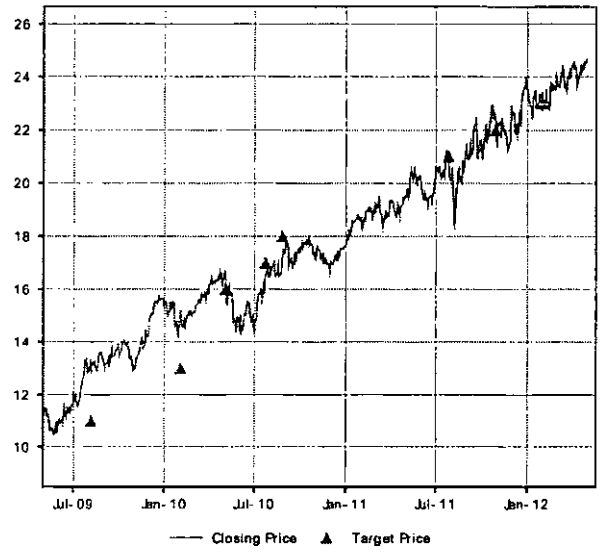
IMPORTANT DISCLOSURES CONTINUED

NiSource, Inc. (NI)

USD 24.65 (30-Apr-2012)

Stock Rating	Sector View
2-EQUAL WEIGHT	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 30-Apr-2012) **Currency=USD**



Date	Closing Price	Rating	Price Target
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
02-Feb-2010	15.17		13.00
05-Aug-2009	12.97		11.00

Link to Barclays Live for interactive charting

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Valuation Methodology: Our $25 price target is premised upon our '14E EPS of $1.69 and the '14 group PE multiple of 13.9x, adjusted upwards by 5% for NI's gas heavy business mix.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to the outlook include the outcome of regulatory proceedings, rating agency actions, interest rates, and access to the capital markets.

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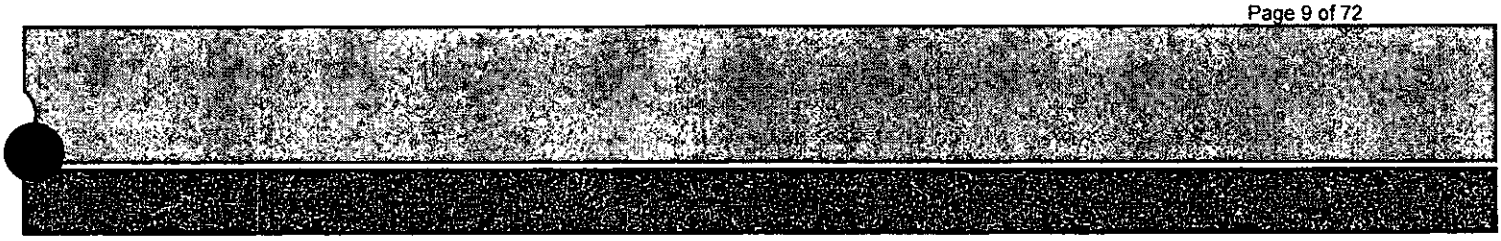
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BMO Capital Markets

May 1, 2012

NiSource

(NI-NYSE)

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

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1Q12 Beats as Growth Becomes More Tangible

Event

NI reported weather-normalized diluted EPS of $0.73 ($0.76 basic), above our $0.69 estimate and $0.71 consensus. The beat came from a multitude of pluses and minuses, but net EBIT from operations of $434 mn was near spot-on with our $435 mn, with the delta mainly coming from corporate (via several small items; this should also revert back to a modest drag going forward). Management reiterated its EPS guidance of $1.40-$1.50 (our $1.46 translates to $1.50 basic, apples to apples). The real positive, however, has been the increasing transparency in growth. Most of today's excitement appears directed at the pending Utica JV in the next 30 days or so; clearly a positive, but we also want to be careful of not double-counting value we already ascribe on a per acre basis to its liquids-rich position. In short, infrastructure investment above $300 mn should be incremental to our valuation. We are more excited about the value creation from its proposed $4B pipeline modernization program. NI continues to negotiate with shippers, and believes it could reach a settlement and file with the FERC mid-year with a year-end approval. The cornerstone of this is a tracking mechanism for timely and assured recovery; if achieved, we estimate the NPV uplift could approach $3/sh (which translates to a 17x P/E multiple of incremental EPS three years forward).

Impact

Positive.

Forecasts

We're increasing our 2012 estimate a penny to $1.46 owing in part to the 1Q beat. Our 2013 estimate remains unchanged at $1.52; our new 2014 estimate is $1.61.

Valuation

We're increasing our price target $1 to $25, reflecting an undiscounted 10x multiple in pipes, from increased traction for growth (e.g., East Side/West Side projects). Upside from the pipe's modernization program could be up to $3/sh.

Recommendation

Maintain **MARKET PERFORM** given already strong performance of NI to date.

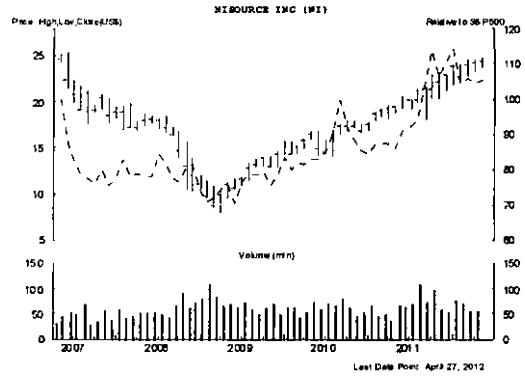
Securities Info

Price (1-May)	$25.33	**Target Price**	$25↑
52-Wk High/Low	$25/$18	Dividend	$0.92
Mkt Cap (mm)	$7,148	Yield	3.6%
Shs O/S (mm, BASIC)	282.2	Float O/S (mm)	279.6
Options O/S (mm)	na	ADVol (30-day, 000s)	2,781

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
NiSource 6.8% '19	119	Baa3 / BBB-	3.61%	277bp
NiSource 6.4% '18	118	Baa3 / BBB-	3.04%	221bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2010A	2011A	2012E	2013E
EPS Pro Forma	$1.22	$1.31	$1.46↑	$1.52
P/E			17.3x	16.7x
First Call Cons.			*$1.44*	*$1.52*
EPS GAAP	$1.05	$1.04	$1.39	$1.52
FCF	$4.27	$4.10	$4.14↑	$4.03↓
P/FCF			6.1x	6.3x
EBITDA ($mm)	$1,514	$1,382	$1,642	$1,742
EV/EBITDA			8.5x	8.0x
Rev. ($mm)	$6,335	$6,019	$5,191	$5,328
EV/Rev			2.7x	2.6x

Quarterly EPS	1Q	2Q	3Q	4Q
2011A	$0.71	$0.16	$0.11	$0.31
2012E	$0.73A	$0.17↓	$0.13↓	$0.43↓

Balance Sheet Data (31-Dec)			
Net Debt ($mm)	$6,740	TotalDebt/EBITDA	4.3x
Total Debt ($mm)	$6,988	EBITDA/IntExp	4.0x
Net Debt/Cap.	52.3%	Price/Book	1.4x

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

Changes	Annual EPS	Annual FCF	Quarterly EPS		Target
	2012E $1.45 to $1.46	2012E $4.06 to $4.14	Q2/12E $0.18 to $0.17	Q4/12E $0.44 to $0.43	$24.00 to $25.00
		2013E $4.14 to $4.03	Q3/12E $0.14 to $0.13		

Please refer to pages 5 to 8 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2009A	2010A	2011A	Q1	Q2	Q3	Q4	2012E	2013E	2014E
Operating Revenues:										
Gas Distribution	$3,303	$3,096	$2,918	$874	$502	$302	$839	$2,518	$2,780	$2,795
Pipelines & Storage	1,241	1,261	1,355	409	244	236	286	1,175	1,093	1,154
Electric	1,213	1,375	1,428	353	349	374	376	1,452	1,474	1,488
Other	542	603	319	23	14	10	(2)	46	(19)	(19)
Revenues	6,299	6,335	6,019	1,659	1,110	923	1,500	5,191	5,328	5,418
Operating Expenses:										
Cost of Sales	2,978	2,898	2,556	630	302	146	535	1,614	1,613	1,599
Operation & Maintenance	1,650	1,654	1,723	405	415	406	436	1,663	1,693	1,716
DD&A	589	596	536	146	147	148	148	590	604	621
Loss (gain) on asset sales	16	1	17	(2)	0	0	0	(2)	0	0
Taxes and Other	283	287	295	87	72	68	78	305	311	314
Total Operating Expenses	5,516	5,436	5,129	1,267	937	768	1,198	4,170	4,220	4,250
Operating Income	783	899	890	392	172	155	302	1,021	1,107	1,167
Other:										
Equity in Earnings	16	15	15	8	8	8	8	31	31	31
Minority Interests	0	0	0	0	0	0	0	0	0	0
Other	(6)	4	(61)	0	0	0	0	0	0	0
Total Other Income	10	19	(47)	8	8	8	8	31	31	31
Reported EBIT	**$793**	**$918**	**$844**	**$400**	**$180**	**$162**	**$309**	**$1,052**	**$1,138**	**$1,198**
EBITDA	**$1,383**	**$1,514**	**$1,382**	**$546**	**$328**	**$310**	**$458**	**$1,642**	**$1,742**	**$1,819**
EBIT Composition										
Gas Distribution	328	324	441	212	61	22	157	452	491	492
Pipelines & Storage	389	377	360	139	94	82	122	437	481	533
Electric	117	234	205	46	33	66	39	183	196	204
Corporate & Other	(40)	(17)	(162)	3	(8)	(8)	(6)	(20)	(30)	(30)
Total EBIT	**$793**	**$918**	**$844**	**$400**	**$180**	**$162**	**$309**	**$1,052**	**$1,138**	**$1,198**
Interest Expense	399	392	377	103	104	104	105	417	416	428
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0
Financing Expense	399	392	377	103	104	104	105	417	416	428
Income Before Taxes	394	526	467	296	76	58	204	634	723	770
Income Taxes										
Current	(214)	118	(15)	11	3	2	7	23	63	135
Deferred	378	55	178	92	24	18	64	199	190	135
Total Income Taxes	165	173	163	103	27	20	71	221	253	270
Effective Inc. Tax Rate (%)	42%	33%	35%	35%	35%	35%	35%	35%	35%	35%
Net Income From Continuing Operations	229	353	304	194	49	38	133	413	470	501
Discontinued Operations, net	(12)	(0)	(5)	(0)	0	0	0	(0)	0	0
Change in Accounting	(0)	(58)	0	0	0	0	0	0	0	0
GAAP Net Income to Common	**$218**	**$294**	**$299**	**$193**	**$49**	**$38**	**$133**	**$413**	**$470**	**$501**
Adjustments to Core										
Asset Impairment	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(8)	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(40)	11	(74)	(21)	0	0	0	(21)	0	0
Total Adjustments	(49)	11	(74)	(21)	0	0	0	(21)	0	0
Non-GAAP Core Earnings	**$278**	**$342**	**$378**	**$215**	**$49**	**$38**	**$133**	**$434**	**$470**	**$501**
Shares Outstanding (mm)										
Avg. Diluted Shares Out	276	280	289	293	292	296	308	297	309	311
Avg. Basic Shares Out	275	278	280	283	282	291	307	291	308	310
Period-end basic Shares Out	276	279	281	282	283	307	308	308	309	311
Earnings Per Share (Diluted)										
GAAP EPS	**$0.79**	**$1.05**	**$1.04**	**$0.66**	**$0.17**	**$0.13**	**$0.43**	**$1.39**	**$1.52**	**$1.61**
Core EPS	**$1.01**	**$1.22**	**$1.31**	**$0.73**	**$0.17**	**$0.13**	**$0.43**	**$1.46**	**$1.52**	**$1.61**
EPS Growth (core)	-19.4%	21.0%	7.4%	1.8%	2.1%	7.5%	37.3%	11.5%	4.0%	6.1%
Dividends										
Cash per share	$0.92	$0.92	$0.92	$0.24	$0.24	$0.24	$0.24	$0.96	$1.00	$1.04
Payout Ratio (%)	116.6%	87.5%	88.7%					69.1%	65.9%	64.6%

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2009A	2010A	2011A	Q1	Q2	Q3	Q4	2012E	2013E	2014E
Operating Activities										
GAAP Net Income from Cont. Ops	218	292	299	193	49	38	133	413	470	501
DD&A	589	596	538	146	147	148	148	590	604	621
Deferred income tax benefit	378	200	178	92	24	18	64	199	190	135
Deferred Revenues	4	(20)	3	1	0	0	0	1	0	0
Amortization of premium on debt	13	10	9	2	0	0	0	2	0	0
Less Gain or Loss on assets	(4)	(0)	0	(2)	0	0	0	(2)	0	0
Less Equity Earnings plus Cash Distributions	(15)	7	16	12	(4)	(4)	(4)	0	(15)	(15)
Other non-cash income items	36	112	139	27	0	0	0	27	0	0
OCF (pre-working capital)	**$1,219**	**$1,197**	**$1,183**	**$472**	**$217**	**$200**	**$342**	**$1,230**	**$1,248**	**$1,241**
OCF per share	**$4.42**	**$4.27**	**$4.10**	**$1.61**	**$0.74**	**$0.68**	**$1.11**	**$4.14**	**$4.03**	**$3.99**
Working Capital:										
Accounts and notes receivable	259	(244)	318	128				128	0	0
Inventory	129	103	(142)	211				211	0	0
Less Change of Price Risk Management Activities	0	0	0	0				0	0	0
Accounts payable	(192)	38	(155)	(41)				(41)	0	0
Customer deposit, net	25	(25)	(5)	(99)				(99)	0	0
Other assets	83	(206)	(201)	(143)				(143)	0	0
Other Liabilities	382	(86)	(78)	(49)	0	0	0	(49)	0	0
Changes in Working Capital	686	(420)	(262)	8	0	0	0	8	0	0
Discontinued Operations	(255)	(57)	(50)	(0)	0	0	0	(0)	0	0
Cash Flow From Operations	1,651	720	870	480	217	200	342	1,238	1,248	1,241
Investing Activities										
Capital Spending (to PP&E)	(777)	(804)	(1,125)	(293)	(347)	(347)	(347)	(1,333)	(1,288)	(1,254)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	6	1	9	2	0	0	0	2	0	0
Other	109	(140)	(34)	(4)	0	0	0	(4)	0	0
Cash Used in Investing	(662)	(944)	(1,149)	(295)	(347)	(347)	(347)	(1,335)	(1,288)	(1,254)
Discontinued Operations	8	0	0	0	0	0	0	0	0	0
Investing Cash Flow	(655)	(943)	(1,149)	(295)	(347)	(347)	(347)	(1,335)	(1,288)	(1,254)
Financing Activities										
Sale of Common Stock	26	14	24	17	10	410	10	446	38	38
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,460	250	890	0	0	0	500	500	500	500
Redemption of Common Stock	(3)	(2)	(3)	(10)	0	0	0	(10)	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(1,170)	(1,071)	(287)	(6)	0	0	(315)	(321)	(420)	(500)
Change in Notes Payable, LC, ST Debt	(1,061)	1,280	(23)	(95)	200	0	(200)	(95)	150	275
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0
Dividends	(253)	(256)	(258)	(65)	(63)	(65)	(69)	(261)	(288)	(302)
Other	0	0	(62)	0	0	(12)	0	(12)	0	0
Cash From (For) Financing	(1,000)	216	281	(158)	147	333	(74)	247	(20)	11
Discontinued Operations	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(1,000)	216	281	(158)	147	333	(74)	247	(20)	11
Change in Cash	($4)	($7)	$2	$27	$17	$186	($79)	$150	($61)	($3)
Cash & Temp. Inv. Beginning of Yr.	$21	$16	$9	$12	$38	$55	$241	$12	$162	$101
Cash & Temp. Inv. End of Yr.	$16	$9	$12	$38	$55	$241	$162	$162	$101	$99

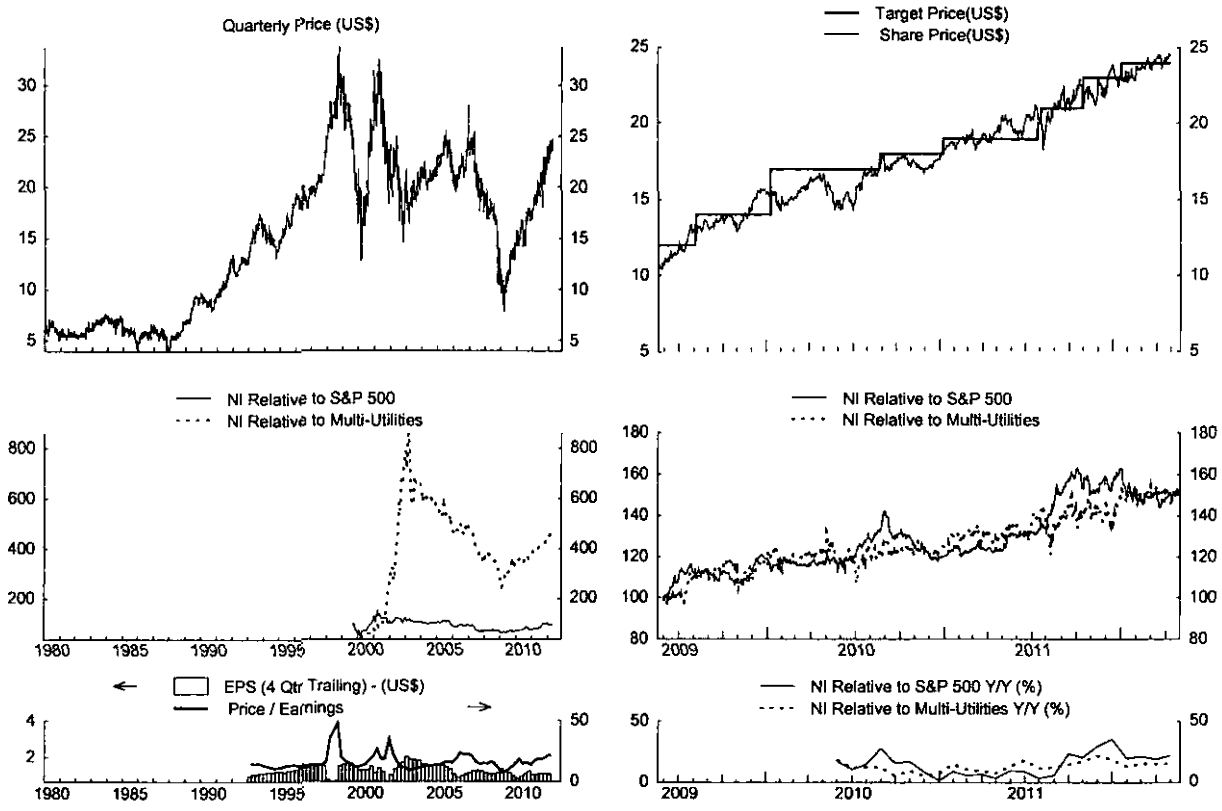
Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2009A	2010A	2011A	Q1	Q2	Q3	Q4	2012E	2013E	2014E
Assets:										
Cash & Equivalent	16	9	12	39	55	241	162	162	101	99
Restricted Cash	175	203	161	150	150	150	150	150	150	150
Receivables	848	1,121	951	853	853	853	853	853	853	853
Allowance for Uncollectable Acts.	(40)	(41)	(31)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	40	136	21	15	15	15	15	15	15	15
Inventories	385	428	566	354	354	354	354	354	354	354
ST Assets Price Risk Management	173	160	137	142	142	142	142	142	142	142
Regulatory Assets	238	152	170	186	186	186	186	186	186	186
Other Current Assets	387	283	262	277	277	277	277	277	277	277
Total Current Assets	2,224	2,449	2,248	1,970	1,987	2,173	2,094	2,094	2,033	2,031
Plant & Equipment (Gross)	19,038	19,590	20,470	20,708	21,055	21,401	21,748	21,748	23,036	24,290
Accumulated DD&A	(8,354)	(8,493)	(8,670)	(8,806)	(8,953)	(9,101)	(9,250)	(9,250)	(9,854)	(10,474)
Plant & Equipment, Net	10,684	11,097	11,800	11,902	12,101	12,300	12,498	12,498	13,183	13,816
Investments	295	349	356	362	362	362	362	362	362	362
LT Assets Price Risk Management	238	240	189	115	115	115	115	115	115	115
Regulatory Assets	1,644	1,650	1,978	1,940	1,940	1,940	1,940	1,940	1,940	1,940
Goodwill	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677
Intangible Assets	320	309	298	295	295	295	295	295	295	295
Other Long Term Assets (& flywheel)	53	168	162	185	189	205	209	209	224	239
Total Assets	19,134	19,939	20,708	20,446	20,666	21,067	21,189	21,189	21,828	22,474
Liabilities & Equity:										
Short Term Debt	800	1,417	1,687	2,015	2,215	2,215	2,015	2,015	2,165	2,440
Accounts Payables	502	582	435	381	381	381	381	381	381	381
ST Liabilities Price Risk Management	190	174	168	180	180	180	180	180	180	180
Regulatory Liabilities	44	93	112	100	100	100	100	100	100	100
Other	1,575	1,384	1,245	1,042	1,042	1,042	1,042	1,042	1,042	1,042
Total Current Liab	3,111	3,649	3,646	3,718	3,918	3,918	3,718	3,718	3,868	4,143
Long Term Debt	5,988	5,936	6,267	5,834	5,834	5,834	6,019	6,019	6,099	6,099
LT Liabilities Price Risk Management	170	182	139	95	95	95	95	95	95	95
Accumulated Deferred Taxes	2,018	2,243	2,571	2,651	2,675	2,693	2,757	2,757	2,947	3,082
Regulatory Liabilities	1,559	1,596	1,664	1,616	1,616	1,616	1,616	1,616	1,616	1,616
Other Liabilities	1,572	1,409	1,424	1,451	1,451	1,451	1,451	1,451	1,451	1,451
Total Liabilities	14,418	15,016	15,711	15,365	15,589	15,608	15,657	15,657	16,077	16,486
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0
Common Equity	4,717	4,923	4,997	5,081	5,077	5,459	5,532	5,532	5,752	5,988
Other	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	19,134	19,939	20,708	20,446	20,666	21,067	21,189	21,189	21,828	22,474

Source: BMO Capital Markets estimates, company data.

NISOURCE INC (NI)



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

Last Daily Data Point: April 27, 2012

mportant Disclosures

lyst's Certification

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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, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.2%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Und = Underperform - Forecast to underperform the market;
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1 May 2012 | 9 pages

NiSource Inc (NI)

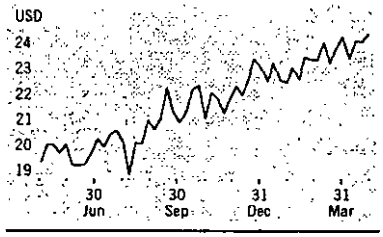
EPS Ahead of Expectations; Utica Build-Out Gains More Visibility

■ Company Update

- **EPS (Ahead)** – NI reported adjusted EPS of $0.67 per share (including weather impact), better than our estimate of $0.61 per share, but lower than consensus of $0.71 per share. Better performance at the pipelines and gas utilities drove the beat. Management reiterated 2012 EPS guidance of $1.40 to $1.50.
- **Pipelines (Ahead)** – 1Q EBIT was stronger than expected ($139 mm vs. $129 mm) on lower expenses and higher equity earnings (Millennium). Throughput volumes were down 3% Y-o-Y. Management continues to provide incremental clarity on the size and scope of the capex potential in the Utica. The company announced they were in advanced talks with a JV partner in the region that will monetize acreage, including downstream projects. Financial details are expected in the next few weeks.
- **Gas Utilities (Ahead)** – EBIT of $212 mm was ahead of our revised expectations of $205 mm (23% lower HDDs compared to normal & 25% lower HDDs Y/Y). The beat was due to lower expenses compared to our estimate. Total volumes, including the weather impact, were down 11%, but excluding weather were up nearly 4%. Col. Gas of MA filed a base rate case at the start of Q2 for ~$30 mm related to modernization and infrastructure replacement. Industrial volumes were up Y/Y.
- **Electric (Below)** – Adjusted EBIT was $46 mm, lower than our estimate of $58 mm. This was due primarily to higher than expected costs at the utility. Total GW hours were ~3% lower than last year.
- **Recommendation** – We maintain our $24 target price and Neutral rating pending additional analysis on NI's additional pipeline expansion projects. NI stock traded higher today on increased visibility of additional projects in the Marcellus/Utica and commentary on the potential use of the master limited partnership structure as a source of future capital.

Neutral	**2**
Price (01 May 12)	US$25.33
Target price	US$24.00
Expected share price return	-5.3%
Expected dividend yield	3.6%
Expected total return	**-1.6%**
Market Cap	US$7,188M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.72A	0.14A	0.12A	0.31A	1.29A	1.35A
2012E	**0.61E**	**0.18E**	**0.16E**	**0.44E**	**1.38E**	**1.44E**
Previous	0.61E	0.18E	0.16E	0.44E	1.38E	na
2013E	**0.69E**	**0.19E**	**0.16E**	**0.46E**	**1.51E**	**1.52E**
Previous	0.69E	0.19E	0.16E	0.46E	1.51E	na
2014E	**0.71E**	**0.22E**	**0.21E**	**0.48E**	**1.62E**	**1.61E**
Previous	0.71E	0.22E	0.21E	0.48E	1.62E	na

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

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NiSource Inc (NI)
1 May 2012

NI.N: Fiscal year end 31-Dec						Price: US$25.33; TP: US$24.00; Market Cap: US$7,188m; Recomm: Neutral				
Profit & Loss (US$m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**Valuation ratios**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue	5,816	5,967	6,107	6,337	6,529	PE (x)	21.2	19.6	18.4	16.8	15.7
Cost of sales	-2,976	-3,045	-2,962	-3,062	-3,142	PB (x)	1.4	1.5	1.4	1.4	1.4
Gross profit	2,840	2,922	3,145	3,275	3,387	EV/EBITDA (x)	11.1	11.5	10.4	9.6	8.9
Gross Margin (%)	48.8	49.0	51.5	51.7	51.9	FCF yield (%)	0.3	-1.8	-6.2	-4.1	-3.1
EBITDA	**1,491**	**1,486**	**1,689**	**1,840**	**1,972**	Dividend yield (%)	3.6	3.6	3.6	3.6	3.6
EBITDA Margin (%)	25.6	24.9	27.6	29.0	30.2	Payout ratio (%)	77	71	67	61	57
Depreciation	-543	-485	-583	-631	-678	ROE (%)	6.9	7.5	8.0	8.6	9.2
Amortisation	-54	-54	-54	-54	-54	**Cashflow (US$m)**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBIT	**895**	**948**	**1,052**	**1,155**	**1,240**	EBITDA	1,491	1,486	1,689	1,840	1,972
EBIT Margin (%)	15.4	15.9	17.2	18.2	19.0	Working capital	-414	-264	-137	-37	-41
Net interest	-392	-377	-409	-409	-409	Other	-249	-231	-632	-670	-714
Associates	15	15	12	32	38	**Operating cashflow**	**828**	**991**	**920**	**1,133**	**1,216**
Non-op/Except	4	-7	0	-10	-35	Capex	-804	-1,125	-1,397	-1,471	-1,471
Pre-tax profit	**522**	**578**	**656**	**769**	**834**	Net acq/disposals	1	0	0	0	0
Tax	-188	-207	-236	-284	-309	Other	-140	-24	0	0	0
Extraord./Min.Int./Pref.div.	3	-2	0	0	0	**Investing cashflow**	**-943**	**-1,149**	**-1,397**	**-1,471**	**-1,471**
Reported net profit	**337**	**370**	**420**	**485**	**526**	Dividends paid	-256	-258	-281	-296	-299
Net Margin (%)	5.8	6.2	6.9	7.7	8.1	**Financing cashflow**	**211**	**281**	**140**	**-216**	**-219**
Core NPAT	334	371	420	485	526	**Net change in cash**	**38**	**73**	**-338**	**-553**	**-474**
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**Free cashflow to s/holders**	**24**	**-134**	**-478**	**-338**	**-254**
Reported EPS ($)	1.21	1.28	1.38	1.51	1.62						
Core EPS ($)	1.19	1.29	1.38	1.51	1.62						
DPS ($)	0.92	0.92	0.92	0.92	0.92						
CFPS ($)	2.96	3.44	3.01	3.53	3.74						
FCFPS ($)	0.09	-0.47	-1.57	-1.05	-0.78						
BVPS ($)	17.58	17.32	18.19	17.83	17.64						
Wtd avg ord shares (m)	278	286	303	321	325						
Wtd avg diluted shares (m)	280	288	305	321	325						
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**						
Sales revenue (%)	-7.6	2.6	2.4	3.8	3.0						
EBIT (%)	6.5	5.9	11.0	9.8	7.3						
Core NPAT (%)	20.6	11.3	13.0	15.7	8.3						
Core EPS (%)	19.0	8.1	6.6	9.8	7.0						
Balance Sheet (US$m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**						
Cash & cash equiv.	212	172	161	161	161						
Accounts receivables	1,178	856	952	1,060	666						
Inventory	428	566	624	216	431						
Net fixed & other tangibles	13,156	14,129	14,890	15,091	15,289						
Goodwill & intangibles	3,986	3,975	3,975	3,975	3,975						
Financial & other assets	979	1,010	1,047	888	913						
Total assets	**19,939**	**20,708**	**21,649**	**21,391**	**21,435**						
Accounts payable	582	434	459	328	315						
Short-term debt	1,417	1,687	1,687	1,687	1,687						
Long-term debt	5,936	6,267	6,594	6,488	6,453						
Provisions & other liab	7,081	7,323	7,353	7,159	7,240						
Total liabilities	**15,016**	**15,711**	**16,093**	**15,662**	**15,695**						
Shareholders' equity	4,923	4,997	5,557	5,728	5,741						
Minority interests	0	0	0	0	0						
Total equity	**4,923**	**4,997**	**5,557**	**5,728**	**5,741**						
Net debt	**7,141**	**7,782**	**8,120**	**8,015**	**7,979**						
Net debt to equity (%)	145.0	155.7	146.1	139.9	139.0						

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NiSource Inc (NI)
1 May 2012

Earnings Comparison Table for Q1/2012

Figure 1. Actual vs. Estimates

Operating Income	Actual	Estimate	Variance	EPS Impact	Reason for Material Variance
Gas Distribution	212.0	205.2	3%	$0.01	Warm weather, Lower Expenses
Gas Transmission & Storage	139.0	128.9	8%	$0.02	Higher Equity earnings & Lower Expenses
Electric	46.2	57.7	-20%	($0.02)	Weather, Higher Costs
Corporate/Other	2.6	(9.8)	-127%	$0.03	N/A
EBIT	399.8	382.1	5%	$0.04	

Other	Actual	Estimate	Variance	EPS Impact	Reason for Variance
Interest Expense	(102.3)	(102.2)	0%	$0.00	N/A
Effective Tax Rate	36%	36.0%	-1%	$0.00	N/A
Share Count	293.1	291.6	1%	($0.00)	N/A

Gas Sales (Bcf)	Actual	Q1/11 Actuals	Variance (Total)	Variance (%)	Reason for Variance
Residential	102.9	134.5	(32)	-23%	
Commercial	61.2	77.8	(16)	-21%	
Industrial	131.3	118.9	12	10%	
Wholesale	13.5	17.5	(4)	-23%	
Other	0.1	0.3	(0)	-67%	
Total	309.0	348.8	(40)	-11%	

Electric Sales (Gwh)	Actual	Estimate	Variance (Total)	Variance (%)	Reason for Variance
Residential	781.2	860.1	(79)	-9%	
Commercial	907.8	929.5	(22)	-2%	
Industrial	2,385.0	2,454.6	(70)	-3%	
Wholesale	19.1	67.1	(48)	-72%	
Other	32.5	44.5	(12)	-27%	

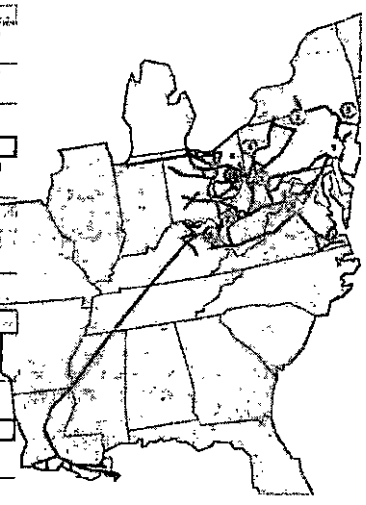
Source: Citi Investment Research and Analysis

Figure 2. NiSource Project Pipeline

NGT&S Growth Projects

	Project	Description	CapEx	In-Service*
		Completed (2012)		
1	Line WS Expansion	Marcellus: Additional Compression - between Loudoun, VA & Leach, KY (+175K Dth/Day)	$14M	2Q'2012
2	Smithfield Project	Marcellus: Pipeline and Compressor Modifications - near Smithfield, WV & Waynesburg, PA (+150K Dth/Day)	$14M	2Q'2012
3	Rimersburg Expansion	Marcellus: Line Expansion - North Central PA (+19K Dth/Day)	$6M	2Q'2012
		In Execution		
4	Big Pine Gathering System	Marcellus: ~70 Miles of Pipeline with Multiple Interstate Interconnections - Western PA (~425 MMcf/Day)	$150M	Year-end 2012
5	Millennium Expansion	Marcellus: Massive Compression - Ridgecrest to Ramapo (+~120K Dth/Day)	$47M $6 - ~$22M	4Q'2012
6	VEPCO Power Plant Transportation	Gas Generation: Pipeline to Service Virginia Electric Power's New 1,358 MW Plant (+250K Dth/Day)	$35M	Mid-2014
7	West Side Expansion	Marcellus: Transport Marcellus Gas South to Gulf Coast Markets (+~360K Dth/Day)	$725M	4Q'2014
		In Development/Negotiations		
8	Utica Minerals JV	Utica: Potential JV to Optimize Minerals Position and Midstream Investment - including Gathering, Processing and Residue Line	TBD	TBD
9	East Side Expansion	Marcellus: Connect Marcellus Gas to Growing Mid-Atlantic Markets (+380K Dth/Day)	TBD	TBD
		In Evaluation		
10	"Fairway" Gathering & Processing	Utica: 90 Miles of Gathering and 200 MCfDay of Processing - Eastern OH	TBD	TBD

* *Projected*



Source: Citi Investment Research and Analysis, Company reports

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 $1.40 per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include substantial industrial load growth at the utility or the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale.

Valuation

We average multiple valuation methodologies to derive our $24 target. Our NAV yields a value of $25. 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 $24. Our P/E and EV/EBITDA multiples (2013 estimates) 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 14.5x and 14.5x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 8.0x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of $24 and $23.

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.

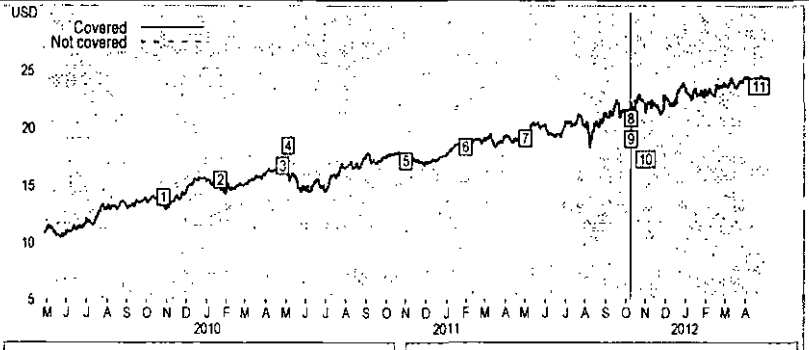
Appendix A-1

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IMPORTANT DISCLOSURES

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

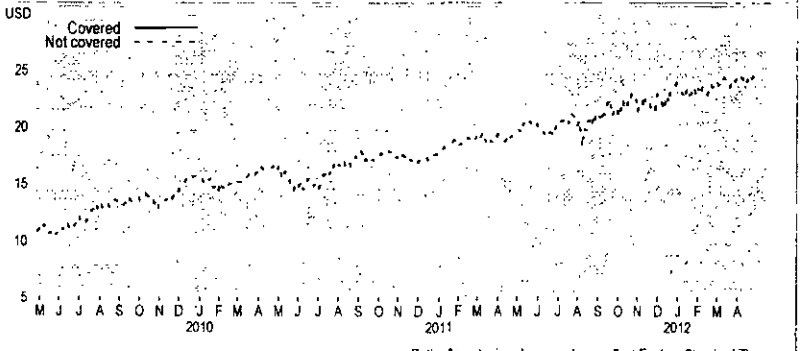


	Date	Rating	Target Price	Closing Price
1	27-Oct-09	1H	*15.00	13.47
2	21-Jan-10	*2M	*16.00	14.87
3	27-Apr-10	2M	*16.50	16.27
4	5-May-10	2M	*17.00	16.20
5	1-Nov-10	2M	*18.00	17.17
6	31-Jan-11	2M	*20.00	18.62
7	2-May-11	2M	*21.00	19.52
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	21.00	21.55
10	1-Nov-11	2	*22.00	21.32
11	23-Apr-12	2	*24.00	24.30

* 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

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Data current as of 31 Mar 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	10%	79%	10%
% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

02 May 2012
Americas/United States
Equity Research
Natural Gas

CREDIT SUISSE

NiSource Inc (NI)

Rating	**NEUTRAL***
Price (01 May 12, US$)	25.33
Target price (US$)	(from 24.00) 26.00[1]
52-week price range	25.33 - 18.27
Market cap. (US$ m)	7,196.06
Enterprise value (US$ m)	15,054.08

*Stock ratings are relative to the relevant country benchmark.
[1]Target price is for 12 months.

ASSUMING COVERAGE

1Q12 Slightly Above Estimates; Assuming Coverage and Raising TP to $26; Maintain Neutral

- **1Q12 Results Slightly Ahead of Estimates:** NI reported 1Q12 diluted EPS of $0.73/share, above our estimated $0.71/share. Gas Transmission and Storage performance was above our estimates. This upside was offset by Gas Distribution and Electric segments being below our expectations.
- **Utica Shale Update:** Management reaffirmed its prior estimate that its Utica prospective acreage amounted to between 100,000 – 200,000 acres of mineral rights. Approximately, 30-40% of it may lie in the eastern wet portion of the Utica play. Management again stressed that it is more focused on leveraging its acreage into downstream infrastructure opportunities. To note, our model does not attribute any value for the Utica potential yet.
- **2012 Guidance Reiterated:** Management reiterated its 2012 EPS guidance range of $1.40 to $1.50/share. We forecast NI to generate earnings in the upper end of this range. NI is well on track towards its budgeted $1.4B capital expenditure plan for 2012. To note, the growth opportunities are embedded in the gas transmission and storage (around the Marcellus and Utica shale plays) and gas distribution infrastructure.
- **Maintain Neutral and Increase TP to $26:** We maintain our Neutral rating and increase our TP to $26. Our new TP equates to a P/E multiple of 17x our NTM Basic EPS est. of $1.48.

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Share price performance



On 05/01/12 the S&P 500 INDEX closed at 1405.82

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.72	0.16	0.12	0.31
2012E	0.73	0.17	0.14	0.39
2013E	0.72	0.20	0.17	0.45

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (US$)	1.31	1.42	1.54	1.65
Prev. EPS (US$)	—	1.41	1.48	1.60
P/E (x)	19.3	17.9	16.5	15.4
P/E rel. (%)	134.0	135.5	140.5	145.9
Revenue (US$ m)	5,794.9	5,660.0	6,055.7	6,298.1
EBITDA (US$ m)	1,499.5	1,676.6	1,810.5	1,920.4
OCFPS (US$)	3.02	3.93	3.56	4.48
P/OCF (x)	7.9	6.5	7.1	5.7
EV/EBITDA (current)	10.0	9.0	8.3	7.8
Net debt (US$ m)	7,942	7,858	8,023	7,899
ROIC (%)	4.86	5.19	5.53	5.86
Number of shares (m)	284.09	IC (current, US$ m)		12,939.60
BV/share (Next Qtr., US$)	18.2	EV/IC (x)		1.2
Net debt (Next Qtr., US$ m)	8,048.4	Dividend (Next Qtr., US$)		0.23
Net debt/tot cap (Next Qtr., %)	158.9	Dividend yield (%)		0.91

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. U.S. 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 15,500 miles of pipe and 640 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 450,000 customers.

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 a $4.35 billion, 20-plus year infrastructure replacement program at its gas utilities that should drive stable growth over the next several years. Importantly, we believe NI has the liquidity in place to maintain an annual capex program of approximately $1 billion.

Additional Color

- **Modeling 4% Dividend Growth**: We believe NI is likely to resume dividend growth in 2012. We are modeling a $0.01/shr increase (4%) growth when NI declares its distribution for 3Q12. Our model forecasts with a $0.01/shr increase, NI will have 64% payout ratio. We are forecasting ~4% annual dividend growth rate going forward.
- **Forward Equity Sales Update:** NI intends to access its forward equity draw by September 2012. To recap, NI entered into a forward equity agreement in September 2010 that will result in the issuance of 25mm shares by September 2012. We expect the equity issuance will provide about $400mm in proceeds to NI that would help finance its growth plans in 2012.
- **MLP Still an Option but not Imminent:** Management still views an MLP as a viable option to help finance growth of its midstream business. However, the tone on NI's earnings call did not sound like any progress had been made since the last call either positively or negatively. We believe that investors have bid up NI shares in anticipation of an MLP spinoff and should an MLP not materialize, NI shares could be under pressure.
- **Liquidity:** NI had a net available liquidity of $631mm at the end of 1Q12.

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Valuation

Our target price of $26 is based on a projected NTM price to earnings multiple of ~16 times. NI appears fairly valued based on price to earnings and sum-of-the-parts analysis, in our view. The stock trades at price to earnings multiples of ~18x 2012E and ~16x 2013E, respectively. We rationalize that this may be the result of investors' expectations of favorable future multiples when an MLP is eventually created. And once again, should the MLP get shelved...look out below.

Our 12-month target price of $26 is based on 17 times NTM EPS

Exhibit 1: Sum of the Parts 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	205.3	250.7	137.1	P/E	14.5x	15.0x	15.5x	1,988.5	2,057.1	2,125.7
Natural Gas Utilities	457.6	196.1	653.6	EV/EBITDA	8.5x	9.0x	9.5x	5,556.0	5,882.8	6,209.7
Transmission and Storage	446.0	139.5	585.5	EV/EBITDA	9.0x	9.5x	10.0x	5,269.5	5,562.3	5,855.0
Total Enterprise / Equity Value								12,814.0	13,502.2	14,190.3
Cash & Equivalents								188.2	188.2	188.2
Short-term Debt								1,652.0	1,652.0	1,652.0
Long-term Debt								5,834.4	5,834.4	5,834.4
Less Net Debt								7,298.2	7,298.2	7,298.2
Total Equity Value								5,515.8	6,204.0	6,892.1
Shares Outstanding								307	307	307
Per Share								$17.96	$20.20	$22.44
Current Share Price (Feb 1, 2012)								$24.65	$24.65	$24.65
Return								(27%)	(18%)	(9%)
Dividend per share (Est.)								$0.94	$0.94	$0.94
Dividend Yield								4%	4%	4%
Total Return								*(23%)*	*(14%)*	*(5%)*
NTM EPS								$1.47	$1.47	$1.47
Implied P/E								12.2x	13.7x	15.2x

Source: Company data, Credit Suisse estimates

Applying "normal" valauation multiples to NI's three segments results in a 12 month target price of $20 – well below where NI currently trades

Exhibit 2: Forecasted 2013E Valuation Assuming Creation of MLP

	2013E EBIT	D&A	2013E 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	212.6	255.4	142.0	P/E	14.5x	15.0x	15.5x	2,059.1	2,130.1	2,201.1
Natural Gas Utilities	496.4	205.7	702.0	EV/EBITDA	8.5x	9.0x	9.5x	5,967.1	6,318.1	6,669.1
Transmission and Storage	468.5	147.3	615.8	EV/EBITDA	10.5x	11.0x	11.5x	6,465.6	6,773.5	7,081.4
Total Enterprise / Equity Value								14,491.8	15,221.7	15,951.6
Cash & Equivalents								188.2	188.2	188.2
Short-term Debt								1,652.0	1,652.0	1,652.0
Long-term Debt								5,834.4	5,834.4	5,834.4
Less Net Debt								7,298.2	7,298.2	7,298.2
Total Equity Value								7,193.6	7,923.5	8,653.4
Shares Outstanding								307	307	307
Per Share								$23.42	$25.80	$28.17
Current Share Price (Feb 1, 2012)								$24.65	$24.65	$24.65
Return								(5%)	5%	14%
Dividend per share (Est.)								$0.00	$0.00	$0.00
Dividend Yield								0%	0%	0%
Total Return								*(5%)*	*5%*	*14%*
2013E EPS								$1.59	$1.59	$1.59
Implied P/E								14.8x	16.3x	17.8x

Source: Company data, Credit Suisse estimates

In a scenario where an MLP is created, we forecast 2013E target valuation of $26/share i.e. ~16x 2013E EPS

Exhibits 1 and 2 show how by forming an MLP and enjoying a higher EV/EBITDA multiple for NI's Transmission and Storage assets has already been priced into the shares in our opinion. We believe that NI shares have limited upside potential at this point but downside risk could be significant should NI abandon its plans to form an MLP to house its midstream assets.

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02 May 2012

Project Updates

Exhibit 3: NI's Natural Gas Distribution and Storage (NTG&S) Growth Projects Update

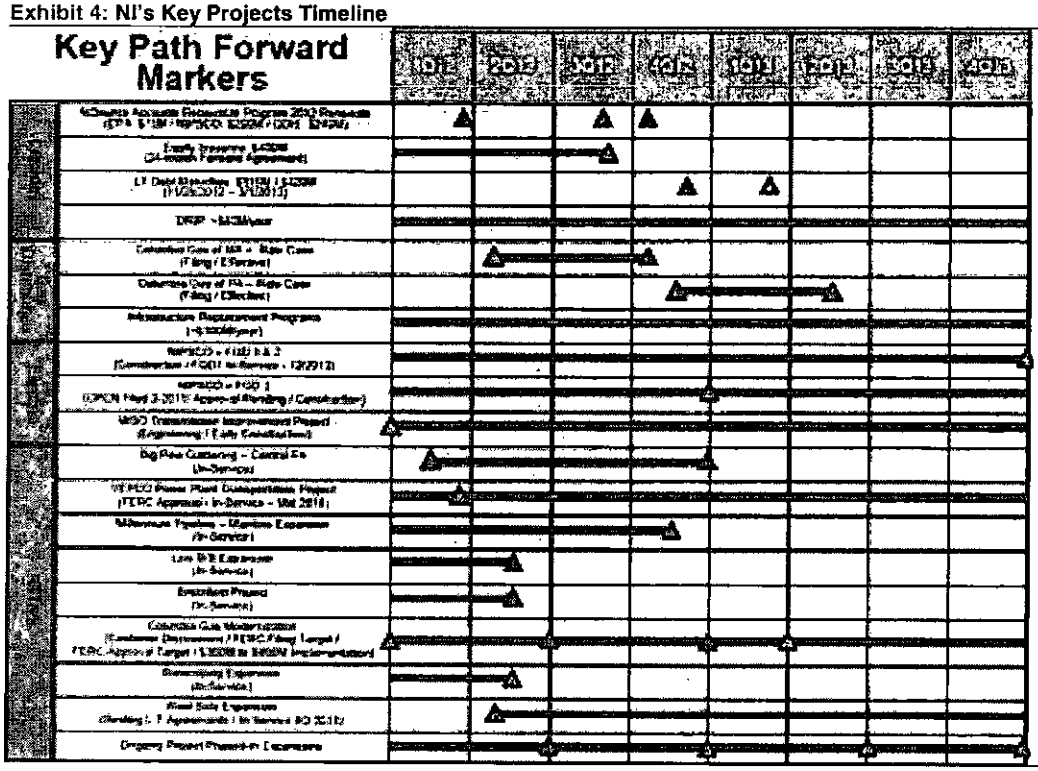
	Project	Description	CapEx	In-Service*
		Completed (2012)		
1	[illegible]	[illegible]	[illegible]	[illegible]
2	[illegible]	[illegible]	[illegible]	[illegible]
3	[illegible]	[illegible]	[illegible]	[illegible]
		In Development/Negotiations		
4	[illegible]	[illegible]	[illegible]	[illegible]
5	[illegible]	[illegible]	[illegible]	[illegible]
6	[illegible]	[illegible]	[illegible]	[illegible]
7	[illegible]	[illegible]	[illegible]	[illegible]
		In Development/Negotiations		
8	[illegible]	[illegible]	[illegible]	[illegible]
9	[illegible]	[illegible]	[illegible]	[illegible]
		In Evaluation		
10	[illegible]	[illegible]	[illegible]	[illegible]

* Projected



Source: Company Presentation

Exhibit 4: NI's Key Projects Timeline



Source: Company Presentation

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Financials

Exhibit 5: NI Quarterly Variance Table

Earnings Variance	1Q12 Actual	1Q12 CS Estimate	Diff.	Diff. (%)	1Q11 Actual	YoY%	Comments
Segment EBIT							
Gas Distribution	247	267	(21)	-8%	237	4%	Weather related reduced sales
NIPSCO Electric	49	56	(7)	-13%	42	16%	
Gas Transmission & Storage	139	104	34	33%	119	17%	Growth projects placed in service; Columbia Gulf rate case
Other	2	(1)	3	NA	5	NA	
Total EBIT (recurring)	**436**	**426**	**10**	**2%**	**402**	**8%**	
Interest Expense	103	99	5	5%	90	15%	
Other Expenses	(1)	0	(1)	NA	(3)	NA	
Taxes	119	118	1	1%	109	9%	
Recurring Net Income	**215**	**209**	**5**	**3%**	**207**	**4%**	
Diluted Wtd Avg shares outstanding	293	292	2	1%	285	3%	
Recurring EPS - Basic	**$0.76**				**$0.74**	**3%**	
Recurring EPS - Diluted	**$0.73**	**$0.72**	**$0.01**	**2%**	**$0.72**	**1%**	
Dividend per share	**$0.23**	**$0.23**	**$0.00**	**0%**	**$0.23**	**0%**	

Source: Company data, Credit Suisse estimates

Exhibit 6: Changes to Model

	Old estimates								New Estimates							
	2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E	2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E
Segment EBIT																
Gas Distribution	47	5	142	461	508	529	551	576	51	3	140	441	496	518	539	564
NIPSCO Electric	43	79	47	225	233	250	266	283	38	75	42	204	213	230	246	264
Gas Transmission & Storage	91	90	111	396	424	475	505	538	94	93	115	440	468	513	544	578
Other	(5)	(3)	(2)	(11)	(9)	(10)	(10)	(11)	(5)	(1)	(2)	(6)	3	1	1	1
Total EBIT (recurring)	**176**	**171**	**298**	**1,071**	**1,156**	**1,244**	**1,311**	**1,385**	**179**	**170**	**295**	**1,079**	**1,180**	**1,262**	**1,331**	**1,407**
Interest Expense	101	100	99	399	420	442	446	453	101	99	99	402	417	439	443	450
Other Expenses	0	0	0	0	0	0	0	0	0	0	0	(1)	0	0	0	0
Taxes	27	26	72	242	265	289	312	336	27	25	71	242	273	296	320	344
Recurring Net Income	**48**	**46**	**127**	**430**	**471**	**514**	**554**	**597**	**51**	**45**	**126**	**436**	**490**	**527**	**568**	**612**
Diluted Wtd Avg shares outstanding	292	317	317	304	319	320	322	324	294	318	319	306	320	322	324	326
Recurring EPS - Basic	**$0.17**	**$0.15**	**$0.41**	**$1.46**	**$1.52**	**$1.65**	**$1.77**	**$1.90**	**$0.18**	**$0.15**	**$0.41**	**$1.47**	**$1.58**	**$1.69**	**$1.81**	**$1.94**
Recurring EPS - Diluted	**$0.16**	**$0.14**	**$0.40**	**$1.41**	**$1.48**	**$1.60**	**$1.72**	**$1.84**	**$0.17**	**$0.14**	**$0.39**	**$1.42**	**$1.53**	**$1.64**	**$1.75**	**$1.88**
Dividend per share	**$0.23**	**$0.24**	**$0.24**	**$0.94**	**$0.98**	**$1.02**	**$1.06**	**$1.10**	**$0.23**	**$0.24**	**$0.24**	**$0.94**	**$0.98**	**$1.02**	**$1.06**	**$1.10**

Source: Company data, Credit Suisse estimates

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Exhibit 7: NI Abbreviated Financial Statements 2007 – 2016E

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	2007	2008	2009	2010	2011	1Q12	2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E
Segment EBITDA														
Gas Distribution	584.7	556.0	577.4	582.1	612.6	293.2	99.0	51.9	189.4	633.4	702.0	735.4	768.9	806.1
NIPSCO Electric	490.7	429.8	368.0	429.0	414.5	109.4	99.8	137.3	105.3	451.6	469.0	492.6	515.5	539.1
Gas Transmission & Storage	488.9	494.3	530.3	507.8	490.4	171.6	127.8	127.3	149.9	576.6	615.6	668.7	710.5	754.3
Other	2.8	5.0	(7.1)	(5.7)	(18.0)	7.4	0.4	4.0	3.1	14.9	23.7	22.7	23.0	23.0
Total EBITDA (recurring)	1,557.1	1,485.1	1,468.6	1,513.2	1,499.5	581.6	326.8	320.4	447.7	1,676.6	1,810.5	1,920.4	2,017.9	2,122.5
Segment EBIT														
Gas Distribution	350.2	327.3	329.3	342.8	436.7	246.5	51.3	3.3	139.8	440.9	496.4	517.8	539.2	564.4
NIPSCO Electric	268.8	220.2	162.4	217.9	195.1	48.5	38.0	74.9	42.2	203.6	212.8	229.9	246.5	263.8
Gas Transmission & Storage	371.8	376.7	406.8	377.2	360.4	138.6	94.0	92.8	114.6	440.0	468.5	512.7	543.8	577.9
Other	(12.9)	(6.3)	(21.3)	(21.3)	(32.9)	1.9	(4.6)	(1.1)	(2.0)	(5.7)	3.0	1.4	1.2	0.6
Total EBIT (recurring)	997.9	917.9	875.2	916.6	961.3	435.5	178.7	169.9	294.7	1,078.8	1,180.4	1,261.7	1,330.8	1,406.8
Interest Expense	400.7	375.3	399.2	392.2	376.8	103.3	100.6	99.4	98.5	401.8	417.4	438.8	443.0	450.1
Other Expenses	6.5	(0.9)	1.6	(3.6)	7.3	(1.0)	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0
Earnings Before Taxes	590.7	543.5	478.4	528.2	577.2	333.2	78.1	70.5	196.2	678.0	763.0	822.9	887.7	956.7
Taxes	214.9	194.6	184.3	189.0	199.4	118.7	27.3	25.4	70.6	242.0	272.9	296.3	319.6	344.4
Recurring Net Income	375.8	348.9	294.1	339.2	377.8	214.5	50.8	45.1	125.5	435.9	490.1	526.7	568.1	612.3
Recurring EPS														
Basic	$1.37	$1.27	$1.06	$1.22	$1.35	$0.76	$0.18	$0.16	$0.41	$1.51	$1.58	$1.69	$1.81	$1.94
YoY %Change		*-7.2%*	*-16.1%*	*14.2%*	*10.3%*					*9.4%*	*7.3%*	*6.8%*	*7.2%*	*7.1%*
Weighted Average Shares Outstanding														
Basic	273.8	274.0	275.1	277.8	280.4	282.9	283.4	308.1	308.6	295.8	309.8	311.8	313.7	315.7
Diluted	274.8	275.4	275.9	280.1	288.5	293.1	293.6	318.3	318.8	306.0	320.0	322.0	323.9	325.9
Dividend/Share	$0.92	$0.92	$0.92	$0.92	$0.92	$0.23	$0.23	$0.24	$0.24	$0.94	$0.98	$1.02	$1.06	$1.10
Payout Ratio	*67.1%*	*72.3%*	*86.1%*	*75.4%*	*68.2%*					*63.8%*	*62.0%*	*60.4%*	*58.5%*	*56.7%*
Abbreviated Balance Sheet														
Cash and Equivalents	50.0	20.6	16.4	9.2	11.5	38.5	0.1	(7.2)	25.9	25.9	108.9	175.6	234.6	275.0
Restricted Cash	59.4	286.6	174.7	202.9	180.6	149.7	149.7	149.7	149.7	149.7	149.7	149.7	149.7	149.7
Accounts Receivables	977.6	1,143.2	808.6	1,079.3	854.8	730.3	664.2	597.8	891.5	891.5	939.2	844.5	775.6	807.5
Inventories	458.2	511.8	384.8	298.2	427.6	181.1	177.9	391.2	285.1	285.1	299.3	180.1	154.7	161.4
Other Current Assets	950.0	1,448.3	839.1	859.3	793.9	870.7	838.1	893.1	838.7	838.7	838.7	838.7	838.7	838.7
Current Assets	2,495.2	3,410.5	2,223.6	2,448.9	2,248.4	1,970.3	1,830.1	2,024.5	2,190.8	2,190.8	2,334.7	2,188.7	2,153.4	2,232.4
Net PP&E	9,693.0	10,276.0	10,654.0	11,002.3	11,667.6	11,765.2	11,966.1	12,164.8	12,360.5	12,360.5	12,730.4	13,071.8	13,384.6	13,668.8
Other Assets	5,856.9	6,345.7	6,394.1	6,487.6	6,792.3	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4
Total Assets	18,045.1	20,032.2	19,271.7	19,938.8	20,708.3	20,445.9	20,506.6	20,899.4	21,261.7	21,261.7	21,775.6	21,970.8	22,248.3	22,611.6
Accounts Payable	743.3	693.9	502.3	581.8	434.8	380.7	335.5	334.2	605.2	605.2	636.1	662.4	741.1	771.6
Current Portion of LT Debt	33.9	469.3	719.7	34.2	327.3	750.8	750.8	750.8	750.8	750.8	750.8	750.8	750.8	750.8
Other Short Term Borrowings	1,061.0	1,163.5	103.0	1,382.5	1,359.4	1,264.2	1,464.2	1,364.2	1,114.2	1,114.2	1,364.2	1,814.2	2,464.2	3,264.2
Other Current Liabilities	1,584.6	2,256.7	1,824.6	1,650.9	1,524.9	1,322.7	1,243.9	1,366.5	1,471.4	1,471.4	1,517.8	1,531.8	1,614.8	1,632.5
Current Liabilities	3,422.8	4,583.4	3,149.6	3,649.4	3,646.4	3,718.4	3,794.4	3,815.7	3,941.5	3,941.5	4,268.9	4,759.0	5,570.9	6,419.2
Long Term Debt	5,594.4	5,943.9	5,969.1	5,936.1	6,267.1	5,834.4	5,833.5	5,833.5	6,018.5	6,018.5	6,018.5	5,515.0	4,745.0	3,995.0
Other Liabilities	3,941.2	4,776.1	5,298.9	5,430.1	5,797.5	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6
Total Liabilities	12,958.4	15,303.4	14,417.6	15,015.6	15,711.0	15,365.4	15,440.5	15,461.8	15,772.6	15,772.6	16,100.0	16,086.8	16,128.5	16,226.8
Shareholders Equity	5,086.7	4,728.8	4,854.1	4,923.2	4,997.3	5,080.5	5,066.1	5,437.6	5,489.1	5,489.1	5,675.6	5,884.2	6,119.8	6,384.8
Total Liabilities and Equity	18,045.1	20,032.2	19,271.7	19,938.8	20,708.3	20,445.9	20,506.6	20,899.4	21,261.7	21,261.7	21,775.6	21,970.8	22,248.3	22,611.6
Total Capital Expenditures	763.9	1,306.6	798.6	911.6	1,131.0	349.0	349.0	349.0	349.0	1,396.0	1,000.0	1,000.0	1,000.0	1,000.0
Financial Metrics														
Total Debt / Total Cap	56.8%	61.6%	58.3%	59.9%	61.4%	60.7%	61.4%	59.4%	59.0%	59.0%	58.9%	57.9%	56.5%	55.6%
Net Debt / Total Cap	56.6%	61.5%	58.3%	59.9%	61.4%	60.6%	61.4%	59.4%	58.9%	58.9%	58.6%	57.3%	55.8%	54.8%
Net Debt / Equity	130.5%	159.8%	139.6%	149.2%	158.9%	153.7%	158.9%	146.3%	143.1%	143.1%	141.4%	134.3%	126.2%	121.1%
Book Value Per Share	$18.51	$17.17	$17.59	$17.58	$17.73	$17.33	$17.26	$17.08	$17.22	$17.94	$17.73	$18.28	$18.89	$19.59
Net Debt / TTM EBITDA	4.3x	5.1x	4.6x	4.9x	5.3x	5.1x	5.1x	4.9x	4.7x	4.7x	4.4x	4.1x	3.8x	3.6x

Source: Company data, Credit Suisse estimates

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02 May 2012

Companies Mentioned *(Price as of 01 May 12)*
NiSource Inc (NI, $25.33, NEUTRAL, TP $26.00)

Disclosure Appendix

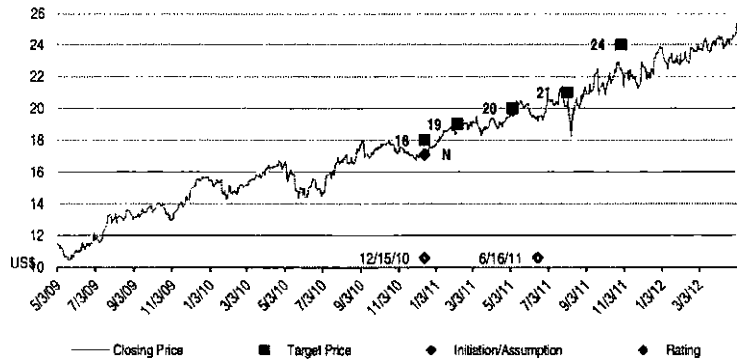
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3-Year Price, Target Price and Rating Change History Chart for NI

NI Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
12/15/10	17.09	18	N	X
2/6/11	18.66	19		
5/6/11	19.44	20		
6/16/11				X
8/2/11	20.12	21		
10/28/11	22.52	24		



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Price Target: (12 months) for (NI)
Method: We derive our 12-month price target of $26 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 17x our next twelve months EPS estimate of $1.48, which is at the upper end of NI's historic trading range. We believe this to be appropriate as NI has resolved several key regulatory issues and is well positioned for growth. Our price target is also consistent with our sum of the parts valuation assuming NI goes ahead with its MLP spinoff.
Risks: Main risks to our 12-month price target of $26 for NiSource are that if NI decides to scrap its plans to establish an MLP that investors would flee the stock. Also, pipeline re-contracting risk and economic risk as NI's electric utility is levered to the economy.

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HILLIARD LYONS

Electric Utilities

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May 1, 2012

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 3

Company reports higher first quarter earnings and reaffirms 2012 guidance

Key Metrics

NI - NYSE (Price as of 4/30/12)	$24.65
Price Target	NA
52-Week Range	$24.76 - $17.95
Shares Outstanding (mm)	282.9
Market Cap. ($mm)	$7,015
3-Mo. Average Daily Volume	2,943,000
Institutional Ownership	82.0%
Debt/Total Capital	60.7%
ROE (ttm)	6.7%
Book Value/Share	$17.66
Price/Book Value	1.40x
Indicated Dividend / Yield	$0.92 3.7%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2010	Prior 2011	2011	Prior 2012E	Curr. 2012E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.22		$1.35		$1.45
P/E	20.2x		18.3x		17.0x
Payout	75%		68%		63%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2010	Prior 2011	2011	Prior 2012E	Curr. 2012E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$6,422		$6,019	--	$6,250

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 $0.76 per share versus $0.74 per share earned in the first quarter of 2011.** Earnings were $0.05 per share above expectations. The company posted higher earnings from both its natural gas distribution and natural gas transmission and storage segments in the first quarter. The company's electric operations saw its earnings contribution decline slightly. We thought this was a good quarter for NiSource, particularly given the mild winter and slow economic growth (2.2% GDP expansion) this period.
- **Management reaffirmed 2012 earnings guidance of $1.40 to $1.50 per share.** The higher outlook is expected to be driven by execution of its infrastructure-investment programs and is premised on a fairly modest and gradual economic recovery. We are maintaining our 2012 EPS estimate of $1.45.
- **The company's plan to invest a record $1.4 billion in capital investments this year remains on track.** The majority 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 earnings growth.
- **We maintain our Neutral rating on NiSource as we believe the stock is fairly valued.** The stock is trading at a modest premium to the group. Yet we believe the company's fundamentals continue to improve. Management reiterated its belief that the company is capable of generating 5% or more long term earnings growth. We expect the company will begin to grow its dividend, starting later this month. We would maintain positions in the stock and would consider upgrading our opinion on pullbacks assuming no negative change in fundamentals.

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

Outlook

We are maintaining our Neutral rating on NiSource as we believe the stock is fairly valued, trading at 17.0x estimated 2012 earnings and at a premium to its peer group. However, we continue to be impressed by recent results as evidenced by the stronger than expected first quarter earnings and still believe the company has a solid long-term fundamental outlook. NI is seeing ongoing positive results from regulatory, modernization and growth initiatives. The company feels a combination of rate relief and continued investment in its gas infrastructure business can drive future earnings growth. NI expects to spend up to $1.4 billion in capital investments in 2012 with $541 million being invested in its natural gas distribution business; $432 million in natural gas transmission and storage; and $405 million at the company's electric operations. Management believes NiSource remains capable of generating long-term earnings growth of 5% or greater.

We are maintaining our 2012 earnings estimate of $1.45 per share. Moreover, the company's financial situation has improved to the point where we feel the company is likely to announce a dividend increase later this month. We note NI's dividend payout ratio is just 63% of this year's estimated earnings. A dividend hike would be significant, in our view, as the last dividend increase occurred in 2002. With a solid 3.7% dividend yield and seemingly improving growth prospects, we remain comfortable holding NiSource shares. We would likely upgrade our opinion on any price pullbacks assuming no negative change in fundamentals.

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.

Important Disclosures

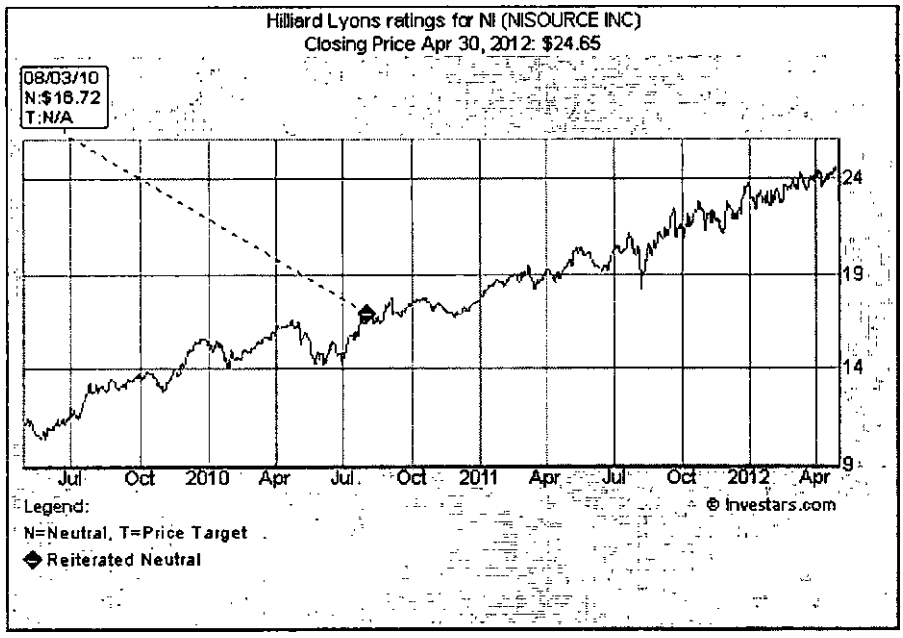
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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	60	44%	7%	93%
Hold/Neutral	70	52%	1%	99%
Sell	4	3%	0%	100%
Restricted	1	1%	100%	0%

As of 10 April 2012

Other Disclosures

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May 1, 2012
ENERGY: Multi- Utilities
Quick Alert

KeyBanc Capital Markets

NiSource, Inc. (BUY)

NI – Quick Alert: 1Q12 Solid Results, excluding Weather Impact

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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KEY INVESTMENT POINTS

April 30, 2012 Close: $24.65
1Q12 KBCM EPS Estimate: $0.69 (Consensus: $0.71)
2012KBCM EPS Estimate: $1.45 (Consensus: $1.44)

1Q12 Actual Results (vs. 1Q11):

- Ongoing EPS $0.67 vs. $0.72; GAAP EPS $0.68 vs. $0.75. (We note NI reports ongoing earnings of $0.76, with the Company's ongoing number being on a weather- normalized basis.)
- We note consensus is a mix of weather adjusted and non- adjusted estimates, making it difficult to compare actual results with consensus.

Guidance: Maintained 2012 ongoing weather adjusted guidance of $1.40- $1.50 per share. Management reaffirmed that dividend growth remains under consideration.

1Q Highlights:

- Gas Distribution operating earnings were $9.5 million higher on new Pennsylvania rates, Ohio infrastructure trackers, higher depreciation, partly offset by lower employee expenses.
- Gas Transmission and Storage improved (operating earnings of $139 million vs. $118 million) on higher demand margin at new projects and the Columbia Gulf FERC rate case. Results were partly offset by weather- related lower volumes and slightly higher expenses.
- Electric operations earnings were off less than $1 million as improved margin on the Indiana rate case was offset by higher expenses. Weather adjusted retail load fell 2.5%.
- NI reaffirmed commitment to growth initiatives including a joint venture with a producer in the Marcellus/Utica to drive infrastructure buildout, ongoing pipeline modernization project discussions (potential $4 billion over 10- 15 years) and completion of two open seasons to move gas from the Marcellus to the Gulf ($220 million of capital) and Mid- Atlantic markets.

Initial Take: We expect a positive response to solid earnings and continued focus on initiatives (including disclosing $220 million size of Gulf pipeline expansion project), potentially tempered by no major announcements on the Utica joint venture and dividend growth.

9:00 AM ET Conference Call #: (866) 730- 5770 ID#: 77451655
We will be focused on:

- **Further detail on potential joint venture on its Utica/Marcellus acreage**
- **Pipeline modernization project updates**
- **Timing around potential dividend growth. We note a May 15 shareholder meeting in Chicago.**

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.

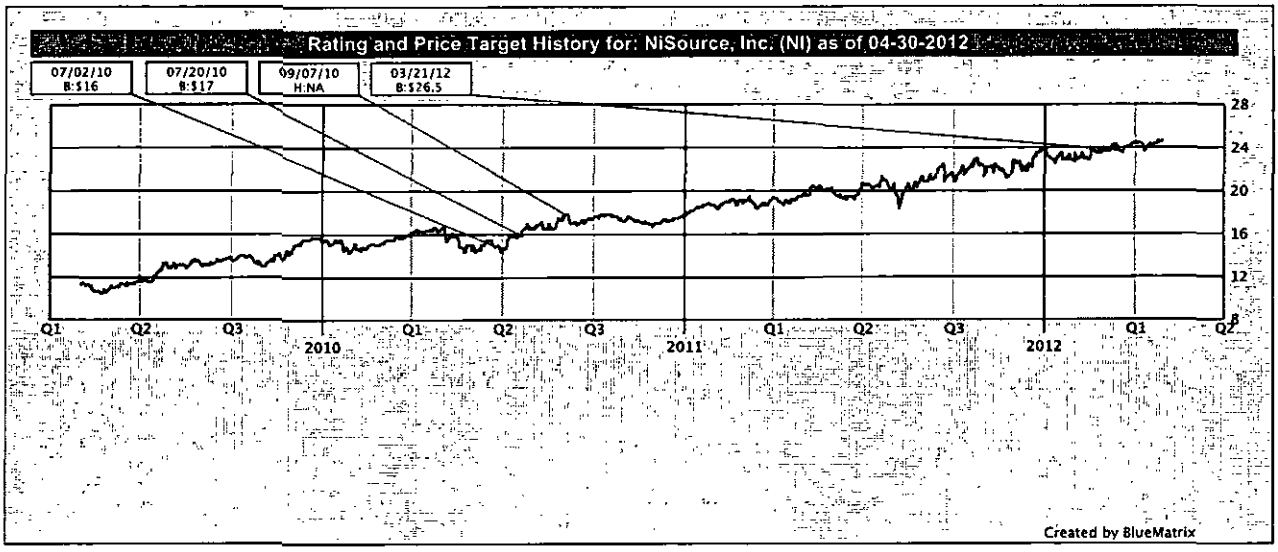
During the past 12 months, NiSource, Inc. has been a client of the firm or its affiliates for non- securities related services.

We have managed or co- managed a public offering of securities for NiSource, Inc. within the past 12 months.

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]	222	43.44	46	20.72	BUY [BUY]	38	48.10	17	44.74
HOLD [HOLD]	278	54.40	53	19.06	HOLD [HOLD]	41	51.90	19	46.34
SELL [UND]	11	2.15	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

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Request your ballot.

May 1, 2012

Stock Rating
Equal-weight

Industry View
Attractive

NiSource, Inc.

Utica JV Nears the Goal Line

NI 1Q results were in-line with our estimates (above consensus) and company guidance was reaffirmed at $1.40-1.50 (MS at $1.45). NI remains on track for its 2012 capital investment program of $1.4b and importantly has made strides with its midstream build out.

1Q12 results: NI reported operating earnings of $0.76 vs. MS / Consensus estimates of $0.75 / $0.71. We maintain our Equal-weight rating on NI (in the context of our Attractive view on the Diversified Gas sector). We estimate earnings growth of 9% 2012 and 7% in 2013 and implied Utica project value of $2 per share. Our price target is $26 (with Bull case at $30). Upcoming drivers for the stock will be Utica joint venture announcement, which is possible within a month, and execution on its $1.4b capital investment plan. NI currently trades at ~9.4x 2012e EV/EBITDA and 17.8x P/E, compared to peers at 8.2x and 18.1x.

Gas business performs despite mild winter. *Electric Operations EBIT* declined to $48.5m vs. $49.3 in 2011. *Gas Distribution Operations EBIT* increased to $246.5m from $237.0 in 2011. Despite an unusually warm winter, new revenues increased by $11.4m, excluding the impact of trackers. *Gas Transmission and Storage Operations EBIT* increased to $138.6m from $118.4m y/y. *Please see variance exhibit on page 3 for details.*

What's Next: Midstream execution in the northeast, possible dividend raise in 2H12. NI is in advanced discussions with a producer to create a joint venture and contribute acreage. The JV will likely encompass only a small portion of NI's Utica acreage (15k acres), and NI will participate in its development and benefit from infrastructure requirements. In addition to its upstream acreage position, NI controls a great midstream footprint in the Northeast through its Columbia Gas and Columbia Gulf Pipeline systems. We believe the opportunity of creating a separate vehicle (i.e., an MLP) to capture value and fund growth capital may increase in the coming quarters as NI's midstream scope widens. With over $500+m of pipe & storage EBITDA, we believe management will continue to evaluate it closely.

MORGAN STANLEY RESEARCH
NORTH AMERICA

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Key Ratios and Statistics

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

Price target	$26.00
Shr price, close (Apr 30, 2012)	$24.65
Mkt cap, curr (mm)	$6,992
52-Week Range	$24.74-17.96

Fiscal Year ending	12/11	12/12e	12/13e	12/14e
ModelWare EPS ($)	1.33	1.45	1.55	1.62
Prior ModelWare EPS ($)	-	1.42	1.53	1.62
P/E	17.9	16.9	15.9	15.3
Consensus EPS ($)§	1.35	1.44	1.52	1.61
EBITDA ($mm)**	1,499	1,646	1,718	1,816
EV/EBITDA**	9.6	9.3	9.2	9.0
Div yld (%)	3.9	3.8	3.9	4.0
Div per shr ($)	0.92	0.93	0.96	0.99
Shrs out, diluted, avg (mm)	281	295	295	295

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.
** = Based on consensus methodology
e = Morgan Stanley Research estimates

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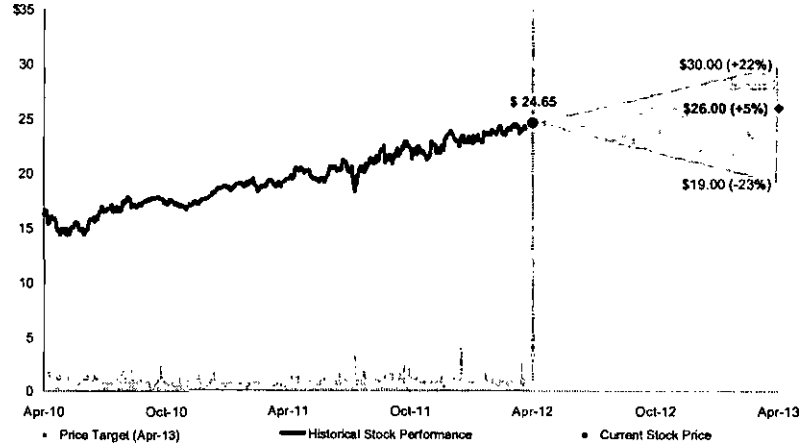
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May 1, 2012
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: FactSet; Morgan Stanley Research

Price Target $26		Derived from base case average of four valuation methodologies
Bull Case $30	11x GT&S '12e EBITDA, 9x 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 $26	10.x GT&S '12e EBITDA, 8.5x 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, coupled with fair rate case outcomes.
Bear Case $19	8x GT&S '12e EBITDA, 7x 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. Utility rate case outcomes prove unfavorable.

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

NiSource Inc.	Value ($ m)	$/Share
Gas Distribution	$5,105	$18
Gas Transmission & Storage	5,816	21
Electric Utility	3,780	14
Utica	600	2
Value per Share	**$15,301**	**$55**
Net Debt	(7,374)	(26)
Net Equity Value	**$7,926**	**$28**
Shares Outstanding (in mm)		280

Source: Morgan Stanley Research

Why Equal-weight?

- Restoring earnings power at regulated utilities segments
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples basis (excluding potential uplift from Utica acreage).

Key Value Drivers

- Executing Marcellus midstream projects on time and below budget
- Execution on its regulatory agenda (e.g., filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential growth in 2H12.

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.
- Decision to create an MLP.

Where We Could Be Wrong/Risks

- Regulatory risks associated with Marcellus drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

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May 1, 2012
NiSource, Inc.

Exhibit 1

1Q12 Earnings Results and 2Q12E Preview

NiSource Inc.

(amounts in 000s, except per unit)

	Actual 1Q11	Actual 1Q12	A / A % chg	MS 1Q12E	A / E % chg	MS 2Q12E
Operating Revenues						
Gas Distribution	1,367,600	908,200	-33.6%	1,692,470	-46.3%	728,414
Gas Transportation and Storage	345,800	409,200	18.3%	281,649	45.3%	241,725
Electric	402,900	358,000	-11.1%	375,583	-4.7%	377,355
Other	30,800	24,800		-		-
Total operating revenues	**2,147,100**	**1,700,200**	**-20.8%**	**2,349,702**	**-27.6%**	**1,347,495**
Operating Expenses						
Cost of Sales	1,088,400	633,000	-41.8%	1,190,726	-46.8%	489,614
Operation and maintenance	431,100	406,700	-5.7%	490,792	-17.1%	441,541
Depreciation and amortization	138,900	146,100	5.2%	130,088	12.3%	141,303
Other taxes	92,500	86,600	-6.4%	105,769	-18.1%	71,410
Total operating expenses	**1,750,900**	**1,272,400**	**-27.3%**	**1,917,375**	**-33.6%**	**1,143,868**
Equity Earnings (Loss) in Uncon. Affiliates	**3,000**	**7,700**	**156.7%**	**5,858**	**31.4%**	**7,739**
EBIT	**399,200**	**435,500**	**9.1%**	**438,185**	**-0.6%**	**211,366**
EBITDA	**538,100**	**581,600**	**8.1%**	**568,273**	**2.3%**	**352,669**
Interest expense, net	(89,800)	(103,300)	15.0%	(99,423)	3.9%	(102,548)
Other income	3,300	1,000		(12,800)		1,000
Total other income and expenses	**(86,500)**	**(102,300)**	**18.3%**	**(112,223)**	**-8.8%**	**(101,548)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**312,700**	**333,200**	**6.6%**	**325,962**	**2.2%**	**109,818**
Income tax (provision)	107,900	118,700	10.0%	114,559	3.6%	38,304
Net Income (Operating)	**204,800**	**214,500**	**4.7%**	**211,404**	**1.5%**	**71,514**
Average # of Shares Outstanding	285,000	282,900	-0.7%	281,400	0.5%	282,900
Net Income per Share (Operating)	**$ 0.72**	**$ 0.76**		**$ 0.75**		**$ 0.25**
Net Income per Share (GAAP)	**$ 0.71**	**$ 0.68**		**$ 0.75**		**$ 0.25**
Segment Data						
Gas Distribution (MMDth)						
Residential	134.5	102.9	-23.5%	137.2	-25.0%	34.3
Commercial	77.6	61.2	-21.1%	79.2	-22.7%	27.2
Industrial	118.9	131.3	10.4%	124.8	5.2%	105.8
Off System	17.5	13.5	-22.9%	17.5	-22.9%	20.4
Other	0.3	0.1	na	-	na	0.1
Gas Transmission & Storage (MMDth)						
Columbia Transmission	426.6	379.4	-11.1%	447.9	-15.3%	215.1
Columbia Gulf	244.0	227.5	-6.8%	280.6	-18.9%	302.6
Crossroads Gas Pipeline	5.1	4.3	-15.7%	5.1	-15.7%	5.6
Intrasegment eliminations	(152.6)	(105.7)	-30.7%	(173.4)	-39.0%	(185.5)
Electric Operations (Gigawatt Hours)						
Residential	855.8	781.2	-8.7%	877.2	-10.9%	800.1
Commercial	924.9	907.8	-1.8%	948.0	-4.2%	965.5
Industrial	2,442.4	2,385.0	-2.4%	2,503.5	-4.7%	2,383.8
Wholesale	67.1	19.0	-71.7%	68.8	-72.4%	205.2
Other	44.5	32.5	-27.0%	45.2	-28.0%	37.7

NIPSO electric rate case was settled w/n December without modification by the IURC. The proposal represents a 4.45% increase.

The 2012 capital program for NG&T is 43% higher than 2011 reflecting significant expansion projects in supply regions. NI has a $150m pipeline project, which is expected to be finalized in the quarter and placed into service Dec 2012

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

May 1, 2012
NiSource, Inc.

Exhibit 2

NI Income Statement

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E	2015E
Net Revenues						
Gas Distribution	3,103,100	2,927,700	3,006,305	3,576,364	3,693,370	3,833,085
Gas Transportation and Storage	1,261,300	1,297,400	1,190,993	1,141,658	1,217,535	1,271,298
Electric	1,374,900	1,477,800	1,504,833	1,586,646	1,658,688	1,734,003
Other	78,600	99,700	24,800	-	-	-
Total Net Revenues	**5,817,900**	**5,802,600**	**5,726,930**	**6,304,667**	**6,569,593**	**6,838,386**
Operating Costs						
Cost of Sales	2,379,200	2,336,700	2,101,337	2,452,639	2,505,484	2,615,535
Operation and maintenance	1,655,700	1,688,100	1,721,587	1,845,807	1,947,723	2,015,013
Depreciation and amortization	596,300	542,800	572,132	588,568	632,096	645,162
Other taxes	284,400	293,300	289,098	308,046	321,046	334,396
Total Operating Costs	**4,915,600**	**4,860,900**	**4,684,154**	**5,195,059**	**5,406,349**	**5,610,105**
Equity Earnings (Loss) in Uncon. Affiliates	**15,000**	**14,600**	**31,032**	**20,151**	**20,659**	**21,180**
EBIT	**917,300**	**956,300**	**1,073,808**	**1,129,759**	**1,183,903**	**1,249,461**
EBITDA	**1,513,600**	**1,499,100**	**1,645,940**	**1,718,326**	**1,815,998**	**1,894,623**
Other Income						
Interest expense, net	(392,200)	(376,800)	(417,193)	(429,965)	(451,411)	(469,120)
Other income	3,800	(7,300)	4,000	-	-	-
Inc. from continuing operations bef inc. taxes	**528,900**	**572,200**	**660,616**	**699,794**	**732,492**	**780,341**
Income tax (provision)	189,300	197,500	231,471	242,981	256,014	271,639
Operating Net Income (Loss)	**339,600**	**374,700**	**429,145**	**456,812**	**476,478**	**508,702**
Net Income per Share (Operating)	**$1.20**	**$1.33**	**$1.45**	**$1.55**	**$1.62**	**$1.72**
Net Income per Share (GAAP)	**$1.04**	**$1.31**	**$1.38**	**$1.55**	**$1.62**	**$1.72**
Weighted Avg Diluted Units Outstanding	282,600	281,400	295,021	295,021	295,021	295,021
Dividends per share	0.92	0.92	0.93	0.96	0.99	1.02

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

May 1, 2012
NiSource, Inc.

Exhibit 3
NI Operating Data

	2010	2011E	2012E	2013E	2014E	2015E
GAS DISTRIBUTION						
Sales and Transportation (MMDth):						
Residential	258.1	254.5	225.3	229.8	233.3	236.8
Commercial	166.8	168.6	154.0	157.1	160.2	163.4
Industrial	386.0	431.7	459.7	468.9	478.3	487.9
Off System	71.9	62.5	58.5	58.5	58.5	58.5
Other	0.9	0.5	0.4	0.4	0.4	0.4
Total Sales and Transports	**883.7**	**917.8**	**898.0**	**914.7**	**930.7**	**947.0**
Weather Adjustment	5.2	(5.6)	65.4	-	-	-
Sales and Transport Vols — Excluding Weather	**888.9**	**912.2**	**963.4**	**914.7**	**930.7**	**947.0**
y/y change	*6.8%*	*2.6%*	*5.6%*	*-5.0%*	*1.7%*	*1.7%*
Sales Price ($ / Dth)	$4.14	$3.85	$3.32	$3.91	$3.97	$4.05
y/y change	*-11.7%*	*-7.0%*	*-13.6%*	*17.6%*	*1.5%*	*2.0%*
COGS Price ($ / Dth)	$2.32	$2.10	$1.66	$2.03	$2.02	$2.08
y/y change	*-15.6%*	*-9.5%*	*-21.2%*	*22.7%*	*-0.5%*	*3.0%*
Gross Margin ($ / Dth)	$1.81	$1.74	$1.67	$1.88	$1.95	$1.96
y/y change	*-6.1%*	*-3.8%*	*-4.4%*	*12.6%*	*3.7%*	*0.9%*
GAS TRANSMISSION & STORAGE						
Throughput (MMDth):						
Columbia Transmission	1,092.4	1,117.5	1,104.8	1,209.6	1,270.1	1,333.6
Columbia Gulf	848.4	1,048.0	1,152.1	1,227.0	1,288.4	1,314.1
Crossroads Gas Pipeline	25.4	18.7	17.9	19.1	19.5	19.8
Total throughput	**1,966.2**	**2,184.2**	**2,274.8**	**2,455.8**	**2,578.0**	**2,667.6**
Intrasegment eliminations	(568.7)	(548.5)	(609.5)	(673.3)	(689.7)	(717.2)
Total third-party throughput	***1,397.5***	***1,635.7***	***1,665.3***	***1,782.5***	***1,888.2***	***1,950.4***
y/y change	*0.4%*	*17.0%*	*1.8%*	*7.0%*	*5.9%*	*3.3%*
Tariff ($ / Dth)	$0.52	$0.47	$0.50	$0.51	$0.52	$0.53
y/y change	*0.1%*	*-8.9%*	*5.2%*	*2.8%*	*2.0%*	*1.9%*
ELECTRIC OPERATIONS						
Sales (Gigawatt Hours):						
Residential	3,625.6	3,526.5	3,505.3	3,669.4	3,761.1	3,855.2
Commercial	3,919.9	3,886.5	3,928.6	4,044.4	4,145.5	4,249.1
Industrial	8,459.0	9,257.6	9,370.6	9,663.7	9,905.3	10,152.9
Wholesale	817.1	651.6	618.1	682.9	699.9	717.4
Other	186.4	165.5	155.3	169.8	172.4	175.0
Total sales	**17,008.0**	**17,487.7**	**17,578.0**	**18,230.2**	**18,684.2**	**19,149.6**
Weather Adjustment	(500.2)	(101.1)	81.8	-	-	-
Total sales volumes — Adj. for weather impacts	**16,507.8**	**17,386.6**	**17,659.8**	**18,230.2**	**18,684.2**	**19,149.6**
y/y change	*4.0%*	*5.3%*	*1.6%*	*3.2%*	*2.5%*	*2.5%*
Revenue ($ / Gigawatt hour)	$83.78	$82.19	$85.33	$87.03	$88.77	$90.55
y/y change	*6.1%*	*-1.9%*	*3.8%*	*2.0%*	*2.0%*	*2.0%*
COGS ($ / Gigawatt hour)	$30.80	$31.56	$30.85	$32.50	$33.31	$33.50
y/y change	*7.1%*	*2.5%*	*-2.3%*	*5.4%*	*2.5%*	*0.6%*
Gross Margin ($ / Gigawatt hour)	$52.99	$50.63	$54.48	$54.54	$55.46	$57.05
y/y change	*5.6%*	*-4.5%*	*7.6%*	*0.1%*	*1.7%*	*2.9%*

Source: Company data, Morgan Stanley Research

Morgan Stanley

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May 1, 2012
NiSource, Inc.

Exhibit 4

NI Balance Sheet

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E	2015E
ASSETS						
Cash and cash equivalents	9,200	11,500	143,857	10,000	31,757	98,041
Restricted cash	202,900	160,600	160,600	160,600	160,600	160,600
Accounts receivable	1,079,300	854,800	899,483	960,658	970,272	1,022,957
Income tax receivable	99,000	900	900	900	900	900
Gas inventory	298,200	427,600	323,416	291,904	322,591	333,547
Regulatory assets	151,800	169,700	169,700	169,700	169,700	169,700
Other	120,800	261,800	261,800	261,800	261,800	261,800
Total Current Assets	**2,448,900**	**2,248,200**	**2,321,056**	**2,216,862**	**2,278,920**	**2,408,845**
Net Property, Plant and Equipment	**11,097,000**	**11,800,100**	**12,627,968**	**13,299,400**	**13,867,305**	**14,222,142**
Unconsolidated affiliates	200,900	204,700	204,700	204,700	204,700	204,700
Other investments	139,700	150,900	150,900	150,900	150,900	150,900
Price risk management assets	240,300	188,700	188,700	188,700	188,700	188,700
Regulatory assets	1,650,400	1,978,200	1,978,200	1,978,200	1,978,200	1,978,200
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	308,600	297,600	297,600	297,600	297,600	297,600
Deferred charges, Postretiremen, other	167,800	162,400	162,400	162,400	162,400	162,400
TOTAL ASSETS	**19,938,800**	**20,708,300**	**21,609,024**	**22,176,262**	**22,806,225**	**23,290,988**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current portion of long-term debt	34,200	327,300	327,300	327,300	327,300	327,300
Short-term borrowings	1,382,500	1,359,400	1,359,400	1,769,920	2,192,799	2,446,644
Accounts payable	581,800	434,800	495,859	479,520	502,394	525,646
Dividends payable	100	-	-	-	-	-
Customer deposits and credits	318,100	313,600	313,600	313,600	313,600	313,600
Taxes accrued	221,100	220,900	220,900	220,900	220,900	220,900
Interest accrued	114,400	111,900	111,900	111,900	111,900	111,900
Price risk management liabilities	173,900	167,800	167,800	167,800	167,800	167,800
Exchange gas payable	266,100	168,200	168,200	168,200	168,200	168,200
Deferred revenue	6,800	10,100	10,100	10,100	10,100	10,100
Regulatory liabilities	92,900	112,000	112,000	112,000	112,000	112,000
Acc liab for post-retirement / -employment benefits	23,300	26,600	26,600	26,600	26,600	26,600
Other accruals	336,400	301,000	301,000	301,000	301,000	301,000
Total Current Liabilities	**3,649,400**	**3,646,400**	**3,707,459**	**4,101,640**	**4,547,393**	**4,824,490**
Long-term debt, excl amounts due within one year	5,936,100	6,267,100	6,767,100	6,767,100	6,767,100	6,767,100
Price risk management liabilities	181,600	138,900	138,900	138,900	138,900	138,900
Deferred income taxes	2,209,700	2,541,900	2,541,900	2,541,900	2,541,900	2,541,900
Deferred inc. taxes, credits, other	102,600	107,900	107,900	107,900	107,900	107,900
Acc liability for post-retirement/-employment benefits	1,039,600	953,800	953,800	953,800	953,800	953,800
Regulatory liabilities and other removal costs	1,595,800	1,663,900	1,663,900	1,663,900	1,663,900	1,663,900
Asset retirement obligations	138,800	146,400	146,400	146,400	146,400	146,400
Other noncurrent liabilities	162,000	244,700	244,700	244,700	244,700	244,700
Total Other Liabilities and Deferred Credits	**11,366,200**	**12,064,600**	**12,564,600**	**12,564,600**	**12,564,600**	**12,564,600**
Common stock	2,800	2,800	2,800	2,800	2,800	2,800
Additional paid-in capital	4,103,900	4,167,700	4,367,700	4,367,700	4,367,700	4,367,700
Retained earnings	901,800	917,000	1,056,665	1,229,722	1,413,932	1,621,598
Treasury stock	(57,900)	(30,500)	(30,500)	(30,500)	(30,500)	(30,500)
Accumulated other comprehensive loss	(27,400)	(59,700)	(59,700)	(59,700)	(59,700)	(59,700)
Total Common Stockholders' Equity	**4,923,200**	**4,997,300**	**5,336,965**	**5,510,022**	**5,694,232**	**5,901,898**
TOTAL CAPITALIZATION & LIABILITIES	**19,938,800**	**20,708,300**	**21,609,024**	**22,176,262**	**22,806,225**	**23,290,988**
CONSOLIDATED DEBT METRICS						
Average Total Debt	7,070,100	7,653,300	8,203,800	8,659,060	9,075,760	9,414,122
Average Net Debt	7,057,300	7,642,950	8,126,122	8,582,132	9,054,881	9,349,223
Net Debt/ Total Book Capitalization	59.1%	60.6%	61.1%	61.3%	61.8%	61.7%
Average Debt/ EBITDA	4.7x	5.1x	5.0x	5.0x	5.0x	5.0x
Average Interest Rate	5.5%	4.9%	5.1%	5.0%	5.0%	5.0%

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

May 1, 2012
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

(amounts in thousands, except per unit data)	2010	2011E	2012E	2013E	2014E	2015E
Cash from Operating Activities						
Net Income	292,000	299,100	408,145	456,812	476,478	508,702
Debt: Gain Early Extinguishment / Amort Disc.+Premium	107,000	53,900	-	-	-	-
Depreciation and Amortization	596,300	538,200	572,132	588,568	632,096	645,162
Net Changes in Price Risk Mgmt A / L	(5,500)	38,100	-	-	-	-
Deferred: Inc. Tax/Credits; Revenues	179,700	180,900	-	-	-	-
Stock Compensation Expense	30,900	39,200	-	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	2,000	16,800	-	-	-	-
Income from Unconsolidated Affiliates	(14,800)	(13,700)	-	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	2,600	4,700	-	-	-	-
AFUDC Equity	(6,100)	(2,400)	-	-	-	-
Dist. of Earnings Received from Equity Investee	12,900	18,800	-	-	-	-
Other	(55,000)	8,900	-	-	-	-
Changes in Assets and Liabilities:	**(419,800)**	**(312,300)**	**120,559**	**(46,001)**	**(17,428)**	**(40,389)**
Net cash from operating activities	**722,200**	**870,200**	**1,100,836**	**999,379**	**1,091,146**	**1,113,475**
Cash from Investing Activities						
Capital Expenditures	(803,800)	(1,125,200)	(1,400,000)	(1,260,000)	(1,200,000)	(1,000,000)
Insurance Recoveries	5,000	-	-	-	-	-
Proceeds from Disposition of Assets	500	9,400	-	-	-	-
Restricted Cash Deposits (Borrowings)	(28,200)	42,300	-	-	-	-
Contributions to Equity Investments	(64,100)	(6,400)	-	-	-	-
Other Investing Activities	(53,100)	(69,400)	-	-	-	-
Net cash from investing activities	**(943,700)**	**(1,149,300)**	**(1,400,000)**	**(1,260,000)**	**(1,200,000)**	**(1,000,000)**
Cash from Financing Activities						
Issuance of Long-Term Debt	250,000	890,000	500,000	-	-	-
Retirement/Repurchase of Long-Term Debt	(977,700)	(286,900)	-	-	-	-
Change in Short-Term Borrowings, Net	1,279,500	(23,100)	-	410,520	422,880	253,845
Issuance of Common Stock	14,400	24,400	200,000	-	-	-
Acquisition of Treasury Stock	(1,400)	(3,100)	-	-	-	-
Dividends Paid - Common Stock	(255,600)	(257,800)	(268,479)	(283,756)	(292,268)	(301,036)
Other	(94,900)	(62,100)	-	-	-	-
Net cash from financing activities	**214,300**	**281,400**	**431,521**	**126,764**	**130,611**	**(47,191)**
Net change in cash	**(7,200)**	**2,300**	**132,357**	**(133,857)**	**21,757**	**66,284**
Cash at beginning of period	**16,400**	**9,200**	**11,500**	**143,857**	**10,000**	**31,757**
Cash at end of period	**9,200**	**11,500**	**143,857**	**10,000**	**31,757**	**98,041**

Source: Company data, Morgan Stanley Research

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May 1, 2012
NiSource, Inc.

Exhibit 6
NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$5,105	**$18**
Gas Transmission & Storage	5816	**$21**
Electric Utility	3780	**$14**
Utica	600	**$2**
Value	**$15,301**	**$55**
Net Debt	**(7,374)**	**(26)**
Net Equity Value	**$7,926**	**$28**
Shares Outstanding (in m)		280

GAS DISTRIBUTION	
Forward EBITDA (2012E)	$601
Forward multiple	8.5x
Enterprise value	**$5,105**

GAS TRANSMISSION & STORAGE	
Forward EBITDA (2012E)	$582
Forward multiple	10.0x
Enterprise value	**$5,816**

ELECTRIC UTILITY	
Forward EBITDA (2012E)	$445
Forward multiple	8.5x
Enterprise value	**$3,780**

Source: Company data, Morgan Stanley Research ▪

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MORGAN STANLEY RESEARCH

May 1, 2012
NiSource, Inc.

MORGAN STANLEY ModelWare

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Global Stock Ratings Distribution

(as of April 30, 2012)

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May 1, 2012
NiSource, Inc.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1115	38%	459	42%	41%
Equal-weight/Hold	1254	43%	474	44%	38%
Not-Rated/Hold	100	3%	25	2%	25%
Underweight/Sell	471	16%	124	11%	26%
Total	2,940		1082		

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.

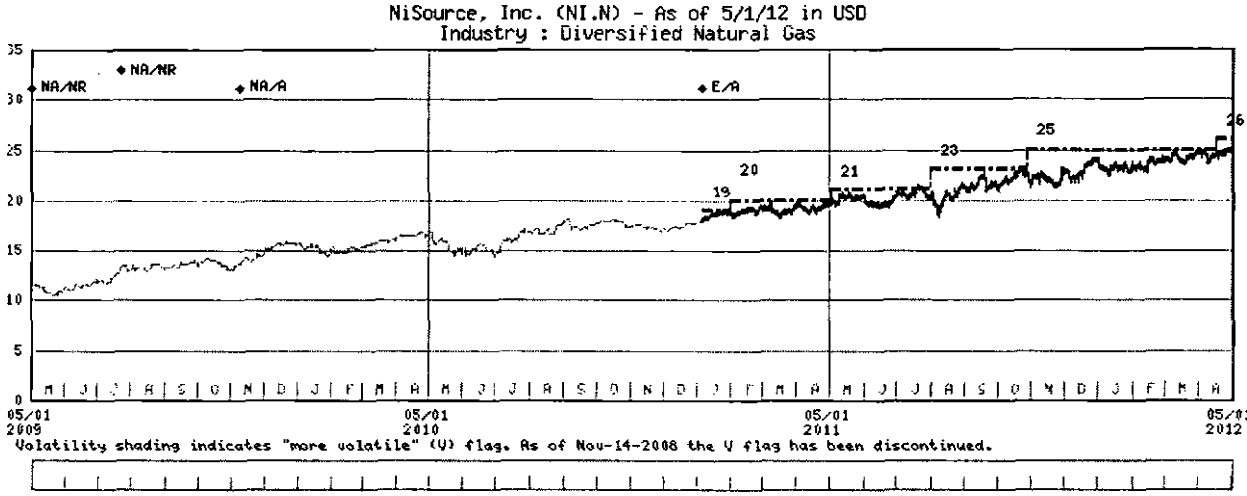
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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Not-Rated (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.

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



Stock Rating History: 5/1/09 : NA/NR; 7/23/09 : NA/NR; 11/10/09 : 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

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

May 1, 2012
NiSource, Inc.

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Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (04/30/2012)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	$20.21
El Paso Corp. (EP.N)	E (03/28/2012)	$29.67
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$22.94
National Fuel Gas Co (NFG.N)	E (01/10/2012)	$47.32
NiSource, Inc. (NI.N)	E (01/06/2011)	$24.65
Oneok Inc. (OKE.N)	O (11/15/2011)	$85.89
Questar Corp. (STR.N)	U (10/29/2010)	$19.75
Spectra Energy Corp. (SE.N)	E (11/10/2009)	$30.74
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$34.03

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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
25.33 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	NA	BBB	Utilities - Regulated

NiSource's Infrastructure Investments Overshadow Solid First-Quarter Results

Charles Fishman
Stock Analyst
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312-696-6523

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

Research as of 01 May 2012
Estimates as of 25 Apr 2012
Pricing data through 01 May 2012
Rating updated as of 01 May 2012

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

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Analyst Note 01 May 2012

On May 1, NiSource NI reported solid 2012 first-quarter earnings. However, the favorable results were overshadowed by management's announcement that they are very close to a joint venture agreement that would include a significant downstream infrastructure investment opportunity in the Utica play. In addition, NiSource announced two gas transmission and storage segment projects totaling $370 million.

The JV and the two projects provide further confidence that the company will sustain the recent higher level of capital spending exceeding $1.4 billion in 2012, which we estimate will drive 8% annual EPS growth during the next five years. NiSource reiterated 2012 operating earnings guidance of $1.40 to $1.50 per share. Our 2012 EPS estimate of $1.42 is unchanged. We are also reaffirming our $23 per share fair value estimate.

First-quarter weather-normalized operating earnings were $0.76 per share versus $0.74 in the same period last year. Mild weather (23% warmer than normal) decreased residential and commercial gas distribution sales and throughput in gas transmission and storage, and reduced GAAP earnings by approximately $0.08 per basic share. Operating earnings benefited from strong industrial gas distribution sales and the impact of higher rates due to the NIPSCO, Columbia Gas of Ohio, and Columbia Gulf rate cases in 2011. Employee and administrative costs were lower for gas distribution and gas transmission and storage, primarily pension-related costs. In 2011, NiSource made accelerated pension fund contributions of $400 million, which helped first-quarter earnings.

Management indicated that it was in advanced discussions with an individual producer counterparty regarding a JV utilizing NiSource's acreage position in the liquids-rich

Vital Statistics

Market Cap (USD Mil)	7,188
52-Week High (USD)	24.76
52-Week Low (USD)	17.95
52-Week Total Return %	35.0
YTD Total Return %	8.3
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.0
5-Yr Forward EPS CAGR %	8.2
Price/Fair Value	1.10

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	14.4	17.6	*17.8*	*16.6*
EV/EBITDA	8.1	10.1	*9.7*	*8.8*
EV/EBIT	13.5	16.1	*14.9*	*13.5*
Free Cash Flow Yield %	-0.5	-3.1	*-0.7*	*-0.7*
Dividend Yield %	5.2	3.9	*3.7*	*4.1*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	6,422	6,019	*5,508*	*6,069*
Revenue YoY %	-3.4	-6.3	*-8.5*	*10.2*
EBIT	908	907	*1,013*	*1,123*
EBIT YoY %	12.8	-0.1	*11.7*	*10.9*
Net Income, Adjusted	341	389	*412*	*476*
Net Income YoY %	15.4	14.0	*5.9*	*15.7*
Diluted EPS	1.22	1.35	*1.42*	*1.53*
Diluted EPS YoY %	13.7	10.7	*5.2*	*7.7*
Free Cash Flow	-27	-205	*-50*	*-52*
Free Cash Flow YoY %	-102.3	670.3	*-75.8*	*5.0*

Source for forecasts in the data tables above: Morningstar Estimates

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, NiSource's wholly-owned electric and gas utility, owns coal, natural gas and hydroelectric power plants.

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NiSource Inc NI (NYSE) | ★★★

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25.33 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	NA	BBB	Utilities - Regulated

portion of the Utica Play in Eastern Ohio. NiSource would provide gathering services and cryogenic processing and make a "significant" downstream infrastructure investment. Management indicated that it hoped to be able to announce details in the next month or so.

In addition to the potential JV, NiSource announced the Big Pine Gathering System anchored by a long-term agreement with XTO Energy. The 70-mile, $150 million project in Western Pennsylvania is expected to be in service in December 2012. Like the JV, it also would not be subject to regulation and likely has the potential for higher returns on invested capital than FERC-regulated pipelines.

The other newly announced project is the $220 million Westside expansion that will transport Marcellus production to Gulf Coast markets utilizing NiSource's Columbia Gulf pipeline. Binding long-term agreements have been signed with two shippers and the project, subject to FERC regulation, is expected to be in service in late 2014. These project announcements and the JV demonstrate the value of NiSource's pipeline footprint in the Marcellus and Utica shale plays and provide additional visibility on the company's investment opportunities that we believe are likely to drive strong earnings growth over the next five years.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	*Dec 2012*	*Dec 2013*	*5-Year Proj. CAGR*
Revenue	—	—	-3.4	-6.3	*-8.5*	*10.2*	—
EBIT	—	—	12.8	-0.1	*11.7*	*10.9*	*8.8*
EBITDA	—	—	7.9	-3.9	*8.2*	*9.5*	*7.0*
Net Income	—	—	15.4	14.0	*5.9*	*15.7*	*10.3*
Diluted EPS	—	—	13.7	10.7	*5.2*	*7.7*	*8.2*
Earnings Before Interest, after Tax	—	—	-60.0	12.8	*-23.8*	*7.9*	*-0.7*
Free Cash Flow to the Firm	—	—	-85.4	-44.7	*-6.8*	*-16.3*	*17.1*

Profitability	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	*Dec 2012*	*Dec 2013*	*5-Year Proj. Avg*
Operating margin %	*13.8*	12.1	14.1	15.1	*18.4*	*18.5*	*18.3*
EBITDA margin %	*22.8*	21.0	23.4	24.0	*28.4*	*28.2*	*27.5*
Net margin %	*4.5*	3.7	4.6	5.2	*7.5*	*7.9*	*7.9*
Free Cash Flow to the Firm margin %	*18.1*	43.8	6.7	3.9	*4.0*	*3.0*	*4.5*
ROIC with Goodwill %	*10.8*	17.9	7.0	7.5	*5.5*	*5.6*	*5.7*
ROIC w/out Goodwill %	*14.2*	23.7	9.2	9.7	*7.0*	*7.1*	*7.1*
Return on Assets, pretax %	*5.7*	8.2	4.6	4.4	*4.8*	*5.1*	*5.2*
Return on Equity %	*7.2*	9.5	6.0	6.1	*7.8*	*8.4*	*8.8*

Leverage	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	*Dec 2012*	*Dec 2013*	*5-Year Proj. Avg*
Debt/Capital	*0.60*	0.58	0.60	0.61	*0.59*	*0.59*	*0.58*
Total Debt/EBITDA	*5.09*	4.87	4.89	5.50	*5.12*	*4.82*	*4.70*
EBITDA/Interest Expense	*3.72*	3.49	3.84	3.84	*3.96*	*4.18*	*4.27*

Valuation Summary and Forecasts

	2010	2011	*2012(E)*	*2013(E)*
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	*17.8*	*16.6*
EV/EBITDA	8.1	10.1	*9.7*	*8.8*
EV/EBIT	13.5	16.1	*14.9*	*13.5*
Free Cash Flow Yield %	-0.5	-3.1	*-0.7*	*-0.7*
Dividend Yield %	5.2	3.9	*3.7*	*4.1*

Key Valuation Drivers

Cost of Equity %	10.5
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.6
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	13.8
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	1,174	8.1	3.68
Present Value Stage II	13,385	91.9	41.97
Present Value of the Perpetuity	—	—	—
Total Firm Value	**14,559**	**100.0**	—
Cash and Equivalents	172	—	0.54
Debt	8,000	—	-24.94
Net balance sheet impact	-7,782	—	-24.40
Other Adjustments	425	—	1.33
Equity Value	**7,202**	—	**23.04**
Projected Diluted Shares	319		
Fair Value per Share (USD)	**23.00**		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

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NiSource Inc NI (NYSE) | ★★★

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25.33 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	NA	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Total Revenue	**6,649**	**6,422**	**6,019**	***5,508***	***6,069***
Cost of Goods Sold	3,318	2,974	2,556	*1,897*	*2,248*
Gross Profit	**3,331**	**3,448**	**3,463**	***3,611***	***3,821***
Selling, General & Administrative Expenses	1,653	1,656	1,723	*1,760*	*1,814*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	284	287	295	*287*	*295*
Restructuring & Other Charges (Gains)	19	2	17	—	—
Depreciation Expense (if reported separately)	589	596	538	*551*	*589*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	**5,864**	**5,516**	**5,129**	***4,495***	***4,946***
Operating Income (EBIT)	**786**	**906**	**891**	***1,013***	***1,123***
Interest Expense	399	392	377	*395*	*410*
Interest & Other Income (Expense)	10	-78	-47	*15*	*19*
Pre-Tax Income	**397**	**436**	**467**	***633***	***732***
Income Tax Expense (Benefit)	166	142	163	*221*	*256*
Income After Taxes	**231**	**295**	**304**	***412***	***476***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	-11	-3	-5	—	—
Net Income (Loss)	**221**	**292**	**299**	***412***	***476***
Net Income (Loss) Excluding Charges	295	341	389	*412*	*476*
Diluted Shares Outstanding (Mil)	276	280	289	*290*	*312*
Diluted EPS Including Charges	0.80	1.04	1.03	*1.42*	*1.53*
Diluted EPS Excluding Charges	1.07	1.22	1.35	*1.42*	*1.53*
Dividends Per Common Share	0.92	0.92	0.92	*0.92*	*0.95*
EBITDA	**1,375**	**1,503**	**1,429**	***1,564***	***1,712***
EBITDA without restructuring	**1,394**	**1,505**	**1,446**	***1,564***	***1,712***

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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
25.33 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	NA	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Assets	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Excess Cash & Investments	—	—	112	*266*	*197*
Operating Cash & Equivalents	191	212	60	*83*	*91*
Accounts Receivable	809	1,079	855	*755*	*831*
Inventory	547	428	566	*421*	*499*
Other Short Term Operating Assets	677	730	655	*600*	*630*
Total Current Assets	**2,224**	**2,449**	**2,248**	***2,125***	***2,248***
Property Plant & Equipment, Net	10,684	11,097	11,800	*12,650*	*13,416*
Property Plant & Equipment, Gross	19,038	19,590	20,470	*21,871*	*23,226*
(Accumulated Depreciation)	-8,354	-8,493	-8,670	*-9,221*	*-9,810*
Goodwill, Net	3,677	3,677	3,677	*3,677*	*3,677*
Other Intangibles	320	309	298	*298*	*298*
Other Long-Term Operating Assets	1,810	1,851	2,183	*2,200*	*2,310*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	557	556	502	*502*	*502*
Total Assets	**19,272**	**19,939**	**20,708**	***21,451***	***22,451***
Liabilities					
Accounts Payable	502	582	435	*298*	*395*
Short-Term Debt	822	1,417	1,687	*1,500*	*1,500*
Other Current Liabilities	1,826	1,651	1,525	*1,500*	*1,575*
Total Current Liabilities	**3,150**	**3,649**	**3,646**	***3,298***	***3,470***
Long-Term Debt	5,965	5,936	6,267	*6,500*	*6,750*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**5,965**	**5,936**	**6,267**	***6,500***	***6,750***
Long-Term Operating Liabilities	1,559	1,596	1,810	*1,850*	*1,943*
Deferred Tax Liabilities	2,018	2,210	2,542	*2,792*	*3,042*
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	*1,445*	*1,445*
Total Liabilities	**14,418**	**15,016**	**15,711**	***15,885***	***16,650***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	4,854	4,923	4,997	*4,997*	*4,997*
Additional Paid in Capital	—	—	—	*425*	*479*
Retained Earnings (Deficit)	—	—	—	*144*	*325*
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Total Shareholders' Equity	**4,854**	**4,923**	**4,997**	***5,567***	***5,802***
Total Liabilities + Shareholders' Equity	**19,272**	**19,939**	**20,708**	***21,451***	***22,451***
Difference, from analyst adjustments and restatements	-1	—	—	—	—

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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
25.33 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	NA	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Net Income from Continuing Operations	218	292	299	*412*	*476*
Depreciation Expense	589	596	538	*551*	*589*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	102	134	—	—
Deferred Income Taxes & Other Adjustments to Net Income	403	207	212	*250*	*250*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	259	-244	220	*100*	*-77*
(Increase) Decrease in Inventory	129	103	-142	*145*	*-78*
(Increase) Decrease in Prepayments, other Current Assets	25	42	83	*55*	*-30*
Increase (Decrease) in Accounts Payable	-192	38	-155	*-137*	*97*
Increase (Decrease) in Other Current Liabilities	481	-359	-269	*-25*	*75*
Cash from Operations	**1,921**	**777**	**920**	***1,351***	***1,303***
(Capital Expenditures)	-777	-804	-1,125	*-1,400*	*-1,355*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	6	1	9	—	—
Other Investing Cash Flows (Outlays)	117	-140	-34	*23*	*-18*
Cash from Investing	**-655**	**-944**	**-1,149**	***-1,378***	***-1,373***
Common Stock (Purchase) or Sale	8	13	21	*425*	*54*
Common Stock (Dividends)	-253	-256	-258	*-267*	*-296*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-1,061	1,280	-23	*-187*	—
Long Term Debt Issuance and (Retirement)	290	-821	541	*233*	*250*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	—	—
Cash From Financing	**-1,016**	**216**	**281**	***204***	***9***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	-234	-57	-50	—	—
Net Change in Cash	**16**	**-8**	**2**	***177***	***-61***
Change in Cash on Balance Sheet	191	21	-40	*177*	*-61*
Difference, from analyst adjustments and restatements	-175	-29	42	—	—

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UBS

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NiSource Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$23.00 *Unchanged*
Price	US$24.65

RIC: NI.N BBG: NI US

1 May 2012

Continuing to Leverage the Footprint

■ **Weather strikes Distribution results, driving a sizable EPS miss**

NI realized recurring 1Q12 EPS of $0.65 (excluding items), well short of our $0.69 estimate and the Street's $0.71 consensus expectation. We note that ~23% warmer than normal temps (~25% warmer y/y) negatively impacted Gas and Electric utility results which, along with above-forecast Depreciation and Interest expense, and a higher than anticipated share count, propelled the EPS miss. Fig. 1 has more detail.

■ **Utica JV discussions in advanced stage; CMA filed base rate case**

On the call, mgmt noted it is in 'advanced discussions' with an individual producer counterparty regarding a potential JV to optimize ~15k acres of its Utica mineral position; an agreement is expected by midyear. Separately, in April, Columbia Gas of MA filed a $29mm base rate case request and a decision is expected by late Oct.

■ **Trimming '12-'14 EPS estimates; '12 EPS guidance (non-GAAP) affirmed**

Incorporating 1Q results and a slightly higher expected share count, we are cutting our '12-14 EPS estimates to $1.38, $1.47, and $1.53, from $1.43, $1.48, and $1.54, respectively. Along with 1Q results, management affirmed its '12 EPS guidance of $1.40-$1.50; however, this is a non-GAAP estimate which excludes the impact of actual weather and includes only basic shares outstanding. We note that this approach is fundamentally different than that employed by any other company under our coverage.

■ **Valuation: Reiterate Neutral rating**

While we acknowledge NI's deep inventory of organic growth opportunities, its enviable infrastructure footprint in OH, WV, and PA, and the prospect for resumed dividend growth, we believe shares fully reflect these attributes at current levels. Our $23 price target is DCF and SOP derived.

Highlights (US$m)	12/10	12/11	12/12E	12/13E	12/14E
Revenues	6,034.80	5,853.50	5,565.05	5,878.89	6,061.85
EBIT (UBS)	921.60	941.00	1,022.66	1,111.82	1,159.59
Net Income (UBS)	339.99	370.43	409.23	458.34	477.75
EPS (UBS, US$)	1.22	1.29	1.38	1.47	1.53
Net DPS (UBS, US$)	0.92	0.92	0.92	0.96	1.00
Profitability & Valuation	**5-yr hist av.**	**12/11**	**12/12E**	**12/13E**	**12/14E**
EBIT margin %	13.3	16.1	18.4	18.9	19.1
ROIC (EBIT) %	8.3	8.3	8.7	9.1	9.2
EV/EBITDA (core) x	8.7	9.7	10.0	8.0	7.7
PE (UBS) x	14.1	15.8	17.9	16.7	16.1
Net dividend yield %	5.6	4.5	3.7	3.9	4.1

Source: Company accounts, Thomson Reuters, UBS estimates (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year, (E): based on a share price of US$24.65 on 30 Apr 2012 19:39 EDT

Trading data

52-wk range	US$24.65-18.27
Market cap.	US$6.95bn
Shares o/s	282m (COM)
Free float	99%
Avg. daily volume ('000)	738
Avg. daily value (m)	US$17.6

Balance sheet data 12/12E

Shareholders' equity	US$5.48bn
P/BV (UBS)	1.4x
Net Cash (debt)	(US$7.96bn)

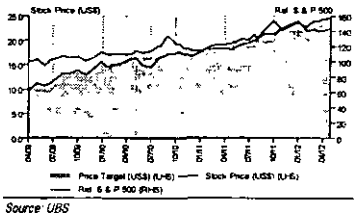
Forecast returns

Forecast price appreciation	-6.7%
Forecast dividend yield	3.8%
Forecast stock return	-2.9%
Market return assumption	5.3%
Forecast excess return	-8.2%

EPS (UBS, US$)

	12/12E			12/11
	From	To	Cons.	Actual
Q1	0.69	0.65	0.71	0.72
Q2E	0.21	0.17	0.19	0.16
Q3E	0.18	0.18	0.16	0.13
Q4E	0.35	0.37	0.38	0.28
12/12E	1.43	1.38	*1.44*	
12/13E	1.48	1.47	*1.52*	

Performance (US$)



Source: UBS

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rghulen@nisource.com Randy Hulen 05/01/12 05:43:56 PM Nisource Corporate Services Co (Inv. Relations)

Figure 1: NI 1Q12 Results Review

Recurring Operating Income by Divisio	Actual 1Q12A	UBS Estimates 1Q12E		Year-over-Year 1Q11A	
Gas Distribution	$212.0	$234.5	-9.6%	$241.6	-12.3%
Transmission & Storage	$138.6	$134.6	3.0%	$118.5	17.0%
Electric Operations	$43.1	$46.3	-7.0%	$43.2	-0.2%
Corporate, Other, and Eliminations	$1.0	($3.8)	NA	($3.5)	128.6%
Total Operating Income	**$394.7**	**$411.7**	**-4.1%**	**$399.8**	**-1.3%**
Depreciation	($146.1)	($140.9)	3.7%	($134.7)	8.5%
Other Income / (Expenses)	$1.0	$0.5	NM	$3.3	NM
Interest Expense	($103.3)	($101.4)	1.9%	($89.8)	15.0%
Income Tax Benefit (Expense)	($102.4)	($108.8)	-5.9%	($107.6)	-4.9%
Recurring Net Income	**$190.0**	**$202.0**	**-5.9%**	**$205.7**	**-7.6%**
Avg Diluted Shares Outstanding	293.1	291.5	0.5%	285.0	2.8%
Earnings Per Diluted Share	**$0.65**	**$0.69**	**-6.4%**	**$0.72**	**-10.2%**

Source: NI reports and UBS estimates

Note: Adjusted results exclude the impact of items deemed to be one-time in nature; however, we do include the impact of share dilution and weather as there really is no such thing as 'normal weather' and this is the approach we employ with every other company under our coverage.

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■ NiSource Inc.

NiSource is an energy holding company whose subsidiaries are engaged in natural gas transmission, storage, and distribution, as well as electric generation, transmission, and distribution. NiSource operating companies deliver energy products and services to approximately 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England.

■ Statement of Risk

Risks to our NI earnings estimates and price target include: 1) lower customer usage; 2) customer attrition; 3) non-normal weather; 4) higher bad debt expense; 5) unfavorable regulatory/legislative decisions; 6) rising interest rates; and 7) unfavorable pension asset performance.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	51%	34%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	9%	15%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2012.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UBS Securities LLC: Ronald J. Barone; Christopher P. Sighinolfi, CFA; Corey Goldman.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
NiSource Inc.[6, 7, 16, 18]	NI.N	Neutral	N/A	US$24.65	30 Apr 2012

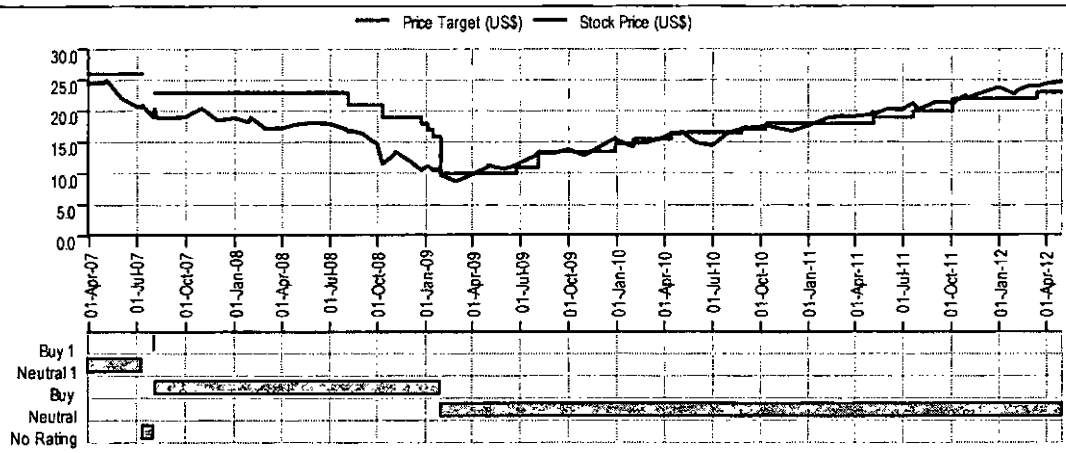
Source: UBS. All prices as of local market close.
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18. The U.S. equity strategist, a member of his team, or one of their household members has a long common stock position in NiSource, Inc.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

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NiSource Inc. (US$)



Source: UBS; as of 30 Apr 2012

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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rghulen@nisource.com Randy Hulen 05/01/12 05:43:56 PM Nisource Corporate Services Co (Inv. Relations)

WUNDERLICH SECURITIES

Energy: Utilities/Power

NISOURCE INC. (NI: $25.33)

May 2, 2012

Raising Price Target
Rating: Hold
Price Target: Old - $23.00; New - $26.00

Market Data	
12-18 Month Price Target	$26.00
52-Week Range	$25.79 - $17.95
ADTV - 90Day (000s)	2,934.6
Market Cap ($MM)	$7,196.1
Shares Out (MM)	281.9
Public Market Float (MM)	281.6
Dividend	$0.92
Dividend/Yield	3.63%

EPS ($)

FY DEC	2011	2012		2013	
	Estimate	Previous	Current	Previous	Current
Q1	$0.74A	$0.75	$0.76A	-	-
Q2	$0.17A	-	-	-	-
Q3	$0.11A	-	-	-	-
Q4	$0.32A	-	-	-	-
YEAR	$1.35A	-	$1.46E	$1.52	$1.55E

2009 and 2010 actuals are non-GAAP, operating earnings. GAAP EPS for '09 and '10 were $0.84 and $1.06, respectively.

Valuation Ratio

	FY11	FY12	FY13
P/E	18.8x	17.3x	16.3x
PEG	4.7x	4.3x	4.1x
EV/EBITDA	10.5x	9.5x	9.1x
Leverage Ratio	5.2x	4.9x	4.9x
EV/FCF	153.1x	NM	NM
FCF Yield	1.4%	NM	NM
P/FCF	72.8x	(42.9)x	(45.1)x
EV/S	2.5x	2.3x	2.2x

Financial Data

	FY11	FY12	FY13
Revenue	$6,019.1A	$6,624.3E	$6,757.0E
EBIT	$905.1A	$1,026.2E	$1,093.1E
EBITDA	$1,443.0A	$1,590.5E	$1,671.6E
FCF(Mil)	$98.9E	$(167.8)E	$(159.7)E
Debt/Capital	58.6%E	56.9%E	56.9%E
BV/Share	$18.07E	$18.59E	$19.16E
CapEx	$1,050.0E	$1,370.0E	$1,400.0E

Balance Sheet

	FY11	FY12	FY13
PPE	$11,674.3E	$12,480.0E	$13,301.6E
Total Assets	$20,658.7E	$21,551.8E	$22,424.5E
Total Debt	$7,552.8E	$7,752.8E	$8,152.8E
Long Term Debt	$6,136.1E	$6,336.1E	$6,736.1E
Total SOE and Liab.	$20,658.7E	$21,551.8E	$22,424.5E

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; Gas Infrastructure Opportunity Continues to Drive Value
Increase Estimates and Target Price

Summary

NiSource (NI) reported 1Q EPS of $0.76 versus $0.74 a year ago (our/consensus was $0.75/$0.70). As expected, improved results from the gas transmission, storage and distribution business (on a weather normalized basis) drove the improvement in the consolidated results. NI continues to pursue gas infrastructure expansion in the Midwest, given NI's attractive proximity to the shale gas regions in OH and PA. NI also appears very close to a joint venture to exploit the value of its eastern Utica acreage; an announcement is expected by the end of May. Further, the company announced a $220mm expansion to transport Marcellus gas to Gulf Coast markets. We are increasing our 2013 EPS estimate and our target price, but maintaining our Hold rating.

Key Points

- **1Q weather normalized results as expected.** Warm weather negatively impacted NI's GAAP net revenues by $40mm in 1Q (about $0.09 per share). However, NI reports adjusted earnings and provides annual earning guidance on a weather normal basis. Adjusted 1Q EPS were $0.76 versus $0.74 a year ago. Higher revenues from rate increases at the gas distribution segment coupled with higher revenues at the gas transmission business offset weaker electric segment results. Industrial gas sales were 10% higher, while industrial electric sales declined 2%.
- **Company close to JV on eastern Utica position.** NI indicated that negotiations are ongoing on a JV with a Utica gas producer to exploit the value of 15,000 acres of NI's eastern-most Utica shale acreage. Our understanding of the JV framework is NI would contribute acreage to an existing acreage position of its JV partner. NI would get royalties from the production and build the associated gathering and pipeline infrastructure for the project. We expect an announcement on the JV by the end of May.
- **2013 helped by MA rate case; 2015 by West Side expansion.** On a conference call to discuss 1Q results, NI indicated that the company filed a $29mm MA rate case in mid April, which should add to earnings in 2013 assuming a reasonable outcome. The company also announced a $220mm project to carry gas from the Marcellus shale region to the Gulf Coast. Expected to be operational in late 2014, the project should drive additional earnings growth in 2015. NI continues to pursue its pipeline modernization plan, which should be advanced by 2013.
- **Increasing our 2013 EPS estimate; maintain 2012.** NI reiterated 2012 weather normalized EPS guidance of $1.40-$1.50 based on the 1Q results. We are maintaining our 2012 EPS estimate of $1.46, but increasing our 2013 EPS estimate to $1.55 from $1.52 to reflect the MA rate case. NI still expects to close the 24 million share equity forward transaction by September 2012. Our 2014 EPS estimate is increased to $1.67 from $1.65 previously. That remains premised upon $1.3-$1.4B capital spending annually.
- **Increase price target, but maintain Hold rating.** NI currently trades at 16.3 our 2013E EPS estimate and 15.2 times our 2013E EPS. This compares with 14.7x and 13.6x for comparable electric peers, but 16.0x and 14.6x for gas peers. Our revised sum-of-the-parts (SOTP) value suggests $25-$26 excluding MLPs and $27-$28 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. This coupled with our DCF supports our new target price of $26.

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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 05/01/12.

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

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	135	63.68	23	17.04
Hold -rated	68	32.08	6	8.82
Sell -rated	9	4.25	1	11.11

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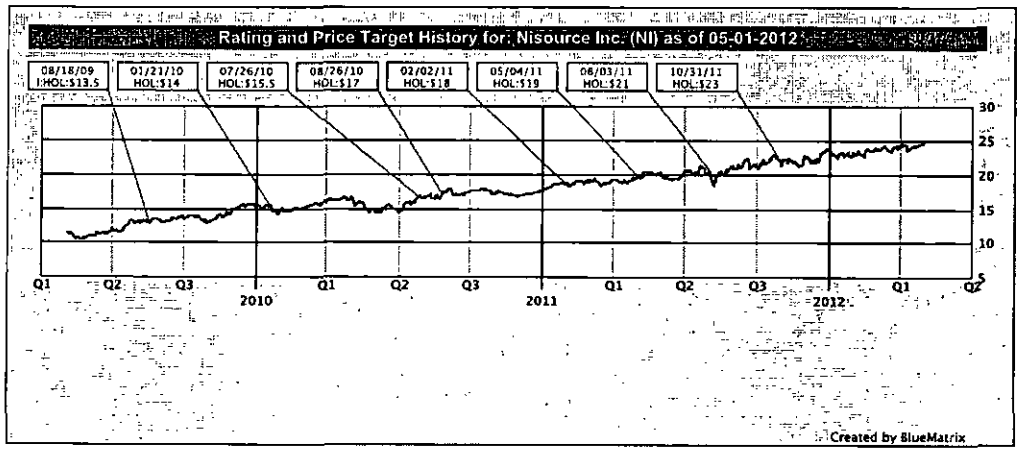
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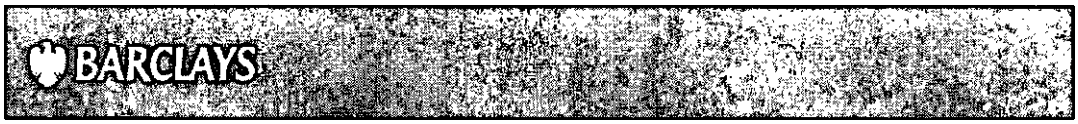
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EQUITY RESEARCH | INSTANT INSIGHTS 15 May 2012

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NI: Dividend Increase Announced

Stock Rating/Sector View: 2-Equal Weight/1-Positive
Price Target: $25
Price (14-May-2012): $25.12
Potential Upside/Downside: -0%
Ticker: NI

NiSource Announces 4.3% Dividend Increase

The Board of Directors of NiSource this morning approved a 4.3% dividend increase resulting in an increased indicated annual dividend of $0.96/share vs. the prior dividend of $0.92/share. The quarterly dividend of $0.24/share will be payable August 20, 2012 to shareholders of record at the close of business on July 31, 2012. The board has developed a general policy of targeting a dividend payout in the range of 60% to 70% or net operating earnings per share (non-GAAP). The indicated annual yield is now 3.8% vs. 3.6% previously and a utility group average yield of 4.3%.

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Mentioned Stock$ (Ticker, Date, Price)
NiSource, Inc. (NI, 14-May-2012, USD 25.12), 2-Equal Weight/1-Positive, A/C/D/J/K/L/M/O
Valuation Methodology: Our $25 price target is premised upon our '14E EPS of $1.69 and the '14 group PE multiple of 13.9x, adjusted upwards by 5% for NI's gas heavy business mix.
Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to the outlook include the outcome of regulatory proceedings, rating agency actions, interest rates, and access to the capital markets.

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May 23, 2012
ENERGY: Multi- Utilities
Quick Alert

KeyBanc
Capital Markets

NiSource, Inc. (BUY)

NI - Quick Alert: Close to Finalizing JV?

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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KEY INVESTMENT POINTS

In a Cleveland Plain Dealer newspaper article, we have learned that on Friday, May 18, 2012, Columbia Gas Transmission (a NiSource subsidiary) filed an agreement to transfer the right to drill for oil and gas on about 14,000 leased gas storage acres associated with the Brinker storage field in Ohio to sister subsidiary NiSource Energy Ventures.
(see http://www.cleveland.com/business/index.ssf/2012/05/old_natural_gas_leases_block_h.html)

Recall that NI has indicated that it is working with an oil and gas developer on a potential joint venture in which NI would contribute around 15,000 of its own acres, to be married with a larger position in the wet Utica shale region, and as part of the agreement, NI would look to develop the supporting infrastructure around production of the combined joint venture acreage (around 100,000 acres).

We believe as a gating issue, NI is not likely to have filed for property transfer until a joint venture deal was in place. We would expect an announcement soon on the producer counterparty in which NI has described as "widely recognized, widely respected" (and not Chesapeake Energy).

Assuming the transfer is related to the joint venture, we view this news positively, as it signals the joint venture is proceeding and likely close to announcement.

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NiSource, Inc. - NI

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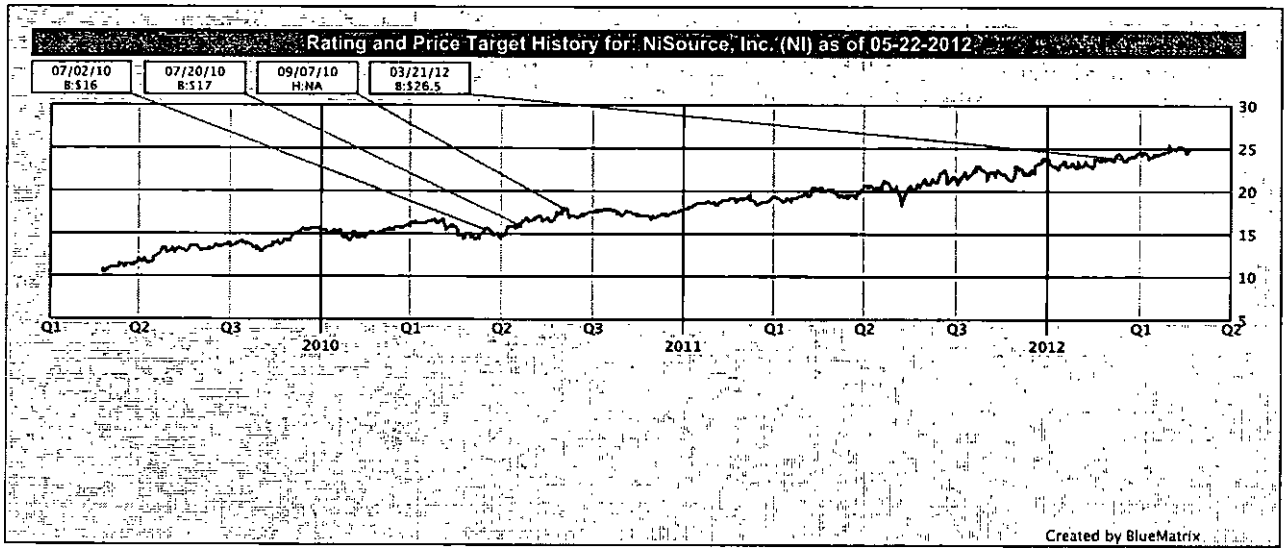
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Three- Year Rating and Price Target History



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Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	226	44.14	46	20.35	BUY [BUY]	38	48.10	16	42.11
HOLD [HOLD]	275	53.71	53	19.27	HOLD [HOLD]	41	51.90	19	46.34
SELL [UND]	11	2.15	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.

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March 21, 2012
ENERGY: Multi- Utilities
Company Update / Rating Change

KeyBanc
Capital Markets

NiSource, Inc.:

NI: Upgrading Shares as Growth Story Unfolds

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Member NYSE/FINRA/SIPC

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Rating	BUY
Price	$23.50
12 Mo. Price Target	$26.50
Dividend	$0.92
Yield	3.9%
52- Wk. Range	$18 -- $25
Trading Volume (000)	3,106
Market Cap. (mm)	$6,753.9
Shares Out. (mm)	287.40
Book Value/Share	$17.73

EPS (Net) Summary

FY Dec	2011A	2012E	2013E
1Q	$0.73	$0.69	--
2Q	$0.17	--	--
3Q	$0.13	--	--
4Q	$0.28	--	--
Prior	*$0.32*	--	--
YEAR	$1.31	$1.45	--
First Call	--	$1.45E	$1.52E
P/E	17.9x	16.2x	

Note 1: 2010 Q2: We include $0.02 unfavorable weather impact to $0.13 reported net operating earnings per share from continuing operations.

Note 2: 2010 Q3: We include $0.02 favorable weather impact to $0.04 reported net operating earnings per share from continuing operations.

Note 3: 2010 Q4: We include $0.02 favorable weather impact to $0.33 reported net operating earnings per share from continuing operations.

Note 4: 2011 Q1: We include $0 01 favorable weather impact to $0.72 reported net operating earnings per share from continuing operations.

Note 5: 2011 Q3: We include $0.02 favorable weather impact to $0.11 reported net operating earnings per share from continuing operations.

Note 6: 2011 Q4: We include $0.03 unfavorable weather impact to $0 31 reported net operating earnings per share from continuing operations

ACTION STATEMENT

We are upgrading shares of NiSource, Inc.'s (NI-NYSE) stock to **BUY** from HOLD based on our sum of the parts valuation that captures higher market multiples for its gas distribution and pipeline/storage segments and assigns some value to NI's Utica acreage. We believe 2012 will have multiple positive catalysts for the shares including raising the dividend and establishing a payout policy, additional infrastructure opportunities in the Marcellus and Utica shale plays, and incremental detail around the transmission pipe modernization opportunity.

- **Rating: BUY from HOLD**

KEY INVESTMENT POINTS

We recently visited NI and came away incrementally more positive on the Company's set of investment opportunities.

We believe that NI will have several positive catalysts over the balance of 2012 that investors may want to get in front of. Included in these catalysts are a potential dividend increase, $4 billion gas transmission investment, joint ventures around Utica acreage, incremental Marcellus and Utica infrastructure and the potential to raise the Company's earnings growth target.

Given the nature of much of this investment is around shale and infrastructure, we have reworked our valuation as a sum of the parts, including an allowance for NI's Utica acreage, which does not yet add meaningfully to earnings.

We are upgrading shares to **BUY** from HOLD and establishing a $26.50 price target representing a 12 month total return potential greater than 16%.

VALUATION

Given NI's diverse mix of businesses, we believe a sum of the parts valuation is most appropriate. While NI does not provide segment EPS detail, management has indicated that its net income mix is approximately 25- 30% regulated electric utility, 35- 40% regulated gas distribution and 35- 40% gas transmission and storage. We apply respective 2012 peer group multiples (14.0x, 15.65x and 19.8x) to these percentages and our 2012 estimate yields segment values of $5.08, $8.51 and $10.76 (or $24.35 in total). To this we add $2.15 per share to capture the value of NI's 100,000- 200,000 acres of mineral rights in the Utica shale. We use 175,000 acres at $5,500/acre taxed at 35%, given minimal tax basis on the acreage. Our resulting price target of $26.50 represents a P/E multiple 18.3x our 2012 estimate. The stock is currently trading at a 2012 P/E of 16.2x.

RISKS

We believe the primary risk that could impede NI from achieving our price target would be the inability to realize the inherent value and capitalize on the infrastructure opportunities around its Utica acreage position.

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DISCUSSION

We recently met with NI management and feel better about NI, and are upgrading the shares. While we may be early in our upgrade, we want to get ahead of several catalysts we foresee in the name. Incrementally, from our meetings, we believe management has made solid progress on some of these catalysts. We discuss these items below:

UPCOMING CATALYSTS

Dividend Increase and Growth Policy – NI indicated that the dividend was ripe for action and the issue was in front of the board. We expect a dividend increase on the order of 5% is more likely sooner than later this year, with communication of a policy to annually grow the dividend at a pace below the 5% growth target (given attractive investment opportunities). The board meets in March and then again in May, ahead of the May 15 annual meeting.

Clarity Around Gas Transmission Modernization – Management indicated it was in active discussions with its transmission customers to spend $4 billion plus over 10- 15 years to enhance reliability and flexibility of the Columbia Gas Transmission system, with major spending ($300 million- $400 million annually) commencing in 2013. We believe it is in NI's and its customers' best interest to settle this matter, allowing NI timely recovery and giving customers a voice in timing and shape of the project. An agreement with customers is not a gating issue as NI plans to spend the capital regardless of whether or not a settlement is achieved. Absent a settlement, NI would simply file frequent rate cases with FERC. In our view, FERC would not obstruct the project given heightened concerns around aging pipeline infrastructure, particularly after the San Bruno explosion.

Detail Around $145 Million Marcellus Pipeline Project – NI previously announced a project with a "blue chip" Marcellus producer to service its partner's natural gas processing plant. The pipeline would deliver gas from the plant and interconnect to three other pipelines in Pennsylvania (one owned by NI). This project is expected to come online in late 2012. We expect that the partner could be named and greater detail announced in the coming weeks.

Potential Utica Acreage Joint Venture – NI has indicated that it was working with an oil and gas developer on a potential JV in which NI would contribute 15,000- 20,000 of its own acres, to be married with a larger position in the wet Utica region. Each party would reap the benefit of the greater scale of the combined acreage position. As part of the agreement, NI would build the supporting infrastructure around the production. This would serve as a template for NI's strategy to leverage its remaining acreage (NI's last statement was that it held 100,000- 200,000 acres of mineral rights in the Utica). Under this template we envision NI receiving a potential bonus payment, a royalty stream as well as be the developer of supporting infrastructure. We believe an existing infrastructure footprint (with existing rights of way) and a large Utica acreage position to lever, differentiates NI from other players. We expect an update on this potential JV on NI's 1Q earnings conference call.

Capital Opportunities Around Two Open Seasons – NI recently closed two open seasons to assess interest in two pipeline projects to move Marcellus gas to market. The first, on the western end would reverse the flow on one of NI's Gulf pipes to move gas from the Marcellus to the Florida market. We expect growing gas demand in Florida would likely generate strong customer interest in this project. The second project would transmit gas from the eastern side of the system to the mid- Atlantic market. We believe NI may be in a position to speak in greater detail around these opportunities by late 2012 to early 2013.

Revisit Growth Rate – NI currently has a 5% EPS growth target. In our view, if NI is successful around the preceding initiatives, management could be in a position to reassess NI's EPS growth aspiration with a meaningful increase.

Upcoming Analyst Day – NI has been discussing holding an analyst day in 2012. The time has been pushed out, and we currently expect that the event could be held in September. NI indicated it will wait until its initiatives are well gelled before it would schedule the meeting, rather than bringing investors to a meeting without firm project details. We believe the event will be positive and provide greater clarity around NI's set of investment opportunities. Given that much of this set is outside the electric utility, we believe investors will be less prone to paint NI with a regulated electric brush in their valuation.

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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.

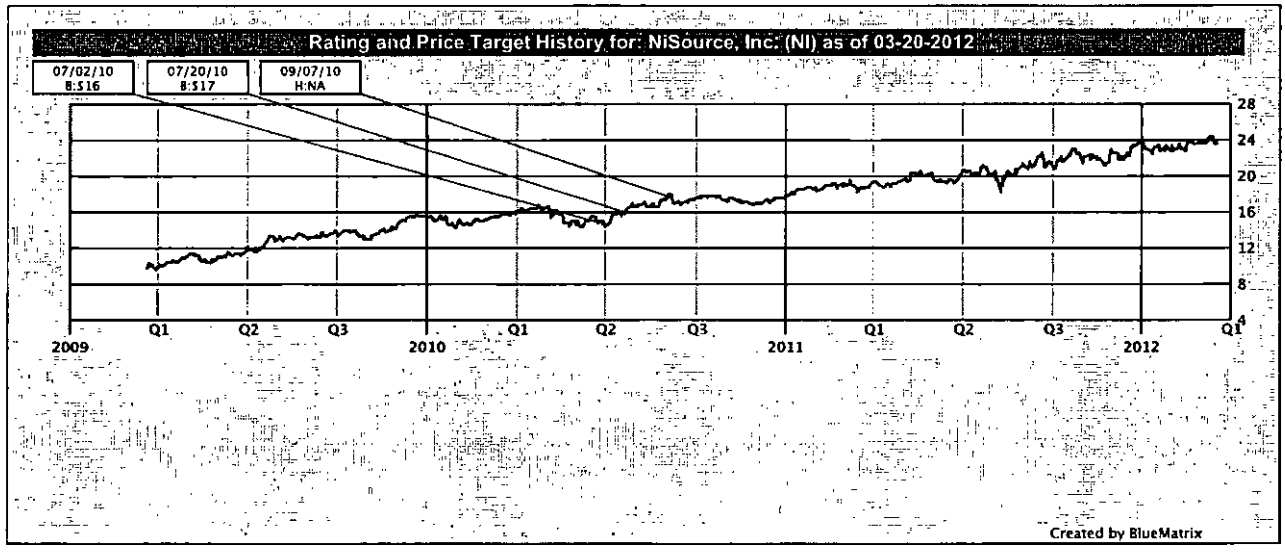
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Three- Year Rating and Price Target History



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]	226	44.23	47	20.80	BUY [BUY]	37	46.84	15	40.54
HOLD [HOLD]	273	53.42	51	18.68	HOLD [HOLD]	42	53.16	18	42.86
SELL [UND]	12	2.35	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 NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Shale-gas infrastructure investment drives earnings growth.

Updated Forecasts and Estimates from 15 May 2012

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

Research as of 16 May 2012
Estimates as of 15 May 2012
Pricing data through 15 May 2012
Rating updated as of 15 May 2012

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

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Analyst's Perspective 16 May 2012

NiSource's $1 billion-plus annual capital spending program has good near-term visibility, and we estimate will provide 8% annual earnings growth during the next five years. NIPSCO, the company's regulated utility in northern Indiana, has commenced an $850 million program to address environmental compliance at its coal-fired power plants. In 2012, the gas transmission and storage segment is planning more than $200 million of growth projects. The system's footprint in the Marcellus and Utica shale-gas plays provides NiSource with a competitive advantage to deliver shale-produced gas to high-demand markets in the Mid-Atlantic. The majority of these investments are for gathering pipelines and infrastructure that are non-FERC jurisdiction, allowing the company to achieve returns above 15% on invested capital.

Key Investment Considerations

- NiSource shares trade at approximately 17.7 times our 2012 earnings estimate, a premium to the P/E multiple of 15 times for the diversified utility peer group.
- Annual capital expenditures are estimated to exceed $1 billion during the next five years, resulting in estimated annual earnings growth of approximately 8%.
- NiSource announced its first annual dividend increase since 2001, to $0.96 from $0.92 per share, beginning in August 2012. We expect a low payout ratio and strong balance sheet will allow regular increases.

Vital Statistics

Market Cap (USD Mil)	7,128
52-Week High (USD)	25.79
52-Week Low (USD)	17.95
52-Week Total Return %	27.8
YTD Total Return %	7.3
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.0
5-Yr Forward EPS CAGR %	8.2
Price/Fair Value	1.09

Valuation Summary and Forecasts

Fiscal Year	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	14.4	17.6	*17.7*	*16.4*
EV/EBITDA	8.1	10.1	*9.6*	*8.7*
EV/EBIT	13.5	16.1	*14.7*	*13.3*
Free Cash Flow Yield %	-0.5	-3.1	*-0.7*	*-0.7*
Dividend Yield %	5.2	3.9	*3.8*	*4.3*

Financial Summary and Forecasts (USD Mil)

Fiscal Year	2010	2011	*2012(E)*	*2013(E)*
Revenue	6,422	6,019	*5,508*	*6,069*
Revenue YoY %	-3.4	-6.3	*-8.5*	*10.2*
EBIT	908	907	*1,013*	*1,123*
EBIT YoY %	12.8	-0.1	*11.7*	*10.9*
Net Income, Adjusted	341	389	*412*	*476*
Net Income YoY %	15.4	14.0	*5.9*	*15.7*
Diluted EPS	1.22	1.35	*1.42*	*1.53*
Diluted EPS YoY %	13.7	10.7	*5.2*	*7.7*
Free Cash Flow	-27	-205	*-50*	*-52*
Free Cash Flow YoY %	-102.3	670.3	*-75.8*	*5.0*

Source for forecasts in the data tables above: Morningstar Estimates

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) | ★★★

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Morningstar Analysis

NiSource's pipeline footprint offers a competitive advantage to deliver shale-produced gas to Mid-Atlantic markets.

Thesis 16 May 2012

NiSource recently stepped up its capital spending program, driving what we think should be 8% annual earnings per share growth during the next five years. In 2012, the company plans to invest approximately $1.4 billion, a 25% increase from 2011. Longer term, NiSource is discussing a $4 billion modernization program with key stakeholders of its Columbia Gas Transmission system. Early discussions suggest it could be a 10- to 15-year project.

Due to pipeline expansion opportunities in shale-gas producing regions, we estimate operating earnings for the gas transmission and storage segment will grow fastest, increasing to an estimated 45% of operating earnings in 2016 from 40% projected in 2012. We expect its slower-growing gas distribution segment will contribute 42% of operating earnings in 2012, and its electric utility will contribute 18% of operating earnings in 2012.

In 2011, NIPSCO began an $850 million project for environmental compliance at four of its coal-fired power plants. The majority of the new investment will be for flue gas desulfurization equipment, or scrubbers, on two units at the 1,780-MW Schahfer generating station. The entire project is expected to take six to eight years, and will position NIPSCO to comply with recently issued federal environmental standards.

Regulators have approved two of three phases of the project, and NIPSCO is negotiating approval for the third phase, which includes installing a scrubber at the Michigan City generating station, the smallest of NIPSCO's coal-fired plants. NIPSCO will be allowed timely rate increases for the investments based on a 10.2% return on equity, a level consistent with recent industry regulatory decisions. We estimate the rate increases associated with this investment will allow NIPSCO to increase operating earnings more than 25% from 2011.

NiSource's gas transmission and storage segment also plans to increase its investment more than $100 million in 2012 from 2011 levels. The largest of this segment's growth projects currently under construction is the $145 million Pennsylvania Marcellus Pipeline, a 90-mile pipeline expected to be completed in late 2012. This project is typical of the growth opportunities for NiSource, driven by drilling in shale-gas production regions in Appalachia. The pipeline is anchored by a major Marcellus shale gas producer expected to have an initial capacity of approximately 300,000 dekatherms (Dth) per day. We suspect the returns provided by this nonregulated investment are attractive, given its strategic location.

NiSource has several other smaller projects in Pennsylvania under construction, with expected in-service dates during 2012. These projects, totaling $77 million, also spawn from its advantaged position near the Marcellus shale. NiSource will also invest $35 million on an expansion project to provide up to 250,000 Dth per day of transportation capacity from the Columbia Pipeline to a new natural gas-fired power plant owned by Virginia Electric Power Company. The project is expected to be in-service in mid-2014.

In 2012, we estimate that the gas distribution segment will contribute $468 million of operating earnings with capital investment that will be relatively flat with 2011. NiSource continues to invest approximately $300 million per year on infrastructure replacement (replacing steel pipe with plastic) in Ohio, Kentucky, Pennsylvania, Virginia and Massachusetts. Return on these investments are by automatic tracker mechanisms, providing ROEs of approximately 10% and adjusting customer rates in less than one year after the investment.

Valuation, Growth and Profitability 16 May 2012

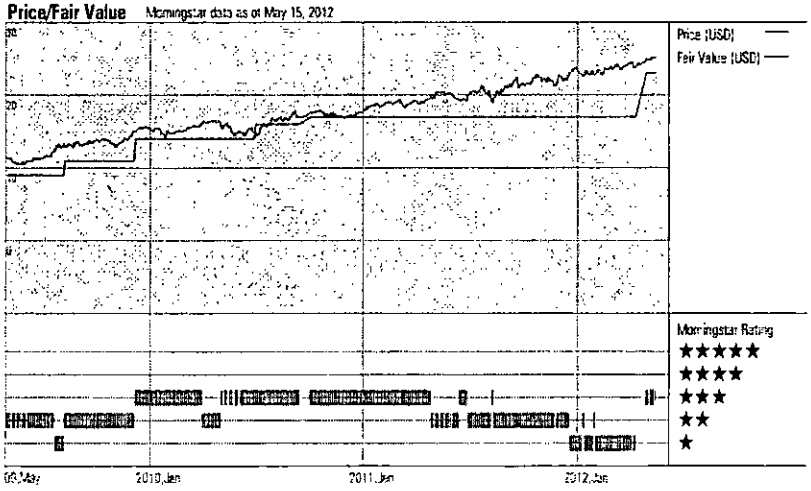
We are reaffirming our $23 per share fair value estimate. In April 2012, we raised our fair value estimate from $17 per share due, in large part, to the increase in capital

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NiSource Inc NI (NYSE) | ★★★

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Price/Fair Value Morningstar data as of May 15, 2012



spending to $5.4 billion between 2012 and 2016, and a lower cost of capital.

We estimate NiSource's growth capital and approved capital expenditures with minimal regulatory lag should drive near-term annual earnings growth to 8% during the next five years, reaching $2.00 EPS in 2016. In our base case, we assume nonregulated system expansion investments in the gas transmission and storage segment from 2013-16 average $175 million per year and earn 15% return on invested capital.

NIPSCO's environmental investments, totaling approximately $850 million, will be made during the next five years, with most of the investment in 2012-14. We expect NIPSCO will be allowed timely rate increases due to an Indiana Utility Regulatory Commission environmental tracker that adjusts rates on an annual basis. We assume these rate increases are based on a 10.2% return on equity, consistent with the 2011 base rate case for NIPSCO. Our fair value estimate is also based on continued investment of approximately $300 million per year by NiSource's gas distribution companies. Rates for these investments are also by a tracker mechanism, providing an average ROE of approximately 10% and adjusting customer rates in less than one year after the investment.

Since NIPSCO completed a major base rate case in late 2011, we conservatively assume that base rates are constant during the next five years. In addition, our earnings estimates include the benefit of the October 2011 base rate case decision for Columbia Gas of Pennsylvania. We assume that Columbia Gas of Massachusetts receives 48%, the average of the last seven rate cases, of the $29 million rate increase it requested in March 2012. We also assume that NIPSCO files a gas base rate case in 2013, with a decision increasing rates by $2 million in 2014.

We use a 7.6% cost of capital, including a 10.5% cost of equity and current market credit spreads.

Scenario Analysis

A material source of uncertainty in our fair value estimate is the growth in earnings due to investments above NiSource's cost of capital. Capital expenditures in the gas distribution and electric operations segments are, for the most part, subject to regulation, and have reduced uncertainty due to the preapproval process and monopoly status these businesses are afforded. However, investments in nonregulated pipelines and other infrastructure in the gas transmission and storage segment, although having higher potential returns, do not have this benefit.

If we assume the nonregulated investments in the gas transmission and storage segment from 2013-16 decline by $50 million, to $88 million per year, our five-year annual earnings growth rate would decline to 5%. This would reduce 2016 earnings to $1.75 per share and reduce our fair value estimate $2 per share.

Our fair value estimate also is sensitive to our cost of capital

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NiSource Inc NI (NYSE) | ★★★

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estimate. A 50-basis-point change in our cost of equity assumption changes our fair value estimate by approximately $2 per share.

Economic Moat

We believe the regulated nature of the majority of NiSource's operations provide the company with a narrow economic moat. In exchange for its monopoly position, state and federal regulators set returns at levels that aim to keep customer costs as low as possible while providing adequate returns for capital providers. This implicit agreement between regulators and utilities should, in the long run, allow NiSource to earn its cost of capital.

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 in the states it serves. The majority of operating earnings are from FERC-regulated natural gas transmission pipelines, regulated natural gas distribution businesses, and a regulated electric utility. FERC provides transmission line owners return on equity levels that are usually superior to state commissions. In addition, FERC will not allow any new competing pipeline without a clear need for the capacity. As with all regulated utilities, we think regulatory caps on revenue and returns preclude NiSource from establishing a wide economic moat.

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Bulls Say/Bears Say

Bulls Say

- NiSource can add gathering and other nonregulated pipelines connecting to its main transmission system at returns on invested capital exceeding 15%, significantly higher than allowed returns from regulated assets.
- NiSource has leases for up to 200,000 acres in the Utica shale-gas formation. Originally leased for natural gas storage, the mineral rights for drilling will likely be sold or used in negotiating agreements for new gas gathering and transportation infrastructure.
- 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.

Bears Say

- Almost 50% of NIPSCO's electric sales are to industrial customers, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Continued weak natural gas prices could reduce shale-gas drilling activity in the Marcellus region, reducing opportunities for new gas gathering and transportation projects.
- Mild winter or summer weather negatively affects NiSource's earnings.

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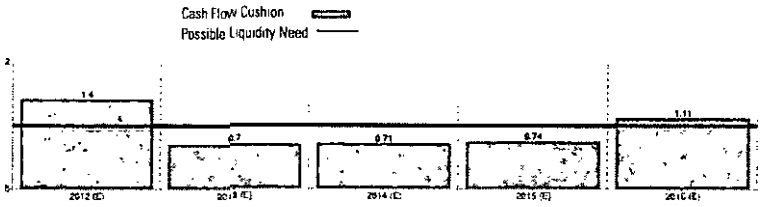
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Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012E	2013E	2014E	2015E	2016E
Cash and Equivalents (beginning of period)	172	343	270	274	238
Adjusted Free Cash Flow	230	197	295	324	545
Total Cash Available before Debt Service	554	286	300	322	496
Principal Payments	—	—	—	—	—
Interest Payments	-395	-410	-425	-437	-446
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-395	-410	-425	-437	-446

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	172	8.2
Sum of 5-Year Adjusted Free Cash Flow	661	31.3
Sum of Cash and 5-Year Cash Generation	833	39.5
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	833	39.5
Sum of 5-Year Cash Commitments	-2,112	—

Credit Rating Pillars–Peer Group Comparison

	NI	Sector	Universe
Business Risk	6	5.0	5.3
Cash Flow Cushion	9	9.0	6.1
Solvency Score	9	6.0	5.1
Distance to Default	10	4.2	4.6
Credit Rating	BBB	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

On September 14, 2010, NiSource entered into an agreement for a forward sale of 24.3 million shares (27.4 shares with underwriter's overallotment) at a net price of $14.72 per share (subject to adjustments). NiSource has stated that it will settle the forward agreement by delivering shares in the 2012 third quarter. The equity issuance has improved the company's credit metrics. Total debt to capitalization at 59% is still on the high end of the utility sector, but we think this is manageable considering the diversity and visibility of the company's earnings.

Capital Structure

With approximately $6.7 billion in capital spending planned between 2012 and 2016, we expect NiSource to be a frequent debt issuer. NiSource has less than $1 billion of debt coming due in 2012 and 2013, and we estimate will issue approximately $300 million of additional debt during the next couple of years. Given NiSource's cash from operations, and improved balance sheet as a result of the recent equity issuance, we do not expect the firm to issue equity in the foreseeable future. In addition, we expect total debt/EBITDA to modestly improve to less than 4.5 times by 2016 year-end from our projected level of 5.1 times at the end of 2012.

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 gas distribution operations in seven states and its federal-regulated transmission pipeline. FERC regulation tends to be less influenced by political agendas compared to state regulatory bodies. This usually provides more constructive regulatory decisions and higher allowed return on equity.

Another potential risk for NiSource's gas transmission and

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NiSource Inc NI (NYSE) ★★★

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25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Credit Analysis

storage segment is continued 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, and a decline in drilling activity would negatively affect the amount of this investment and earnings growth.

NIPSCO has started an $850 million capital spending program, most of which has been approved by the Indiana Utility Regulatory Commission, to address environmental compliance at its four coal-fired power plants. However, environmental rules could become stricter, requiring additional capital investment or added operating cost that may have uncertain cost recovery. 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*	InsiderActivity
ROBERT C. SKAGGS, JR	CEO/President/Director,Director	947,145	05 Mar 2012	—
MR. GARY L. NEALE	Director	324,720	03 Jan 2007	—
JIMMY D. STATON	CEO, Divisional/Executive VP	302,108	31 Jan 2012	—
CHRISTOPHER A. HELMS		257,426	28 Jan 2011	—
STEPHEN P. SMITH	Executive VP/CFO	236,291	31 Jan 2012	—
CARRIE J. HIGHTMAN	Executive VP/Other Executive Officer	181,950	31 Jan 2012	—
MR. STEPHEN P. ADIK	Director	154,559	17 Apr 2005	—
MICHAEL W. O'DONNELL		148,562	19 Mar 2009	—
ROBERT D. CAMPBELL	Senior VP, Divisional	127,009	31 Jan 2012	—

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
T. Rowe Price Equity Income	★★★★	3.53	1.02	—	31 Mar 2012
Utilities Select Sector SPDR	★★★	1.53	1.63	14	11 May 2012
Vanguard Mid Cap Index Ins	★★★★	1.25	0.28	189	31 Mar 2012
Vanguard US Total Market Shares (AU) ETF		1.21	0.04	84	31 Mar 2012
Munder Mid-Cap Core Growth Y	★★★★	1.18	1.80	113	31 Mar 2012
Concentrated Holders					
Rex Funds Utilities and Infrastructure	★★★	0.04	8.80	—	30 Apr 2012
Tortoise MLP & Pipeline Instl		0.07	5.82	163	29 Feb 2012
Reaves Utility Income	★★★	0.46	5.55	1,300	31 Mar 2012
EIC Energy Utility CHF I	★★★★	0.05	5.08	—	31 Mar 2012

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Undrly L&G Pen PMC Oversea Consensus Idx		0.68	0.02	1,920	31 Dec 2011
Undrly L&G Pen PMC Glb Eq 70 30 Idx		0.68	0.01	1,916	31 Dec 2011
Undrly L&G Pen PMC Glb Eq 60 40 Idx		0.68	0.01	1,907	31 Dec 2011
Undrly L&G Pen PMC Consensus Idx		0.68	0.01	1,906	31 Dec 2011
Undrly L&G Pen PMC Glb Eq 50 50 Idx		0.68	0.01	1,901	31 Dec 2011
Top 5 Sellers					
T. Rowe Price Mid-Cap Value	★★★★	1.16	0.92	-887	31 Mar 2012
RBC US Equity GIF	★★	0.19	0.45	-383	31 Jan 2012
T. Rowe Price Equity Income Port II	★★★	0.15	1.05	-177	31 Mar 2012
SSgA Russell Large Cap Index - Class I	★★★★	—	0.05	-154	30 Sep 2011
RBC Balanced GIF	★★	0.07	0.06	-142	31 Jan 2012

Stewardship: 16 May 2012

Robert Skaggs inherited a debt-heavy balance sheet and a shaky dividend when he became CEO in 2005. Since then, these problems have been addressed. In addition, management has reduced regulatory risk by achieving a favorable settlement for NIPSCO and several of its gas distribution companies. The company also appears to have a disciplined capital approval process for its nonregulated investments.

In 2011, Skaggs earned total compensation of approximately $5 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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Analyst Notes

NiSource's Infrastructure Investments Overshadow Solid First-Quarter Results 01 May 2012

On May 1, NiSource NI reported solid 2012 first-quarter earnings. However, the favorable results were overshadowed by management's announcement that they are very close to a joint venture agreement that would include a significant downstream infrastructure investment opportunity in the Utica play. In addition, NiSource announced two gas transmission and storage segment projects totaling $370 million.

The JV and the two projects provide further confidence that the company will sustain the recent higher level of capital spending exceeding $1.4 billion in 2012, which we estimate will drive 8% annual EPS growth during the next five years. NiSource reiterated 2012 operating earnings guidance of $1.40 to $1.50 per share. Our 2012 EPS estimate of $1.42 is unchanged. We are also reaffirming our $23 per share fair value estimate.

First-quarter weather-normalized operating earnings were $0.76 per share versus $0.74 in the same period last year. Mild weather (23% warmer than normal) decreased residential and commercial gas distribution sales and throughput in gas transmission and storage, and reduced GAAP earnings by approximately $0.08 per basic share. Operating earnings benefited from strong industrial gas distribution sales and the impact of higher rates due to the NIPSCO, Columbia Gas of Ohio, and Columbia Gulf rate cases in 2011. Employee and administrative costs were lower for gas distribution and gas transmission and storage, primarily pension-related costs. In 2011, NiSource made accelerated pension fund contributions of $400 million, which helped first-quarter earnings.

Management indicated that it was in advanced discussions with an individual producer counterparty regarding a JV utilizing NiSource's acreage position in the liquids-rich portion of the Utica Play in Eastern Ohio. NiSource would provide gathering services and cryogenic processing and make a "significant" downstream infrastructure investment. Management indicated that it hoped to be able to announce details in the next month or so.

In addition to the potential JV, NiSource announced the Big Pine Gathering System anchored by a long-term agreement with XTO Energy. The 70-mile, $150 million project in Western Pennsylvania is expected to be in service in December 2012. Like the JV, it also would not be subject to regulation and likely has the potential for higher returns on invested capital than FERC-regulated pipelines.

The other newly announced project is the $220 million Westside expansion that will transport Marcellus production to Gulf Coast markets utilizing NiSource's Columbia Gulf pipeline. Binding long-term agreements have been signed with two shippers and the project, subject to FERC regulation, is expected to be in service in late 2014. These project announcements and the JV demonstrate the value of NiSource's pipeline footprint in the Marcellus and Utica shale plays and provide additional visibility on the company's investment opportunities that we believe are likely to drive strong earnings growth over the next five years.

NiSource Under Review 13 Apr 2012

We are placing NiSource NI under review as we transition coverage to a new analyst.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013	5-Year Proj. CAGR
Revenue	—	—	-3.4	-6.3	*-8.5*	*10.2*	—
EBIT	—	—	12.8	-0.1	*11.7*	*10.9*	*8.8*
EBITDA	—	—	7.9	-3.9	*8.2*	*9.5*	*7.0*
Net Income	—	—	15.4	14.0	*5.9*	*15.7*	*10.3*
Diluted EPS	—	—	13.7	10.7	*5.2*	*7.7*	*8.2*
Earnings Before Interest, after Tax	—	—	-60.0	12.8	*-23.8*	*7.9*	*-0.7*
Free Cash Flow to the Firm	—	—	-85.4	-44.7	*-6.8*	*-16.3*	*17.1*

Profitability	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Operating Margin %	*13.8*	12.1	14.1	15.1	*18.4*	*18.5*	*18.3*
EBITDA Margin %	*22.8*	21.0	23.4	24.0	*28.4*	*28.2*	*27.5*
Net Margin %	*4.5*	3.7	4.6	5.2	*7.5*	*7.9*	*7.9*
Free Cash Flow to the Firm margin %	*18.1*	43.8	6.7	3.9	*4.0*	*3.0*	*4.5*
ROIC with Goodwill %	*10.8*	17.9	7.0	7.5	*5.5*	*5.6*	*5.7*
ROIC w/out Goodwill %	*14.2*	23.7	9.2	9.7	*7.0*	*7.1*	*7.1*
Return on Assets, pretax %	*5.7*	8.2	4.6	4.4	*4.8*	*5.1*	*5.2*
Return on Equity %	*7.2*	9.5	6.0	6.1	*7.8*	*8.4*	*8.8*

Leverage	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Debt/Capital	*0.60*	0.58	0.60	0.61	*0.59*	*0.59*	*0.58*
Total Debt/EBITDA	*5.09*	4.87	4.89	5.50	*5.12*	*4.82*	*4.70*
EBITDA/Interest Expense	*3.72*	3.49	3.84	3.84	*3.96*	*4.18*	*4.27*

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	*17.7*	*16.4*
EV/EBITDA	8.1	10.1	*9.6*	*8.7*
EV/EBIT	13.5	16.1	*14.7*	*13.3*
Free Cash Flow Yield %	-0.5	-3.1	*-0.7*	*-0.7*
Dividend Yield %	5.2	3.9	*3.8*	*4.3*

Key Valuation Drivers

Cost of Equity %	10.5
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.6
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	13.8
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	1,174	8.1	3.68
Present Value Stage II	13,385	91.9	41.97
Present Value of the Perpetuity	—	—	—
Total Firm Value	**14,559**	**100.0**	**—**
Cash and Equivalents	172	—	0.54
Debt	8,000	—	-24.94
Net balance sheet impact	-7,782	—	-24.40
Other Adjustments	425	—	1.33
Equity Value	**7,202**	**—**	**23.12**
Projected Diluted Shares	319		
Fair Value per Share (USD)	**23.00**		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

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NiSource Inc NI (NYSE) | ★★★

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Total Revenue	**6,649**	**6,422**	**6,019**	***5,508***	***6,069***
Cost of Goods Sold	3,318	2,974	2,556	*1,897*	*2,248*
Gross Profit	**3,331**	**3,448**	**3,463**	***3,611***	***3,821***
Selling, General & Administrative Expenses	1,653	1,656	1,723	*1,760*	*1,814*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	284	287	295	*287*	*295*
Restructuring & Other Charges (Gains)	19	2	17	—	—
Depreciation Expense (If reported separately)	589	596	538	*551*	*589*
Amortization of Other Intangibles (If reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	**5,864**	**5,516**	**5,129**	***4,495***	***4,946***
Operating Income (EBIT)	**786**	**906**	**891**	***1,013***	***1,123***
Interest Expense	399	392	377	*395*	*410*
Interest & Other Income (Expense)	10	-78	-47	*15*	*19*
Pre-Tax Income	**397**	**436**	**467**	***633***	***732***
Income Tax Expense (Benefit)	166	142	163	*221*	*256*
Income After Taxes	**231**	**295**	**304**	***412***	***476***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	-11	-3	-5	—	—
Net Income (Loss)	**221**	**292**	**299**	***412***	***476***
Net Income (Loss) Excluding Charges	295	341	389	*412*	*476*
Diluted Shares Outstanding (Mil)	276	280	289	*290*	*312*
Diluted EPS Including Charges	0.80	1.04	1.03	*1.42*	*1.53*
Diluted EPS Excluding Charges	1.07	1.22	1.35	*1.42*	*1.53*
Dividends Per Common Share	0.92	0.92	0.92	*0.96*	*0.99*
EBITDA	**1,375**	**1,503**	**1,429**	***1,564***	***1,712***
EBITDA without restructuring	**1,394**	**1,505**	**1,446**	***1,564***	***1,712***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Assets	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Excess Cash & Investments	—	—	112	*261*	*179*
Operating Cash & Equivalents	191	212	60	*83*	*91*
Accounts Receivable	809	1,079	855	*755*	*831*
Inventory	547	428	566	*421*	*499*
Other Short Term Operating Assets	677	730	655	*600*	*630*
Total Current Assets	**2,224**	**2,449**	**2,248**	***2,119***	***2,230***
Property Plant & Equipment, Net	10,684	11,097	11,800	*12,650*	*13,416*
Property Plant & Equipment, Gross	19,038	19,590	20,470	*21,871*	*23,226*
(Accumulated Depreciation)	-8,354	-8,493	-8,670	*-9,221*	*-9,810*
Goodwill, Net	3,677	3,677	3,677	*3,677*	*3,677*
Other Intangibles	320	309	298	*298*	*298*
Other Long-Term Operating Assets	1,810	1,851	2,183	*2,200*	*2,310*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, Including Pension Items	557	556	502	*502*	*502*
Total Assets	**19,272**	**19,939**	**20,708**	***21,446***	***22,433***
Liabilities					
Accounts Payable	502	582	435	*298*	*395*
Short-Term Debt	822	1,417	1,687	*1,500*	*1,500*
Other Current Liabilities	1,826	1,651	1,525	*1,500*	*1,575*
Total Current Liabilities	**3,150**	**3,649**	**3,646**	***3,298***	***3,470***
Long-Term Debt	5,965	5,936	6,267	*6,500*	*6,750*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**5,965**	**5,936**	**6,267**	***6,500***	***6,750***
Long-Term Operating Liabilities	1,559	1,596	1,810	*1,850*	*1,943*
Deferred Tax Liabilities	2,018	2,210	2,542	*2,792*	*3,042*
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	*1,445*	*1,445*
Total Liabilities	**14,418**	**15,016**	**15,711**	***15,885***	***16,650***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	4,854	4,923	4,997	*4,997*	*4,997*
Additional Paid in Capital	—	—	—	*425*	*479*
Retained Earnings (Deficit)	—	—	—	*139*	*307*
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Total Shareholders' Equity	**4,854**	**4,923**	**4,997**	***5,561***	***5,783***
Total Liabilities + Shareholders' Equity	**19,272**	**19,939**	**20,708**	***21,446***	***22,433***
Difference, from analyst adjustments and restatements	-1	—	—	—	—

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Net Income from Continuing Operations	218	292	299	*412*	*476*
Depreciation Expense	589	596	538	*551*	*589*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	102	134	—	—
Deferred Income Taxes & Other Adjustments to Net Income	403	207	212	*250*	*250*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	*259*	*-244*	*220*	*100*	*-77*
(Increase) Decrease in Inventory	129	103	-142	*145*	*-78*
(Increase) Decrease in Prepayments, other Current Assets	25	42	83	*55*	*-30*
Increase (Decrease) in Accounts Payable	-192	38	-155	*-137*	*97*
Increase (Decrease) in Other Current Liabilities	481	-359	-269	*-25*	*75*
Cash from Operations	**1,921**	**777**	**920**	***1,351***	***1,303***
(Capital Expenditures)	-777	-804	-1,125	*-1,400*	*-1,355*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	6	1	9	—	—
Other Investing Cash Flows (Outlays)	117	-140	-34	*23*	*-18*
Cash from Investing	**-655**	**-944**	**-1,149**	***-1,378***	***-1,373***
Common Stock (Purchase) or Sale	8	13	21	*425*	*54*
Common Stock (Dividends)	*-253*	*-256*	*-258*	*-273*	*-308*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-1,061	1,280	-23	*-187*	—
Long Term Debt Issuance and (Retirement)	290	-821	541	*233*	*250*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	—	—
Cash From Financing	**-1,016**	**216**	**281**	***198***	***-4***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	-234	-57	-50	—	—
Net Change in Cash	**16**	**-8**	**2**	***171***	***-73***
Change in Cash on Balance Sheet	191	21	-40	*171*	*-73*
Difference, from analyst adjustments and restatements	-175	-29	42	—	—

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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
25.09USD	23.00USD	16.10USD	31.05USD	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.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	0.93	—	130.9	257.5	—	8.9	8.1	—	NM	-523.6	—	2.0	2.0	—	1.9	1.6
Sempra Energy SRE USA	1.09	12.3	15.3	14.9	7.9	8.9	8.2	NM	NM	NM	1.3	1.4	1.4	1.3	1.6	1.4
AGL Resources, Inc. GAS USA	1.02	14.4	11.8	11.0	14.1	12.1	11.5	48.8	90.3	43.5	2.6	2.4	2.2	1.9	1.9	1.8
Atmos Energy Corp ATO USA	1.05	13.9	13.7	13.1	7.4	7.1	6.8	NM	NM	NM	1.3	1.2	1.2	0.7	0.7	0.6
Average		13.5	42.9	74.1	9.8	9.3	8.7	48.8	90.3	-240.1	1.7	1.8	1.7	1.3	1.5	1.4
NiSource Inc NI US	**1.09**	**17.6**	**17.7**	**16.4**	**10.1**	**9.6**	**8.7**	**NM**	**NM**	**NM**	**1.3**	**1.3**	**1.2**	**1.1**	**1.3**	**1.2**

Returns Analysis

		ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	— USD	9.4	10.8	10.8	10.0	11.4	11.4	15.9	17.5	19.1	8.4	9.2	9.2	—	6.3	7.3
Sempra Energy SRE USA	33,356USD	6.5	5.2	5.1	6.8	5.5	5.4	14.4	10.1	9.7	6.4	5.5	5.7	3.3	3.8	4.0
AGL Resources, Inc. GAS USA	— USD	6.9	7.1	7.0	7.4	7.6	7.6	13.0	14.8	14.8	6.4	7.2	7.4	3.2	3.3	3.5
Atmos Energy Corp ATO USA	7,283USD	7.8	6.1	6.3	8.8	6.9	7.0	9.0	9.4	9.2	6.3	6.6	6.6	4.2	4.3	4.5
Average		7.7	7.3	7.3	8.3	7.9	7.9	13.1	13.0	13.2	6.9	7.1	7.2	3.6	4.4	4.8
NiSource Inc NI US	**20,708USD**	**7.5**	**5.5**	**5.6**	**9.7**	**7.0**	**7.1**	**6.1**	**7.8**	**8.4**	**4.4**	**4.8**	**5.1**	**3.9**	**3.8**	**4.3**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	8,209USD	1.6	21.4	14.2	7.7	24.1	8.8	-81.9	139.3	-49.2	-106.4	215.7	-84.2	5.9	5.9	11.2
Sempra Energy SRE USA	10,036USD	11.5	-5.1	12.2	64.5	8.0	8.2	88.5	-25.2	2.2	1,162.0	-0.2	-51.2	24.1	33.4	5.0
AGL Resources, Inc. GAS USA	2,287USD	-3.6	4.1	4.7	-10.2	20.8	6.0	-12.5	21.9	7.1	469.3	-45.9	107.7	5.4	4.4	4.9
Atmos Energy Corp ATO USA	4,348USD	-9.2	3.1	2.7	-3.5	4.0	5.8	-1.5	8.5	4.4	-121.8	99.9	-72.0	1.7	2.7	3.0
Average		0.1	5.9	8.5	14.6	14.2	7.2	-1.9	36.1	-8.9	-230.2	67.4	-24.9	9.3	11.6	6.0
NiSource Inc NI US	**6,019USD**	**-6.3**	**-8.5**	**10.2**	**-0.1**	**11.7**	**10.9**	**10.7**	**5.2**	**7.7**	**670.3**	**-75.8**	**5.0**	**-2.1**	**5.2**	**5.0**

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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
25.09 USD	23.00 USD	16.10 USD	31.05 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 %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	83 USD	100.0	100.0	100.0	35.6	36.2	35.0	24.0	24.5	23.4	1.0	2.1	1.0	-0.9	-2.3	-0.3
Sempra Energy SRE USA	1,357 USD	58.7	65.2	63.7	30.0	31.0	30.2	20.2	19.9	19.2	13.5	10.8	9.8	-9.7	-10.2	-4.5
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
Atmos Energy Corp ATO USA	199 USD	30.5	31.1	31.6	16.2	16.5	16.9	10.2	11.1	11.3	4.6	4.8	4.9	-0.9	-1.8	-0.5
Average		60.5	62.5	62.3	27.1	28.4	28.1	18.5	19.6	19.3	7.0	7.1	6.6	-1.9	-3.1	-0.3
NiSource Inc NI US	**389 USD**	**57.5**	**65.6**	**63.0**	**24.0**	**28.4**	**28.2**	**14.8**	**18.4**	**18.5**	**5.2**	**7.5**	**7.9**	**-3.4**	**-0.9**	**-0.9**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	12,976 USD	144.1	165.4	179.6	58.3	61.6	63.4	5.5	5.7	5.5	4.4	4.3	4.3	2.8	3.0	3.2
Sempra Energy SRE USA	10,863 USD	110.4	109.6	114.1	52.2	52.1	53.1	6.5	5.7	5.7	3.6	4.0	4.0	3.4	3.3	3.3
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
Atmos Energy Corp ATO USA	2,415 USD	107.1	110.8	109.6	51.7	52.6	52.3	4.7	5.0	4.8	3.4	3.6	3.5	3.2	3.2	3.2
Average		135.9	139.0	140.3	56.7	57.3	57.5	5.6	5.5	5.4	4.2	4.1	4.0	3.4	3.4	3.4
NiSource Inc NI US	**7,954 USD**	**159.2**	**143.9**	**142.7**	**61.4**	**59.0**	**58.8**	**3.8**	**4.0**	**4.2**	**5.5**	**5.1**	**4.8**	**4.1**	**3.9**	**3.9**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	18,708 USD	6.00	8.28	7.88	-33.79	-36.59	-39.35	7.07	8.15	8.70	-0.22	-0.66	-0.10	NM	564.2	1,235.6
Sempra Energy SRE USA	15,484 USD	1.14	0.74	0.65	-43.83	-47.97	-52.34	7.73	9.08	9.34	-4.05	-4.00	-1.94	32.4	57.8	59.4
AGL Resources, Inc. GAS USA	4,447 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
Atmos Energy Corp ATO USA	2,943 USD	1.45	3.91	3.22	-25.19	-25.54	-27.06	6.43	6.17	6.44	-0.44	-0.89	-0.25	59.7	58.1	58.2
Average		3.8	4.7	4.2	-34.2	-36.2	-38.5	6.9	7.4	7.6	-0.9	-1.2	-0.2	53.5	184.7	352.7
NiSource Inc NI US	**7,128 USD**	**0.60**	**1.18**	**0.87**	**-26.97**	**-26.38**	**-25.59**	**3.19**	**4.65**	**4.18**	**-0.71**	**-0.17**	**-0.17**	**86.4**	**66.3**	**64.6**

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Research Methodology for Valuing Companies

Components of Our Methodology

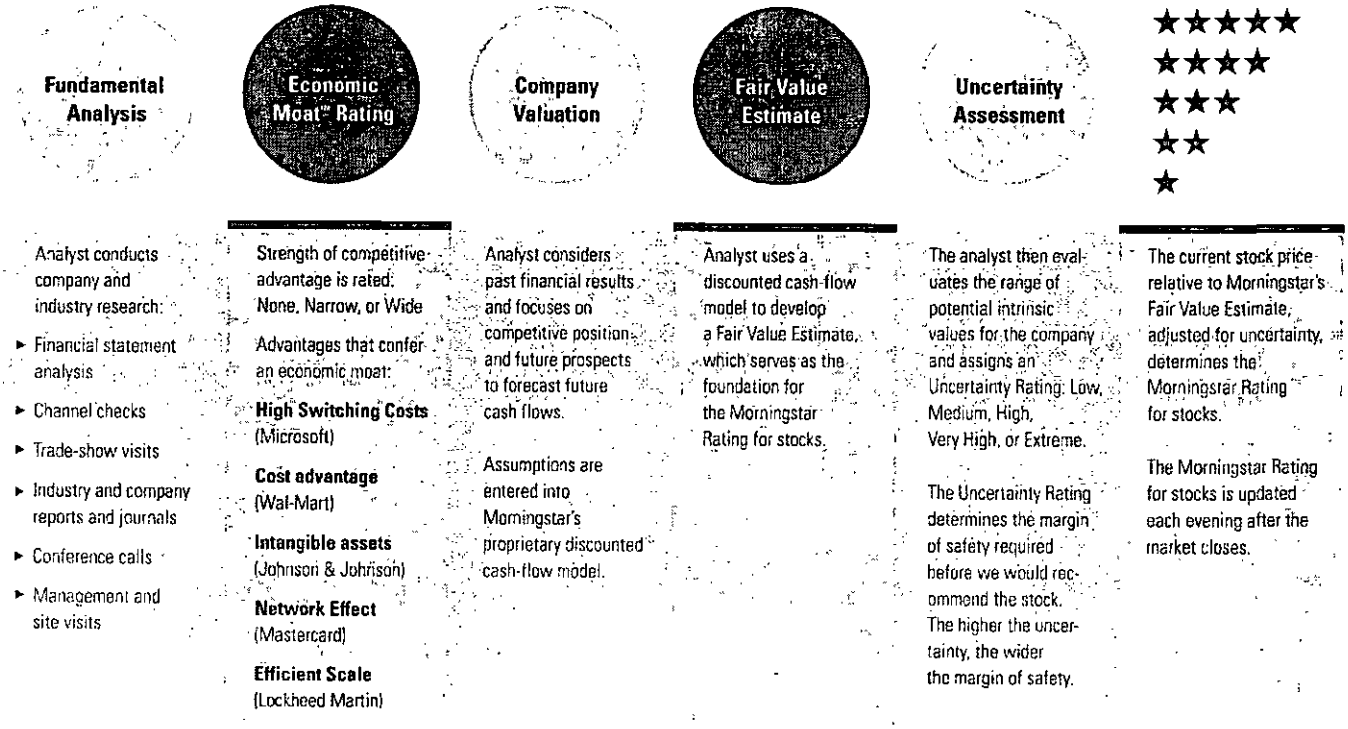
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

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.

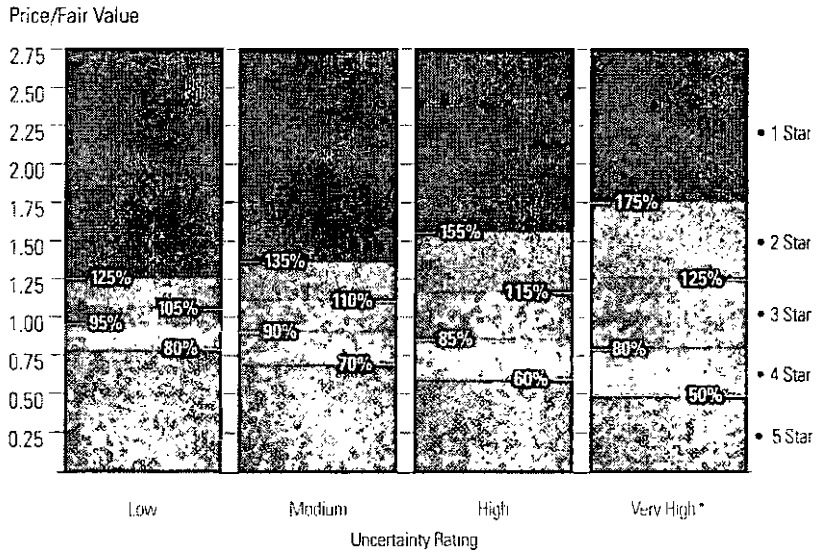
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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 Stress Test Score™

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, 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 Bank 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

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

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 Inc NI (NYSE)

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
24.49 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

Shale-gas infrastructure investment drives earnings growth.

Updated Forecasts and Estimates from 25 Apr 2012

Charles Fishman
Stock Analyst
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312-696-6523

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

Research as of 30 Apr 2012
Estimates as of 25 Apr 2012
Pricing data through 27 Apr 2012
Rating updated as of 30 Apr 2012

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

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Analyst's Perspective 30 Apr 2012

NiSource's $1 billion-plus annual capital spending program has good near-term visibility, and we estimate will provide 8% annual earnings growth during the next five years. NIPSCO, the company's regulated utility in northern Indiana, has commenced an $850 million program to address environmental compliance at its coal-fired power plants. In 2012, the gas transmission and storage segment is planning more than $200 million of growth projects. The system's footprint in the Marcellus and Utica shale-gas plays provides NiSource with a competitive advantage to deliver shale-produced gas to high-demand markets in the Mid-Atlantic. The majority of these investments are for gathering pipelines and infrastructure that are non-FERC jurisdiction, allowing the company to achieve returns above 15% on invested capital.

Key Investment Considerations

- NiSource shares trade at approximately 17 times our 2012 earnings estimate, a premium to the P/E multiple of 14.5 times for the diversified utility peer group.
- Annual capital expenditures are estimated to exceed $1 billion during the next five years, resulting in estimated annual earnings growth of approximately 8%.
- We believe NiSource's payout ratio will be low enough, and its balance sheet strong enough, to allow for a dividend increase in 2013.

Vital Statistics

Market Cap (USD Mil)	6,950
52-Week High (USD)	24.76
52-Week Low (USD)	17.95
52-Week Total Return %	31.2
YTD Total Return %	4.8
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.0
5-Yr Forward EPS CAGR %	8.2
Price/Fair Value	1.06

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	14.4	17.6	*17.2*	*16.0*
EV/EBITDA	8.1	10.1	*9.5*	*8.7*
EV/EBIT	13.5	16.1	*14.7*	*13.3*
Free Cash Flow Yield %	-0.5	-3.1	*-0.7*	*-0.8*
Dividend Yield %	5.2	3.9	*3.8*	*4.3*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	6,422	6,019	*5,508*	*6,069*
Revenue YoY %	-3.4	-6.3	*-8.5*	*10.2*
EBIT	908	907	*1,013*	*1,123*
EBIT YoY %	12.8	-0.1	*11.7*	*10.9*
Net Income, Adjusted	341	389	*412*	*476*
Net Income YoY %	15.4	14.0	*5.9*	*15.7*
Diluted EPS	1.22	1.35	*1.42*	*1.53*
Diluted EPS YoY %	13.7	10.7	*5.2*	*7.7*
Free Cash Flow	-27	-205	*-50*	*-52*
Free Cash Flow YoY %	-102.3	670.3	*-75.8*	*5.0*

Source for forecasts in the data tables above: Morningstar Estimates

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, NiSource's wholly-owned electric and gas utility, owns coal, natural gas and hydroelectric power plants.

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Morningstar Analysis

NiSource's pipeline footprint offers a competitive advantage to deliver shale-produced gas to Mid-Atlantic markets.

Thesis 30 Apr 2012

NiSource has recently stepped up its capital spending program, driving what we think should be 8% annual earnings per share, or EPS, growth during the next five years. In 2012, the company plans to invest approximately $1.4 billion, a 25% increase from 2011. Longer term, NiSource is discussing a $4 billion modernization program with key stakeholders of its Columbia Gas Transmission system. Early discussions suggest it could be a 10- to 15-year project.

Due to pipeline expansion opportunities in shale-gas producing regions, we estimate operating earnings for the gas transmission and storage segment will grow fastest, increasing to an estimated 45% of operating earnings in 2016 from 40% projected in 2012. We expect its slower-growing gas distribution segment will contribute 42% of operating earnings in 2012, and its electric utility will contribute 18% of operating earnings in 2012.

In 2011, NIPSCO began an $850 million project for environmental compliance at four of its coal-fired power plants. The majority of the new investment will be for flue gas desulfurization equipment, or scrubbers, on two units at the 1,780-MW Schahfer generating station. The entire project is expected to take six to eight years, and will position NIPSCO to comply with recently issued federal environmental standards.

Regulators have approved two of three phases of the project, and NIPSCO is negotiating approval for the third phase, which includes installing a scrubber at the Michigan City generating station, the smallest of NIPSCO's coal-fired plants. NIPSCO will be allowed timely rate increases for the investments based on a 10.2% return on equity, a level consistent with recent industry regulatory decisions. We estimate the rate increases associated with this investment will allow NIPSCO to increase operating earnings more than 25% from 2011.

NiSource's gas transmission and storage segment also plans to increase its investment more than $100 million in 2012 from 2011 levels. The largest of this segment's growth projects currently under construction is the $145 million Pennsylvania Marcellus Pipeline, a 90-mile pipeline expected to be completed in late 2012. This project is typical of the growth opportunities for NiSource, driven by drilling in shale-gas production regions in Appalachia. The pipeline is anchored by a major Marcellus shale gas producer expected to have an initial capacity of approximately 300,000 dekatherms (Dth) per day. We suspect the returns provided by this nonregulated investment are attractive, given its strategic location.

NiSource has several other smaller projects in Pennsylvania under construction, with expected in-service dates during 2012. These projects, totaling $77 million, also spawn from its advantaged position near the Marcellus shale. NiSource will also invest $35 million on an expansion project to provide up to 250,000 Dth per day of transportation capacity from the Columbia Pipeline to a new natural gas-fired power plant owned by Virginia Electric Power Company. The project is expected to be in-service in mid-2014.

In 2012, we estimate that the Gas Distribution segment will contribute $468 million of operating earnings with capital investment that will be relatively flat with 2011. NiSource continues to invest approximately $300 million per year on infrastructure replacement (replacing steel pipe with plastic) in Ohio, Kentucky, Pennsylvania, Virginia and Massachusetts. Return on these investments are by automatic tracker mechanisms, providing ROEs of approximately 10% and adjusting customer rates in less than one-year after the investment.

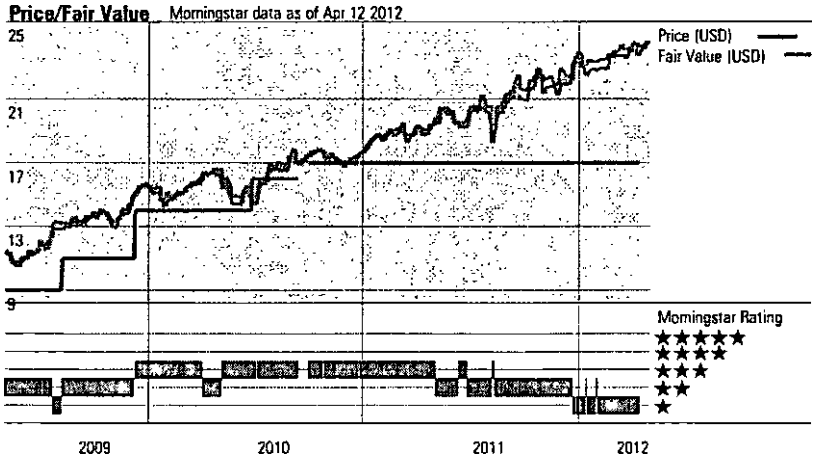
Valuation, Growth and Profitability 30 Apr 2012

We are raising our fair value estimate to $23 per share from $17 per share after transferring coverage to a new analyst, and updating our earnings projections. The increase in our

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fair value estimate is due, in large part, to the increase in capital spending to $5.4 billion between 2012 and 2016, an increase of $1.2 billion from our previous estimate. We estimate the growth capital and approved capital expenditures with minimal regulatory lag should drive near-term annual earnings growth to 8% during the next five years versus our previous estimate of 5% to 6%. We now project 2016 EPS can reach $2.00.

In our base case, we assume nonregulated investments in the gas transmission and storage segment from 2013-2016 averages $175 million per year.

We also lowered our cost of capital assumption to 7.6% from 7.9% after incorporating lower interest rates since our previous update and reducing our cost of equity to 10.5% from 11%. In our opinion, the lower cost of equity is justified based on recent rate case actions that improve visibility of future earnings growth.

Scenario Analysis

A material source of uncertainty in our fair value estimate is the growth in earnings due to investments above NiSource's cost of capital. Capital expenditures in the gas distribution and electric operations segments are, for the most part, subject to regulation, and have reduced uncertainty due to the preapproval process and monopoly status these businesses are afforded. However, investments in nonregulated pipelines and other infrastructure in the gas transmission and storage segment, although having higher potential returns, do not have this benefit.

If we assume the nonregulated investments in the gas transmission and storage segment from 2013-2016 decline by $50 million, to $88 million per year, our five-year annual earnings growth rate would decline to 5%. This would reduce 2016 earnings to $1.75 per share and reduce our fair value estimate $2 per share.

Our fair value estimate also is sensitive to our cost of capital estimate. A 50-basis point change in our cost of equity assumption changes our fair value estimate by approximately $2 per share.

Economic Moat

We believe the regulated nature of the majority of NiSource's operations provide the company with a narrow economic moat. In exchange for its monopoly position, state and federal regulators set returns at levels that aim to keep customer costs as low as possible while providing adequate returns for capital providers. This implicit agreement between regulators and utilities should, in the long run, allow NiSource to earn its cost of capital.

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 in the states it serves. The majority of operating earnings are from FERC-regulated natural gas transmission pipelines,

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regulated natural gas distribution businesses and a regulated electric utility. FERC provides transmission line owners return on equity levels that are usually superior to state commissions. In addition, FERC will not allow any new competing pipeline without a clear need for the capacity. As with all regulated utilities, we think regulatory caps on revenue and returns preclude NiSource from establishing a wide economic moat.

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Bulls Say/Bears Say

Bulls Say

- NiSource can add gathering and other nonregulated pipelines connecting to its main transmission system at returns on invested capital exceeding 15%, significantly higher than allowed returns from regulated assets.
- NiSource has leases for up to 200,000 acres in the Utica shale-gas formation. Originally leased for natural gas storage, the mineral rights for drilling will likely be sold or used in negotiating agreements for new gas gathering and transportation infrastructure.
- 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.

Bears Say

- Almost 50% of NIPSCO's electric sales are to industrial customers, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Continued weak natural gas prices could reduce shale-gas drilling activity in the Marcellus region, reducing opportunities for new gas gathering and transportation projects.
- Mild winter or summer weather negatively impacts NiSource's earnings.

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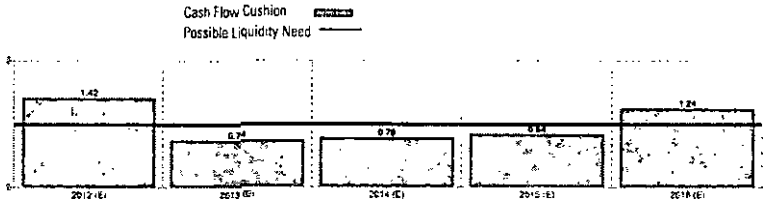
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Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	172	349	288	305	282
Adjusted Free Cash Flow	230	197	295	324	545
Total Cash Available before Debt Service	560	305	331	366	554
Principal Payments	—	—	—	—	—
Interest Payments	-395	-410	-425	-437	-446
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-395	-410	-425	-437	-446

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	172	8.2
Sum of 5-Year Adjusted Free Cash Flow	719	34.1
Sum of Cash and 5-Year Cash Generation	891	42.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	891	42.2
Sum of 5-Year Cash Commitments	-2,112	—

Credit Rating Pillars—Peer Group Comparison

	NI	Sector	Universe
Business Risk	6	5.1	5.3
Cash Flow Cushion	9	9.1	6.1
Solvency Score	9	6.3	5.1
Distance to Default	10	4.0	4.7
Credit Rating	BBB	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

On September 14, 2010, NiSource entered into an agreement for a forward sale of 24.3 million shares (27.4 shares with underwriter's overallotment) at a net price of $14.72 per share (subject to adjustments). NiSource has stated that it will settle the forward agreement by delivering shares in the 2012 third quarter. The equity issuance has improved the company's credit metrics. Total debt to capitalization at 59% is still on the high end of the utility sector, but we think this is manageable considering the diversity and visibility of the company's earnings.

Capital Structure

With approximately $6.7 billion capital spending planned between 2012 and 2016, we expect NiSource to be a frequent debt issuer. NiSource has less than $1 billion of debt coming due in 2012 and 2013, and we estimate will issue approximately $300 million of additional debt during the next couple of years. Given NiSource's cash from operations, and improved balance sheet as a result of the recent equity issuance, we do not expect the firm to issue equity in the foreseeable future. In addition, we expect total debt / EBITDA to modestly improve to less than 4.5 times by 2016 year-end from our projected level of 5.1 times at the end of 2012.

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 gas distribution operations in seven states, and its federal-regulated transmission pipeline. FERC regulation tends to be less influenced by political agendas, compared to state regulatory bodies. This usually provides more constructive regulatory decisions and higher allowed return on equity.

Another potential risk for NiSource's gas transmission and

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Credit Analysis

storage segment is continued 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, and a decline in drilling activity would negatively impact the amount of this investment and earnings growth.

NIPSCO has started an $850 million capital spending program, most of which has been approved by the Indiana Utility Regulatory Commission, to address environmental compliance at its four coal-fired power plants. However, environmental rules could become stricter, requiring additional capital investment or added operating cost that may have uncertain cost recovery. 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/President/Director,Director	947,145	05 Mar 2012	—
JIMMY D. STATON	CEO, Divisional/Executive VP	302,108	31 Jan 2012	—
STEPHEN P. SMITH	Executive VP/CFO	236,291	31 Jan 2012	—
CARRIE J. HIGHTMAN	Executive VP/Other Executive Officer	181,950	31 Jan 2012	—
ROBERT D. CAMPBELL	Senior VP, Divisional	127,009	31 Jan 2012	—
GLEN L. KETTERING	Senior VP, Divisional	96,994	03 Feb 2012	14,000
W. LEE NUTTER	Director	53,900	01 Jun 2011	—
JON D. VEURINK	Chief Accounting Officer/ Controller/Vice President	35,955	27 Jan 2012	—

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
T. Rowe Price Equity Income	★★★★	3.55	1.11	—	31 Dec 2011
T. Rowe Price Mid-Cap Value	★★★★	1.48	1.24	-950	31 Dec 2011
Utilities Select Sector SPDR	★★	1.44	1.59	-20	27 Apr 2012
Vanguard Mid Cap Index Ins	★★★★	1.19	0.31	-48	31 Dec 2011
Vanguard US Total Market Shares (AU) ETF		1.19	0.05	108	31 Dec 2011
Concentrated Holders					
Flex Funds Utilities and Infrastructure	★★★	0.04	8.46	—	31 Mar 2012
Tortoise MLP & Pipeline Instl		0.07	5.82	163	29 Feb 2012
JNL/Mellon Cap Mgmt Dow Dividend A	★★★	0.24	5.11	42	31 Dec 2011
EIC Energy Utility CHF I	★★★★	0.05	5.08	—	31 Mar 2012

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Undrly L&G Pen PMC Oversea Consensus Idx		0.68	0.02	1,920	31 Dec 2011
Undrly L&G Pen PMC Glb Eq 70:30 Idx		0.68	0.01	1,916	31 Dec 2011
Undrly L&G Pen PMC Glb Eq 60:40 Idx		0.68	0.01	1,907	31 Dec 2011
Undrly L&G Pen PMC Consensus Idx		0.68	0.01	1,906	31 Dec 2011
Undrly L&G Pen PMC Glb Eq 50:50 Idx		0.68	0.01	1,901	31 Dec 2011
Top 5 Sellers					
T. Rowe Price Mid-Cap Value	★★★★	1.48	1.24	-950	31 Dec 2011
Met Invt Ser T. Rowe Price Lg Cp Val B	★★	0.19	0.46	-245	31 Dec 2011
Fidelity Select Utilities Portfolio	★★★	0.32	4.15	-225	29 Feb 2012
CREF Stock	★★★★	1.08	0.07	-219	29 Feb 2012
SSgA Russell Large Cap Index - Class I	★★★★	—	0.05	-154	30 Sep 2011

Stewardship: C 30 Apr 2012

Robert Skaggs inherited a debt-heavy balance sheet and a shaky dividend when became CEO in 2005. Since then, these problems have been addressed. In addition, management has reduced regulatory risk by achieving a favorable settlement for NIPSCO and several of its gas distribution companies. The company also appears to have a disciplined capital approval process for its nonregulated investments.

In 2011, Skaggs earned total compensation of approximately $5 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
24.49 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

Analyst Notes

NiSource Under Review 13 Apr 2012

We are placing NiSource NI under review as we transition coverage to a new analyst.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013	5-Year Proj. CAGR
Revenue	—	—	-3.4	-6.3	*-8.5*	*10.2*	—
EBIT	—	—	12.8	-0.1	*11.7*	*10.9*	*8.8*
EBITDA	—	—	7.9	-3.9	*8.2*	*9.5*	*7.0*
Net Income	—	—	15.4	14.0	*5.9*	*15.7*	*10.3*
Diluted EPS	—	—	13.7	10.7	*5.2*	*7.7*	*8.2*
Earnings Before Interest, after Tax	—	—	-60.0	12.8	*-23.8*	*7.9*	*-0.7*
Free Cash Flow to the Firm	—	—	-85.4	-44.7	*-6.8*	*-16.3*	*17.1*

Profitability	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Operating margin %	*13.8*	12.1	14.1	15.1	*18.4*	*18.5*	*18.3*
EBITDA margin %	*22.8*	21.0	23.4	24.0	*28.4*	*28.2*	*27.5*
Net margin %	*4.5*	3.7	4.6	5.2	*7.5*	*7.9*	*7.9*
Free Cash Flow to the Firm margin %	*18.1*	43.8	6.7	3.9	*4.0*	*3.0*	*4.5*
ROIC with Goodwill %	*10.8*	17.9	7.0	7.5	*5.5*	*5.6*	*5.7*
ROIC w/out Goodwill %	*14.2*	23.7	9.2	9.7	*7.0*	*7.1*	*7.1*
Return on Assets, pretax %	*5.7*	8.2	4.6	4.4	*4.8*	*5.1*	*5.2*
Return on Equity %	*7.2*	9.5	6.0	6.1	*7.8*	*8.4*	*8.8*

Leverage	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Debt/Capital	*0.60*	0.58	0.60	0.61	*0.59*	*0.59*	*0.58*
Total Debt/EBITDA	*5.09*	4.87	4.89	5.50	*5.12*	*4.82*	*4.70*
EBITDA/Interest Expense	*3.72*	3.49	3.84	3.84	*3.96*	*4.18*	*4.27*

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	*17.2*	*16.0*
EV/EBITDA	8.1	10.1	*9.5*	*8.7*
EV/EBIT	13.5	16.1	*14.7*	*13.3*
Free Cash Flow Yield %	-0.5	-3.1	*-0.7*	*-0.8*
Dividend Yield %	5.2	3.9	*3.8*	*4.3*

Key Valuation Drivers

Cost of Equity %	10.5
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.6
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	13.8
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	1,174	8.1	3.68
Present Value Stage II	13,385	91.9	41.97
Present Value of the Perpetuity	—	—	—
Total Firm Value	**14,559**	**100.0**	—
Cash and Equivalents	172	—	0.54
Debt	8,000	—	-24.94
Net balance sheet impact	-7,782	—	-24.40
Other Adjustments	425	—	1.33
Equity Value	**7,202**	**—**	**23.04**
Projected Diluted Shares	319		
Fair Value per Share (USD)	**23.00**		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

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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
24.49 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Total Revenue	**6,649**	**6,422**	**6,019**	***5,508***	***6,069***
Cost of Goods Sold	3,318	2,974	2,556	*1,897*	*2,248*
Gross Profit	**3,331**	**3,448**	**3,463**	***3,611***	***3,821***
Selling, General & Administrative Expenses	1,653	1,656	1,723	*1,760*	*1,814*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	284	287	295	*287*	*295*
Restructuring & Other Charges (Gains)	19	2	17	—	—
Depreciation Expense (if reported separately)	589	596	538	*551*	*589*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	**5,864**	**5,516**	**5,129**	***4,495***	***4,946***
Operating Income (EBIT)	**786**	**906**	**891**	***1,013***	***1,123***
Interest Expense	399	392	377	*395*	*410*
Interest & Other Income (Expense)	10	-78	-47	*15*	*19*
Pre-Tax Income	**397**	**436**	**467**	***633***	***732***
Income Tax Expense (Benefit)	166	142	163	*221*	*256*
Income After Taxes	**231**	**295**	**304**	***412***	***476***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	-11	-3	-5	—	—
Net Income (Loss)	**221**	**292**	**299**	***412***	***476***
Net Income (Loss) Excluding Charges	295	341	389	*412*	*476*
Diluted Shares Outstanding (Mil)	276	280	289	*290*	*312*
Diluted EPS Including Charges	0.80	1.04	1.03	*1.42*	*1.53*
Diluted EPS Excluding Charges	1.07	1.22	1.35	*1.42*	*1.53*
Dividends Per Common Share	0.92	0.92	0.92	*0.92*	*0.95*
EBITDA	**1,375**	**1,503**	**1,429**	***1,564***	***1,712***
EBITDA without restructuring	**1,394**	**1,505**	**1,446**	***1,564***	***1,712***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Assets	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Excess Cash & Investments	—	—	112	*266*	*197*
Operating Cash & Equivalents	191	212	60	*83*	*91*
Accounts Receivable	809	1,079	855	*755*	*831*
Inventory	547	428	566	*421*	*499*
Other Short Term Operating Assets	677	730	655	*600*	*630*
Total Current Assets	**2,224**	**2,449**	**2,248**	***2,125***	***2,248***
Property Plant & Equipment, Net	10,684	11,097	11,800	*12,650*	*13,416*
Property Plant & Equipment, Gross	19,038	19,590	20,470	*21,871*	*23,226*
(Accumulated Depreciation)	-8,354	-8,493	-8,670	*-9,221*	*-9,810*
Goodwill, Net	3,677	3,677	3,677	*3,677*	*3,677*
Other Intangibles	320	309	298	*298*	*298*
Other Long-Term Operating Assets	1,810	1,851	2,183	*2,200*	*2,310*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	557	556	502	*502*	*502*
Total Assets	**19,272**	**19,939**	**20,708**	***21,451***	***22,451***
Liabilities					
Accounts Payable	502	582	435	*298*	*395*
Short-Term Debt	822	1,417	1,687	*1,500*	*1,500*
Other Current Liabilities	1,826	1,651	1,525	*1,500*	*1,575*
Total Current Liabilities	**3,150**	**3,649**	**3,646**	***3,298***	***3,470***
Long-Term Debt	5,965	5,936	6,267	*6,500*	*6,750*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**5,965**	**5,936**	**6,267**	***6,500***	***6,750***
Long-Term Operating Liabilities	1,559	1,596	1,810	*1,850*	*1,943*
Deferred Tax Liabilities	2,018	2,210	2,542	*2,792*	*3,042*
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	*1,445*	*1,445*
Total Liabilities	**14,418**	**15,016**	**15,711**	***15,885***	***16,650***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	4,854	4,923	4,997	*4,997*	*4,997*
Additional Paid in Capital	—	—	—	*425*	*479*
Retained Earnings (Deficit)	—	—	—	*144*	*325*
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Total Shareholders' Equity	**4,854**	**4,923**	**4,997**	***5,567***	***5,802***
Total Liabilities + Shareholders' Equity	**19,272**	**19,939**	**20,708**	***21,451***	***22,451***
Difference, from analyst adjustments and restatements	-1	—	—	—	—

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24.49 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Net Income from Continuing Operations	218	292	299	*412*	*476*
Depreciation Expense	589	596	538	*551*	*589*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	102	134	—	—
Deferred Income Taxes & Other Adjustments to Net Income	403	207	212	*250*	*250*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	259	-244	220	*100*	*-77*
(Increase) Decrease in Inventory	129	103	-142	*145*	*-78*
(Increase) Decrease in Prepayments, other Current Assets	25	42	83	*55*	*-30*
Increase (Decrease) in Accounts Payable	-192	38	-155	*-137*	*97*
Increase (Decrease) in Other Current Liabilities	481	-359	-269	*-25*	*75*
Cash from Operations	**1,921**	**777**	**920**	***1,351***	***1,303***
(Capital Expenditures)	-777	-804	-1,125	*-1,400*	*-1,355*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	6	1	9	—	—
Other Investing Cash Flows (Outlays)	117	-140	-34	*23*	*-18*
Cash from Investing	**-655**	**-944**	**-1,149**	***-1,378***	***-1,373***
Common Stock (Purchase) or Sale	8	13	21	*425*	*54*
Common Stock (Dividends)	-253	-256	-258	*-267*	*-296*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-1,061	1,280	-23	*-187*	—
Long Term Debt Issuance and (Retirement)	290	-821	541	*233*	*250*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	—	—
Cash From Financing	**-1,016**	**216**	**281**	***204***	***9***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	-234	-57	-50	—	—
Net Change in Cash	**16**	**-8**	**2**	***177***	***-61***
Change in Cash on Balance Sheet	191	21	-40	*177*	*-61*
Difference, from analyst adjustments and restatements	-175	-29	42	—	—

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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	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	0.97	—	136.3	268.3	—	9.1	8.3	—	NM	-542.0	—	2.1	2.0	—	1.9	1.7
Sempra Energy SRE USA	1.10	12.3	15.4	15.1	7.9	8.9	8.1	NM	NM	NM	1.3	1.4	1.4	1.3	1.6	1.5
AGL Resources, Inc. GAS USA	1.06	14.9	12.2	11.4	15.4	13.2	12.5	50.5	93.4	45.0	2.6	2.5	2.3	2.0	1.9	1.8
Atmos Energy Corp ATO USA	1.05	13.9	13.6	13.0	7.4	7.3	7.0	NM	NM	NM	1.3	1.2	1.2	0.7	0.7	0.6
Average		13.7	44.4	77.0	10.2	9.6	9.0	50.5	93.4	-248.5	1.7	1.8	1.7	1.3	1.5	1.4
NiSource Inc NI US	—	**17.6**	**17.2**	**16.0**	**10.1**	**9.5**	**8.7**	**NM**	**NM**	**NM**	**1.3**	**1.2**	**1.2**	**1.1**	**1.3**	**1.1**

Returns Analysis

		ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	— USD	9.4	10.8	10.8	10.0	11.4	11.4	15.9	17.5	19.1	8.4	9.2	9.2	—	6.1	7.1
Sempra Energy SRE USA	33,356 USD	6.5	5.2	5.1	6.8	5.5	5.4	14.4	10.1	9.7	6.4	5.5	5.7	3.3	3.8	4.0
AGL Resources, Inc. GAS USA	— USD	6.9	7.1	7.0	7.4	7.6	7.6	13.0	14.8	14.8	6.4	7.2	7.4	3.0	3.2	3.4
Atmos Energy Corp ATO USA	7,283 USD	7.8	6.1	6.3	8.8	6.9	7.0	9.0	9.4	9.2	6.3	6.6	6.6	4.2	4.4	4.5
Average		7.7	7.3	7.3	8.3	7.9	7.9	13.1	13.0	13.2	6.9	7.1	7.2	3.5	4.4	4.8
NiSource Inc NI US	**20,708** USD	**7.5**	**5.5**	**5.6**	**9.7**	**7.0**	**7.1**	**5.1**	**7.8**	**8.4**	**4.4**	**4.8**	**5.1**	**3.9**	**3.8**	**4.3**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	8,209 USD	1.6	21.4	14.2	7.7	24.1	8.8	-81.9	139.3	-49.2	-106.4	215.7	-84.2	5.9	5.9	11.2
Sempra Energy SRE USA	10,036 USD	11.5	-5.1	12.2	64.5	8.0	8.2	88.5	-25.2	2.2	1,162.0	-0.2	-51.2	24.1	33.4	5.0
AGL Resources, Inc. GAS USA	2,287 USD	-3.6	4.1	4.7	-10.2	20.8	6.0	-12.5	21.9	7.1	469.3	-45.9	107.7	5.4	4.4	4.9
Atmos Energy Corp ATO USA	4,348 USD	-9.2	3.1	2.7	-3.5	4.0	5.8	-1.5	8.5	4.4	-121.8	99.9	-72.0	1.7	2.7	3.0
Average		0.1	5.9	8.5	14.6	14.2	7.2	-1.9	36.1	-8.9	-230.2	67.4	-24.9	9.3	11.6	6.0
NiSource Inc NI US	**6,019** USD	**-6.3**	**-8.5**	**10.2**	**-0.1**	**11.7**	**10.9**	**10.7**	**5.2**	**7.7**	**670.3**	**-75.8**	**5.0**	**-2.1**	**3.0**	**3.0**

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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
24.49 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	C	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

		Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Last Historical Year Net Income (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	83 USD	100.0	100.0	100.0	35.6	36.2	35.0	24.0	24.5	23.4	1.0	2.1	1.0	-0.9	-2.3	-0.3
Sempra Energy SRE USA	1,357 USD	58.7	65.2	63.7	30.0	31.0	30.2	20.2	19.9	19.2	13.5	10.8	9.8	-9.7	-10.2	-4.5
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
Atmos Energy Corp ATO USA	199 USD	30.5	31.1	31.6	16.2	16.5	16.9	10.2	11.1	11.3	4.6	4.8	4.9	-0.9	-1.8	-0.5
Average		60.5	62.5	62.3	27.1	28.4	28.1	18.5	19.6	19.3	7.0	7.1	6.6	-1.9	-3.1	-0.3
NiSource Inc NI US	**389 USD**	**57.5**	**65.6**	**63.0**	**24.0**	**28.4**	**28.2**	**14.8**	**18.4**	**18.5**	**5.2**	**7.5**	**7.9**	**-3.4**	**-0.9**	**-0.9**

Leverage Analysis

		Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Last Historical Year Total Debt (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	12,976 USD	144.1	165.4	179.6	58.3	61.6	63.4	5.5	5.7	5.5	4.4	4.3	4.3	2.8	3.0	3.2
Sempra Energy SRE USA	10,863 USD	110.4	109.6	114.1	52.2	52.1	53.1	6.5	5.7	5.7	3.6	4.0	4.0	3.4	3.3	3.3
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
Atmos Energy Corp ATO USA	2,415 USD	107.1	110.8	109.6	51.7	52.6	52.3	4.7	5.0	4.8	3.4	3.6	3.5	3.2	3.2	3.2
Average		135.9	139.0	140.3	56.7	57.3	57.5	5.6	5.5	5.4	4.2	4.1	4.0	3.4	3.4	3.4
NiSource Inc NI US	**7,954 USD**	**159.2**	**143.7**	**142.2**	**61.4**	**59.0**	**58.7**	**3.8**	**4.0**	**4.2**	**5.5**	**5.1**	**4.8**	**4.1**	**3.9**	**3.9**

Liquidity Analysis

		Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	19,365 USD	6.00	8.28	7.88	-33.79	-36.59	-39.35	7.07	8.15	8.70	-0.22	-0.66	-0.10	NM	564.2	1,235.6
Sempra Energy SRE USA	15,601 USD	1.14	0.74	0.65	-43.83	-47.97	-52.34	7.73	9.08	9.34	-4.05	-4.00	-1.94	32.4	57.8	59.4
AGL Resources, Inc. GAS USA	4,601 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
Atmos Energy Corp ATO USA	2,917 USD	1.45	3.91	3.22	-25.19	-25.54	-27.06	6.43	6.17	6.44	-0.44	-0.89	-0.25	59.7	58.1	58.2
Average		3.8	4.7	4.2	-34.2	-36.2	-38.5	6.9	7.4	7.6	-0.9	-1.2	-0.2	53.5	184.7	352.7
NiSource Inc NI US	**6,950 USD**	**0.60**	**1.20**	**0.92**	**-26.97**	**-26.36**	**-25.53**	**3.19**	**4.65**	**4.18**	**-0.71**	**-0.17**	**-0.17**	**86.4**	**64.9**	**62.0**

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Research Methodology for Valuing Companies

Components of Our Methodology

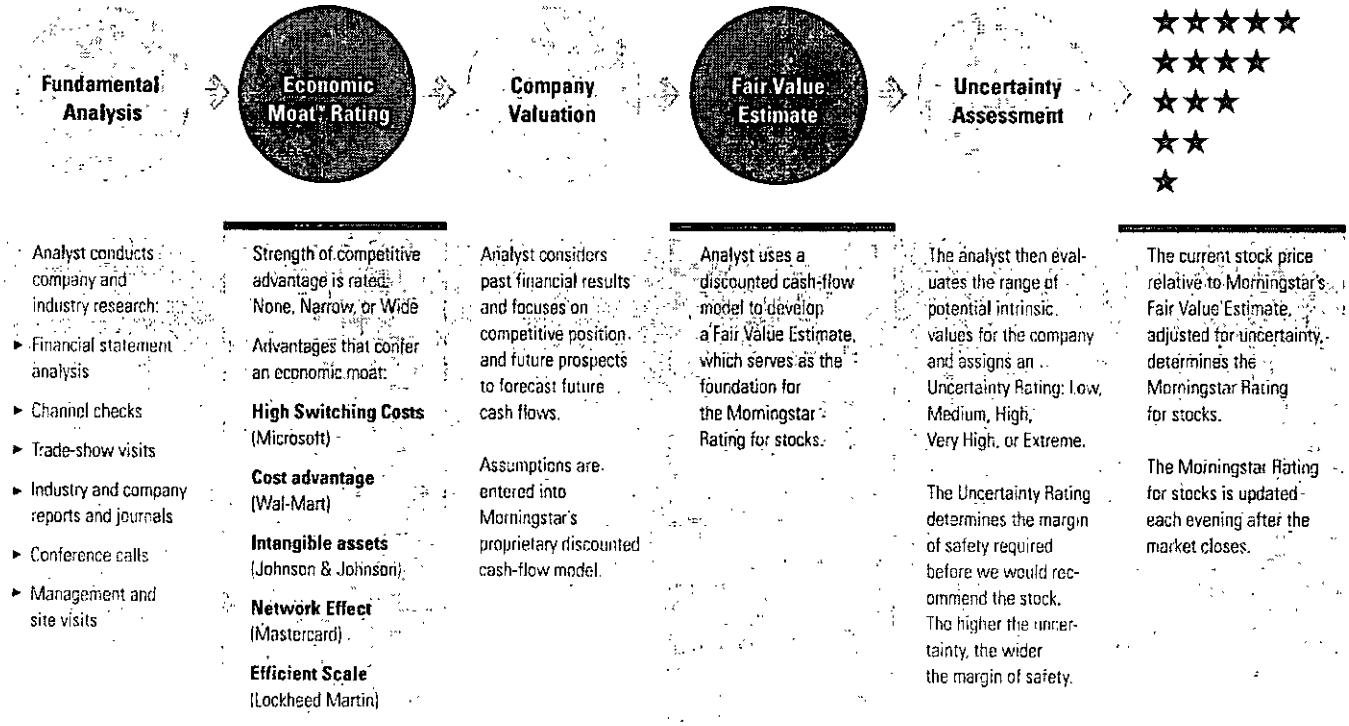
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Grades
- Financial Health Grades

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 Grade Methodology
- Stock Grade Methodology for Financial Health

* Please contact a sales representative for more information.

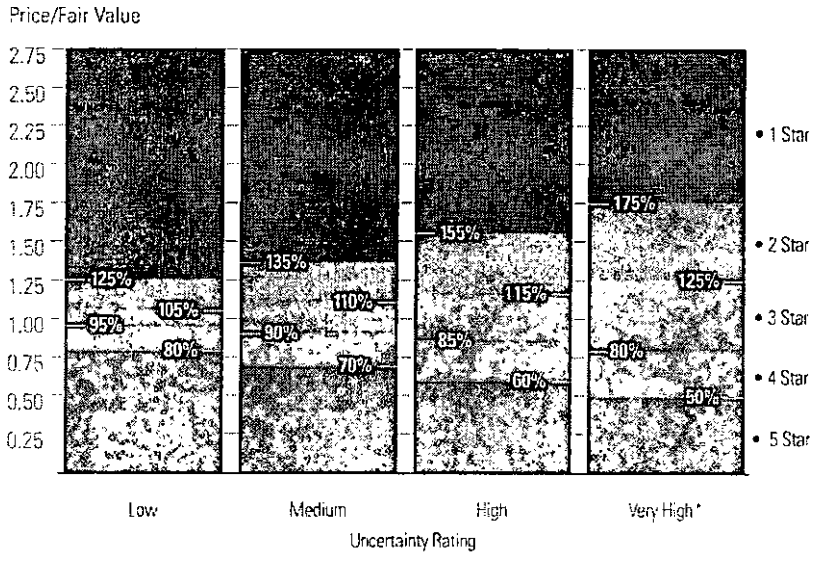
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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 Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to est more, 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.

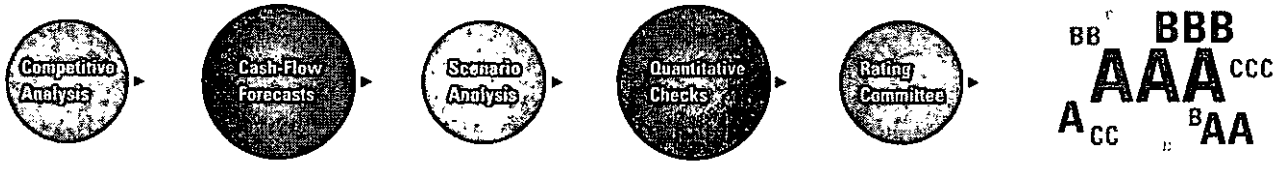
Business Risk

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 Stress Test Score™

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, 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 Bank 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

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

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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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 (2008-2012).

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:

2008 - $ 0
2009 - $ 25,000,000
2010 - $ 31,500,000
2011 - $ 5,000,000
2012 - $ 2,000,000 (Thru June 2012)

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.

****CONFIDENTIAL****

GAS-ROR-013
Attachment A
Witness: P. R. Moul
Page 1 of 1

COLUMBIA GAS OF PENNSYLVANIA, Inc.
Income Statement

	2010 Actual	2011 Actual	2012 Projection	2013 Projection	2014 Projection	2015 Projection	2016 Projection	2017 Projection
OPERATING REVENUES	559,163	504,754	390,642	443,666	464,569	472,741	477,766	480,397
NET GAS PURCHASED FOR RESALE	339,139	278,241	171,920	207,617	200,610	205,286	210,125	211,943
PLANT REVENUES	220,024	226,513	218,722	236,049	263,959	267,455	267,641	268,454
PLANT EXPENSE								
NET LABOR & MAJOR BENEFITS	39,244	43,573	30,677	34,442	38,700	43,843	44,991	45,741
OTHER O & M	96,939	95,661	91,876	100,264	109,367	109,185	109,717	111,549
DEPRECIATION & AMORTIZATION	24,268	27,095	32,307	35,595	39,187	42,663	45,233	48,020
TAXES OTHER THAN INCOME	3,682	4,067	3,914	3,656	3,389	3,452	3,516	3,583
TOTAL PLANT EXPENSES	164,133	170,396	158,774	173,957	190,643	199,143	203,457	208,893
OPERATING INCOME BEFORE INCOME TAXES	55,891	56,117	59,948	62,092	73,316	68,312	64,184	59,561
INCOME TAXES	(6,036)	(2,984)	755	5,159	13,464	12,453	10,932	7,271
OPERATING INCOME	61,927	59,101	59,193	56,933	59,852	55,859	53,252	52,290
OTHER INCOME	3,665	1,793	3,463	2,970	2,795	2,360	2,245	2,136
INCOME BEFORE INTEREST	65,592	60,894	62,656	59,903	62,647	58,219	55,497	54,426
INTEREST CHARGES								
PARENT COMPANY	16,112	17,642	20,862	22,731	25,266	28,725	32,527	36,709
OTHER (NET)	268	2,607	368	676	746	849	820	845
TOTAL INTEREST CHARGES	16,380	20,249	21,230	23,407	26,012	29,574	33,347	37,554
NET INCOME FROM SUBSIDIARIES	996	899	280	382	319	322	319	342
EXTRAORDINARY CREDIT	-	-	-	-	-	-	-	-
NET INCOME	50,208	41,544	41,706	36,878	36,954	28,967	22,469	17,214

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 (2012-2016) 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	2012	2013	2014	2015	2016
Growth	$12,200	$11,600	$17,300	$13,000	$14,500
Betterment	$3,400	$5,000	$6,000	$7,300	$7,100
Public Improvement	$5,500	$5,600	$5,063	$5,500	$5,500
Replacement	$115,000	$141,000	$138,000	$108,000	$107,000
Support Services	$3,165	$3,221	$2,962	$2,658	$3,840
Corporate IT	$1,869	$1,276	$990	$0	$0
Automated Meter Reading	$5,000	$350	$350	$350	$350
Total Gross Capital	**$146,134**	**$168,047**	**$170,665**	**$136,808**	**$138,290**

	2012	2013	2014	2015	2016
Contributions - Growth	$200	$200	$500	$600	$500
Reimbursement - Betterment	$0	$0	$0	$0	$0
Reimbursement - Public Improvement	$600	$400	$600	$600	$600
Reimbursement - Replacement	$0	$0	$0	$0	$0
Total Contributions & Reimbursements	**$800**	**$600**	**$1,100**	**$1,200**	**$1,100**

Net View

Class	2012	2013	2014	2015	2016
Growth	$12,000	$11,400	$16,800	$12,400	$14,000
Betterment	$3,400	$5,000	$6,000	$7,300	$7,100
Public Improvement	$4,900	$5,200	$4,463	$4,900	$4,900
Replacement	$115,000	$141,000	$138,000	$108,000	$107,000
Support Services	$3,165	$3,221	$2,962	$2,658	$3,840
Corporate IT	$1,869	$1,276	$990	$0	$0
Automated Meter Reading	$5,000	$350	$350	$350	$350
Total Net Capital	**$145,334**	**$167,447**	**$169,565**	**$135,608**	**$137,190**

It should be noted that actual capital budgets for the following year have previously been approved in the fourth quarter of the current year. In light of the Fully Forecasted Future Rate Year provided by Act 11 of 2012, CPA's capital budget has been approved through the end of 2014.

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.

Response: NiSource Inc.

NiSource Inc. does not formally publish a 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$)
June 2010	0	0.73%	15,281,595	10,421,514
July	0	0.70%	14,278,905	9,760,158
August	0	0.69%	15,224,828	10,911,369
September	0	0.69%	11,576,895	7,946,029
October	0	0.69%	12,882,409	8,882,655
November	0	0.76%	12,760,742	8,542,553
December 2010	0	0.79%	9,375,062	4,373,351
January 2011	0	0.79%	10,942,999	5,167,473
February	0	0.75%	11,904,429	5,438,034
March	0	2.04%	15,636,816	8,671,039
April	0	2.02%	20,241,967	13,136,594
May	0	1.96%	21,291,552	13,584,919
June	0	2.05%	30,601,718	22,574,735
July	0	1.66%	31,680,470	24,316,662
August	0	1.59%	33,089,728	26,436,635
September	0	1.58%	26,230,521	23,059,820
October	8,622	1.57%	25,256,405	21,896,717
November	1,860	1.60%	19,390,695	15,446,681
December 2011	24,684	1.62%	15,609,350	10,427,739
January 2012	6,246	1.66%	13,948,330	10,514,523
February	0	1.51%	15,132,515	10,723,556
March	0	1.50%	18,103,890	13,701,473
April	0	1.40%	18,262,819	14,674,338
May 2012	0	1.37%	19,272,819	14,181,820

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	October 26, 2009	10.50%
Columbia Gas of Ohio	October 24, 2008	10.39%
Columbia Gas of Maryland	February 20, 2009	10.25%
Columbia Gas of Virginia	December 17, 2010	10.10%
Columbia Gas of Massachusetts	October 30, 2009	9.95%
NIPSCO - Gas	November 4, 2010	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 Gas of Pennsylvania, Inc.:

Columbia has not reacquired or repurchased any debt within the last five years.

NiSource Inc.:

Please see Exhibit 410 for reacquired or repurchased debt by NiSource Inc. during 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 Columbia Energy Group, which is a subsidiary of NiSource Inc (the System). All debt of the Company is held by the System, through its subsidiary, NiSource Finance Corporation, and is not publicly traded.

For detail of long-term debt as of May 31, 2012, see Exhibit No. 406, Page 1. For detail of short-term debt, see GAS-ROR-016 Attachment A.

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
15-May-12		31-Jul-12		20-Aug-12		$ 0.24
27-Mar-12		30-Apr-12		18-May-12		$ 0.23
27-Jan-12		6-Feb-12		20-Feb-12		$ 0.23
23-Aug-11		31-Oct-11		18-Nov-11		$ 0.23
10-May-11		29-Jul-11		19-Aug-11		$ 0.23
22-Mar-11		29-Apr-11		20-May-11		$ 0.23
19-Jan-11		31-Jan-11		18-Feb-11		$ 0.23
24-Aug-10		29-Oct-10		19-Nov-10		$ 0.23

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 (Columbia Energy Group), 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 (May 31, 2012). See GAS-ROR-022 Attachment A, page 2, which provides NiSource Inc's capital requirements and sources for December 31, 2011. The System prepares YTD cash flow statements, therefore a May 31, 2012 statement is not available.

Please refer to Standard Filing Requirement, 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 May 31, 2012 000's
Constructions	$149,878
Allowance for Funds Used During Contruction	224
Debt Retirement and Redemption	0
Other Investing Activities	0
Common Dividends	6,000
Total Funds Required	156,102
SOURCES OF FUNDS	
Internal Sources	
Net Income	$37,163
Depreciation	29,224
Deferred Taxes	(14,650)
OPEB	(666)
Retirement Income Plan	(12,655)
Other Non-Current Assets and Liabilities	15,985
Other Regulatory Assets	(7,724)
Working Capital	(26,336)
Total Internal Sources	20,341
External Sources	
Common Stock/Additional Paid in Capital	45
Net Increase(Decrease) in Short-Term Borrowings	0
Issuance of Long-Term debt	65,000
Net Increase(Decrease) in Temporary Cash Investment	70,716
Total External Sources	135,761
Total Sources of Funds	156,102

NISOURCE, INC.
53.53 II. RATE OF RETURN
A. ALL Utilities

USES OF FUNDS	December 31, 2011 *in millions*
Constructions	1,125.2
Allowance for Funds Used During Contruction	(18.8)
Debt Retirement and Redemption	295.1
Retirement of Preferred Stock	0.0
Common Dividends	257.8
Acquisition of Treasury Stock	3.1
Other Investing Activities	24.1
Total Funds Required	1,686.5
SOURCES OF FUNDS	
Internal Sources	
Net Income	299.1
Depreciation	538.2
Deferred Taxes	178.4
Other Cash Flow From Operations	94.1
Working Capital	(262.2)
Total Internal Sources	847.6
External Sources	
Common Stock	24.4
Net Increase(Decrease) in Short-Term Borrowings	(75.5)
Issuance of Long-term Debt	890.0
Sale of Assets	0.0
Total External Sources	838.9
Total Sources of Funds	1,686.5

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.

	2007	2008	2009	2010	2011
Pre-tax	4.25	3.59	3.29	3.67	2.89
Post-tax	3.06	2.58	2.48	4.04	3.04

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.

2007	2008	2009	2010	2011
4.68	4.32	4.49	3.64	3.22

d. Dividend payout ratio.

2007	2008	2009	2010	2011
0.00	0.00	0.74	0.63	0.12

e. AFUDC as earnings available for common equity.

2007	2008	2009	2010	2011
1.70%	0.70%	1.00%	0.30%	0.40%

f. Construction work in progress as a percent of net utility plant.

2007	2008	2009	2010	2011
1.89%	2.34%	0.18%	1.29%	1.85%

g. Effective income tax rate. (1)

2007	2008	2009	2010	2011
36.78%	38.97%	35.06%	-13.67%	-7.74%

h. Internal cash generations as a percent of total capital requirements.

2007	2008	2009	2010	2011
86.30%	97.60%	139.50%	45.90%	49.20%

(1) Effective income tax rates for 2010 and 2011 are low 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.

	2007	2008	2009	2010	2011
Pre-tax	2.25	2.31	1.88	2.11	2.13
Post-tax	2.89	2.87	2.29	3.04	3.46

b. Preferred stock dividend coverage ratio -- post tax basis.

2007	2008	2009	2010	2011
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.

2007	2008	2009	2010	2011
2.14	2.31	1.91	2.00	2.11

d. Dividend payout ratio.

2007	2008	2009	2010	2011
0.78	3.19	1.16	0.88	0.86

e. AFUDC as earnings available for common equity.

2007	2008	2009	2010	2011
1.15%	1.46%	2.34%	-4.38%	-6.19%

f. Construction work in progress as a percent of net utility plant.

2007	2008	2009	2010	2011
3.20%	4.33%	2.79%	2.41%	3.32%

g. Effective income tax rate.

2007	2008	2009	2010	2011
35.55%	33.39%	41.76%	32.45%	34.96%

h. Internal cash generations as a percent of total capital requirements.

2007	2008	2009	2010	2011
81.42%	55.06%	119.73%	103.67%	66.80%