Columbia Gas of Pennsylvania, Inc.
2012 General Rate Case
Docket No. R-2012-2321748
Standard Data Request
GASROR No. 10-23
Volume 2 of 2

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

Question No. GAS-ROR-010:

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

Response: Columbia Gas of Pennsylvania, Inc.

Columbia Gas of Pennsylvania, Inc. (Company) is a wholly owned subsidiary of Columbia Energy Group, which is a subsidiary of NiSource Inc. (Parent). All debt of the Company is held by the Parent and is not publicly traded or rated.

Response: NiSource Inc.

Security analysts' reports issued June 2010 through June 2012 are attached in Attachment A – Attachment Z.

Year	Attachment	Folder Name	Documents Included
2010	A	2Q	Barclays 2Q-2010 BMO 2Q-2010 Citi 2Q-2010 Hilliard Lyons 2Q-2010 JP Morgan 2Q-2010 UBS 2Q-2010 Wells 2Q-2010 Wunderlich 2Q-2010
	B	3Q	Barclays 3Q-2010 BMO 3Q-2010 Citi 3Q-2010 Hilliard 3Q-2010 JP Morgan 3Q-2010 KeyBanc 3Q-2010 UBS 3Q-2010 Wells 3Q-2010
	C	4Q	Barclays 4Q-2010 note BMO 4Q-2010 note Citi 4Q-2010 note Citi 4Q-2010 pre-release Credit Suisse 4Q-2010 note Credit Suisse 4Q-2010 pre-call CS Initiation Report Hilliard 4Q-2010 note JP Morgan 4Q-2010 note KeyBanc 4Q-2010 pre-call KeyBanc 4Q-2010 post-conference Morgan Stanley 4Q-2010 note

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

			Morningstar 4Q-2010 note UBS-4Q-2010 note Wells-4Q-2010 note Wunderlich-4Q-2010 note
	D	Electric Case 2 Filing	Barclays Case 2 filing
	E	Electric Rate Case Order	Barclay Electric Order Citi Electric Order Keybanc Electric Order UBS Electric Order Wells Fargo Electric Order Wunderlich Electric Order
	F	Equity Offering	Barclays Equity offering Keybanc Equity offering
	G	Gas Settlement	Barclays Gas Settlement Citi Gas Settlement Keybanc Gas Settlement Wells Fargo Gas Settlement
	H	Investor Day	Barclays Investor Day 2010 BMO Investor Day 2010 Keybanc Investor Day 2010 Wunderlich Investor Day 2010
	I	ValuEngine	ValuEngine 2-05-2010 ValuEngine 2-08-2010 ValuEngine 3-10-2010 ValuEngine 3-15-2010 ValuEngine 3-17-2010 ValuEngine 3-26-2010 ValuEngine 5-11-2010 ValuEngine 5-12-2010 ValuEngine 5-19-2010 ValuEngine 7-23-2010 ValuEngine 8-10-2010
2011	J	1Q	Barclays 1Q-2011 note BMO 1Q-2011 note Citi 1Q-2011 note Credit Suisse 1Q-2011 note Hilliard Lyons 1Q-2011 note JP Morgan 1Q-2011 note Keybanc pre-1Q-2011 call Morningstar 1Q-2011 note UBS 1Q-2011 note Wunderlich 1Q-2011 note Wunderlich pre-1Q-2011 earnings
	K	2Q	Barclays 2Q-2011 BMO 2Q-2011 Citi 2Q-2011 note Citi 2Q-2011 pre-release Citi 2Q-2011 Credit Suisse 2Q-2011 KeyBanc – after visit KeyBanc – pre-call Morgan Stanley 2Q-2011

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

			UBS 2Q-2011 Wunderlich 2Q-2011
	L	3Q	Barclays Utica Potential Note Barclays Utica Note 3Q-2011 BMO 3Q-2011 Credit Suisse 3Q-2011 Hilliard 3Q-2011 Keybanc 3Q-2011- precall Morgan Stanley 3Q-2011 NI Utica Writeup UBS 3Q-2011 Wunderlich 3Q-2011
	M	4Q	Barclays 4Q-2011 BMO 4Q-2011 Citi 4Q-2011 Credit Suisse 4Q-2011 KeyBanc 4Q-2011 Morgan Stanley 4Q-2011 Wunderlich 4Q-2011
	N	Electric Rate Case Settlement	Barclays Barclay's Note BMO WeeklyElectric Settlement Citi Electric Settlement Morgan Stanley Electric Settlement RRA Note (revised) on Settlement
	O	Electric Rate Case Settlement Approval	KeyBanc 12-21-2011
	P	Electric Rate Case Settlement Notice	Barclays Settlement Notice KeyBanc Settlement Notice Wunderlich Settlement Notice
	Q	ValuEngine	ValuEngine 3-16-2011
	R		Credit Suisse pre conference
	S		Morgan Stanley Initiation Presentation
	T		Morgan Stanley Initiation Report
2012	U	1Q 2012	Barclays 1Q-2012 BMO 1Q-2012 Citi 1Q-2012 Credit Suisse 1Q-2012 Hilliard 1Q-2012 KeyBanc 1Q-2012 Morgan Stanley 1Q-2012 Morningstar 1Q-2012 UBS 1Q-2012 Wunderlich 1Q-2012
	V		Barclays NI Dividend Increase 5-15-12
	W		KeyBanc Quick Alert 5-23-12
	X		KeyBank Upgrade
	Y		Morningstar 5-15-12
	Z		NI Morningstar analyst change

BARCLAYS CAPITAL

EQUITY RESEARCH

Power & Utilities | U.S. Utilities | 3 August 2010

NISOURCE, INC.

Q2 Beat Driven by Regulatory Initiatives and Continued Economic Recovery

NI reported Q2'10 Non-Gaap EPS of $0.13, beating the $0.09 consensus: The earnings beat was driven by improvements at Gas distribution, largely due to rate design changes at Columbia Gas of Ohio, and at NIPSCO electric which benefited from increased usage and margin expansion with industrial customers. Slight offsets came from declines at Gas Transmission and Storage, arising from cost increases outpacing margin growth, and a slightly higher loss at corporate and other. Consolidated interest expense favorably declined Y/Y as debt buybacks made in '09 flowed through results.

All eyes continue to be on the Indiana rate cases: We, and many investors, remain focused on the progress being made in Indiana with the NIPSCO Electric rate case. While the case has dragged on more than expected, we expect resolution by the end of Q3'10. While the case, in our view, is likely to have a negative headline number, the more meaningful 2nd case (by our estimates, it is likely to be filed 4-6 weeks after the final order in the current case) is expected to bring material relief in '12 barring timing setbacks. NIPSCO Gas's case is progressing as expected with continued positive prospects for settlement. We see this case as less contentious due to its limited impact on customer bills and our estimates currently embed depreciation reductions of $25M vs. company's ask of ~$50M.

Our estimates and $17 PT are unchanged: While NI looks close to fair value at its current valuation, we see its premium 5.5% dividend yield providing support against any meaningful relative underperformance.

NI: Quarterly and Annual EPS USD

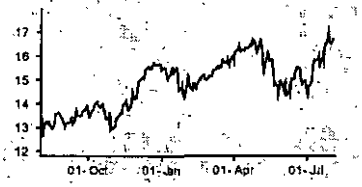
	2009	2010			2011			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	0.62A	0.72A	0.72A	0.72A	N/A	N/A	N/A	16%	N/A
Q2	0.02A	0.13E	0.13A	0.09E	N/A	N/A	N/A	550%	N/A
Q3	0.07A	N/A	N/A	0.06E	N/A	N/A	N/A	N/A	N/A
Q4	0.35A	N/A	N/A	0.36E	N/A	N/A	N/A	N/A	N/A
Year	1.07A	1.20E	1.20E	1.18E	1.33E	1.33E	1.26E	12%	11%
P/E			13.9			12.6			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT Unchanged
Sector View	1-POSITIVE Unchanged
Price Target	USD 17.00 Unchanged
Price (02-Aug-2010)	USD 16.72
Potential Upside/Downside	+2%
Tickers	NI
Market Cap (USD mn)	4634
Shares Outstanding (mn)	277.13
Free Float (%)	99.12
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	5.5
Return on Equity TTM (%)	5.28
Current BVPS (USD)	17.77

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 16.98-12.79



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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 02-Aug-2010, USD 16.72), 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

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

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.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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Consolidated Edison (ED)	Dominion Resources (D)	DPL Inc. (DPL)
DTE Energy (DTE)	Duke Energy (DUK)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	NiSource, Inc. (NI)
Northeast Utilities (NU)	NSTAR (NST)	NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
Progress Energy (PGN)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

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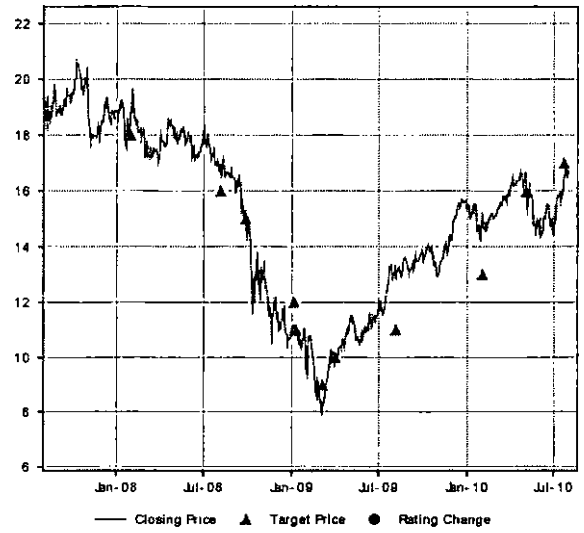
IMPORTANT DISCLOSURES CONTINUED

NiSource, Inc. (NI)

USD 16.72 (02-Aug-2010)

Stock Rating	Sector View
2-EQUAL WEIGHT	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 02-Aug-2010) **Currency=USD**



Date	Closing Price	Rating	Price Target
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
01-Apr-2009	9.99		10.00
05-Mar-2009	7.86		9.00
09-Jan-2009	11.08		11.00
05-Jan-2009	11.17		12.00
24-Oct-2008	12.58		13.00
26-Sep-2008	14.98		15.00
05-Aug-2008	16.72		16.00
30-Jan-2008	18.61		18.00
09-Aug-2007	18.89	2-Equal Weight	

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Valuation Methodology: Our $17 price target is premised upon our '12E for EPS of $1.40 and the '12 PE multiple of 11.8x.

Risks which May Impede the Achievement of the 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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BMO Capital Markets

August 4, 2010

NiSource

(NI-NYSE)

Stock Rating: Market Perform
Industry Rating: Market Perform

North American Pipelines

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2Q Beat Gives Upside to Guidance

Event

NI reported clean 2Q EPS of $0.13 weather-normalized vs. our $0.08 estimate ($0.10 weather-adjusted) and the Street's $0.05. The $0.03 normalized beat was mainly driven by performance at the gas utility with a $0.04 gain largely due to ~$15mm of off-system sales—such revenue is highly opportunistic, and is expected to be more challenged in 2011. The electric utility also beat by almost $0.03 driven by 18% y/y growth in industrial usage (vs. our 5% expectation), while this was offset by a similar miss in Pipes on the back of a 16% y/y increase in O&M expense and $5mm lower park and loan revenue. Quarterly results and the conference call underscored the themes from the July analyst day deep dive (see our July 26th note for more detail), with key takeaways: (1) NI reiterating 3%-5% secular EPS growth rate target; (2) the company still expects a rate case decision on the 2008 NIPSCO rate case this quarter (we expect a zero-dollar decision), with a new rate case to be quickly filed thereafter (we expect a request of $100mm+); and (3) given strong results in 1H10 of $0.85, $0.20 over 1H09, we see upside to 2010 guidance of $1.10-$1.20 where even the top end of guidance implies 2H10 performance $0.07 below 2H09, an unlikely scenario in our opinion.

Impact

Positive.

Forecasts

Our forecast for 2010 has increased to $1.23 (weather normalized) to reflect the 2Q10 beat. Our 2011 and 2012 EPS estimates remain unchanged at $1.29 and $1.42, respectively.

Valuation

Our $17 price target remains unchanged, although we note that NI's regulatory initiatives and project growth in the Marcellus gives us a positive bias.

Recommendation

We maintain a **Market Perform** rating with total return potential of ~10%.

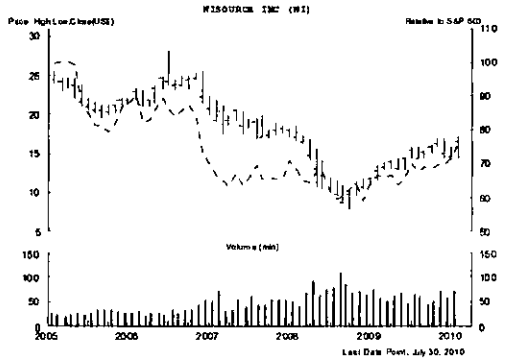
Securities Info

Price (3-Aug)	$16.58	Target Price	$17
52-Wk High/Low	$17/$13	Dividend	$0.92
Mkt Cap (mm)	$4,600	Yield	5.5%
Shs O/S (mm, BASIC)	277.4	Float O/S (mm)	275.2
Options O/S (mm)	na	ADVol (30-day, 000s)	2,986

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
NiSource 6.8% '19	113	Baa3 / BBB-	4.91%	250bp
NiSource 6.4% '18	111	Baa3 / BBB-	4.66%	224bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2008A	2009A	2010E	2011E
EPS Pro Forma	$1.25	$1.01	$1.23↑	$1.29
P/E			13.4x	12.9x
First Call Cons.			*$1.16*	*$1.23*
EPS GAAP	$0.29	$0.79	$1.23	$1.29
OCF	$3.87	$4.45	$3.55↑	$3.65
P/OCF			4.7x	4.5x
EBITDA ($mm)	$1,503	$1,383	$1,538	$1,571
EV/EBITDA			7.4x	7.2x
Rev. ($mm)	$8,876	$6,299	$5,686	$5,870
EV/Rev			2.0x	1.9x

Quarterly EPS	1Q	2Q	3Q	4Q
2009A	$0.63	$0.01	$0.02	$0.35
2010E	$0.72A	$0.13A	$0.06	$0.33↓

Balance Sheet Data (03/31/10)			
Net Debt ($mm)	$6,740	TotalDebt/EBITDA	4.5x
Total Debt ($mm)	$6,988	EBITDA/IntExp	3.7x
Net Debt/Cap.	138.3%	Price/Book	1.0x

Notes: All values in US$.

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

Changes	Annual EPS	Annual OCF	Quarterly EPS
	2010E $1.18 to $1.23	2010E $3.42 to $3.55	Q4/10E $0.32 to $0.33

Please refer to pages 6 to 8 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: NiSource Valuation

NiSource Inc.

Sum-of-the-Parts Valuation Analysis

	2011E	Valuation Multiple		Notes:
EBITDA by Segment				
Gas Distribution	$833	7.5x	$4,747	
Gas Pipelines	$546	9.0x	$4,911	
Electric	$408	7.0x	$2,857	
Other	$10	5.0x	$51	- Plus pension expense (analogous to interest) risked at 50% (net of NIPSCO recovery)
Value of Operations			$12,566	
Net Debt (year-end 2010E)			($7,044)	
Preferred & Minority Interests			—	
Pension/OPEB Underfunded Obligation	($1,182)	50%	($591)	- Projected 2010 Obligation, assumes partial recovery in rates
Net Equity Value			$4,931	
Diluted Shares Outstanding			277	
$/sh			$17.81	
P/E by Segment*				
Gas Distribution	$0.52	12.0x	$6.27	
Gas Pipelines	$0.55	15.0x	$8.22	
Electric	$0.26	11.0x	$2.86	
Other	($0.04)	10.0x	($0.42)	
Consolidated EPS	$1.29	13.1x	$16.95	

*based on EBIT % as proxy

Average Target Price:	$17.38
Valuation Summary:	
Current Price	$16.58
Current Dividend	$0.92
Appreciation Potential	4.8%
Current Yield	5.5%
Total Return Potential	10.4%

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource (NI) Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Operating Revenues:										
Gas Distribution	$4,447	$5,171	$3,303	$1,340	$472	$337	$1,001	$3,151	$3,632	$3,675
Pipelines & Storage	1,090	1,132	1,241	370	264	223	259	1,116	957	962
Electric	1,358	1,357	1,213	318	339	325	329	1,312	1,326	1,369
Other	1,045	1,216	542	22	20	(44)	110	107	(47)	(48)
Revenues	7,940	8,876	6,299	2,051	1,095	842	1,699	5,686	5,867	5,957
Operating Expenses:										
Cost of Sales	4,676	5,632	2,978	981	350	133	767	2,231	2,322	2,321
Operation & Maintenance	1,468	1,456	1,650	436	376	372	469	1,653	1,699	1,728
DD&A	559	567	589	150	152	153	151	604	598	595
Loss (gain) on asset sales	11	8	16	0	0	0	0	0	0	0
Taxes and Other	303	308	283	86	64	63	75	288	294	299
Total Operating Expenses	7,017	7,971	5,516	1,653	942	720	1,462	4,776	4,913	4,943
Operating Income	923	906	783	398	154	122	237	911	953	1,014
Other:										
Equity in Earnings	9	12	16	7	0	5	6	18	22	22
Minority Interests	0	0	0	0	0	0	0	0	0	0
Other	(47)	18	(6)	3	3	0	0	5	0	0
Total Other Income	(38)	30	10	10	3	5	6	24	22	22
Reported EBIT	**$885**	**$936**	**$793**	**$408**	**$157**	**$126**	**$243**	**$934**	**$975**	**$1,036**
EBITDA	**$1,444**	**$1,503**	**$1,383**	**$558**	**$308**	**$279**	**$394**	**$1,538**	**$1,573**	**$1,631**
EBIT Composition										
Gas Distribution	333	336	328	235	36	(9)	98	360	397	422
Pipelines & Storage	370	367	389	126	75	94	112	407	414	422
Electric	261	219	117	46	48	49	42	185	197	224
Corporate & Other	(79)	14	(40)	1	(3)	(8)	(8)	(17)	(32)	(32)
Total EBIT	**$885**	**$936**	**$793**	**$408**	**$157**	**$126**	**$243**	**$934**	**$975**	**$1,036**
Interest Expense	401	380	399	99	98	99	100	397	402	405
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0
Financing Expense	401	380	399	99	98	99	100	397	402	405
Income Before Taxes	484	556	394	309	58	27	143	537	573	631
Income Taxes										
Current	159	53	(214)	83	10	6	34	133	138	152
Deferred	13	132	378	27	11	3	18	60	74	82
Total Income Taxes	172	186	165	111	21	10	52	194	212	233
Effective Inc. Tax Rate (%)	36%	33%	42%	36%	36%	37%	37%	36%	37%	37%
Net Income From Continuing Operations	312	370	229	199	37	17	91	344	361	398
Discontinued Operations, net	9	(291)	(12)	0	0	0	0	0	0	0
Change in Accounting	0	0	(0)	0	0	0	0	0	0	0
GAAP Net Income to Common	**$321**	**$79**	**$218**	**$199**	**$37**	**$17**	**$91**	**$344**	**$361**	**$398**
Adjustments to Core										
Asset Impairment	(3)	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	0	13	(8)	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(16)	13	(40)	0	0	0	0	0	0	0
Total Adjustments	(19)	26	(49)	0	0	0	0	0	0	0
Non-GAAP Core Earnings	**$324**	**$344**	**$278**	**$199**	**$37**	**$17**	**$91**	**$344**	**$361**	**$398**
Shares Outstanding (mm)										
Avg. Diluted Shares Out	275	275	276	278	278	279	279	278	279	279
Avg. Basic Shares Out	274	274	275	277	278	278	278	278	278	278
Period-end basic Shares Out	274	277	276	277	278	278	278	278	278	278
Earnings Per Share (Diluted)										
GAAP EPS	**$1.17**	**$0.29**	**$0.79**	**$0.72**	**$0.13**	**$0.06**	**$0.33**	**$1.23**	**$1.29**	**$1.42**
Core EPS	**$1.18**	**$1.25**	**$1.01**	**$0.72**	**$0.13**	**$0.06**	**$0.33**	**$1.23**	**$1.29**	**$1.42**
EPS Growth (core)	-7.0%	6.0%	-19.4%	13.7%	2507.7%	303.4%	-8.1%	22.4%	4.9%	10.0%
Dividends										
Cash per share	$0.92	$0.92	$0.92	$0.23	$0.23	$0.23	$0.23	$0.92	$0.92	$0.92
Payout Ratio (%)	78.6%	320.7%	116.6%					74.5%	71.0%	64.6%

Source: BMO Capital Markets estimates, Company Data.

Exhibit 3: NiSource (NI) Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Operating Activities										
GAAP Net Income from Cont. Ops	321	79	218	197	28	17	91	333	361	398
DD&A	559	567	589	150	152	153	151	604	598	595
Deferred income tax benefit	13	132	378	27	11	3	18	60	74	82
Deferred Revenues	(39)	(24)	4	(16)	(1)	0	0	(17)	0	0
Amortization of premium on debt	7	8	13	0	5	0	0	5	0	0
Less Gain or Loss on assets	11	8	(4)	(0)	0	0	0	0	0	0
Less Equity Earnings plus Cash Distributions	(14)	(25)	(15)	(7)	(0)	(2)	(3)	(13)	(11)	(11)
Other non-cash income items	43	321	36	(4)	18	0	0	15	0	0
OCF (pre-working capital)	**$902**	**$1,065**	**$1,219**	**$347**	**$213**	**$171**	**$257**	**$988**	**$1,023**	**$1,064**
OCF per share	**$3.28**	**$3.87**	**$4.42**	**$1.25**	**$0.77**	**$0.61**	**$0.92**	**$3.55**	**$3.67**	**$3.81**
Working Capital:										
Accounts and notes receivable	(3)	(206)	259	(138)	408			270	0	0
Inventory	94	(82)	129	333	(185)			148	0	0
Less Change of Price Risk Management Activities	0	0	0	0	0			0	0	0
Accounts payable	(65)	(27)	(192)	(103)	(132)			(235)	0	0
Customer deposit, net	6	15	25	(125)	20			(105)	0	0
Other assets	(128)	(237)	83	(176)	(0)			(176)	0	0
Other Liabilities	(39)	40	382	(24)	9	0	0	(14)	0	0
Changes in Working Capital	(135)	(499)	686	(233)	120	0	0	(113)	0	0
Discontinued Operations	(9)	(2)	(255)	(31)	(14)	0	0	(45)	0	0
Cash Flow From Operations	757	564	1,651	83	319	171	257	830	1,023	1,064
Investing Activities										
Capital Spending (to PP&E)	(788)	(970)	(777)	(139)	(198)	(225)	(225)	(787)	(910)	(910)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	(330)	0	0	0	0	0	0	0	0
Proceeds from asset sales	4	48	6	0	0	0	0	0	0	0
Other	103	(238)	109	(56)	(1)	0	0	0	0	0
Cash Used in Investing	(681)	(1,490)	(662)	(195)	(200)	(225)	(225)	(787)	(910)	(910)
Discontinued Operations	0	397	8	0	0	0	0	0	0	0
Investing Cash Flow	(681)	(1,093)	(655)	(194)	(200)	(225)	(225)	(787)	(910)	(910)
Financing Activities										
Sale of Common Stock	8	1	26	4	2	0	0	5	0	0
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	804	959	1,460	0	0	0	750	750	0	0
Redemption of Common Stock	(2)	0	(3)	(1)	1	0	0	0	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(499)	(295)	(1,170)	(1)	(4)	0	(682)	(688)	0	0
Change in Notes Payable, LC, ST Debt	(132)	103	(1,061)	268	(158)	175	(50)	235	110	100
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0
Dividends	(252)	(252)	(253)	(64)	(64)	(59)	(59)	(245)	(236)	(236)
Other	0	0	0	0	0	0	0	0	0	0
Cash From (For) Financing	(73)	516	(1,000)	205	(223)	116	(41)	57	(126)	(136)
Discontinued Operations	0	(1)	0	0	0	0	0	0	0	0
Financing Cash Flow	(73)	515	(1,000)	205	(223)	116	(41)	57	(126)	(136)
Change in Cash	$3	($14)	($4)	$94	($103)	$62	($10)	$101	($13)	$18
Cash & Temp. Inv. Beginning of Yr.	$33	$35	$21	$16	$111	$7	$69	$16	$117	$104
Cash & Temp. Inv. End of Yr.	$36	$21	$16	$111	$7	$69	$60	$117	$104	$122

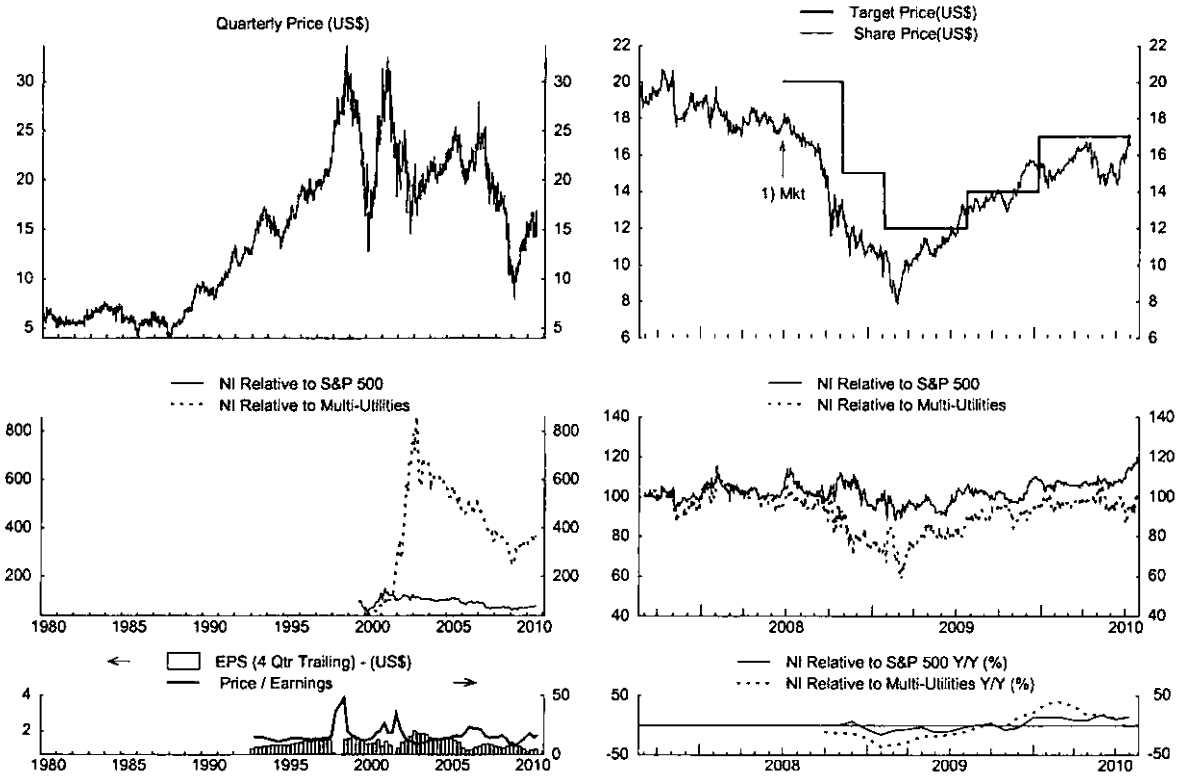
Source: BMO Capital Markets estimates, Company Data.

Exhibit 4: NiSource (NI) Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Assets:										
Cash & Equivalent	36	21	16	111	7	69	60	60	104	122
Restricted Cash	59	287	175	221	213	213	213	213	213	213
Receivables	974	1,188	848	1,019	629	629	629	629	629	629
Allowance for Uncollectable Acts.	(38)	(45)	(40)	(69)	(61)	(61)	(61)	(61)	(61)	(61)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	162	180	40	114	110	110	110	110	110	110
Inventories	605	671	385	230	383	383	383	383	383	383
ST Assets Price Risk Management	102	150	173	190	189	189	189	189	189	189
Regulatory Assets	218	315	238	170	168	168	168	168	168	168
Other Current Assets	337	645	387	212	254	254	254	254	254	254
Total Current Assets	2,455	3,411	2,224	2,197	1,893	1,955	1,946	1,946	1,990	2,008
Plant & Equipment (Gross)	17,882	18,469	19,038	19,141	19,347	19,572	19,797	19,797	20,707	21,617
Accumulated DD&A	(7,851)	(8,081)	(8,354)	(8,444)	(8,547)	(8,700)	(8,850)	(8,850)	(9,448)	(10,044)
Plant & Equipment, Net	10,032	10,388	10,684	10,697	10,800	10,873	10,947	10,947	11,259	11,574
Investments	231	205	295	309	279	279	279	279	279	279
LT Assets Price Risk Management	25	201	238	271	240	240	240	240	240	240
Regulatory Assets	881	1,640	1,644	1,720	1,696	1,696	1,696	1,696	1,696	1,696
Goodwill	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677
Intangible Assets	422	331	320	317	314	314	314	314	314	314
Other Long Term Assets (& flywheel)	281	180	53	163	148	101	54	89	43	54
Total Assets	18,005	20,032	19,134	19,352	19,048	19,135	19,152	19,188	19,498	19,841
Liabilities & Equity:										
Short Term Debt	1,095	1,633	800	1,094	932	1,107	1,057	1,057	1,167	1,267
Accounts Payables	720	693	502	407	343	343	343	343	343	343
ST Liabilities Price Risk Management	80	287	190	211	207	207	207	207	207	207
Regulatory Liabilities	90	40	44	52	84	84	84	84	84	84
Other	1,408	1,930	1,575	1,234	1,152	1,152	1,152	1,152	1,152	1,152
Total Current Liab	3,393	4,583	3,111	2,997	2,717	2,892	2,842	2,842	2,952	3,052
Long Term Debt	5,594	5,944	5,988	5,964	5,977	5,977	6,045	6,045	6,045	6,045
LT Liabilities Price Risk Management	2	189	170	201	178	178	178	178	178	178
Accumlated Deferred Taxes	1,563	1,550	2,018	2,053	2,111	2,114	2,133	2,133	2,207	2,289
Regulatory Liabilities	1,353	1,386	1,559	1,571	1,592	1,592	1,592	1,592	1,592	1,592
Other Liabilities	1,023	1,652	1,572	1,636	1,578	1,578	1,578	1,578	1,578	1,578
Total Liabilities	12,928	15,303	14,418	14,423	14,153	14,332	14,368	14,368	14,552	14,733
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0
Common Equity	5,077	4,729	4,717	4,929	4,895	4,803	4,785	4,820	4,946	5,108
Other	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	18,005	20,032	19,134	19,352	19,048	19,135	19,152	19,188	19,498	19,841

Source: BMO Capital Markets estimates, Company Data.

NISOURCE INC (NI)



NI - Rating as of 20-Aug-07 = NR

	Date	Rating Change	Share Price
1	26-Jun-08	NR to Mkt	$17.57

Last Daily Data Point: July 30, 2010

Important Disclosures

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Company Specific Disclosure

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.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.1%	13.7%	43.6%	40.9%	51.0%	54.4%
Hold	Market Perform	59.3%	10.4%	52.7%	54.8%	45.4%	40.2%
Sell	Underperform	3.6%	11.8%	3.6%	4.3%	3.6%	5.4%

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NiSource Inc (NI)

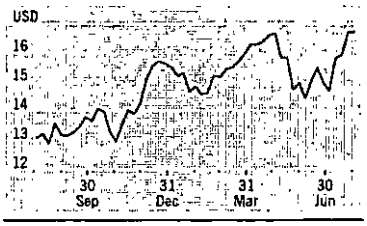
Equity

In-line 2Q; Strong Electric Margins Offset by Lower Revs on Pipes

- **EPS In-line** — NI reported EPS of $0.10 per share, which was in-line with our estimate of $0.10. We do not adjust for weather in our estimate, which impacted earnings by about $0.03 per share. Higher than expected earnings at NIPSCo Electric were offset by lower than expected earnings from the pipelines and storage unit. NI reiterated its guidance for 2010 of $1.10 to $1.20 and expects a decision in the long awaited NIPSCo Electric rate case within the third quarter.
- **Pipeline & Storage** — NI reported EBIT from this segment of $74.9 mm vs. our estimate of $82.5 mm. Higher y-o-y revenues were more than offset by O&M and D&A. Revenues were impacted by lower short-term transportation and storage revenues. Higher O&M was the result of increased employee and administration expenses along with increased maintenance. NI continues to expand its footprint in the Marcellus through 350 MMcf/d of new projects placed into service this year.
- **Gas Utilities** — Adjusted EBIT of $24.2 mm was in-line with our estimate of $23.8 mm. Our number already includes weather. Weather was 33% warmer than normal impacting EBIT by about $11.7 mm, which was in-line with our expectations. Excluding the effects of weather, gas utility EBIT jumped to $35.9 mm in 2Q compared to $7.5 mm last year demonstrating the affects of new rate design and new base rates. We continue to expect profitability from this unit to rise over the year through new rates in PA and VA.
- **Electric** — EBIT of $48 mm was above our estimate $41 mm. Electric load was 7% higher than our estimate on stronger industrial and residential load. There did not appear to be a significant impact from weather in the quarter.
- **Recommendation & Call** — We maintain our Hold rating and $17 target but plan to revisit our model after the call. NI will hold a call at 9:00 AM Eastern. The dial-in is 866-788-0543 (passcode: 69504463). See Figure 1 in the note for earnings details.

Hold/Medium Risk	**2M**
Price (02 Aug 10)	US$16.72
Target price	US$17.00
Expected share price return	1.7%
Expected dividend yield	5.5%
Expected total return	**7.2%**
Market Cap	US$4,639M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.63A	0.00A	0.02A	0.35A	1.00A	1.06A
2010E	**0.72A**	**0.10E**	**0.06E**	**0.33E**	**1.21E**	**1.18E**
Previous	0.72A	0.10E	0.06E	0.33E	1.21E	na
2011E	**0.73E**	**0.12E**	**0.07E**	**0.35E**	**1.27E**	**1.26E**
Previous	0.73E	0.12E	0.07E	0.35E	1.27E	na
2012E	**0.78E**	**0.14E**	**0.10E**	**0.38E**	**1.40E**	**1.36E**
Previous	0.78E	0.14E	0.10E	0.38E	1.40E	na

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

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Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	12.9	16.7	13.8	13.1	11.9
EV/EBITDA adjusted (x)	9.1	9.9	9.3	9.2	8.9
P/BV (x)	1.0	1.0	1.0	0.9	0.9
Dividend yield (%)	5.5	5.5	5.5	5.5	5.5
Per Share Data (US$)					
EPS adjusted	1.29	1.00	1.21	1.27	1.40
EPS reported	0.29	0.79	1.20	1.27	1.40
BVPS	17.14	17.57	17.53	17.86	18.32
DPS	0.92	0.92	0.92	0.92	0.92
Profit & Loss (US$M)					
Net sales	8,876	6,297	5,953	6,036	6,115
Operating expenses	-7,960	-5,457	-5,048	-5,091	-5,108
EBIT	**917**	**840**	**904**	**944**	**1,007**
Net interest expense	-375	-399	-401	-403	-403
Non-operating/exceptionals	13	19	21	11	4
Pre-tax profit	**555**	**459**	**525**	**553**	**608**
Tax	-199	-183	-189	-199	-219
Extraord./Min.Int./Pref.div.	-277	-59	-1	0	0
Reported net income	**79**	**218**	**334**	**354**	**389**
Adjusted earnings	356	277	335	354	389
Adjusted EBITDA	1,484	1,429	1,501	1,544	1,610
Growth Rates (%)					
Sales	11.3	-29.1	-5.5	1.4	1.3
EBIT adjusted	-7.9	-8.4	7.7	4.4	6.6
EBITDA adjusted	-4.5	-3.7	5.0	2.9	4.3
EPS adjusted	-7.1	-22.4	20.5	5.3	10.0
Cash Flow (US$M)					
Operating cash flow	**588**	**1,905**	**830**	**942**	**974**
Depreciation/amortization	567	589	596	599	603
Net working capital	-483	686	-101	-11	-19
Investing cash flow	**-1,114**	**-655**	**-901**	**-790**	**-790**
Capital expenditure	-970	-777	-845	-790	-790
Acquisitions/disposals	216	6	0	0	0
Financing cash flow	**515**	**-1,000**	**14**	**-256**	**-256**
Borrowings	767	-770	267	0	0
Dividends paid	-252	-253	-255	-256	-256
Change in cash	**-14**	**-4**	**-88**	**-104**	**-72**
Balance Sheet (US$M)					
Total assets	**20,032**	**19,272**	**19,752**	**19,965**	**20,170**
Cash & cash equivalent	307	191	221	221	221
Accounts receivable	1,143	809	845	857	867
Net fixed assets	10,388	10,684	10,957	11,148	11,334
Total liabilities	**15,303**	**14,418**	**14,878**	**14,993**	**15,065**
Accounts payable	693	502	569	574	574
Total Debt	7,577	6,787	7,130	7,233	7,306
Shareholders' funds	**4,729**	**4,854**	**4,874**	**4,972**	**5,105**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	16.7	22.7	25.2	25.6	26.3
ROE adjusted	7.3	5.8	6.9	7.2	7.7
ROIC adjusted	4.6	4.0	4.3	4.4	4.6
Net debt to equity	153.7	135.9	141.7	141.0	138.8
Total debt to capital	61.6	58.3	59.4	59.3	58.9

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Operating Earnings Detail

Figure 1. Operating Income Comparison

Operating Income	Actual	Estimate	Variance	EPS Impact	Reason for Material Variance
Gas Distribution	24.2	23.8	2%	$0.00	Higher rates partially offset weather
Gas Transmission & Storage	74.9	82.5	-9%	($0.02)	Projects offset by short-term transport & higher expenses
Electric	48.3	41.1	18%	$0.02	Better industry & residential demand
Corporate/Other	(3.8)	(2.5)	53%	($0.00)	Wind down of unregulated ops

Other	Actual	Estimate	Variance	EPS Impact	Reason for Variance
Interest Expense	98.4	100.6	-2%	$0.01	Lower ST borrowing rates
Effective Tax Rate	36.4%	36.5%	0%	$0.01	n/a
Share Count	277.6	277.6	0%	$0.00	n/a

Electric Sales (Gwh)	Actual	Estimate	Variance (Total)	Variance (%)	Reason for Variance
Residential	811	759	52	7%	n/a
Commercial	952	935	18	2%	n/a
Industrial	2,111	1,969	142	7%	Rebound in economy
Wholesale	172	119	54	45%	Increase in customer base
Other	40	44	(4)	-9%	n/a
Total	4,086	3,825	261	7%	

Source: Citi Investment Research and Analysis, Company Data

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 $17 target.

Our NAV yields a value of $16.41. 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. For Millennium pipeline which is not has not yet contracted all of its capacity, we apply a 20% discount to the pipeline multiple.

Our DDM, which incorporates our rate base growth assumptions, values the company at $16.48.

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 13.0x and 13.5x 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 $18.49 and $17.66.

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.

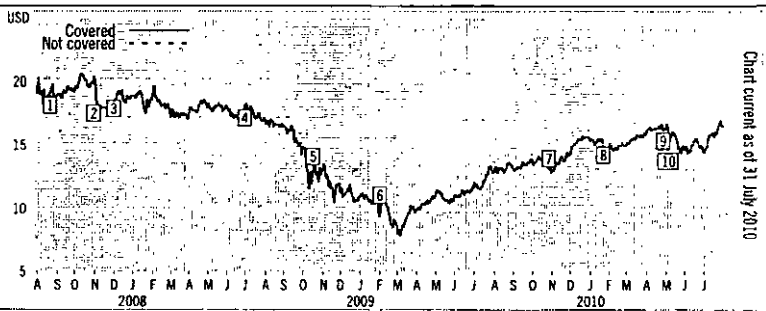
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Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	21-Aug-07	*2M	*21.00	19.12
2	30-Oct-07	2M	*22.00	20.12
3	30-Nov-07	*2H	*21.00	18.51
4	30-Jun-08	2H	*20.00	17.92
5	16-Oct-08	*1H	*15.00	12.91
6	2-Feb-09	1H	*14.00	9.38
7	27-Oct-09	1H	*15.00	13.47
8	21-Jan-10	*2M	*16.00	14.87
9	27-Apr-10	2M	*16.50	16.27
10	5-May-10	2M	*17.00	16.20

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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NiSource Inc (NI)
3 August 2010

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

HILLIARD LYONS

Electric Utilities
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August 3, 2010

COMPANY UPDATE / EARNINGS ESTIMATE CHANGE

Key Metrics	
NI - NYSE (Price as of 8/3/10)	$16.72
Price Target	NA
52-Week Range	$16.98 - $12.79
Shares Outstanding (mm)	277.6
Market Cap. ($mm)	$4,641
3-Mo. Average Daily Volume	3,137,000
Institutional Ownership	78.0%
Debt/Total Capital (3/10)	58.3%
ROE (ttm)	4.8%
Book Value/Share (June est.)	$17.77
Price/Book Value	.94x
Indicated Dividend / Yield	$0.92 5.5%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2009	Prior 2010E	Curr. 2010E	Prior 2011E	Curr. 2011E
1Q		–		–	–
2Q		–		–	–
3Q		–		–	–
4Q		–		–	–
Year	$1.07	$1.15	$1.20	$1.22	$1.25
P/E	15.6x		13.9x		13.4x
Payout	86%		77%		74%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2009	Prior 2010E	Curr. 2010E	Prior 2011E	Curr. 2011E
1Q		–		–	–
2Q		–		–	–
3Q		–		–	–
4Q		–		–	–
Year	$6,649		$6,725	–	$6,810

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.*

NiSource Inc.

NI -- NYSE -- Neutral -- 3

Company reports higher second quarter earnings and reaffirms higher 2010 guidance

Investment Highlights

- **NiSource reported second quarter net operating earnings of $0.13 per share versus $0.02 per share in the second quarter of 2009.** Earnings were $0.04 per share above the consensus estimate. Second quarter earnings benefited from solid performance across all its business units. The company saw increased electric industrial margins at Northern Indiana Public Service Company (NIPSCO) as well as revenue gains from infrastructure and regulatory programs at the company's natural gas utilities. NiSource indicated while industrial sales have increased more than expected, they remain slow by historical standards. Accordingly, they do not view current conditions as a sustained uptick.
- **Management reaffirmed 2010 earnings guidance of $1.10 to $1.20 per share.** While earnings thus far in 2010 might point to the company exceeding this target, NiSource continues to wait for the results of an important rate case in Indiana. The rate case was filed in August 2008 and a final ruling by Indiana regulators is expected in this year's third quarter. This is a particularly important case for NI as it was the first rate case for NIPSCO in 20 years. The utility is seeking an increase in rates of $85.7 million. Although the company continues to wait for a ruling, it is preparing to file another rate case upon completion of this one.
- **We maintain our Neutral rating on NiSource as we believe the stock is fairly valued.** However, we believe the company's fundamentals continue to improve and note the significant progress NI has made in its liquidity and financing needs during the past year. The company is targeting a 3% to 5% earnings growth rate over the next few years. Also, the stock has a 5.5% dividend yield and we feel the dividend is secure.

Note Important Disclosures on Pages 3 and 4.
Note Analyst Certification on Page 3.

Second Quarter Results

NiSource posted second quarter net operating earnings of $0.13 per share compared to $0.02 per share in the second quarter of 2009. Earnings were $0.04 per share above the consensus estimate of $0.09 per share. Second quarter results benefitted from solid performance across all of its business units. The company saw an increase in electric industrial margins at NIPSCO, as well as revenue gains from infrastructure and regulatory programs at the company's natural gas utilities. Two of NI's three business segments posted gains in operating earnings in the second quarter. NiSource's natural gas distribution business reported second quarter earnings of $35.9 million versus $7.5 million in the same time period a year ago. Earnings benefited from new rate design and higher base rates. The gas transmission and storage operation business contributed $74.9 million to second quarter earnings compared to $80.9 million in 2Q09. Higher revenues were offset by higher operations and maintenance expense along with higher depreciation and amortization expense. NiSource's electric utility operations added $48.3 million in earnings versus $31.1 million in earnings in last year's second quarter. Electric results were boosted by increased volumes in all categories, but industrial sales rose the most, by 18%. While industrial sales have increased more than the company originally anticipated, they still remain slow from an historical perspective. Although NI views recent industrial sales as encouraging, the company does not view recent improvement as a sustained uptick. In sum, we thought it was a good quarter for NiSource.

Company Reaffirms 2010 Earnings Guidance

Management continues to expect this year's earnings to range between $1.10 to $1.20 per share. The company appears on track to achieve its earnings target in 2010 as year-to-date earnings are $0.85 per share versus $0.64 per share in the first six months of 2009. This would mark the fourth consecutive year in which the company has achieved its guidance. While it is possible that earnings could exceed guidance, there remains uncertainty revolving a rate case at NIPSCO that was filed in August 2008. This was the first rate case at NIPSCO in 20 years and is a complex rate case. The company is seeking an increase in rates of approximately $86 million. NI expects a final ruling from the Indiana Utility Regulatory Commission in the third quarter this year. Upon completion of this case, the company intends to file another rate case at NIPSCO this fall with a potential ruling late next year or early 2012. With the company's strong second quarter results, we are raising our 2010 EPS estimate by $0.05 to $1.20. We believe earnings can grow to $1.25 per share or possibly higher in 2011, up from our previous expectation of $1.22 per share.

Outlook

We are maintaining our Neutral rating on NiSource as we believe the stock is fairly valued, trading at a modest premium to the group. However, we believe the company has a solid long-term fundamental outlook. At a recent analyst meeting the company outlined how it believes that a combination of rate relief and continued investment in its gas infrastructure business can drive future earnings growth at NiSource. Management expects earnings to grow by a 3% to 5% annual rate the next several years. Indeed during its earnings call, the company reaffirmed its commitment to achieving this 3% to 5% long-term earnings growth along with a renewed commitment to its dividend and an investment grade credit rating. With an above average dividend yield of 5.5% and seemingly improving growth prospects, we remain comfortable holding NiSource shares.

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

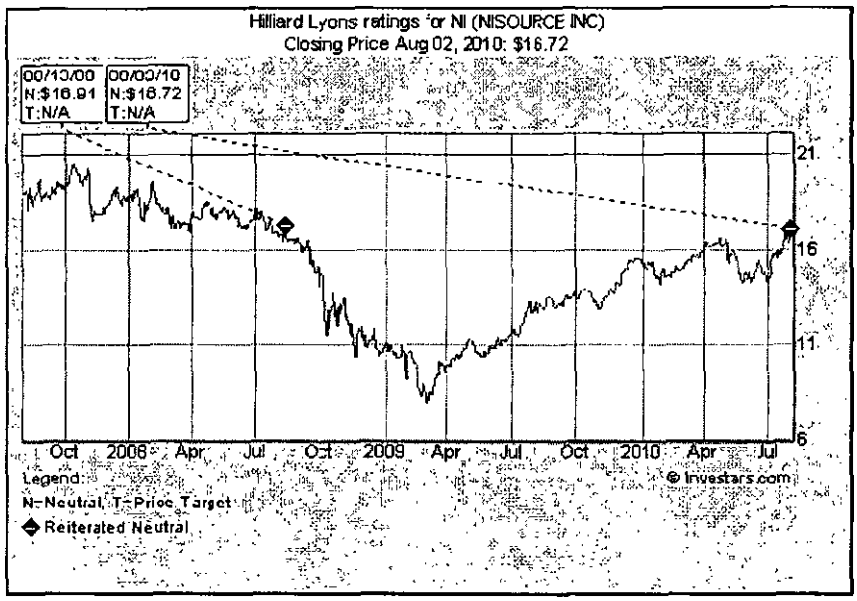
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Investment Ratings

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

Suitability Ratings

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



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	50	29%	2%	98%
Long-term Buy	37	21%	0%	100%
Neutral	82	47%	6%	94%
Underperform	4	2%	0%	100%
Not Rated	1	1%	0%	100%

As of 9 July 2010

Other Disclosures

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J.P.Morgan

North America Equity Research
04 August 2010

NiSource, Inc.

2Q10 Beat; Updating Model

Neutral

NI, NI US
Price: $16.72

▲ **Price Target: $17.00**
Previous: $15.00

NI reported 2Q10 EBITDA/operating EPS of $302 mm/$0.13, ahead of our estimated $270 mm/$0.03. A strong quarter at Electric Operations and Gas Distribution drove the beat. The company reaffirmed 2010 EPS guidance of $1.10-$1.20.

- **Gas Distribution EBITDA beat on strong volumes.** 2Q10 segment EBITDA came in at $99 mm vs. our estimated $73 mm. 2Q10 Sales & Transportation volumes (after weather adjustment) were 175 mmDth, up 19% yoy and 17% over our estimate. Higher off-system sales drove the volume increase. $10 mm of the revenue increase came from the shift of certain customer classes in Ohio to fixed monthly rate design from the previously volumetric-based rates, offsetting a negative impact in 1Q10. Management repeated their belief that the segment will grow earnings at 3% per year over the long term.
- **Electric operations results above estimates; expects NIPSCO case resolution in 3Q10.** Electric Operations posted 2Q10 EBITDA of $101 mm, ahead of our estimated $85 mm. 2Q10 Sales (weather-adjusted) of 4.07 TWh were ahead of our estimated 3.7 TWh and up 11% yoy. NI is working on a number of rate cases (see Table 2) and NIPSCO expects a resolution to its 2008 Indiana rate case in 3Q10. It plans to file another NIPSCO case in the fall after the resolution of the first case. As previously noted, we do not think the first NIPSCO case will have a meaningful impact on NI's bottom line near-term but will resolve issues to help its second rate case.
- **Gas T&S results below estimates; expanding asset base in the Marcellus shale.** T&S EBITDA of $106 mm was below our estimate of $117 mm. Lower throughputs combined with increased operating expenses drove the miss. The company placed its $15mm Cobb compressor station in service in May. NI expects its $85mm Majorsville expansion project to come online in Q3 and provide 325 mDth/d of gathering capacity from Marcellus producers with delivery to a processing plant owned by Markwest. The company reiterated its plans to invest approximately $200mm annually in the Marcellus over the next several years.
- **Introducing 2011 PT of $17.** We adjust our 2010 EPS estimate to $1.24 from the previous $1.17 and introduce our 2011 price target of $17. We maintain our Neutral rating.

Energy MLPs

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Price Performance



	YTD	1m	3m	12m
Abs	8.7%	13.8%	0.7%	25.2%

NiSource, Inc. (NI;NI US)

	2009A	2010E (Old)	2010E (New)	2011E
EPS ($)				
Q1 (Mar)	0.62	0.64A	0.72A	0.71
Q2 (Jun)	0.02	0.03	0.13A	0.13
Q3 (Sep)	0.07	0.06	0.09	0.10
Q4 (Dec)	0.36	0.37	0.30	0.31
FY	1.07	1.17	1.24	1.24
CY				
P/E FY	15.6	14.3	13.5	13.5

Source: Company data and J.P. Morgan estimates

Company Data	
Price ($)	16.72
Date Of Price	04 Aug 10
52-week Range ($)	16.98 - 12.79
Mkt Cap ($ bn)	4.64
Fiscal Year End	Dec
Shares O/S (mn)	277
Div. Yield	5.5%
Dividend ($)	0.92
Price Target ($)	17.00
Price Target End Date	31 Dec 11

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Table 1: 2Q10 Actuals vs. Estimates
$ in MM

	2Q10 Actual	2Q10 Est.	Diff.
EBITDA			
Gas Distribution	99	73	26
Gas Transmission & Storage	106	117	(11)
Electric Operations	101	85	16
Other	(5)	(5)	(0)
Total Sgmt EBITDA	302	270	31
Net operating earnings per share	$0.13	$0.03	$0.10

Source: Company reports and J.P. Morgan estimates.

Table 2: Rate Case Initiatives in Progress at NI

	Date of Filing	Requested change	Expected in-effect
Gas Distribution			
Columbia Gas of Pennsylvania	1/28/2010	$32.0 MM	4Q10
Columbia Gas of Maryland	1/28/2010	$2.2 MM	4Q10
Columbia Gas of Virginia	5/3/2010	$13.0 MM	1Q11
NIPSCO	5/3/2010	Improved Earnings profile	1H11
Electric operations			
NIPSCO	2008	$85.0 MM	3Q10
NIPSCO	3Q 2010	Change rates to reflect updated costs	2H11

Source: Company reports.

Valuation

We adjust our 2010 EPS estimate to $1.24 from $1.17 after the 2Q10 results. We adjust our price target on the 2Q10 results and introduce a December 2011 price target of $17, which provides for a 13% total return. In our sum-of-the parts analysis, we have used EV/2010E EBITDA multiples of 7.0x to 8.0x for the Distribution segment, 8.3x to 8.8x for NG T&S and 7.0x to 8.0x for Electric. All of these multiples are based on trading peers' comps, discounted due to lack of growth and/or risks associated with regulatory uncertainty. Based on these assumptions, our valuation results are as outlined below.

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Table 3: Calculation of Price Target using Sum-of-Parts
$ in millions (except per share data)

	2011E EBITDA	Bear Case Multiple	Bear Case EV	Bull Case Multiple	Bull Case EV
Distribution	605	7.0x	4,236	8.0x	4,841
Transmission	574	8.3x	4,739	8.8x	5,026
Electric	409	7.0x	2,860	8.0x	3,268
Corp and other	(20)	3.0x	(60)	3.5x	(70)
Net Debt (current)			(6,902)		(6,902)
Underfunded Pension and OPEB Liabilities			(675)		(675)
Equity Value			**4,198**		**5,489**
Share Count (MM)			278		278
Equity Value per Share			**$15.08**		**$19.71**
Target Share Price					**$17**

Source: Source: Company reports and J.P. Morgan estimates.

Risks to Our Rating

We have assumed continued improvement in the profitability of the company's storage and pipeline assets as a result of progress on multiple expansion projects. If the company reports materially better results, it would likely impact the relative valuation of the company's pipeline system. Longer term, the company is pursuing a number of regulatory initiatives at its gas and electric utilities businesses. If NiSource were to receive a materially different regulatory treatment than anticipated in the next couple of years, the stock could either outperform or underperform based on the direction of the change in regulatory outlook. Lastly, NIPSCO has exposure to industry and commercial user demand. In a recessionary environment, significantly lower electric demand and higher bad-debt expense could reduce NIPSCO's earnings, thus causing share underperformance.

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Appendix I: NI Financials

$ in MM (except per share data)

Income Statement	2008A	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E
Segment EBITDA																
Gas Distribution	555	298	70	33	176	577	297	99	42	158	595	302	101	42	160	605
Gas Transmission & Storage	494	141	111	131	148	530	157	106	132	150	546	166	112	139	157	574
Electric Operations	430	77	82	122	88	368	99	101	120	79	399	100	103	123	82	409
Other	(4)	(5)	(2)	(5)	(8)	(19)	(2)	(5)	(5)	(5)	(17)	(5)	(5)	(5)	(5)	(20)
Total Sgmt EBITDA	1,476	510	262	280	404	1,457	551	302	289	381	1,524	563	311	299	395	1,568
Depreciation and amortization	(559)	(141)	(145)	(146)	(146)	(578)	(146)	(148)	(150)	(151)	(595)	(153)	(155)	(156)	(158)	(622)
Interest expense	(375)	(91)	(105)	(105)	(99)	(399)	(99)	(98)	(98)	(97)	(393)	(96)	(98)	(99)	(100)	(395)
Other net	1	(4)	(1)	2	1	(2)	3	3	-	-	5	-	-	-	-	-
Income before tax	544	275	11	32	161	478	309	58	41	133	541	312	59	44	137	552
Income tax expense	(195)	(105)	(5)	(13)	(62)	(184)	(111)	(21)	(16)	(49)	(197)	(116)	(22)	(17)	(51)	(205)
Income before other items (non - GAAP)	349	170	6	19	99	294	198	37	26	84	345	197	36	27	86	346
Income before other items (GAAP)	370	159	(9)	(10)	89	229	197	28	26	84	335	197	36	27	86	346
Other	(291)	(11)	4	(6)	1	(12)	-	0	-	-	0	-	-	-	-	-
Net Income	79	148	(5)	(15)	90	218	197	28	26	84	335	197	36	27	86	346
Number of shares diluted	275	277	275	275	277	278	278	278	279	280	279	280	281	281	282	281
Basic Net Operating Earnings per Share	$1.28	$0.62	$0.02	$0.07	$0.36	$1.07	$0.72	$0.13	$0.09	$0.30	$1.24	$0.71	$0.13	$0.10	$0.31	$1.24
EPS (continuing operations), diluted	$1.34	$0.58	($0.03)	($0.04)	$0.32	$0.83	$0.71	$0.10	$0.09	$0.30	$1.20	$0.70	$0.13	$0.10	$0.31	$1.23
EPS (discontinued operations), diluted	($1.06)	($0.04)	$0.01	($0.02)	$0.00	($0.04)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
EPS (diluted)	$0.29	$0.54	($0.02)	($0.06)	$0.32	$0.79	$0.71	$0.10	$0.09	$0.30	$1.20	$0.70	$0.13	$0.10	$0.31	$1.23
EPS Growth											*53.0%*					*2.6%*

Balance Sheet	2008A	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E
Cash and cash equivalents	21	135	249	84	16	16	111	7	10	10	10	10	10	10	10	10
Other current assets	3,390	2,497	2,188	2,479	2,207	2,207	2,087	1,886	1,886	1,886	1,886	1,886	1,886	1,886	1,886	1,886
Total current assets	3,411	2,632	2,437	2,563	2,224	2,224	2,197	1,893	1,896	1,896	1,896	1,896	1,896	1,896	1,896	1,896
Net PPE	10,388	10,477	10,543	10,582	10,684	10,684	10,697	10,800	10,932	11,062	11,062	11,159	11,255	11,349	11,440	11,440
Other assets	6,233	6,241	6,244	6,246	6,364	6,364	6,457	6,355	6,355	6,355	6,355	6,355	6,355	6,355	6,355	6,355
Total assets	20,032	19,350	19,223	19,391	19,272	19,272	19,352	19,048	19,183	19,313	19,313	19,410	19,506	19,599	19,691	19,691
Short-term debt and current portion of LT debt	1,633	436	424	634	822	822	1,094	932	-	-	-	-	-	-	-	-
Accounts Payable	693	532	241	214	502	502	407	279	279	279	279	279	279	279	279	279
Other current liabilities	2,257	2,310	2,278	2,062	1,809	1,809	1,496	1,507	1,507	1,507	1,507	1,507	1,507	1,507	1,507	1,507
Total current liabilities	4,583	3,278	2,942	2,910	3,134	3,134	2,997	2,717	1,786	1,786	1,786	1,786	1,786	1,786	1,786	1,786
Long-term debt	7,677	5,944	6,452	6,564	6,561	6,787	5,964	5,977	7,055	7,139	7,139	7,076	7,172	7,276	7,319	7,319
Other long-term liabilities and deferred credits	4,776	4,682	4,924	5,181	5,319	5,319	5,462	5,459	5,479	5,499	5,499	5,519	5,539	5,559	5,579	5,579
Total capital	2,729	4,738	4,792	4,740	4,854	4,854	4,929	4,895	4,864	4,890	4,890	5,030	5,009	4,979	5,007	5,007
Total liabilities and capital	20,032	19,350	19,223	19,391	19,272	19,272	19,352	19,048	19,183	19,313	19,313	19,410	19,506	19,599	19,691	19,691

Cash Flow	2008A	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E
Net income	79	148	(5)	(15)	90	218	197	28	26	84	335	197	36	27	86	346
Depreciation and amortization	567	144	148	148	149	589	150	152	150	151	602	153	155	156	158	622
Other items	419	(40)	25	158	16	158	(31)	20	20	20	29	20	20	20	20	80
Change in working capital	(499)	806	14	(411)	277	686	(233)	120	-	-	(113)	-	-	-	-	-
Net cash provided by operating activities	564	1,058	182	(120)	531	1,651	83	319	195	255	853	370	211	203	264	1,048
Capex	(1,300)	(207)	(179)	(200)	(192)	(777)	(139)	(198)	(282)	(282)	(900)	(250)	(250)	(250)	(250)	(1,000)
Divestitures	46	2	-	0	3	6	0	0	-	-	0	-	-	-	-	-
Other	159	8	55	17	36	117	(56)	(1)	-	-	(57)	-	-	-	-	-
Net cash used in investing activities	(1,093)	(196)	(124)	(183)	(152)	(656)	(194)	(199)	(282)	(282)	(957)	(250)	(250)	(250)	(250)	(1,000)
Debt net	767	(683)	118	201	(406)	(770)	267	(162)	146	84	334	(63)	96	104	43	181
Equity (dividend) net	(251)	(64)	(63)	(63)	(40)	(230)	(62)	(61)	(57)	(57)	(236)	(57)	(57)	(57)	(57)	(229)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	516	(747)	55	138	(446)	(1,000)	205	(223)	89	27	98	(120)	39	47	(14)	(48)
Net increase in cash and cash equivalents	(13)	115	114	(166)	(67)	(4)	94	(103)	3	-	(6)	-	-	-	-	-
Cash and cash equivalents, beginning of period	36	21	135	249	84	21	16	111	7	10	16	10	10	10	10	10
Cash and cash equivalents, end of period	21	135	249	84	16	16	111	7	10	10	10	10	10	10	10	10

Source: Company reports and J.P. Morgan estimates

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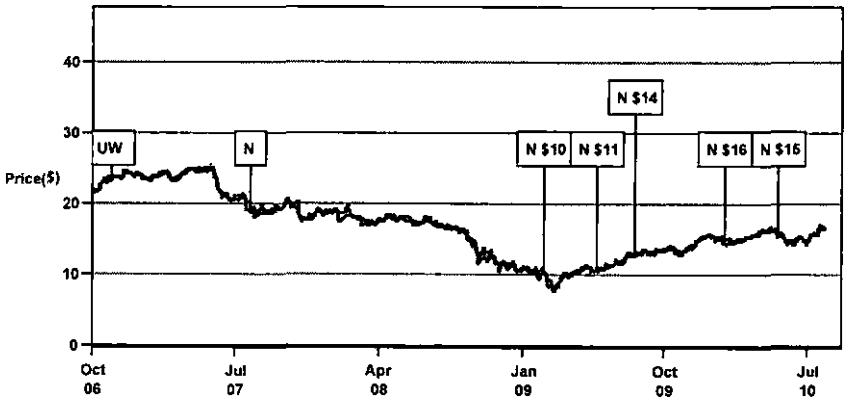
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NiSource, Inc. (NI) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
06-Nov-06	UW	23.37	--
30-Jul-07	N	19.48	--
09-Feb-09	N	10.77	10.00
22-May-09	N	10.47	11.00
05-Aug-09	N	13.35	14.00
25-Jan-10	N	14.67	16.00
05-May-10	N	16.20	15.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Oct 12, 2006 - Jun 30, 2008. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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UBS

Global Equity Research

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UBS Investment Research

NiSource Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$16.50 *Unchanged*
Price	US$16.72

RIC: NI.N BBG: NI US

3 August 2010

Continued Strength in 2Q

■ **Electric operations once again drive an EPS beat**

NI realized recurring 2Q10 EPS of $0.10 (excluding items), surpassing our $0.08 estimate and the Street's $0.09 consensus estimate. Electric operations that were significantly above-forecast, along with better than expected interest expense and other income, overcame weaker than anticipated NGT&S results and a higher than expected share count to drive the EPS beat. Table 1 has greater detail on results.

■ **Advancing the agenda on all fronts**

At its July investor day and again on today's call, mgmt communicated a strategy and timeline for advancing its regulatory and growth agenda. Along with solid 2Q results, mgmt noted rate case achievements (PA settlement is filed; VA & NIPSCO cases are actively pursuing settlement) as well as its expectation for a decision on its NIPSCO electric case in 3Q with a 2nd electric case to be filed by year-end. In addition, NGT&S brought its Cobb Compressor Station into service in May and continues to advance and pursue many Marcellus-related growth projects.

■ **Lifting EPS estimates**

Incorporating 2Q results, revised rate case assumptions, and updated interest costs, we are lifting our 2010-2012 EPS estimates to $1.20, $1.28, and $1.37, from $1.19, $1.26, and $1.29, respectively. We note that mgmt affirmed its 2010 EPS guidance (non-GAAP) of $1.10-$1.20 in conjunction with communicating 2Q results.

■ **Valuation: Maintaining $16.50 price target**

We maintain our $16.50 price target, which is achieved via DCP & SOP valuation approaches; we also maintain our Neutral rating on the shares.

Trading data	
52-wk range	US$16.97-12.80
Market cap.	US$4.63bn
Shares o/s	277m (COM)
Free float	99%
Avg. daily volume ('000)	1,027
Avg. daily value (m)	US$15.9

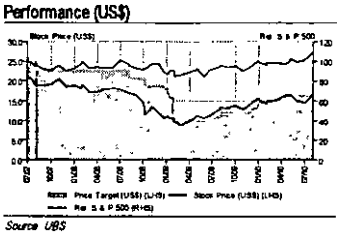
Balance sheet data 12/10E	
Shareholders' equity	US$4.90bn
P/BV (UBS)	1.0x
Net Cash (debt)	(US$7.00bn)

Forecast returns	
Forecast price appreciation	-1.3%
Forecast dividend yield	5.5%
Forecast stock return	+4.2%
Market return assumption	5.6%
Forecast excess return	-1.4%

EPS (UBS, US$)

	12/10E			12/09
	From	To	Cons.	Actual
Q1	0.71	0.71	0.72	0.62
Q2	0.08	0.10	0.09	(0.01)
Q3E	0.04	0.04	0.06	(0.02)
Q4E	0.36	0.35	0.36	0.36
12/10E	1.19	1.20	*1.18*	
12/11E	1.26	1.28	*1.26*	

Performance (US$)



Source: UBS

Highlights (US$m)	12/08	12/09	12/10E	12/11E	12/12E
Revenues	9,145.50	6,371.00	5,994.30	6,316.89	6,546.31
EBIT (UBS)	914.20	844.49	913.29	950.26	1,016.02
Net Income (UBS)	346.27	259.27	333.61	361.59	389.15
EPS (UBS, US$)	1.26	0.94	1.20	1.28	1.37
Net DPS (UBS, US$)	0.92	0.92	0.92	0.92	0.92
Profitability & Valuation	**5-yr hist av.**	**12/09**	**12/10E**	**12/11E**	**12/12E**
EBIT margin %	12.6	13.3	15.2	15.0	15.5
ROIC (EBIT) %	9.4	7.7	8.5	8.5	8.8
EV/EBITDA (core) x	8.5	8.2	8.6	8.4	8.1
PE (UBS) x	15.1	12.8	14.0	13.0	12.2
Net dividend yield %	4.5	7.7	5.5	5.5	5.5

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$16.72 on 02 Aug 2010 19:42 EDT

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Table 1: Quarterly Results Review

Recurring Operating Income by Division	Actual 2Q10A	UBS Estimates 2Q10E		Year-over-Year 2Q09A	
Gas Distribution	$18.5	$18.5	-0.1%	$3.9	374.4%
Transmission & Storage	$74.9	$81.0	-7.5%	$79.6	-5.9%
Electric Operations	$49.6	$39.6	25.4%	$29.4	68.7%
Corporate, Other, and Eliminations	($3.8)	($3.4)	-10.7%	($2.6)	-46.2%
Total Operating Income	**$139.2**	**$135.6**	**2.6%**	**$110.3**	**26.2%**
Depreciation	($152.9)	($153.1)	-0.1%	($148.2)	3.2%
Other Income / (Expenses)	$2.6	$0.6	316.0%	($0.5)	NM
Interest Expense	($98.4)	($100.3)	-1.9%	($105.3)	-6.6%
Income Tax Benefit (Expense)	($15.8)	($12.9)	22.1%	($8.6)	84.0%
Recurring Net Income	**$27.6**	**$23.0**	**20.0%**	**($4.1)**	**NM**
Avg Diluted Shares Outstanding	278.4	276.9	0.5%	274.7	1.3%
Earnings Per Diluted Share	**$0.10**	**$0.08**	**19.3%**	**($0.01)**	**NM**

Source: NI reports and UBS estimates
Note: Recurring results exclude items deemed to be one-time in nature.

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) mild weather; 4) higher bad debt expense; 5) unfavorable regulatory/legislative decisions; 6) rising interest rates; and 7) unfavorable pension asset performance. We note that NI's electric subsidiary, NIPSCO, is current in the midst of its first rate case filing in nearly 25 years; the outcome of the rate proceedings could materially impact NIPSCO's future 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	54%	41%
Neutral	Hold/Neutral	37%	32%
Sell	Sell	9%	24%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	22%
Sell	Sell	less than 1%	0%

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 30 June 2010.

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.

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).

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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; David M. Edwards.

Company Disclosures

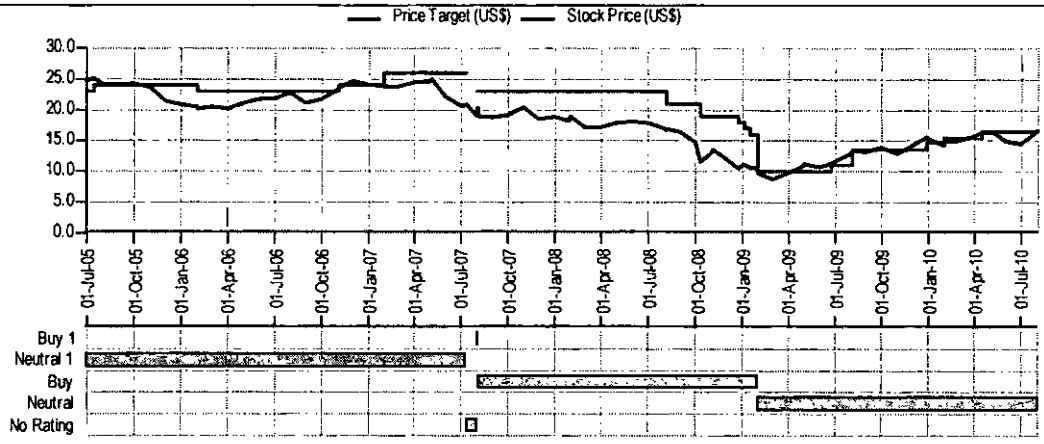
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
NiSource Inc.[2, 4, 6, 16]	NI.N	Neutral	N/A	US$16.72	02 Aug 2010

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

NiSource Inc. (US$)



Source: UBS; as of 02 Aug 2010

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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UBS

August 3, 2010

Equity Research

NiSource Inc.

NI: Another Solid Quarter Under the Belt -- Adjusting Estimates Maintaining Market Perform

Market Perform

Sector: Natural Gas Pipeline
Market Weight

- Summary. NI reported 2Q10 operating EPS of $0.13, above our and consensus estimates of $0.09. NI affirmed is FY10 operating EPS guidance range of $1.10 to $1.20 and its long-term 3 to 5% EPS growth rate. Maintaining Market Perform rating and increasing our valuation range from $16.50-17.50 to $17.00-18.00, on expanding gas utility EV-to-EBITDA multiples in our SOP analysis.
- NI reported 2Q10 operating EPS of $0.13, above our and consensus estimates of $0.09, primarily driven by increased electric industrial margins at NIPSCO and infrastructure and regulatory initiatives. Please see page 2 for more details. Maintaining FY10 and FY11 estimates of $1.22 and $1.27, respectively, and increasing our FY12 EPS estimate from $1.35 to $1.40, which does not include the full impact of the second NIPSCO electric rate case.
- FY10 Guidance Affirmed. NI management affirmed its FY10 net operating earnings (non-GAAP) guidance of $1.10 to $1.20. In addition NI reiterated its long-term 3 to 5% EPS growth rate, driven by its investments in regulated asset base; although it seems likely that NI will be on the high end of that range over the next few years. As NI outlined at its 2010 analyst day, it expects its natural gas distribution utility and NIPSCO electric to grow at approximately 3+% and its gas transmission and storage business to growth in a range of 4-6% per year.
- Growing Its Pipeline Infrastructure. NI management is keenly focused on leveraging its extensive Marcellus footprint and accelerating its regulated gas utility infrastructure projects. Even though NI is currently a bit capital constrained, we think the market would welcome the acceleration of NI's infrastructure capex spending, assuming these investments are value and franchise enhancing, even if it means needing to tap equity markets to do so. Before a decision can be made, NI needs more clarity on its rate case outcomes.
- Maintaining Market Perform rating and increasing our valuation range from $16.50-17.50 to $17.00-18.00 on expanding gas distribution multiples. Shares may stall a bit near-term until NI gets its much anticipated outcome on its first NIPSCO rate case that has been delayed in part due to the complexity of the case. Nevertheless, we do not find this particularly concerning but it could push out the filing of the second NIPSCO rate case by a quarter or so.

Company Note

EPS	2009A	2010E Curr.	2010E Prior	2011E Curr.	2011E Prior
Q1 (Mar.)	$0.62	$0.72 A	NC	NE	
Q2 (June)	0.02	0.13 A	0.09	NE	
Q3 (Sep.)	0.07	0.05	0.06	NE	
Q4 (Dec.)	0.35	0.33	0.36	NE	
FY	$1.07	$1.22	NC	$1.27	NC
CY	$1.07	$1.22		$1.27	
FY P/E	15.5x	13.6x		13.1x	
Rev.(MM)	$3,342	$3,417		$3,562	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ▼ = Company is on the Priority Stock List

Ticker	NI
Price (08/03/2010)	$16.58
52-Week Range:	$12-17
Shares Outstanding: (MM)	273.1
Market Cap.: (MM)	$4,528.0
S&P 500:	1,120.46
Avg. Daily Vol.:	2,843,250
Dividend/Yield:	$0.92/5.5%
LT Debt: (MM)	$6,879.0
LT Debt/Total Cap.:	59.0%
ROE:	7.0%
3-5 Yr. Est. Growth Rate:	3.0%
CY 2010 Est. P/E-to-Growth:	4.5x
Last Reporting Date:	08/03/2010

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Valuation Range: $17.00 to $18.00 from $16.50 to $17.50
Over the next 12 months, we believe the shares of NI warrant a valuation range of $16.50 to $17.50, based on our 2011 EPS estimate and a P/E multiple of roughly 13.5x to 14x. Risks to the shares achieving our valuation range over the next 12 months may include unexpected regulatory actions, operational execution of investment projects designed to grow earnings, and achievement of further operating cost savings.

Investment Thesis:
NiSource's regulated businesses provide a stable, predictable stream of earnings. The company has improved its balance sheet, sold non-core businesses, and lowered its risk profile. The lack of near-term earnings growth, compounded and driven by multiple regulatory overhangs that also dampen potential for strategic action, effectively limit the stock's attraction, in our view.

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Please see page 5 for rating definitions, important disclosures and required analyst certifications

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Together we'll go far



Company Description:

NiSource Inc. operating companies engage in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution, delivering energy to 3.7 million customers in the Great Lakes, Mid-Atlantic, and New England regions.

NiSource Inc. (NI) announced 2Q10 net operating earnings (non-GAAP) of $37.0 million, or $0.13 per share, for an increase from $6.4 million, or $0.02 per share, for the second quarter of 2009. Operating earnings (non-GAAP) were $154.0 million compared to $117.4 million for the same period in 2009, or approximately $30MM higher year-over-year.

NI also beat our 2Q10 expectations of $0.09 per share by $0.04 per share, posting $0.13. Better than expected quarterly results were driven by strong industrial margins at NIPSCO, infrastructure and regulatory programs at the gas distribution utilities, and lower Y/Y interest expense, partially offset by higher operating expenses. Please see exhibit 1 for more details.

Exhibit 1. Wells Fargo Estimates Vs. Actuals

(In millions, except per share amounts)	2Q09A	2Q10A	2Q10E	Actual Vs. Est. VAR ($)	Actual Vs. Est. VAR (%)	Y/Y Variance VAR ($)	Y/Y Variance VAR (%)
Total net revenues	676.0	745.3	709.2	$ (36)	5%	$ 69	10%
Operating Expenses		-					
Operations and maintenance	314.5	338.9	338.9	(0.0)	0%	24.4	8%
Operations and maintenance - trackers	40.6	37.2	41.8	(4.6)	-11%	(3.4)	-8%
Depreciation and amortization	146.2	148.5	146.1	2.4	2%	2.3	2%
Depreciation and amortization - Trackers	2.0	3.1	-	3.1	NE	1.1	NE
Other taxes	41.5	51.3	40.2	11.1	28%	9.8	24%
Other taxes - trackers	11.2	12.7	11.2	1.5	13%	1.5	13%
Total Operating Expenses	556.0	591.7	578.3	13.4	2%	35.7	6%
Equity Earnings in Unconsolidated Affiliates	(2.6)	0.4	6.0	(5.6)	-93%	3.0	-115%
Operating Earnings	117.4	154.0	135.9	18.1	13%	36.6	31%
Net Operating margin	*17.4%*	*20.7%*	*19.2%*	*1.5%*	*8%*	*3%*	*19%*
Other Earnings (Deductions)	-		-				
Interest expense, net	(105.3)	(98.4)	(98.5)	0.1	0%	6.9	-7%
Other, net	(0.4)	2.6	-	2.6	NE	3.0	-750%
Total Other Income (Dedutions)	(105.7)	(95.8)	(98.5)	2.7	-3%	9.9	-9%
Operating Earnings From Cont. Ops. Before Tax	11.7	58.2	37.3	20.9	56%	46.5	397%
Income Taxes	5.3	21.2	13.4	7.8	58%	15.9	300%
Effective Tax Rate (%)	*45.3%*	*36.4%*	*36.0%*	0.0	1%	(0.1)	-20%
Net Operating Earnings from Continuing Ops.	6.4	37.0	23.9	13.1	55%	30.6	478%
GAAP Adjustment	(10.4)	(9.0)	-	(9.0)	NE	1.4	-13%
GAAP Income From Cont. Ops	$ (4.0)	$ 28.0	$ 23.9	4.1	17%	32.0	-800%
		-					
Basic Net Op. Earnings Per Share from Cont. Ops	$ 0.02	$ 0.13	$ 0.09	$ 0.04	54%	$ 0.11	472%
GAAP Adjustment	$ (0.04)	$ (0.03)	$ -	$ (0.03)	NE	$ 0.01	-14%
GAAP Basic Earnings Per Share from Cont. Ops	$ (0.01)	$ 0.10	$ 0.09	$ 0.01	17%	$ 0.12	-793%

Source: Company reports and Wells Fargo Securities, LLC estimates

Maintaining Market Perform and Increasing Valuation range to $17.00-18.00

Although we do not solely subscribe to a sum-of-the-parts valuation analysis on NiSource, we believe this helps to support our P/E multiple based valuation analysis. Below we have provided an updated sum-of-the-parts analysis that is based on a range of EV/EBITDA multiples for each individual business segments growth and risk profile. For the gas distribution segment we apply a 6.75-7.75x multiple, for gas transmission and storage we apply an 8.25-9.25x multiple, for the electric segment we apply a 6.5-7.5x multiple, and for the corporate and other segment we apply a 3.5-4.5x multiple to our 2011 estimated EBITDA. We then subtract out our estimate for net debt and pension liabilities to arrive at our equity value which we then divide by the number of shares outstanding to arrive at our equity valuation range per share. As outlined at the bottom of our SOP analysis, this implies that shares should trade at just 13.5 to 14.5x our 2011 EPS estimate. Historically shares have traded on average at 13.7x forward EPS estimates.

Exhibit 2. NiSource Sum-of-the-parts Scenario Analysis

NiSource Corp. (NI): Sum-of-the-Parts Scenario Analysis Valuation Build-up

($ in millions except were noted)			2011 Valuation Senario Analysis						2011E Valuation / Share		
Regulated Segments:			Low Case		Base Case		High Case				
Segment	Metric:	2010E	Valuation Multiple	E.V. ($ MM)	Valuation Multiple	E.V. ($ MM)	Valuation Multiple	E.V. ($ MM)	Low Case	Base Case	High Case
Gas Distribution	EBITDA:	$629MM	6.75 x	$ 4,244	7.25 x	$ 4,559	7.75 x	$ 4,873	$15.38	$16.52	$17.66
Gas Transmission and Storage	EBITDA:	$557MM	8.25 x	$ 4,592	8.75 x	$ 4,871	9.25 x	$ 5,149	$16.64	$17.65	$18.66
Electric	EBITDA:	$439MM	6.5 x	$ 2,852	7.0 x	$ 3,071	7.5 x	$ 3,291	$10.33	$11.13	$11.92
Corp & Other	EBITDA:	-$35MM	3.5 x	$ (123)	4.0 x	$ (140)	4.5 x	$ (158)	($0.44)	($0.51)	($0.57)
Total Enterprise Value:		$1,589MM	7.3 x	$ 11,566	7.8 x	$ 12,361	8.3 x	$ 13,155	$41.91	$44.78	$47.66
2010 Year End Estimated Net Debt				$ (7,347)		$ (7,347)		$ (7,347)	($26.62)	($26.62)	($26.62)
Pension liability (PV @ 10%)				$ (131.9)		$ (131.9)		$ (131.9)	($0.48)	($0.48)	($0.48)
Equity Value :				$ 4,087		$ 4,882		$ 5,676	$15	$18	$21
Diluted Shares Outstanding (MM)				276.0		276.0		276.0			
Valuation:				$15		$18		$21			
Implied 2010E P/E Multiple				*12.2x*		*14.4x*		*17.1x*			
Implied 2011E P/E Multiple				*11.8 x*		*14.0 x*		*16.6 x*			
Potential upside (excluding dividend)				*-10%*		*6%*		*26%*			
Potential upside (including dividend)				*-5%*		*11%*		*31%*			

Source: Company Data and Wells Fargo Securites, LLC estimates

Exhibit 3. NiSource Consolidated Income Statement

NiSource Inc. (Fiscal Yr. End Dec. 30) *(In millions, except per share amounts)*	FY 2006A	FY 2007A	FY 2008A	FY 2009A	1Q10A	2Q10A	3Q10E	4Q10E	FY 2010E	FY 2011E	FY 2012E
Total net revenues	3,199.4	3,303.8	3,233.1	3,342.0	1,069.6	745.3	683.7	918.4	3,417.0	3,562.2	3,776.4
Operating Expenses											
Operations and maintenance	1,177.0	1,250.3	1,248.8	1,360.1	329.5	338.9	326.9	374.0	1,369.3	1,432.9	1,523.2
Operations and maintenance - trackers	182.4	202.8	210.7	247.2	107.1	37.2	27.9	72.8	245.0	252.6	260.0
Depreciation and amortization	549.2	559.2	567.0	585.4	147.3	148.5	150.0	149.9	595.7	621.9	667.6
Depreciation and amortization - Trackers				3.8	2.5	3.1					
Other taxes	195.2	207.2	204.7	200.5	54.7	51.3	45.4	48.1	199.5	199.7	209.9
Other taxes - trackers	94.3	95.8	100.8	81.2	31.0	12.7	7.4	22.3	73.4	73.5	73.5
Total Operating Expenses	2,198.1	2,315.3	2,332.0	2,478.2	672.1	591.7	557.6	667.1	2,482.8	2,580.6	2,734.2
Equity Earnings in Unconsolidated Affiliates	0.7	9.4	12.3	16.0	7.4	0.4	5.9	6.5	20.2	20.6	21.1
Operating Earnings	1,002.0	997.9	913.4	879.8	404.9	154.0	127.5	253.4	938.4	986.2	1,047.3
Net Operating margin	*31.3%*	*30.2%*	*28.3%*	*26.3%*	*37.9%*	*20.7%*	*18.7%*	*27.6%*	*27.5%*	*27.7%*	*27.7%*
Other Earnings (Deductions)											
Interest expense, net	(387.4)	(400.7)	(375.2)	(399.2)	(98.7)	(98.4)	(102.8)	(101.7)	(401.6)	(410.7)	(409.5)
Other, net	(7.6)	(6.5)	0.6	(1.5)	2.6	2.6	(2.0)	(2.0)	1.2	(4.0)	(4.0)
Total Other Income (Dedutions)	(395.0)	(407.2)	(374.6)	(400.7)	(96.1)	(95.8)	(104.8)	(103.7)	(400.4)	(414.7)	(413.5)
Operating Earnings From Cont. Ops. Before Tax	607.0	590.7	538.8	479.1	308.8	58.2	22.7	149.7	538.0	571.5	633.8
Income Taxes	218.5	214.9	192.6	184.6	110.5	21.2	8.7	57.6	198.1	220.0	244.0
Effective Tax Rate (%)	*36.0%*	*36.4%*	*35.7%*	*38.5%*	*35.8%*	*36.4%*	*38.5%*	*38.5%*	*36.8%*	*38.5%*	*38.5%*
Net Operating Earnings from Continuing Ops.	388.5	375.8	346.2	294.5	198.3	37.0	14.0	92.1	339.9	351.5	389.8
GAAP Adjustment	(75.0)	(53.8)	21.0	(60.2)	(1.0)	(9.0)	-	-	(10.0)	-	-
GAAP Income From Cont. Ops	$ 313.5	$ 322.0	$ 367.2	$ 234.3	$ 197.3	$ 28.0	$ 14.0	$ 92.1	$ 329.9	$ 351.5	$ 389.8
Basic Net Op. Earnings Per Share from Cont. Ops	$ 1.42	$ 1.37	$ 1.26	$ 1.07	$ 0.72	$ 0.13	$ 0.05	$ 0.33	$ 1.22	$ 1.27	$ 1.40
GAAP Adjustment	$ (0.27)	$ (0.20)	$ 0.08	$ (0.22)	$ (0.00)	$ (0.03)	$ -	$ -	$ (0.04)	$ -	$ -
GAAP Basic Earnings Per Share from Cont. Ops	$ 1.15	$ 1.18	$ 1.34	$ 0.85	$ 0.71	$ 0.10	$ 0.05	$ 0.33	$ 1.19	$ 1.27	$ 1.40
Basic Average Common Shares Outstanding (MM)	272.9	273.9	274.0	276.0	276.9	277.6	277.6	277.6	277.6	277.6	277.6
Dividends per share	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.23	$ 0.23	$ 0.23	$ 0.23	$ 0.92	$ 0.92	$ 0.92
Dividends per share (TTM)	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92
Dividend Payout Ratio (TTM)	65%	67%	73%	86%	79%	72%	73%	75%	75%	73%	66%
Consolidated EBITDA	1,551.2	1,557.1	1,480.4	1,465.2	552.2	302.5	277.5	403.2	1,534.1	1,608.2	1,714.9
Consolidated EBITDA (TTM)	1,551.2	1,557.1	1,480.4	1,465.2	1,506.0	1,544.9	1,539.4	1,535.5	1,534.1	1,608.2	1,714.9

Source: Company reports and Wells Fargo Securities, LLC estimates

Exhibit 3. NiSource Consolidated Cash Flow, Balance Sheet and Ratio Analysis

NiSource Inc. (Fiscal Yr. End Dec. 30)
Consolidated Stmt of Cash Flows & Balance Sheet - Quarterly (FY Ending Sept. 30)

Cash Flow Statement ($MM)	2007A	FY 2008A	FY 2009A	1Q10A	2Q10A	3Q10E	4Q10E	FY 2010E	FY 2011E	FY 2012E
Operating Activities:										
Net Income	$ 321.40	$ 79.00	$ 217.70	$ 197.30	$ 28.10	$ 13.97	$ 92.07	$ 331.44	$ 351.48	$ 389.61
Depreciation And Depletion/Imp of Unproven Prop	540.20	567.20	589.00	149.80	151.60	149.97	149.89	601.26	621.93	667.61
Deferred Taxes	5.40	132.10	378.20	19.80	18.80	3.50	23.05	65.15	110.02	122.01
Stock Based Comp	4.40	9.50	9.60	2.20	3.80	-	-	6.00	-	-
Other	(15.50)	277.20	24.90	(22.00)	11.10	-	-	(10.90)	-	-
Net Cash Provided Bef. Work Cap Change	855.90	1,065.00	1,219.40	347.10	213.40	167.45	265.01	992.95	1,083.42	1,179.44
Working Capital Changes	(116.90)	(499.00)	685.60	(232.70)	119.50	-	-	(113.20)	-	-
Total: Cash Prov. By Continuing Ops.	739.00	566.00	1,905.20	114.40	332.90	167.45	265.01	879.76	1,083.42	1,179.44
Net operating activities used for discountinued ops	(18.20)	(2.20)	(254.50)	(31.10)	(13.70)			(44.80)		
Net cash flows from operating activities	757.20	563.80	1,650.70	83.30	319.20	167.45	265.01	834.96	1,083.42	1,179.44
Investing Activities:										
Capital Expenditures	(766.40)	(1,299.60)	(777.20)	(138.80)	(198.10)	(280.00)	(280.00)	(896.90)	(940.00)	(1,000.00)
Disposition / (Acquisitions)	102.20	(130.70)	156.80	0.20	0.10	-	-	0.30		
Proceeds From Sales Of Assets, Other	19.60	(59.40)	(42.00)	(56.20)	(1.50)	-	-	(57.70)		
Total: Funds Used In Inv. Act.	(664.60)	(1,489.70)	(662.40)	(194.80)	(199.50)	(280.00)	(280.00)	(954.30)	(940.00)	(1,000.00)
Net investing activities from discountinued operations	(16.80)	396.90	7.60	0.40	-			0.40		
Net cash flows used for investing activities	(681.40)	(1,092.80)	(654.80)	(194.40)	(199.50)	(280.00)	(280.00)	(953.80)	(940.00)	(1,000.00)
Financing Activities:										
Net Add. To (Dec. In) ST & LT Debt	173.10	767.20	(770.30)	266.80	(162.20)	176.40	78.84	359.84	111.97	75.95
Common Stock Issued (Purchased)	6.10	1.30	23.50	2.20	3.20	-	-	5.40		
Dividends Paid	(252.10)	(252.40)	(253.30)	(63.70)	(63.90)	(63.85)	(63.85)	(255.30)	(256.39)	(255.39)
Total: Cash Prov. By (Used In) Finan.	(72.90)	515.10	(1,000.10)	205.30	(222.90)	112.55	14.99	109.94	(143.42)	(179.44)
Increase (Dec.) In Cash And Cash Equiv.	1.50	(407.60)	242.70	124.90	(89.50)	-	-	35.40		
	1.40	394.70	(248.90)	(30.70)	(13.70)	-	-	(44.40)		
Cash And Cash Equiv At End Of Year	34.60	20.60	16.40	110.60	7.40	7.40	7.40	7.40	7.40	7.40

Balance Sheet Summary ($MM)	2007A	2008A	FY 2009A	1Q10A	2Q10A	3Q10E	4Q10E	FY 2010E	FY 2011E	FY 2012E
Cash	$ 34.60	$ 20.60	$ 16.40	$ 110.60	$ 7.40	$ 7.40	$ 7.40	$ 7.40	$ 7.40	$ 7.40
Restricted cash	57.70	286.60	174.70	220.80	212.70	212.70	212.70	212.70	212.70	212.70
Current Assets	2,368.10	3,103.80	2,032.50	1,865.80	1,673.30	1,673.30	1,673.30	1,673.30	1,673.30	1,673.30
Net, Property, Plant And Equipment	9,575.60	10,388.10	10,683.90	10,597.20	10,800.00	10,930.03	11,060.14	11,060.14	11,378.20	11,710.59
Total Other Investment	783.40	250.50	313.70	308.80	278.60	278.60	278.60	278.60	278.60	278.60
Goodwill	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30
Other Assets	1,513.60	2,305.50	2,373.20	2,471.10	2,398.80	2,398.80	2,398.80	2,398.80	2,398.80	2,398.80
Total Assets	$ 18,010.30	$ 20,032.20	$ 19,271.70	$ 19,351.60	$ 19,048.10	$ 19,178.13	$ 19,308.24	$ 19,308.24	$ 19,626.30	$ 19,958.69
Current Liabilities	$ 2,303.20	$ 2,950.60	$ 2,311.30	$ 1,903.40	$ 1,785.80	$ 1,785.80	$ 1,785.80	$ 1,841.30	$ 1,841.30	$ 1,841.30
Deferred Credits And Other Liabilities	3,941.20	4,776.10	5,318.90	5,461.70	5,458.50	5,462.00	5,485.05	5,384.05	5,494.07	5,616.08
Shareholders' Equity	5,076.60	4,728.60	4,554.10	4,926.60	4,894.90	4,845.03	4,873.25	4,935.65	5,031.73	5,166.15
Short-term & Long-term Debt	6,689.30	7,576.70	6,787.40	7,057.70	6,908.90	7,085.30	7,164.14	7,147.24	7,259.20	7,335.16
Total Liabilities And Shareholders' Equity	$ 18,010.30	$ 20,032.20	$ 19,271.70	$ 19,351.60	$ 19,048.10	$ 19,178.13	$ 19,308.24	$ 19,308.24	$ 19,626.30	$ 19,958.69
Source: Company data and Wells Fargo Securities, LLC estimates										
Check	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Ratios And Returns	2007A	FY 2008A	FY 2009A	1Q10A	2Q10A	3Q10E	4Q10E	FY 2010E	FY 2011E	FY 2012E
Return On Average Assets	3.0%	0.4%	1.1%	1.4%	1.6%	1.7%	1.7%	1.7%	1.8%	2.0%
Return On Average Equity	9.9%	1.6%	4.5%	5.5%	6.2%	6.9%	6.8%	6.8%	7.1%	7.6%
Return On Average Capital	1.62%									
Current Ratio	1.03	1.05	0.88	0.98	0.94	0.94	0.94	0.91	0.91	0.91
Total Debt / Capitalization	56.9%	61.6%	58.3%	58.9%	58.5%	59.4%	59.5%	59.2%	59.1%	58.7%
Total Debt / (Total Debt + Equity- Goodwill)	82.7%	87.8%	85.2%	84.9%	85.0%	85.9%	85.7%	85.0%	84.3%	83.1%
Total Debt / Equity	131.8%	160.2%	139.8%	143.2%	141.1%	146.2%	147.0%	144.8%	144.3%	142.0%
Interest Coverage Ratio (x)			2.2 x	2.2 x	2.4 x	2.4 x	2.3 x	2.3 x	2.4 x	2.6 x
Debt / EBITDA	4.3x	5.1x	4.6x	4.7x	4.5x	4.6x	4.7x	4.7x	4.5x	4.3x
FFO/Debt	12.9%	8.5%	11.9%	12.2%	13.0%	13.1%	13.0%	13.0%	13.4%	14.4%
EBITDA / Interest expense	0.7x	3.9x	3.7x	5.6x	3.1x	2.7x	4.0x	3.6x	3.9x	4.2x
Long-Term Debt To Cash Flow (years)	7.7	9.7	5.7	5.7	5.4	7.1	7.2	7.2	6.7	6.2
Long-Term Debt To Cash Flow (years)	7.8	11.7	8.4	8.2	7.7	7.6	7.7	7.7	7.5	6.9
FFO (TTM)	861.60	646.20	806.70	861.60	898.00	929.15	932.71	932.71	973.41	1,057.42
CFO (TTM)	739.00	566.00	1,905.20	899.80	1,035.30	1,160.65	879.76	879.76	1,083.42	1,179.44
Cash Flow from Ops. Per Share	2.70	2.07	6.90	3.25	3.73	4.18	3.17	3.17	3.90	4.25
Cash Flow (NI + DD&A+Deferred Taxes)	867.00	778.30	1,184.90	1,236.50	1,280.70	995.05	997.86	997.86	1,083.42	1,179.44
Cash Flow from Ops. Per Share	3.17	2.84	4.29	4.47	4.61	3.58	3.59	3.59	3.90	4.25
Free Cash Flow (cashflow - capex)	80.60	(521.30)	407.70	527.40	552.20	185.65	100.96	100.96	143.42	179.44
FCF/Share	0.29	(1.90)	1.48	1.90	1.99	0.67	0.36	0.36	0.52	0.65
Earnings Per Share	$ 1.17	$ 0.29	$ 0.79	$ 0.71	$ 0.10	$ 0.05	$ 0.33	$ 1.19	$ 1.27	$ 1.40
Earnings Per Share (TTM)	$ 2.08	$ 3.24	$ 0.79	$ 0.96	$ 1.08	$ 1.18	$ 1.19	$ 1.19	$ 1.27	$ 1.40
Dividends Per Share	$ 0.92	$ 0.92	$ 0.92	$ 0.23	$ 0.23	$ 0.23	$ 0.23	$ 0.92	$ 0.92	$ 0.92
Book Value Per Share	$ 18.53	$ 17.26	$ 17.59	$ 17.80	$ 17.63	$ 17.45	$ 17.55	$ 17.78	$ 18.13	$ 18.61
Tangible Book Value Per Share	$ 5.11	$ 3.84	$ 4.26	$ 4.52	$ 4.39	$ 4.21	$ 4.31	$ 4.53	$ 4.88	$ 5.36
Basic Shares Outstanding (MM)	273.90	274.00	276.00	276.90	277.60	277.60	277.60	277.50	277.60	277.60

Source: Company reports and Wells Fargo Securities, LLC estimates

Required Disclosures



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	7/31/2007		Brothwell			
	7/31/2007	NA	2	20.00	22.00	19.07
●	11/2/2007	18.87	2	19.00	20.00	18.63
●	8/5/2008	16.81	2	18.00	19.00	16.93
●	11/4/2008	13.52	2	13.00	15.00	13.52
●	2/4/2009	10.47	2	10.00	12.00	10.63
●	5/4/2009	11.24	2	11.00	12.00	11.48
■	5/19/2009		Lefebvre			
●	8/4/2009	13.35	2	12.00	13.00	13.35
●	10/22/2009	13.65	2	13.00	14.00	13.69
●	1/19/2010	15.29	2	15.50	16.50	15.52
●	2/1/2010	14.85	2	16.00	17.00	14.85
●	4/20/2010	16.39	2	16.50	17.50	16.46

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	□	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
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WUNDERLICH SECURITIES

Energy: Utilities/Power

NISOURCE INC. (NI: 16.58)

August 4, 2010

Estimate Changes
Rating: Hold
Price Target: $15.50

Market Data	
12-18 Month Price Target	$15.50
52-Week Range	16.98 - 12.79
ADTV - 90Day (MM)	3,138.1
Market Cap ($MM)	4,608.8
Shares Out (MM)	276.6
Public Market Float (MM)	275.7
Dividend	0.92
Dividend/Yield	5.55%

EPS ($)					
FY DEC	2009	2010		2011	
	Actual	Previous	Current	Previous	Current
Q1	$0.62A	–	$0.70A	–	–
Q2	$0.02A	$0.11	$0.13A	–	–
Q3	$0.07A	$0.02	$0.09E	–	–
Q4	$0.35A	$0.35	$0.27E	–	–
YEAR	$1.07A	$1.17	$1.19E	$1.22	$1.24E

Valuation Ratio			
	FY09	FY10	FY11
P/E	15.5x	13.9x	13.4x
PEG	3.9x	3.5x	3.3x
EV/EBITDA	7.9x	7.5x	7.4x
Leverage Ratio	4.6x	4.5x	4.5x
FCF Yield	19.3%	1.8%	2.4%
P/FCF	5.2x	55.5x	41.8x
EV/S	1.7x	1.7x	1.7x

Financial Data			
	FY09	FY10	FY11
Revenue	6,649.4A	6,746.2E	6,860.9E
EBIT	$881.0A	$928.4E	$955.4E
EBITDA	1,470.0A	1,529.2E	1,568.2E
FCF(Mil)	$889.0A	$83.0E	$110.2E
Debt/Capital	58.3%A	58.5%E	58.2%E
BV/Share	$17.34A	$17.49E	$17.96E
CapEx	777.2A	900.0E	900.0E

Balance Sheet			
	FY09	FY10	FY11
PPE	$10,683.9A	$10,983.1E	$11,270.3E
Total Assets	$19,271.7A	$19,637.1E	$19,966.0E
Total Debt	$6,787.4A	$6,937.4E	$7,012.4E
Long Term Debt	5,965.1A	6,115.1E	6,190.2E
Total SOE and Liab.	$19,271.7A	$19,637.1E	$19,966.0E

Solid 2Q Results; Increase Estimates Slightly and Maintain Hold Rating

Summary

NiSource (NI) reported 2Q10 EPS of $0.13 versus $0.02 a year ago (and our estimate of $0.11). The better-than-expected results were driven by better sales and higher rates. As expected, a change in revenue recovery in Ohio drove a portion of the stark improvement in 2Q results. We are refining our EPS estimates slightly, going to $1.19 from $1.17 for 2010, and $1.24 from $1.22 for 2011. The Indiana electric rate case remains pending. On a conference call to discuss 2Q results, NI management suggested a decision could occur in 3Q. With the outstanding rate case, the likely need for equity to support a rising capital budget, and a premium valuation, we are maintaining our Hold rating.

Key Points

- **2Q Results Further Confirm Earnings Recovery.** Led by the electric utility (operating earnings of $48.3mm versus $31.1mm a year ago) and gas distribution (operating earnings of $35.9mm versus $7.5mm), NI recorded a stark earnings improvement, as expected. The strongest improvement in gas distribution was driven by a shift in revenues from 4Q and 1Q to 2Q and 3Q, under a straight-fixed-variable revenue scheme (effectively recovering fixed costs monthly rather than volumetrically). Electricity sales to industrial customers rose 18.0% in 2Q.
- **NI affirms 2010 EPS guidance of $1.10-$1.20.** On a conference call to discuss 2Q earnings, NI affirmed 2010 EPS guidance and its 3%-5% EPS growth target. With the company's desire to increase capital spending for gas transportation infrastructure opportunities in and around the Marcellus shale, NI hinted that growth could drift to the high end of the growth guidance over the next several years. NI will likely need to raise equity to fund this spending to maintain its balance sheet improvement.
- **Indiana rate case outcome remains uncertain, with another to follow.** NI's 2008 electric rate case in Indiana is still pending. Although a decision is expected in 3Q, the case has been pending for almost 24 months. As NI needs to file another Indiana electric rate case immediately upon completion of the pending case, this uncertainty is likely to continue. We are assuming a $35 million rate increase in the pending case -- filed in August of 2008, NI is requesting an $85.7 million increase.
- **Increase earnings estimates over forecast horizon.** We are slightly increasing our 2010, 2011, and 2012 earnings estimates for NI. Our 2010 EPS estimate is $1.19, up from $1.17. Our 2011 estimate is $1.24, up from $1.22. Our 2012 estimate is $1.31, up from $1.30 previously. The estimate changes are driven by the reported 2Q results.
- **Maintain Hold, but NI remains good yield idea.** We are maintaining our target price on NI at $15.50 per share For investors seeking current income, we find NI's 5.5% yield attractive and secure. Additional earnings growth is likely required before dividend growth resumes.

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

Valuation/Risks

- NI faces regulatory risk, operational 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 08/03/10.

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

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	112	66.30	13	11.61
Hold -rated	55	32.50	5	9.09
Sell -rated	2	1.20	0	0.00

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

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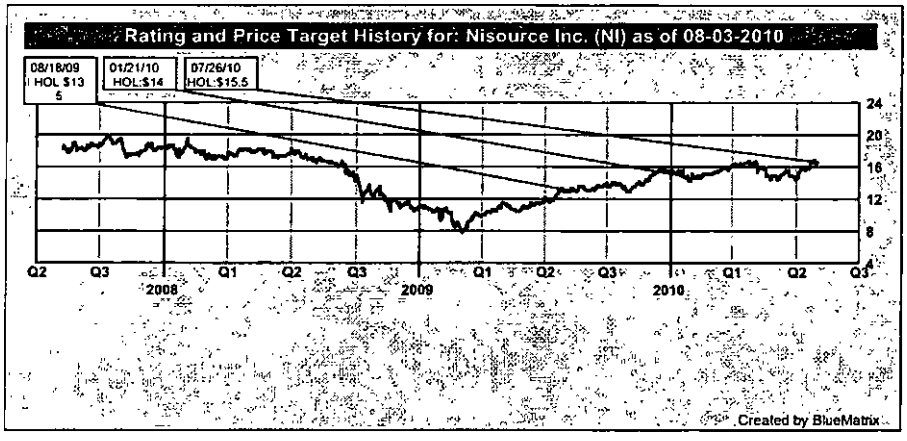
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BARCLAYS CAPITAL

EQUITY RESEARCH | Power & Utilities | U.S. Utilities | 29 October 2010

NISOURCE, INC.

Solid Q3, Guidance Hike

NI reported a solid Q3 and raised their guidance range for 2010: NI reported non-GAAP weather normal EPS of $0.04 and GAAP EPS of $0.12, beating the consensus estimate of $0.06. The company also raised their '10 guidance range to $1.20-$1.25 from what was $1.10-$1.20 primarily as a result of a more robust demand recovery at the beginning of the year than originally forecasted.

Regulatory update: The company is still awaiting commission approval of NIPSCO's gas settlement, although final sign off is expected during Q4. Considering that all major parties signed off on the settlement and that a slight rate reduction is being passed on to customers, we don't foresee much pushback on the IURC's part. In addition, the company is currently in negotiations to finalize the NIPSCO electric final order that was passed down in late August. While the slippage in timing of rates becoming effective was a bit unexpected, we feel that NI should be able to reach reasonable terms that appease the involved parties. Regardless of the process in the last NIPSCO rate case, the company plans on moving forward later in Q4 and filing a second NIPSCO electric case that is primarily focused on pension recovery and the resetting of rates to reflect current load levels. Finally, the company will be involved in rate case proceedings with their Columbia Gulf pipeline subsidiary that will have rates effective (subject to refund) mid-year '11. We are embedding $25M of incremental benefit in our '12 estimate to reflect a relatively conservative, middle of the road outcome.

Adjusting estimates: We are tweaking our '10-'12 EPS estimates to $1.21/$1.32/$1.42 from $1.22/$1.32/$1.43 due to the slight delay in approval of the NIPSCO gas case and a slight revision to relief expected from the second NIPSCO electric case. Our PT is $18.

NI: Quarterly and Annual EPS USD

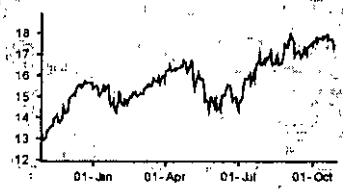
	2009	2010			2011			Change y/y	
FYDec	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	0.62A	0.72A	0.72A	0.72A	N/A	N/A	0.71E	16%	N/A
Q2	0.02A	0.13A	0.13A	0.13A	N/A	N/A	0.13E	550%	N/A
Q3	0.07A	0.05E	0.04A	0.06E	N/A	N/A	0.10E	-43%	N/A
Q4	0.35A	N/A	N/A	0.33E	N/A	N/A	0.31E	N/A	N/A
Year	1.07A	1.22E	1.21E	1.22E	1.32E	1.32E	1.30E	13%	9%
P/E			14.3			13.1			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT Unchanged
Sector View	1-POSITIVE Unchanged
Price Target	USD 18.00 Unchanged
Price (29-Oct-2010)	USD 17.31
Potential Upside/Downside	+4%
Tickers	NI
Market Cap (USD mn)	4816
Shares Outstanding (mn)	278.20
Free Float (%)	99.16
52 Wk Avg Daily Volume (mn)	2.8
Dividend Yield (%)	5.3
Return on Equity TTM (%)	6.02
Current BVPS (USD)	17.62

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 17.96-12.83



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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 29-Oct-2010, USD 17.31), 2-Equal Weight/1-Positive

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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.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	National Grid Plc (NGG)
NiSource, Inc. (NI)	Northeast Utilities (NU)	NSTAR (NST)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	Progress Energy (PGN)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)	

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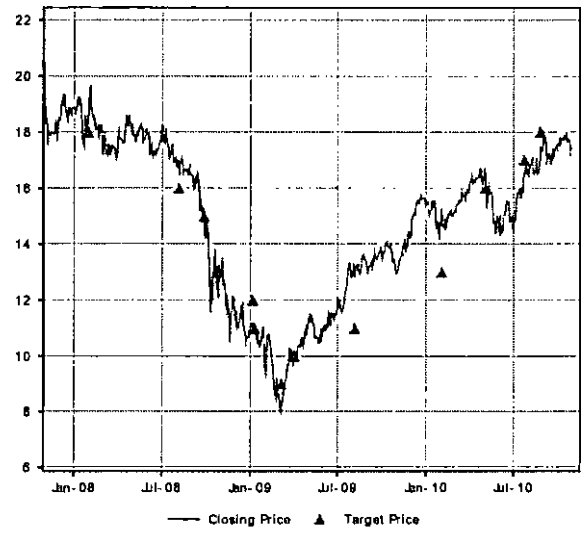
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NiSource, Inc. (NI)

USD 17.31 (29-Oct-2010)

Stock Rating	Sector View
2-EQUAL WEIGHT	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 29-Oct-2010) **Currency=USD**



Date	Closing Price	Rating	Price Target
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
01-Apr-2009	9.99		10.00
05-Mar-2009	7.86		9.00
09-Jan-2009	11.08		11.00
05-Jan-2009	11.17		12.00
24-Oct-2008	12.58		13.00
26-Sep-2008	14.98		15.00
05-Aug-2008	16.72		16.00
30-Jan-2008	18.61		18.00

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Valuation Methodology: Our $18 price target is premised upon our '12E EPS of $1.42 and the '12 PE multiple of 12.8x.

Risks which May Impede the Achievement of the 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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BMO Capital Markets

October 29, 2010

NiSource

(NI-NYSE)

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

North American Pipelines

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2010 Guidance Raised to Street; See Upside in 2011

Event

NI reported operating 3Q EPS of $0.04, slightly below our $0.06 estimate and consensus of the same; at the same time, management raised 2010 guidance a nickel to $1.20-$1.25, a level we had already moved to after the strength of 2Q results. While only a $0.02 net miss, there were several deltas throughout: 1) a $0.07 miss in gas utes (mainly on the expense side), 2) $0.04 miss in pipes (lower interruptible volumes), 3) a $0.01 beat in corporate, and 4) a $0.07 beat in electric (stronger industrial margins and off-system sales). On the former, we note that half of the LDC expense is a pension true-up not expected to recur, while yesterday NI filed with the FERC on its Columbia Gulf pipeline with a $50mm request, partially related to present market conditions. As we look forward to 2011, we think NI will post a repeat performance, meaning starting off with conservative guidance only to lift by year end. The pending NIPSCO Gas settlement should add $0.10 to EPS all else equal. Add to this the expected full-year positives from rates case in Pennsylvania and Virginia, as well the possibility of a settled NIPSCO electric rate case (perhaps even obviating the need for an actual filing request at year end), and we're hard pressed to see how the Street's $1.30 doesn't rise to our $1.40 in time.

Impact

Neutral.

Forecasts

Our 2010 EPS is reduced $0.01 on the 3Q delta, but at $1.22 is in line with recently raised guidance of $1.20-$1.25. Our above-consensus $1.40 in 2011 is unchanged.

Valuation

Our sum-of-the-parts derived $18 price target is unchanged based on 2011 metrics.

Recommendation

We maintain **MARKET PERFORM** with less than 10% total return potential.

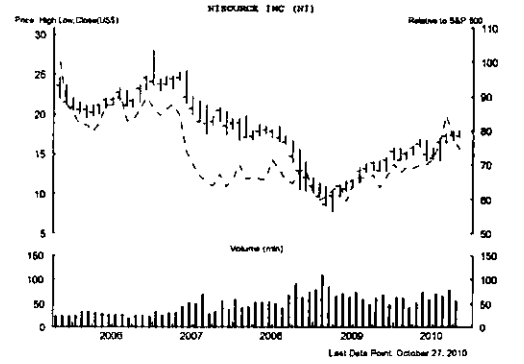
Securities Info

Price (28-Oct)	$17.45	Target Price	$18
52-Wk High/Low	$18/$13	Dividend	$0.92
Mkt Cap (mm)	$4,855	Yield	5.3%
Shs O/S (mm, BASIC)	278.2	Float O/S (mm)	275.9
Options O/S (mm)	na	ADVol (30-day, 000s)	2,810

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
NiSource 6.8% '19	117	Baa3 / BBB-	4.32%	233bp
NiSource 6.4% '18	115	Baa3 / BBB-	4.09%	210bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2008A	2009A	2010E	2011E
EPS Pro Forma	$1.25	$1.01	$1.22↓	$1.40
P/E			14.3x	12.5x
First Call Cons.			*$1.22*	*$1.30*
EPS GAAP	$0.29	$0.79	$1.26	$1.40
OCF	$3.87	$4.45	$3.96↑	$3.54
P/OCF			4.4x	4.9x
EBITDA ($mm)	$1,503	$1,383	$1,518	$1,536
EV/EBITDA			7.6x	7.5x
Rev. ($mm)	$8,876	$6,299	$6,366	$6,341
EV/Rev			1.8x	1.8x

Quarterly EPS	1Q	2Q	3Q	4Q
2009A	$0.63	$0.01	$0.02	$0.35
2010E	$0.72A	$0.13A	$0.04A	$0.33

Balance Sheet Data (30-Jun)			
Net Debt ($mm)	$6,740	TotalDebt/EBITDA	4.6x
Total Debt ($mm)	$6,988	EBITDA/IntExp	3.7x
Net Debt/Cap.	57.1%	Price/Book	1.0x

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

Changes	Annual EPS	Annual OCF
	2010E $1.23 to $1.22	2010E $3.55 to $3.96

Please refer to pages 6 to 8 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: NiSource Sum-of-the-Parts Valuation

Sum-of-the-Parts Valuation Analysis

	2011E	Valuation Multiple		Notes:
EBITDA by Segment				
Gas Distribution	$603	7.5x	$4,522	
Gas Pipelines	$551	9.0x	$4,961	
Electric	$427	7.0x	$2,990	
Other	($15)	5.0x	($74)	- Plus pension expense (analogous to interest) risked at 50% (net of NIPSCO recovery)
Value of Operations			$12,399	
Net Debt (year-end 2010E)			($6,974)	
Preferred & Minority Interests			—	
Pension/OPEB Underfunded Obligation	($1,182)	33%	($390)	- Projected 2010 Obligation; assumes partial recovery in rates
Net Equity Value			$5,035	
Diluted Shares Outstanding			291	
$/sh			**$17.28**	
P/E by Segment*				
Gas Distribution	$0.59	13.0x	$7.69	
Gas Pipelines	$0.59	15.0x	$8.79	
Electric	$0.29	11.0x	$3.23	
Other	($0.07)	10.0x	($0.67)	
Consolidated EPS	$1.40	13.6x	**$19.04**	

*based on EBIT % as proxy

Average Target Price:	**$18.16**
Valuation Summary:	
Current Price	$17.45
Current Dividend	$0.92
Appreciation Potential	4.1%
Current Yield	5.3%
Total Return Potential	**9.3%**

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2005A	2006A	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Operating Revenues:												
Gas Distribution	$4,600	$4,189	$4,447	$5,171	$3,303	$1,341	$454	$327	$1,001	$3,124	$3,529	$3,575
Pipelines & Storage	1,000	1,033	1,090	1,132	1,241	370	264	271	259	1,164	979	1,011
Electric	1,249	1,299	1,358	1,357	1,213	318	341	398	329	1,385	1,359	1,406
Other	1,050	968	1,045	1,216	542	329	112	143	110	693	497	507
Revenues	7,899	7,490	7,940	8,876	6,299	2,358	1,171	1,138	1,699	6,366	6,365	6,499
Operating Expenses:												
Cost of Sales	4,749	4,365	4,676	5,632	2,978	1,286	439	420	771	2,917	2,831	2,828
Operation & Maintenance	1,328	1,390	1,468	1,456	1,650	439	377	382	469	1,667	1,713	1,750
DD&A	545	549	559	567	589	150	152	153	151	606	545	557
Loss (gain) on asset sales	22	4	11	8	16	0	0	1	0	1	0	0
Taxes and Other	301	290	303	308	283	87	65	62	75	288	293	299
Total Operating Expenses	6,946	6,598	7,017	7,971	5,516	1,963	1,032	1,018	1,466	5,479	5,382	5,434
Operating Income	953	892	923	906	783	396	139	120	233	888	982	1,065
Other:												
Equity in Earnings		(12)	9	12	16	7	0	4	6	17	22	22
Minority Interests	0	0	0	0	0	0	0	0	0	0	0	0
Other	(95)	(7)	(47)	18	(6)	3	3	2	0	7	0	0
Total Other Income	(95)	(20)	(38)	30	10	10	3	6	6	25	22	22
Reported EBIT	**$858**	**$873**	**$885**	**$936**	**$793**	**$406**	**$142**	**$125**	**$239**	**$912**	**$1,004**	**$1,087**
EBITDA	**$1,403**	**$1,422**	**$1,444**	**$1,503**	**$1,383**	**$556**	**$293**	**$279**	**$391**	**$1,518**	**$1,549**	**$1,644**
EBIT Composition												
Gas Distribution	368	290	333	336	328	235	19	(42)	97	308	423	443
Pipelines & Storage	344	354	370	367	389	126	75	76	113	390	419	444
Electric	739	310	261	219	117	45	50	96	42	232	210	240
Corporate & Other	(593)	(81)	(79)	14	(40)	(0)	(1)	(4)	(12)	(18)	(48)	(40)
Total EBIT	**$858**	**$873**	**$885**	**$936**	**$793**	**$406**	**$142**	**$125**	**$239**	**$912**	**$1,004**	**$1,087**
Interest Expense	421	387	401	380	399	99	98	98	91	386	367	373
Preferred Distributions of Subsidiaries	4	1	0	0	0	0	0	0	0	0	0	0
Financing Expense	425	389	401	380	399	99	98	98	91	386	367	373
Income Before Taxes	433	484	484	556	394	307	43	28	148	526	638	714
Income Taxes												
Current	166	295	159	53	(214)	83	4	(4)	36	119	155	174
Deferred	(17)	(125)	13	132	378	27	11	(2)	19	56	84	94
Total Income Taxes	149	171	172	186	165	110	15	(6)	55	174	239	268
Effective Inc. Tax Rate (%)	35%	35%	36%	33%	42%	36%	35%	-20%	37%	33%	38%	38%
Net Income From Continuing Operations	284	314	312	370	229	197	28	33	93	352	399	447
Discontinued Operations, net	23	(32)	9	(291)	(12)	(0)	0	(0)	0	(0)	0	0
Change in Accounting	(0)	0	0	0	(0)	0	0	0	0	0	0	0
GAAP Net Income to Common	**$307**	**$282**	**$321**	**$79**	**$218**	**$197**	**$28**	**$33**	**$93**	**$352**	**$399**	**$447**
Adjustments to Core												
Asset Impairment	0	(16)	(3)	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(11)	2	0	13	(8)	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(180)	(36)	(16)	13	(40)	(3)	(9)	23	0	11	0	0
Total Adjustments	(190)	(50)	(19)	26	(49)	(3)	(9)	23	0	11	0	0
Non-GAAP Core Earnings	**$388**	**$346**	**$324**	**$344**	**$278**	**$200**	**$37**	**$10**	**$93**	**$341**	**$399**	**$447**
Shares Outstanding (mm)												
Avg. Diluted Shares Out	273	273	275	275	276	278	278	279	279	279	284	296
Avg. Basic Shares Out	271	273	274	274	275	277	278	278	278	278	283	295
Period-end basic Shares Out	273	274	274	277	276	277	278	278	278	278	290	303
Earnings Per Share (Diluted)												
GAAP EPS	**$1.12**	**$1.04**	**$1.17**	**$0.29**	**$0.79**	**$0.71**	**$0.10**	**$0.12**	**$0.33**	**$1.26**	**$1.40**	**$1.51**
Core EPS	**$1.42**	**$1.27**	**$1.18**	**$1.25**	**$1.01**	**$0.72**	**$0.13**	**$0.04**	**$0.33**	**$1.22**	**$1.40**	**$1.51**
EPS Growth (core)	-11.8%	-10.7%	-7.0%	6.0%	-19.4%	14.5%	2507.7%	144.3%	-5.8%	21.4%	14.7%	7.5%
											$0.13	
Dividends												
Cash per share	$0.92	$0.92	$0.92	$0.92	$0.92	$0.23	$0.23	$0.23	$0.23	$0.92	$0.92	$0.92
Payout Ratio (%)	82.0%	88.8%	78.6%	320.7%	116.6%					72.8%	65.5%	61.0%

Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2005A	2006A	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Operating Activities												
GAAP Net Income from Cont. Ops	307	282	321	79	218	197	28	33	93	352	399	447
DD&A	545	549	559	567	589	150	152	153	151	606	545	557
Deferred income tax benefit	(17)	(113)	13	132	378	27	11	92	19	150	84	94
Deferred Revenues	(7)	(34)	(39)	(24)	4	(16)	(1)	(6)	0	(23)	0	0
Amortization of premium on debt	18	8	7	8	13	0	5	3	0	8	0	0
Less Gain or Loss on assets	0	(1)	11	8	(4)	(0)	0	1	0	1	0	0
Less Equity Earnings plus Cash Distributions	(5)	8	(14)	(25)	(15)	(7)	(0)	5	(3)	(6)	(11)	(11)
Other non-cash income items	111	(1)	43	321	36	(4)	18	(0)	0	14	(2)	0
OCF (pre-working capital)	**$952**	**$699**	**$902**	**$1,065**	**$1,219**	**$347**	**$213**	**$281**	**$261**	**$1,102**	**$1,014**	**$1,086**
OCF per share	**$3.49**	**$2.55**	**$3.28**	**$3.87**	**$4.42**	**$1.25**	**$0.77**	**$1.01**	**$0.93**	**$3.96**	**$3.57**	**$3.67**
											1,023	1,064
Working Capital:												
Accounts and notes receivable	(359)	408	(3)	(206)	259	(138)	408	29		299	0	0
Inventory	(71)	(72)	94	(82)	129	333	(185)	(180)		(33)	0	0
Less Change of Price Risk Management Activities	(43)	0	0	0	0	0	0	0		0	0	0
Accounts payable	206	(176)	(65)	(27)	(192)	(103)	(132)	(31)		(267)	0	0
Customer deposit, net	10	6	6	15	25	(125)	20	94		(11)	0	0
Other assets	34	381	(128)	(237)	83	(178)	(0)	57		(119)	0	0
Other Liabilities	2	(123)	(39)	40	382	(24)	9	(310)	454	130	0	0
Changes in Working Capital	(223)	424	(135)	(499)	686	(233)	120	(341)	454	0	0	0
Discontinued Operations	(17)	37	(9)	(2)	(255)	(31)	(14)	(10)	0	(55)	0	0
Cash Flow From Operations	712	1,159	757	564	1,651	83	319	(70)	715	1,047	1,014	1,086
Investing Activities												
Capital Spending (to PP&E)	(590)	(640)	(788)	(970)	(777)	(139)	(198)	(217)	(225)	(779)	(1,000)	(1,000)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	(330)	0	0	0	0	0	0	0	0
Proceeds from asset sales	8	22	4	48	6	0	0	0	0	0	0	0
Other	11	(117)	103	(238)	109	(56)	(1)	(150)	0	(208)	0	0
Cash Used in Investing	(572)	(735)	(681)	(1,490)	(662)	(195)	(200)	(367)	(225)	(987)	(1,000)	(1,000)
Discontinued Operations	(0)	0	0	397	8	0	0	0	0	0	0	0
Investing Cash Flow	(572)	(735)	(681)	(1,093)	(655)	(194)	(200)	(367)	(225)	(986)	(1,000)	(1,000)
Financing Activities												
Sale of Common Stock	40	22	8	1	26	4	2	5	0	11	200	200
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,908	1	804	959	1,460	0	0	0	0	0	700	0
Redemption of Common Stock	(2)	(6)	(2)	0	(3)	(1)	1	(1)	0	(1)	0	0
Redemption of Preferred Stock	0	(81)	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(2,373)	(439)	(499)	(295)	(1,170)	(1)	(4)	(11)	(682)	(699)	0	(315)
Change in Notes Payable, LC, ST Debt	590	295	(132)	103	(1,061)	268	(158)	512	300	922	(650)	250
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	(250)	(252)	(252)	(252)	(253)	(64)	(64)	(64)	(59)	(250)	(240)	(251)
Other	(14)	0	0	0	0	0	0	0	0	0	(6)	(6)
Cash From (For) Financing	(100)	(460)	(73)	516	(1,000)	205	(223)	441	(441)	(18)	4	(122)
Discontinued Operations	0	0	0	(1)	0	0	0	0	0	0	0	0
Financing Cash Flow	(100)	(460)	(73)	515	(1,000)	205	(223)	441	(441)	(18)	4	(122)
Change in Cash	$40	($36)	$3	($14)	($4)	$94	($103)	$4	$48	$43	$18	($36)
Cash & Temp. Inv. Beginning of Yr.	$30	$69	$33	$35	$21	$16	$111	$7	$11	$16	$59	$77
Cash & Temp. Inv. End of Yr.	$69	$33	$36	$21	$16	$111	$7	$11	$59	$59	$77	$41

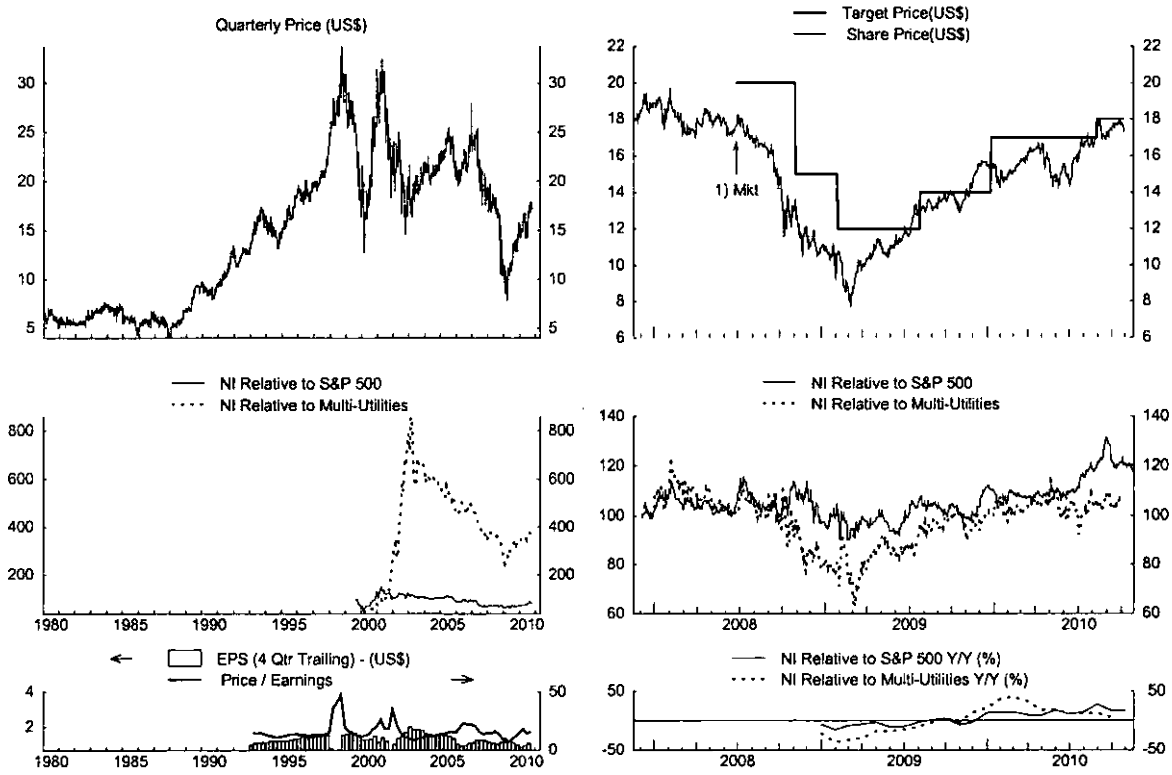
Source: BMO Capital Markets estimates, company data.

Exhibit 4: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2005A	2006A	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Assets:												
Cash & Equivalent	69	33	36	21	16	111	7	11	59	59	77	41
Restricted Cash	34	143	59	287	175	221	213	277	277	277	277	277
Receivables	1,323	908	974	1,188	848	1,019	629	559	559	559	559	559
Allowance for Uncollectable Acts.	(68)	(42)	(38)	(45)	(40)	(69)	(61)	(41)	(41)	(41)	(41)	(41)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	422	163	162	180	40	114	110	136	136	136	136	136
Inventories	624	703	605	671	385	230	383	571	571	571	571	571
ST Assets Price Risk Management	183	238	102	150	173	190	189	216	216	216	216	216
Regulatory Assets	195	273	218	315	238	170	168	194	194	194	194	194
Other Current Assets	279	364	337	645	387	212	254	274	274	274	274	274
Total Current Assets	3,061	2,783	2,455	3,411	2,224	2,197	1,893	2,196	2,244	2,244	2,262	2,226
Plant & Equipment (Gross)	17,111	17,545	17,882	18,469	19,038	19,141	19,347	19,367	19,592	19,592	20,592	21,592
Accumulated DD&A	(7,557)	(7,850)	(7,851)	(8,081)	(8,354)	(8,444)	(8,547)	(8,445)	(8,596)	(8,596)	(9,141)	(9,698)
Plant & Equipment, Net	9,554	9,695	10,032	10,388	10,684	10,697	10,800	10,922	10,995	10,995	11,450	11,893
Investments	224	219	231	205	295	309	279	355	355	355	355	355
LT Assets Price Risk Management	193	50	25	201	238	271	240	280	280	280	280	280
Regulatory Assets	586	1,127	881	1,640	1,644	1,720	1,696	1,641	1,641	1,641	1,641	1,641
Goodwill	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677
Intangible Assets	496	436	422	331	320	317	314	311	311	311	311	311
Other Long Term Assets (& flywheel)	167	170	281	180	53	163	148	144	43	43	62	79
Total Assets	17,959	18,157	18,005	20,032	19,134	19,352	19,048	19,525	19,546	19,546	20,038	20,462
Liabilities & Equity:												
Short Term Debt	1,339	1,286	1,095	1,633	800	1,094	932	1,452	1,752	1,752	1,102	1,352
Accounts Payables	867	713	720	693	502	407	343	243	243	243	243	243
ST Liabilities Price Risk Management	72	259	80	287	190	211	207	257	257	257	257	257
Regulatory Liabilities	46	41	90	40	44	52	84	99	99	99	99	99
Other	1,519	1,522	1,408	1,930	1,575	1,234	1,152	1,202	1,202	1,202	1,202	1,202
Total Current Liab	3,843	3,821	3,393	4,583	3,111	2,997	2,717	3,251	3,551	3,551	2,901	3,151
Long Term Debt	5,271	5,146	5,594	5,944	5,988	5,964	5,977	5,964	5,282	5,282	5,982	5,667
LT Liabilities Price Risk Management	22	38	2	189	170	201	178	219	219	219	219	219
Accumulated Deferred Taxes	1,592	1,554	1,563	1,550	2,018	2,053	2,111	2,243	2,262	2,262	2,346	2,439
Regulatory Liabilities	1,196	1,254	1,353	1,386	1,559	1,571	1,592	1,562	1,562	1,562	1,562	1,562
Other Liabilities	1,020	1,330	1,023	1,652	1,572	1,636	1,578	1,408	1,758	1,758	1,758	1,758
Total Liabilities	12,944	13,143	12,928	15,303	14,418	14,423	14,153	14,648	14,634	14,634	14,768	14,797
Preferred Equity/Securities of Consolidated Subsidiaries	81	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,933	5,014	5,077	4,729	4,717	4,929	4,895	4,878	4,912	4,912	5,270	5,666
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	17,959	18,157	18,005	20,032	19,134	19,352	19,048	19,525	19,546	19,546	20,038	20,462

Source: BMO Capital Markets estimates, company data.

NISOURCE INC (NI)



NI - Rating as of 15-Nov-07 = NR

	Date	Rating Change	Share Price
1	26-Jun-08	NR to Mkt	$17.57

Last Daily Data Point: October 27, 2010

Important Disclosures

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Company Specific Disclosure

Methodology and Risks to Our Price Target/Valuation

Methodology: Our target price for NI is based on a sum-of-the parts valuation. We individually value each one of NI's business segments using a target EV/EBITDA multiple approach. Our target multiple for each segment is derived from analyzing historical multiple trading ranges, peer multiples, and adjusting for any expectation of future changes in investor sentiment, which would lead to multiple expansion/contraction. We next add together the segment valuations to reach an operating enterprise value, which is then adjusted for net debt, off-balance sheet items, operating leases, pension costs, and any other non-operating obligations. After adjustments, we then have our net equity value, which is divided by fully diluted shares outstanding to arrive at our target price.

Risks: Risks to our 12-month price target for NI include: 1) Conservation - conservation and bad debt expense from high commodity prices could impact earnings more than the base level we have accounted for; 2) Weather; 3) Interest rates; 4) Regulatory risk - rulings counter to assumptions and guidance could negatively impact our valuations going forward.

Distribution of Ratings (September 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	36.5%	13.6%	40.7%	40.4%	49.1%	55.4%
Hold	Market Perform	60.2%	11.3%	55.9%	55.6%	49.1%	39.7%
Sell	Underperform	3.3%	12.5%	3.4%	4.0%	1.9%	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Equities

1 November 2010 | 8 pages

NiSource Inc (NI)

3Q In-line; Pipelines Lag; Electric Higher; Target to $18

- **EPS In-line with Expectations** – NI reported GAAP EPS of $0.12 per share. Adjusted EPS including the benefit of weather was $0.06, which was in-line with our estimate. Stronger earnings from the electric utility were offset by lower than anticipated results at the pipelines and gas utilities.

- **Pipeline & Storage** – NI reported EBIT of $76.4 mm vs. our estimate of $84.8 mm. Y-o-Y transportation and storage revenues were 1% higher. However, operating expenses were 17% higher on higher integrity costs. Management stated that revenues are under pressure from a decrease in short-term transportation and storage services. Growth in the Marcellus continues to be the key driver in growing earnings in this segment. NI has filed for $50 mm rate increase at Columbia Gulf.

- **Electric** (NIPSCo) – EBIT of $89.9 mm was above our estimate of $66.4 mm. Electric load was 20% higher than last year. As expected, industrial margins improved y-o-y as contracts that were historically discounted expired. NIPSCo also experienced strong off-system sales, which we did not include in our model. NIPSCo plans to file a second rate case this quarter (Q4'10); however, its first rate case is under appeal after the IURC already issued its order in August. It is possible NIPSCo could settle with stakeholders on the appeal and the second rate case. We would expect some net rate increase in any negotiation.

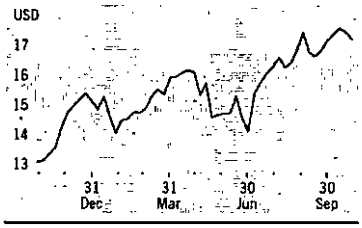
- **Gas Utilities** – The gas utilities reported an operating loss of $41.8mm in 3Q, which was larger than we estimated. Costs were higher than anticipated on higher pension and administrative costs. NI has filed for a $13 mm rate increase in VA.

- **Earnings Guidance increases** – Management raised their range for 2010 EPS guidance from $1.15 to $1.22 (mid-point). We are currently at $1.20. We are raising our target price to $18 per share from $17 per share. We rate NI Hold.

- Company Update
- Target Price Change
- Estimate Change

Hold/Medium Risk	2M
Price (29 Oct 10)	US$17.31
Target price	US$18.00
from US$17.00	
Expected share price return	4.0%
Expected dividend yield	5.3%
Expected total return	**9.3%**
Market Cap	US$4,816M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.63A	0.00A	0.02A	0.35A	1.00A	1.06A
2010E	**0.72A**	**0.10A**	**0.06A**	**0.33E**	**1.20E**	**1.22E**
Previous	0.72A	0.10E	0.06E	0.33E	1.21E	na
2011E	**0.70E**	**0.15E**	**0.14E**	**0.34E**	**1.33E**	**1.30E**
Previous	0.73E	0.12E	0.07E	0.35E	1.27E	na
2012E	**0.72E**	**0.18E**	**0.17E**	**0.36E**	**1.43E**	**1.41E**
Previous	0.78E	0.14E	0.10E	0.38E	1.40E	na

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

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Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	13.4	17.3	14.4	13.0	12.1
EV/EBITDA adjusted (x)	9.2	10.0	9.3	9.1	8.6
P/BV (x)	1.0	1.0	1.0	0.9	0.9
Dividend yield (%)	5.3	5.3	5.3	5.3	5.3
Per Share Data (US$)					
EPS adjusted	1.29	1.00	1.20	1.33	1.43
EPS reported	0.29	0.79	1.26	1.33	1.43
BVPS	17.14	17.57	17.61	18.26	18.71
DPS	0.92	0.92	0.92	0.92	0.92
Profit & Loss (US$M)					
Net sales	8,876	6,297	5,923	6,089	6,169
Operating expenses	-7,960	-5,457	-5,031	-5,094	-5,107
EBIT	**917**	**840**	**892**	**995**	**1,062**
Net interest expense	-375	-399	-391	-415	-415
Non-operating/exceptionals	13	19	22	17	22
Pre-tax profit	**555**	**459**	**523**	**597**	**669**
Tax	-199	-183	-187	-215	-241
Extraord./Min.Int./Pref.div.	-277	-59	15	0	0
Reported net income	**79**	**218**	**350**	**382**	**428**
Adjusted earnings	356	277	335	382	428
Adjusted EBITDA	1,484	1,429	1,497	1,540	1,611
Growth Rates (%)					
Sales	11.3	-29.1	-5.9	2.8	1.3
EBIT adjusted	-7.9	-8.4	6.2	11.6	6.7
EBITDA adjusted	-4.5	-3.7	4.7	2.9	4.6
EPS adjusted	-7.1	-22.4	20.1	10.5	7.3
Cash Flow (US$M)					
Operating cash flow	**588**	**1,905**	**1,052**	**927**	**958**
Depreciation/amortization	567	589	605	545	549
Net working capital	-483	686	-31	0	-19
Investing cash flow	**-1,114**	**-655**	**-961**	**-727**	**-727**
Capital expenditure	-970	-777	-754	-727	-727
Acquisitions/disposals	216	6	0	0	0
Financing cash flow	**515**	**-1,000**	**363**	**-46**	**-58**
Borrowings	767	-770	605	0	0
Dividends paid	-252	-253	-256	-264	-276
Change in cash	**-14**	**-4**	**399**	**153**	**173**
Balance Sheet (US$M)					
Total assets	**20,032**	**19,272**	**20,100**	**20,448**	**20,817**
Cash & cash equivalent	307	191	548	701	874
Accounts receivable	1,143	809	845	852	862
Net fixed assets	10,388	10,684	10,971	11,154	11,332
Total liabilities	**15,303**	**14,418**	**15,190**	**15,201**	**15,201**
Accounts payable	693	502	569	574	574
Total Debt	7,577	6,787	7,416	7,416	7,416
Shareholders' funds	**4,729**	**4,854**	**4,911**	**5,247**	**5,617**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	16.7	22.7	25.3	25.3	26.1
ROE adjusted	7.3	5.8	6.9	7.5	7.9
ROIC adjusted	4.6	4.0	4.2	4.6	4.8
Net debt to equity	153.7	135.9	139.9	128.0	116.5
Total debt to capital	61.6	58.3	60.2	58.6	56.9

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Quarterly Comparison

Figure 1. Actual vs. Estimates

Operating Income	Actual	Estimate	Variance	EPS Impact	Reason for Material Variance
Gas Distribution	(41.8)	(19.2)	118%	($0.05)	Higher operating expenses
Gas Transmission & Storage	76.4	84.8	-10%	($0.02)	Lower transport and storage services
Electric	89.9	66.4	35%	$0.05	Improving industrial margins
Corporate/Other	(6.8)	(5.6)	21%	($0.00)	n/a

Other	Actual	Estimate	Variance	EPS Impact	Reason for Variance
Interest Expense	(97.6)	(98.5)	-1%	($0.00)	Lower ST borrowing rates
Effective Tax Rate	32.2%	36.5%	-12%	$0.01	n/a
Share Count	278.7	278.7	0%	$0.00	n/a

Electric Sales (Gwh)	Actual	Estimate	Variance (Total)	Variance (%)	Reason for Variance
Residential	843.4	841.0	2	0%	n/a
Commercial	1004.5	195.0	810	415%	n/a
Industrial	1944.5	1964.0	(20)	-1%	Rebound in economy
Wholesale	208.9	209.0	(0)	0%	n/a
Other	33.3	33.0	0	1%	n/a

Source: Citi Investment Research and Analysis

NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $18 target.

Our NAV yields a value of $18.34. 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. For Millennium pipeline which is not has not yet contracted all of its capacity, we apply a 20% discount to the pipeline multiple.

Our DDM, which incorporates our rate base growth assumptions, values the company at $16.42.

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 13.0x and 13.5x 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 $18.85 and $19.10.

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

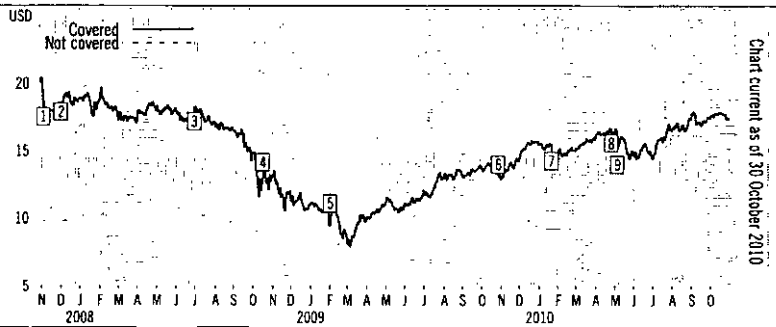
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NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	30-Oct-07	2M	*22.00	20.12
2	30-Nov-07	*2H	*21.00	18.51
3	30-Jun-08	2H	*20.00	17.92
4	16-Oct-08	*1H	*15.00	12.91
5	2-Feb-09	1H	*14.00	9.38
6	27-Oct-09	1H	*15.00	13.47
7	20-Jan-10	*2M	*16.00	15.46
8	26-Apr-10	2M	*16.50	16.60
9	5-May-10	2M	*17.00	16.20

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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November 9, 2010

COMPANY UPDATE / EARNINGS ESTIMATE CHANGE

NiSource Inc.

NI -- NYSE -- Neutral -- 3

Company reports lower third quarter results, but raises 2010 earnings guidance

Key Metrics

NI - NYSE (Price as of 11/8/10)		$17.50
Price Target		NA
52-Week Range		$17.96 - $13.41
Shares Outstanding (mm)		278.1
Market Cap. ($mm)		$4,866
3-Mo. Average Daily Volume		3,108,000
Institutional Ownership		76.0%
Debt/Total Capital		58.3%
ROE (ttm)		6.0%
Book Value/Share (June est.)		$17.65
Price/Book Value		.99x
Indicated Dividend / Yield	$0.92	5.3%
Dividend Cycle		Feb., May, Aug., Nov.

EPS FY 12/31

	2009	Prior 2010E	Curr. 2010E	Prior 2011E	Curr. 2011E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.07		$1.20	$1.25	$1.30
P/E	16.4x		14.6x		13.5x
Payout	86%		77%		71%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2009	Prior 2010E	Curr. 2010E	Prior 2011E	Curr. 2011E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$6,275		$6,175	--	$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.*

Investment Highlights

- **NiSource reported third quarter net operating earnings of $0.04 per share versus $0.07 per share in the third quarter of 2009.** Earnings were modestly below the consensus estimate of $0.06 per share. Third quarter earnings benefited from increased electric industrial sales margins and off-system sales, as well as increased distribution revenues due to regulatory infrastructure programs. These revenue increases were offset by anticipated increases in operating expenses, taxes and depreciation. While third quarter earnings were lower, through the first nine months of 2010 NiSource has earned $0.89 per share versus $0.71 per share in the same period in 2009
- **Management raised 2010 earnings guidance to a range of $1.20 to $1.25 per share.** The company had previously expected earnings to be in a range of $1.10 to $1.20 per share. NiSource is raising its 2010 guidance in light of solid year-to-date results and a continued gradual economic recovery in some of its key markets. Also, we note the company was successful with a $400 million equity offering in September. The proceeds will allow NI to reach its targeted $1 billion capital expenditure infrastructure investment program. This investment program is expected to help generate long-term earnings growth at the upper end of its 3% to 5% guidance.
- **We maintain our Neutral rating on NiSource as we believe the stock is fairly valued.** However, we believe the company's fundamentals continue to improve and note the significant progress NI has made in its liquidity and financing needs during the past year. We are encouraged by the 2010 guidance and we expect higher earnings in 2011. Also, the stock has a 5.3% dividend yield and we feel the dividend is secure.

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

Third Quarter Results
NiSource posted third quarter net operating earnings of $0.04 per share compared to $0.07 per share in the third quarter of 2009. Earnings were modestly below the $0.06 per share consensus estimate. The company's third quarter results benefited from increased electric industrial margins and off-system sales, as well as increased gas distribution revenues due to regulatory and infrastructure programs. These revenue increases were offset by anticipated increases in operating expenses, taxes and depreciation. Also, we would point out that the company typically generates the bulk of its earnings during the first and fourth quarter of each year due to its large natural gas business, which is seasonal in nature. Moreover, although third quarter earnings were a bit lower than year-ago levels, the company is still enjoying an improved year from an earnings perspective. Through the first nine months of 2010, NiSource has posted operating earnings of $0.89 per share versus $0.71 per share through the same time period in 2009. NiSource's natural gas distribution and electric operations have contributed higher earning thus far in 2010, while the company's gas transmission and storage business has seen its earnings contribution decline modestly. The company continues to see a gradually improving economic environment in its service territory.

Company Raises 2010 Earnings Guidance
Management raised its earnings guidance for 2010 to $1.20 to $1.25 per share, up from the previous range of $1.10 to $1.20 per share. The company cited its solid year-to-date performance along with the ongoing gradual economic recovery in some of its key markets as primary reasons for the upward earnings revision. We are maintaining our 2010 earnings estimate of $1.20 per share, but feel this figure could prove conservative. However, we are increasing our 2011 earnings estimate by $0.05 per share to $1.30 per share to reflect what appears to be the company's improving fundamental outlook. While the company has not yet provided specific 2011 earnings guidance, NiSource continues to expect to be able to grow long-term earnings by a 3% to 5% annual rate.

Outlook
We are maintaining our Neutral rating on NiSource as we believe the stock is fairly valued, trading in line with the group. However, we believe the company has a solid long-term fundamental outlook. NI believes that a combination of rate relief and continued investment in its gas infrastructure business can drive future earnings growth at NiSource. The company issued $400 million in equity and expects to use the proceeds to invest in its business. In addition, the company expects to file a new rate case at NIPSCO (Northern Indiana Public Service Company) in the fourth quarter. Management believes the company can achieve long-term growth near the upper end of its 3% to 5% target range. Moreover, the company remains committed to both its dividend and an investment grade credit rating. With an above average dividend yield of 5.3% and seemingly improving growth prospects, we remain comfortable holding NiSource shares. Thus, we feel the stock offers an attractive dividend yield along with the potential for modest capital appreciation.

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

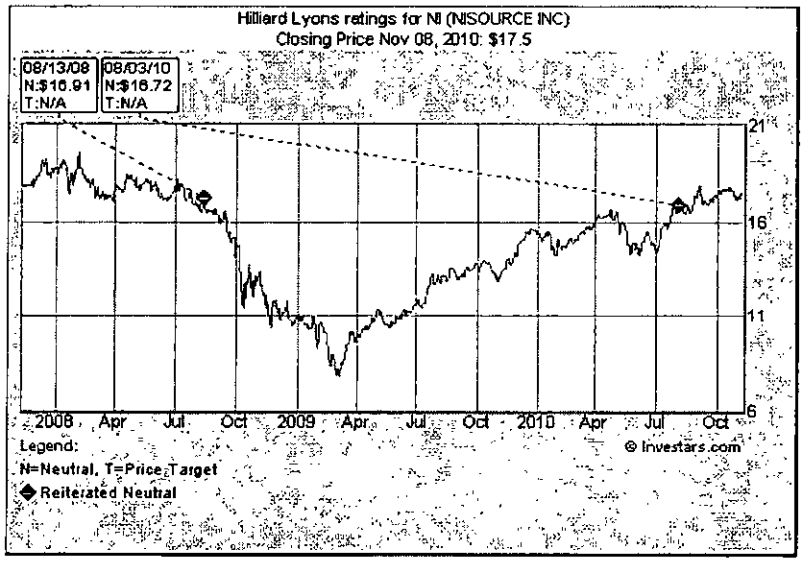
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Investment Ratings

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

Suitability Ratings

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



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	46	27%	2%	98%
Long-term Buy	35	21%	0%	100%
Neutral	83	49%	5%	95%
Underperform	6	4%	0%	100%

As of 8 November 2010

Other Disclosures

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J.P.Morgan

North America Equity Research
29 October 2010

NiSource, Inc.

3Q10 Miss on Higher Costs; Increased 2010 EPS Guidance

Neutral

NI, NI US
Price: $17.31

Price Target: $17.00

NI reported 3Q10 operating EPS of $0.04, below our estimate of $0.09. Higher costs in Gas Distribution and Gas Transmission and Storage led to the miss. However, the company raised 2010 EPS guidance to $1.20-$1.25, in line with our previous EPS estimate of $1.24 but 6% above previous guidance of $1.10 - $1.20 (midpoint).

- **Gas Distribution EBITDA below our estimate on higher costs.** 3Q10 Segment EBITDA of $23 mm vs. our est. of $42 mm. Operating expenses increased $19 mm yoy due to higher employee and administration costs, including deferred pension costs at Columbia Gas of Ohio of $10 mm.
- **Electric Operations above our expectation on improved margins.** Electric Operations posted 3Q10 EBITDA of $134 mm, ahead of our estimated $120 mm, due to higher industrial margins and increased off-system sales. Management received an order for its 2008 NIPSCO case in August. It plans to file another NIPSCO electric rate case in 4Q10. The new case would address factors related to economic downturn, customer usage and rate design. The company expects to resolve the 2nd case in late 2011/early 2012 (see Table 2 for a list of rate cases related to Electric Operations).
- **Gas T&S miss on higher costs.** Gas T&S EBITDA was $108 mm, below our estimate of $132 mm despite throughput increases of 17% yoy. Operating costs increased $14 mm on planned higher maintenance costs and employee and administration expenses. In the Marcellus, NGT&S commenced service on its $80 mm Majorsville expansion, announced a partnership with UGI Energy for a 500,000 Dth/d pipeline, and made progress on additional projects (see Table 3 for a list of projects related to Gas T&S). NGT&S announced that Columbia Gulf Transmission filed its first rate case in more than 14 years seeking an increase in revenues of ~$50 mm.
- **Updating model after 3Q10 results and maintaining 2011 PT at $17.** We adjust our 2010 EPS estimate to $1.23 from the previous $1.24 and maintain our 2011 price target of $17 based on 3Q10 results. We maintain our Neutral rating.

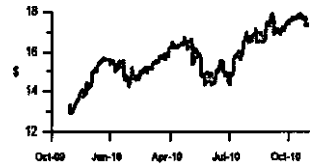
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Price Performance



	YTD	1m	3m	12m
Abs	12.5%	-0.9%	4.7%	30.1%

NiSource, Inc. (NI;NI US)

	2009A	2010E (Old)	2010E (New)	2011E
EPS ($)				
Q1 (Mar)	0.62	0.72A	0.72A	0.72
Q2 (Jun)	0.02	0.13A	0.13A	0.14
Q3 (Sep)	0.07	0.09A	0.04A	0.05
Q4 (Dec)	0.36	0.30	0.35	0.35
FY	1.07	1.24	1.23	1.26
CY				
P/E FY	16.2	13.9	14.0	13.8

Source: Company data and J.P. Morgan estimates.

Company Data	
Price ($)	17.31
Date Of Price	29 Oct 10
52-week Range ($)	17.96 - 12.83
Mkt Cap ($ bn)	4.82
Fiscal Year End	Dec
Shares O/S (mn)	278
Div. Yield	5.3%
Dividend ($)	0.92
Price Target ($)	17.00
Price Target End Date	31 Dec 11

* Registered/qualified as a research analyst under NYSE/NASD rules

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 1: 3Q10 Actuals vs. Estimates
$ in MM

	3Q10A	3Q10E	Diff.
EBITDA			
Gas Distribution	23	42	(18)
Gas Transmission & Storage	108	132	(24)
Electric Operations	134	120	13
Other	(6)	(5)	(1)
Total Sgmt EBITDA	259	289	(30)
Net operating earnings per share	$0.04	$0.09	($0.06)

Source: Company reports and J.P. Morgan estimates.

Columbia Gulf Transmission files first rate case in 14 years

On Oct 28th 2010, Columbia Gulf Transmission filed a rate case with the FERC. The proposal includes a mainline zone increase to $0.19 from the current $0.12 and an onshore zone increase to $0.07 from $0.04. These changes would translate to an increase in revenues of approximately $50 mm a year. NGT&S cited the rate increase will allow it to offset higher operating costs and decreased volumes on its system due to development in shale plays. It also proposed a revised rate design. Columbia Gulf's last rate case was over 10 years ago. Columbia Gulf requested an effective date of Dec 1st, 2010.

Table 2: NiSource's Rate Cases

Rate Cases	Date of Filing	Requested Change	Status	Authorized Rate Increase	Expected In-Effect
Gas Distribution					
Columbia Gas of Pennsylvania	1/28/2010	$32.0 MM	Approved 8-18-10	$12.0 MM	10/1/2010
Columbia Gas of Virginia	5/3/2010	$13.0 MM	Opportunity for Settlement		1/1/2011
NIPSCO	5/3/2010	No rate change, better rate design	Pending Approval		4Q10
Electric operations					
NIPSCO	2008	$85.0 MM	Order Issued 8-25-10 (base rate reduction $-49 MM) Subject to rehearing & appeal		
NIPSCO	9/24/2010	Change rates to reflect updated costs	Filing targeted for 4Q10		Late 2011/Early 2012
Gas Transmission & Storage					
Columbia Gulf Rate Case	10/28/2010	$50.0 MM	Filed		Proposed Effective date: Dec 1st, 2010

Source: Company Reports

Table 3: NiSource's Capital Projects

Project Name	Location	Net Capacity	Cost	In-Service Date
Gas Transmission & Storage				
Majorsville Expansion	Majorsville, PA	~325,000 Dth/d	$80.0 MM	9/27/2010
UGI Marcellus Pipeline	Northern PA	~500,000 Dth/d	N/A	In development
Line WB Expansion	Northern VA	~175,000 Dth/d	$14.0 MM	1/1/2011
Clendenin Project	W. Va	~150,000 Dth/d	$18.0 MM	2Q11

Source: Company Reports

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Valuation

We adjust our 2010 EPS estimate to $1.25 from $1.24 after the 3Q10 results. We adjust our price target on the 3Q10 results while maintaining our December 2011 price target at $17, which provides for a potential 4% total return.

We use two methodologies to arrive at NI's price target: a Sum-of-parts analysis and a P/E multiple.

1. Sum-of-Parts Analysis

In our sum-of-the parts analysis, we separately value each of NI's three business units: Distribution, NGT&S and Electric. We calculate value for each segment using EV/2011E EBITDA multiples; we apply 7.0x to 8.0x for the Distribution segment, 8.3x to 8.8x for NGT&S and 7.0x to 8.0x for Electric. All of these multiples are based on trading peers' comps, discounted due to lack of growth and/or risks associated with regulatory uncertainty. Using this method, we arrive at NI's price target of $15.86.

Table 4: Sum-of-Parts Valuation
$ in millions (except per share data)

	2011E EBITDA	Bear Case Multiple	Bear Case EV	Bull Case Multiple	Bull Case EV
Distribution	611	7.0x	4,279	8.0x	4,891
Transmission	552	8.3x	4,552	8.8x	4,828
Electric	441	7.0x	3,089	8.0x	3,531
Corp and other	(20)	3.0x	(60)	3.5x	(70)
Net Debt (current)			(7,405)		(7,405)
Underfunded Pension Liabilities			(675)		(675)
Equity Value			3,781		5,099
Share Count (MM)			280		280
Equity Value per Share			$ 13.51		$ 18.22
Target Share Price					$ 15.86

Source: Company reports and J.P. Morgan estimates.

2. P/E Multiple Approach

The natural gas utilities peer group currently trades at 14.9x P/2011E EPS. To derive NI's target price, we apply a 5% discount to this multiple due to lack of growth and/or risk associated with regulatory uncertainty and apply this number to NI's expected 2011 EPS. Using this method, we arrive at NI's price target of $17.80.

Table 5: Implied Stock Price by P/E Multiple Approach

Group average P/2011 E Multiple		14.9x
Premium (Discount)		-5%
NI 2011E EPS	$	1.26
Implied Stock Price	$	17.80

Source: J.P. Morgan estimates.

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Blended Price Target Calculation
We derived NI's blended price target as an average of the price targets derived by the two methodologies, assigning equal weights to each. We arrive at a December 2011 price target of $17. Investing in NI at current prices provides for a total return potential (including dividend) of 4%.

Table 6: Blended Price Target Calculation

Valuation Method		Price	Weight
P/E Approach	$	17.80	50%
Sum-of-the-parts	$	15.86	50%
Blended Price Target	$	17	

Source: J.P. Morgan estimates.

Risks to Our Rating

We have assumed continued improvement in the profitability of the company's storage and pipeline assets as a result of progress on multiple expansion projects. If the company reports materially better results, it would likely impact the relative valuation of the company's pipeline system. Longer term, the company is pursuing a number of regulatory initiatives at its gas and electric utilities businesses. If NiSource were to receive a materially different regulatory treatment than anticipated in the next couple of years, the stock could either outperform or underperform based on the direction of the change in regulatory outlook. Lastly, NIPSCO has exposure to industry and commercial user demand. In a recessionary environment, significantly lower electric demand and higher bad-debt expense could reduce NIPSCO's earnings, thus causing share underperformance.

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Appendix I: NI Income Statement

$ in MM (except per share data)

Income Statement	2009A	1Q10A	2Q10A	3Q10A	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E
Segment EBITDA																
Gas Distribution	577	297	99	23	168	588	309	103	24	175	611	319	106	25	180	630
Gas Transmission & Storage	530	157	106	108	142	514	170	115	117	150	552	180	122	124	159	584
Electric Operations	368	99	101	134	96	430	101	103	136	100	441	106	108	143	105	463
Other	(19)	(2)	(5)	(6)	(5)	(18)	(5)	(5)	(5)	(5)	(20)	(5)	(5)	(5)	(5)	(20)
Total Sgmt EBITDA	1,457	551	302	259	401	1,514	575	317	272	420	1,584	599	332	287	439	1,657
Depreciation and amortization	(578)	(146)	(148)	(149)	(151)	(595)	(153)	(154)	(156)	(157)	(620)	(159)	(160)	(162)	(163)	(644)
Interest expense	(399)	(99)	(98)	(98)	(95)	(390)	(95)	(94)	(94)	(94)	(378)	(94)	(94)	(94)	(95)	(377)
Other net	(2)	3	3	2	-	7	-	-	-	-	-	-	-	-	-	-
Income before tax	478	309	58	14	155	537	327	68	22	169	586	346	78	31	181	636
Income tax expense	(184)	(111)	(21)	(4)	(58)	(193)	(121)	(26)	(8)	(62)	(218)	(128)	(29)	(11)	(67)	(235)
Income before other items (non - GAAP)	294	198	37	10	98	344	206	42	14	106	368	218	49	19	114	401
Income before other items (GAAP)	229	197	28	33	98	357	206	42	14	106	368	218	49	19	114	401
Other	(12)	-	0	-	-	0	-	-	-	-	-	-	-	-	-	-
Net Income	218	197	28	33	98	357	206	42	14	106	368	218	49	19	114	401
Number of shares diluted	276	278	278	280	283	280	289	295	301	304	297	304	304	304	304	304
Basic Net Operating Earnings per Share	$1.07	$0.72	$0.13	$0.04	$0.35	$1.23	$0.72	$0.14	$0.05	$0.35	$1.26	$0.72	$0.16	$0.06	$0.38	$1.32
EPS (continuing operations), diluted	$0.83	$0.71	$0.10	$0.12	$0.35	$1.28	$0.71	$0.14	$0.05	$0.35	$1.25	$0.72	$0.16	$0.06	$0.38	$1.32
EPS (discontinued operations), diluted	($0.04)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
EPS (diluted)	$0.79	$0.71	$0.10	$0.12	$0.35	$1.28	$0.71	$0.14	$0.05	$0.35	$1.25	$0.72	$0.16	$0.06	$0.38	$1.32
Basic Net Operating Earnings Growth	*15.4%*					*15.4%*					*1.9%*					*5.2%*

Source: Company reports and J.P. Morgan estimates

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Appendix II: NI Balance Sheet and Cash Flow Statement

$ in MM

Balance Sheet	2009A	1Q10A	2Q10A	3Q10A	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E
Cash and cash equivalents	16	111	7	11	10	10	10	10	10	10	10	10	10	10	10	10
Other current assets	2,207	2,087	1,886	2,185	2,185	2,185	2,185	2,185	2,185	2,185	2,185	2,185	2,185	2,185	2,185	2,185
Total current assets	2,224	2,197	1,893	2,196	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195
Net PPE	10,684	10,697	10,800	10,922	11,107	11,107	11,177	11,245	11,312	11,377	11,377	11,441	11,503	11,564	11,623	11,623
Other assets	6,364	6,457	6,355	6,408	6,408	6,408	6,408	6,408	6,408	6,408	6,408	6,408	6,408	6,408	6,408	6,408
Total assets	19,272	19,352	19,048	19,525	19,710	19,710	19,780	19,848	19,915	19,980	19,980	20,044	20,106	20,167	20,226	20,226
Short-term debt and current portion of LT debt	822	1,094	932	1,452	-		-	-	-	-		-	-	-	-	
Accounts Payable	502	407	279	243	243	243	243	243	243	243	243	243	243	243	243	243
Other current liabilities	1,809	1,496	1,507	1,557	1,557	1,557	1,557	1,557	1,557	1,557	1,557	1,557	1,557	1,557	1,557	1,557
Total current liabilities	3,134	2,997	2,717	3,251	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Long-term debt	6,787	5,964	5,977	5,964	7,450	7,450	7,263	7,240	7,245	7,253	7,253	7,149	7,212	7,303	7,298	7,298
Other long-term liabilities and deferred credits	5,319	5,462	5,459	5,432	5,452	5,452	5,472	5,492	5,512	5,532	5,532	5,552	5,572	5,592	5,612	5,612
Total capital	4,854	4,929	4,895	4,878	5,008	5,008	5,245	5,316	5,358	5,395	5,395	5,543	5,523	5,472	5,517	5,517
Total liabilities and capital	19,272	19,352	19,048	19,525	19,710	19,710	19,780	19,848	19,915	19,980	19,980	20,044	20,106	20,167	20,226	20,226
Credit Stats																
EBITDA	1,457	551	302	259	401	1,514	575	317	272	420	1,584	599	332	287	439	1,657
Interest	399	99	98	98	95	390	95	94	94	94	378	94	94	94	95	377
Total Debt	7,610	8,152	7,841	8,867	7,450	7,450	7,263	7,240	7,245	7,253	7,253	7,149	7,212	7,303	7,298	7,298
EBITDA/Interest	3.6x	3.7x	3.8x	3.9x	3.9x	3.9x	4.0x	4.1x	4.1x	4.2x	4.2x	4.3x	4.3x	4.3x	4.4x	4.4x
Debt/EBITDA	5.2x	5.4x	5.1x	5.8x	4.9x	4.9x	4.7x	4.7x	4.6x	4.6x	4.6x	4.4x	4.4x	4.5x	4.4x	4.4x
Cash Flow	2009A	1Q10A	2Q10A	3Q10A	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E
Net income	218	197	28	33	98	357	206	42	14	106	368	218	49	19	114	401
Depreciation and amortization	589	150	152	153	151	606	153	154	156	157	620	159	160	162	163	644
Other items	158	(31)	20	84	20	94	20	20	20	20	82	20	20	20	20	80
Change in working capital	686	(233)	120	(341)	-	(454)	-	-	-	-		-	-	-	-	
Net cash provided by operating activities	1,651	83	319	(70)	269	602	379	217	190	284	1,070	397	229	201	297	1,124
Capex	(777)	(139)	(198)	(217)	(336)	(890)	(223)	(223)	(223)	(223)	(890)	(223)	(223)	(223)	(223)	(890)
Divestitures	6	0	0	-	-	0	-	-	-	-		-	-	-	-	
Other	117	(56)	(1)	(87)	-	(144)	-	-	-	-		-	-	-	-	
Net cash used in investing activities	(655)	(194)	(199)	(367)	(336)	(1,097)	(223)	(223)	(223)	(223)	(890)	(223)	(223)	(223)	(223)	(890)
Debt net	(770)	267	(162)	501	34	639	(188)	(24)	5	8	(198)	(105)	63	91	(5)	44
Equity Issuance	24	2	3	4	97	106	97	97	97	-	291	-	-	-	-	
Dividend Paid	(253)	(64)	(64)	(64)	(65)	(256)	(66)	(67)	(69)	(70)	(272)	(70)	(70)	(70)	(70)	(278)
Other	-	-	-	-	-		-	-	-	-		-	-	-	-	
Net cash provided by financing activities	(1,000)	205	(223)	441	66	489	(157)	6	33	(61)	(180)	(174)	(7)	22	(75)	(234)
Net increase in cash and cash equivalents	(4)	94	(103)	4	(1)	(6)	-	-	-	-		-	-	-	-	
Cash and cash equivalents, beginning	21	16	111	7	11	16	10	10	10	10	10	10	10	10	10	10
Cash and cash equivalents, end	16	111	7	11	10	10	10	10	10	10	10	10	10	10	10	10

Source: Company reports and J.P. Morgan estimates

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North America Equity Research
29 October 2010

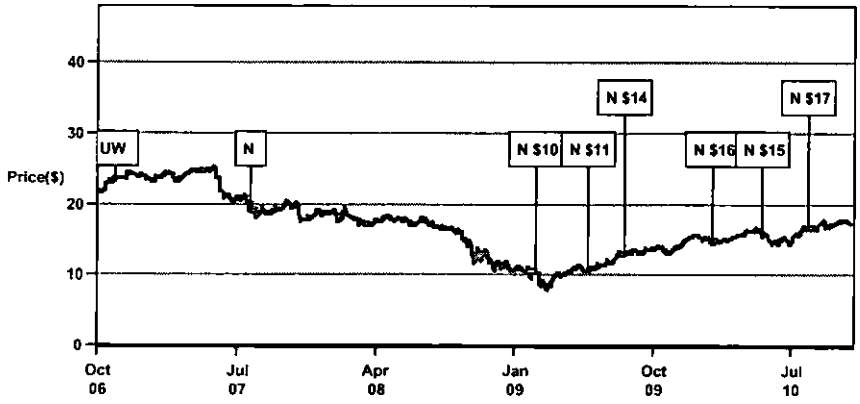
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- **Client of the Firm:** NiSource, Inc. is or was in the past 12 months a client of JPM; during the past 12 months, JPM provided to the company investment banking services, non-investment banking securities-related service and non-securities-related services.
- **Investment Banking (past 12 months):** J.P. Morgan received, in the past 12 months, compensation for investment banking services from NiSource, Inc..
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from NiSource, Inc..
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NiSource, Inc. (NI) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
06-Nov-06	UW	23.63	–
30-Jul-07	N	19.23	–
09-Feb-09	N	10.77	10.00
22-May-09	N	10.48	11.00
05-Aug-09	N	12.97	14.00
25-Jan-10	N	14.58	16.00
05-May-10	N	16.60	15.00
04-Aug-10	N	16.72	17.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Oct 12, 2005 - Jun 30, 2006. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	46%	43%	12%
IB clients*	49%	45%	33%
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October 29, 2010
Quick Alert

KeyBanc
Capital Markets

NiSource, Inc. (HOLD)

NI - Quick Alert: 3Q10 Earnings in Line, Guidance Raised

KeyBanc Capital Markets Inc.,
Member NYSE/FINRA/SIPC

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NI – Quick Alert: 3Q10 Earnings in Line, Guidance Raised
October 28, 2010 Close: $17.45
3Q10 KBCM EPS Estimate: $0.07 (Consensus: $0.06)
2010 KBCM EPS Estimate: $1.25 (Consensus: $1.22)
2011 KBCM EPS Estimate: $1.30 (Consensus: $1.30)

3Q10 Actual Results (vs. 3Q09):

- 3Q10 ongoing EPS $0.06 vs. $0.01; GAAP EPS $0.12 vs. $0.05 loss.
- The difference between 3Q GAAP and ongoing EPS is discontinued operations and reserve reversals. NI excludes weather from its view of ongoing, weather was a $0.02 help in the quarter.
- Results were $0.01 below our estimate of $0.07 and in line with consensus of $0.06 per share.

Guidance: Raised 2010 guidance of $1.10-$1.20 per share to $1.20-$1.25 and reiterated long-term earnings growth of 3-5%, with growth moving to the higher end and as growth capex accelerates in the Marcellus infrastructure buildout.

Highlights:

- Gas Distribution operating earnings were lower ($42 million loss vs. $32 million loss) as higher revenues from regulatory trackers as well as rate redesign in Ohio that changes the shape of the annual revenue stream were offset by lower margins and higher employee costs.
- Gas Transmission and Storage declined (operating earnings off $76 million vs. $100.2 million) as lower short-term transport and storage revenues and decreased mineral lease income were compounded by higher employee costs.
- Electric operations earnings improved (operating earnings up over $43 million) as weather, offsystem sales and higher industrial margins offset higher expenses.
- Interest expense improved by $7.4 million on redemptions and lower rates.

Initial Take: While we view the guidance increase positively, we believe consensus views had already anticipated it.

9:00 AM ET Conference Call #: 866-730-5762 ID#: 9605590
We will be focused on:

- Economic update on Northern Indiana and sales trends
- Rate case update in Indiana
- Potential impact from commission shakeup after Governor dismissed chair
- Marcellus shale growth initiatives
- Business strategy update

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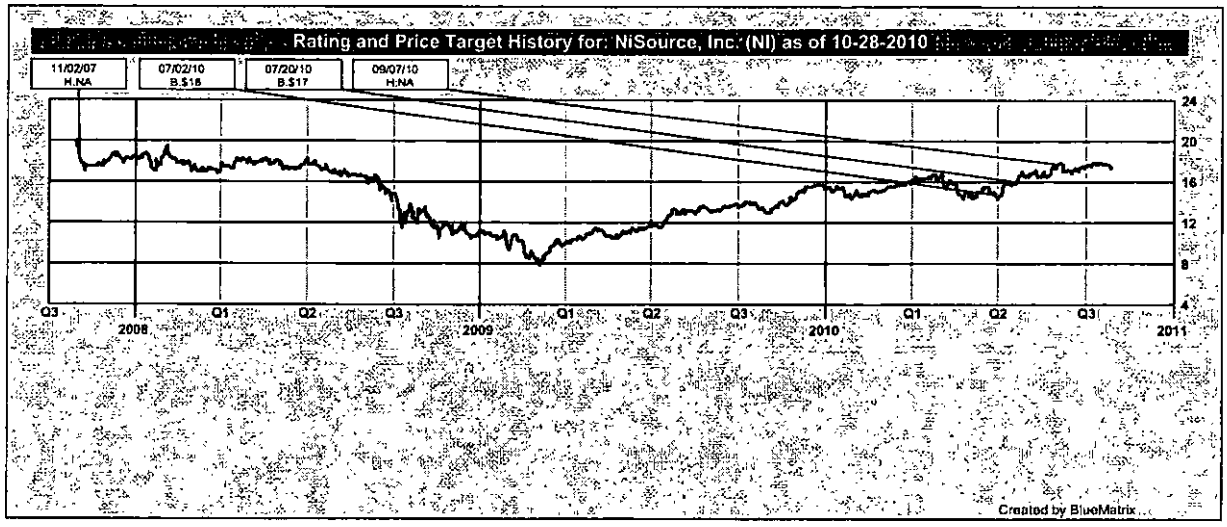
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Three-Year Rating and Price Target History



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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]	199	47.80	45	22.61	BUY [BUY]	27	44.30	13	48.15
HOLD [HOLD]	211	50.70	52	24.64	HOLD [HOLD]	34	55.70	21	61.76
SELL [UND]	6	1.40	1	16.67	SELL [UND]	0	0.00	0	0.00

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BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

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

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NiSource Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$18.00 *Unchanged*
Price	US$17.20
RIC: NI.N BBG: NI US	
	29 October 2010

Trading data	
52-wk range	US$17.91-12.92
Market cap.	US$4.78bn
Shares o/s	278m (COM)
Free float	99%
Avg. daily volume ('000)	825
Avg. daily value (m)	US$14.2

Balance sheet data 12/10E	
Shareholders' equity	US$4.93bn
P/BV (UBS)	1.0x
Net Cash (debt)	(US$7.36bn)

Forecast returns	
Forecast price appreciation	+4.7%
Forecast dividend yield	5.3%
Forecast stock return	+10.0%
Market return assumption	5.4%
Forecast excess return	+4.6%

Advancing the Agenda

■ **Results just short of expectations**

NI realized recurring 3Q10 EPS of $0.06 (excluding items), just shy of our $0.07 estimate but in-line with the Street's $0.06 mean estimate. Stronger than expected Electric Operations and a lower than anticipated tax rate were not enough to offset below-forecast results at Gas Distribution and Transmission & Storage, prompting the EPS. However, we note the continued y/y improvements NI achieved in 3Q, extending a trend established in 1Q that reflects the benefits of regulatory actions, favorable y/y weather, and a rebound in economic activity.

■ **NGT&S continues advancing its agenda**

While investors likely concentrated on the successful Gas and Electric regulatory outcomes and $400mm equity forward sale offering in 3Q, we note the progress made at NGT&S. The Majorsville expansion commenced service in Sept., a new partnership with UGI was announced to develop Marcellus transport capacity, and Columbia Gulf Transmission filed its first rate case in more than 14 years.

■ **Management lifts 2010 EPS guidance; Trimming our 2010 EPS estimate**

In conjunction with 3Q results, mgmt lifted its 2010 EPS (non-GAAP) guidance to $1.20-$1.25, from $1.10-$1.20. Given mgmt's stated YTD performance, the mid-point of new guidance implies 4Q results of $0.34. Incorporating 3Q performance, we are trimming our 2010 EPS estimate to $1.22, from $1.23; notably, our estimate includes the impact of non-normal weather, an item excluded from mgmt guidance.

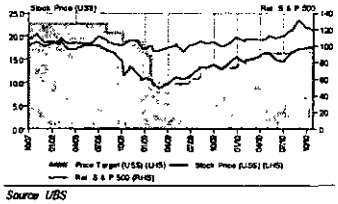
■ **Valuation: Maintain $18 price target**

We maintain our $18 price target, which is achieved via DCF and SOP approaches.

EPS (UBS, US$)

	12/10E From	12/10E To	12/10E Cons.	12/09 Actual
Q1	0.71	0.71	0.72	0.62
Q2	0.10	0.10	0.13	(0.01)
Q3	0.07	0.06	0.06	(0.02)
Q4E	0.35	0.35	0.33	0.36
12/10E	1.23	1.22	*1.22*	
12/11E	1.33	1.33	*1.30*	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Highlights (US$m)	12/08	12/09	12/10E	12/11E	12/12E
Revenues	9,145.50	6,371.00	6,033.10	6,359.63	6,595.87
EBIT (UBS)	914.20	844.49	930.93	1,009.22	1,076.20
Net Income (UBS)	346.27	259.27	339.44	376.89	412.58
EPS (UBS, US$)	1.26	0.94	1.22	1.33	1.45
Net DPS (UBS, US$)	0.92	0.92	0.92	0.92	0.92
Profitability & Valuation	**5-yr hist av.**	**12/09**	**12/10E**	**12/11E**	**12/12E**
EBIT margin %	12.6	13.3	15.4	15.9	16.3
ROIC (EBIT) %	9.4	7.7	8.6	8.9	9.2
EV/EBITDA (core) x	8.5	8.2	8.6	8.6	8.2
PE (UBS) x	15.1	12.8	14.1	12.9	11.9
Net dividend yield %	4.5	7.7	5.3	5.3	5.3

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$17.20 on 29 Oct 2010 11:12 EDT

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Figure 1: NI 3Q10 Earnings Summary

Recurring Operating Income by Division	Actual 3Q10A	UBS Estimates 3Q10A		Year-over-Year 3Q09E	
Gas Distribution	($41.8)	($30.5)	-36.9%	($32.5)	-28.6%
Transmission & Storage	$76.4	$98.2	-22.2%	$100.1	-23.7%
Electric Operations	$89.9	$65.0	38.3%	$47.3	90.1%
Corporate, Other, and Elimnations	($6.2)	($3.1)	-100.0%	($5.5)	-12.7%
Total Operating Income	**$118.3**	**$129.5**	**-8.7%**	**$109.4**	**8.1%**
Depreciation	($153.2)	($153.2)	0.0%	($148.7)	3.0%
Other Income / (Expenses)	$2.1	$0.6	NM	$2.3	-8.7%
Interest Expense	($97.6)	($99.5)	-1.9%	($104.8)	-6.9%
Income Tax Benefit (Expense)	($7.1)	($11.5)	-38.1%	($11.8)	-39.8%
Recurring Net Income	**$15.7**	**$19.2**	**-18.3%**	**($4.9)**	**NM**
Avg Diluted Shares Outstanding	279.9	279.1	0.3%	275.4	1.6%
Earnings Per Diluted Share	**$0.06**	**$0.07**	**-18.5%**	**($0.02)**	**NM**

Source: NI Reports and UBS estimates
Note: Adjusted results exclude non-recurring items

■ NiSource Inc.

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■ 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 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	51%	37%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	9%	22%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	20%
Sell	Sell	less than 1%	0%

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 30 September 2010.

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.

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.

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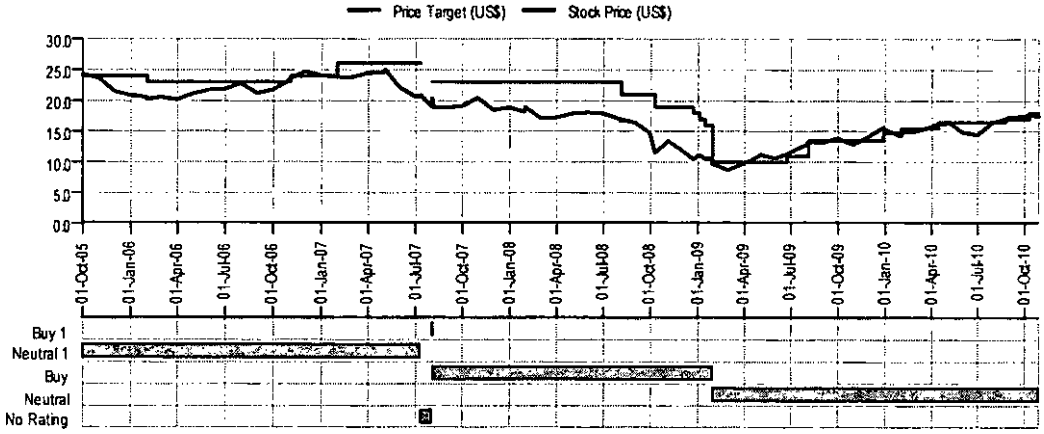
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
NiSource Inc.[2, 4, 6, 16]	NI.N	Neutral	N/A	US$17.45	28 Oct 2010

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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NiSource Inc. (US$)



Source: UBS; as of 28 Oct 2010

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UBS

October 29, 2010

Equity Research

NiSource Inc.

NI: 3Q'10 Slightly Below -- Maintaining Market Perform
Could A NIPSCO Settlement Be On The Horizon?

Market Perform

Sector: Natural Gas Pipeline
Market Weight

- Summary. Maintaining Market Perform rating and increasing our valuation range from $17-18 to $18-20, on rolling our S.O.P to our 2012 estimates. NI reported 3Q10 operating EPS (non-GAAP) of $0.04; slightly below our $0.05 and Street's $0.06 estimate. Despite the penny miss, we are adjusting our FY10 EPS estimate from $1.22 to $1.23 on slightly lower interest expense and effective tax rate. We are also increasing our FY11 and FY12 EPS estimates from $1.30 and $1.40, respectively, to $1.33 and $1.42, primarily to reflect the impact of a 2H11 earnings uplift from the implementation of higher pipeline rates.
- Although already reflected consensus and our estimates, NI increased its FY10 EPS (non-GAAP) guidance from $1.10-$1.20 to $1.20-$1.25, on better operations and lower expenses. In addition, NI reiterated its long-term 3 to 5% EPS growth rate; although it seems likely that NI will be well ahead of that range over the next few years assuming a modest outcome in its NIPSCO rate case, implementation of its infrastructure growth projects, and utility infrastructure regulatory initiatives.
- Columbia Gulf pipeline filed its first rate case in 14 years following its inability to settle with shippers on a creative incentive fixed fuel arrangement. NI is asking for a $50MM revenue increase to recover costs with system integrity & reliability and changes in operating flows. Rates are expected to go into effect in May 2011, subject to refund. If no settlement is reached in the meantime, the case expected to be litigated in Oct. 2011. Assuming 50% recovery, this case could add 5 to 6 cents to EPS on an annualized basis, which is reflected in our updated estimates.
- Settling NIPSCO? While we do not want to get too far out on our ski tips, NI mentioned that it is currently working with interveners to "obviate" the need for a second case. We think a settlement could prove to be positive, assuming its done in a way that benefits rate payers and NI stakeholders.
- What to do with the shares? We think NiSource offers an attractive value proposition, given that it has largely removed the funding gap overhang, it is delivering on its regulated and infrastructure growth opportunities, it has one of the highest (secure) dividend yields in its peer group, and it has the potential to settle the NIPSCO rate case which could bring earnings growth forward sooner than anticipated while also removing a long standing regulatory risk.

Earnings Estimates Revised Up

	2009A	2010E		2011E	
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	$0.62	$0.72 A	NC	NE	
Q2 (June)	0.02	0.13 A	NC	NE	
Q3 (Sep.)	0.07	0.04 A	0.05	NE	
Q4 (Dec.)	0.35	0.36	0.33	NE	
FY	$1.07	$1.23	1.22	$1.33	1.30
CY	$1.07	$1.23		$1.33	
FY P/E	16.2x	14.1x		13.0x	
Rev.(MM)	$3,342	$3,450		$3,605	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ✎ = Company is on the Priority Stock List

Ticker	NI
Price (10/29/2010)	$17.29
52-Week Range:	$12-18
Shares Outstanding: (MM)	273.1
Market Cap.: (MM)	$4,721.9
S&P 500:	1,182.61
Avg. Daily Vol.:	3,764,660
Dividend/Yield:	$0.92/5.3%
LT Debt: (MM)	$7,375.0
LT Debt/Total Cap.:	59.0%
ROE:	7.0%
3-5 Yr. Est. Growth Rate:	3.0%
CY 2010 Est. P/E-to-Growth:	4.7x
Last Reporting Date:	10/29/2010

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Valuation Range: $18.00 to $20.00 from $17.00 to $18.00
We believe the shares of NI warrant a valuation range of $18 to $20, based on our 2012 EPS estimate and a P/E multiple of roughly 13x to 14x. Risks to the shares achieving our valuation range over the next 12 months may include unexpected regulatory actions, operational execution of investment projects designed to grow earnings, and achievement of further operating cost savings.

Investment Thesis:
NiSource's regulated businesses provide a stable, predictable stream of earnings. The company has improved its balance sheet, sold non-core businesses, and lowered its risk profile. The lack of near-term earnings growth, compounded and driven by multiple regulatory overhangs that also dampen potential for strategic action, effectively limit the stock's attraction, in our view.

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Please see page 5 for rating definitions, important disclosures and required analyst certifications

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Together we'll go far



Company Description:

NiSource Inc. operating companies engage in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution, delivering energy to 3.7 million customers in the Great Lakes, Mid-Atlantic, and New England regions.

NiSource Inc. reported net operating earnings from continuing operations (non-GAAP) of $10.3MM, or $0.04, for 3Q10, a decrease from $19.4MM, or $0.07, for 3Q09. This is slightly below our 3Q10 estimate of $0.05 and Consensus of $0.06. Operating earnings (non-GAAP) were $109.9MM in 3Q10 compared to $134.8MM for 3Q09. The company's third quarter results benefited from increased electric industrial margins and off-system sales, as well as increased gas distribution revenues due to regulatory and infrastructure programs. These revenue increases were offset by anticipated increases in operating expenses, taxes and depreciation. Please see exhibit 1 for more details.

Exhibit 1. Wells Fargo Estimates Vs. Actual Earnings

(In millions, except per share amounts)	3Q09A	2Q10A	3Q10A	3Q10E	Actual Vs. Est. VAR ($)	Actual Vs. Est. VAR (%)	Y/Y Variance VAR ($)	Y/Y Variance VAR (%)	Sequential Variance VAR ($)	Sequential Variance VAR (%)
Gas Distribution	(30.0)	35.9	(40.7)	(31.3)	(9.4)	30%	(10.7)	36%	(76.6)	-213%
Gas Transmission & Storage	100.2	80.9	76.4	95.5	(19.1)	-20%	(23.8)	-24%	(4.5)	-6%
Electric	69.8	48.3	80.0	67.1	12.9	19%	10.4	15%	31.7	66%
Corporate and Other	(5.5)	(5.1)	(5.8)	(4.5)	(1.3)	29%	(0.3)	5%	(0.7)	14%
Operating Earnings	134.8	154.0	109.9	126.8	(16.9)	-13%	(24.9)	-18%	(44.1)	-29%
Net Operating margin	*19.8%*	*20.7%*	*15.5%*	*18.6%*	*-3.1%*	*-17%*	*-4%*	*-21%*		
Other Earnings (Deductions)	-	-	-	-						
Interest expense, net	(105.0)	(98.4)	(97.8)	(102.8)	5.2	-5%	7.4	-7%	0.8	-1%
Other, net	2.4	2.6	2.1	(2.0)	4.1	NE	(0.3)	-13%	(0.5)	-19%
Total Other Income (Deductions)	(102.6)	(95.8)	(95.5)	(104.8)	9.3	-9%	7.1	-7%	0.3	0%
Operating Earnings From Cont. Ops. Before Tax	32.2	58.2	14.4	22.0	(7.6)	-35%	(17.8)	-55%	(43.8)	-75%
Income Taxes	12.8	21.2	4.1	8.5	(4.4)	-52%	(8.7)	-68%	(17.1)	-81%
Effective Tax Rate (%)	*39.8%*	*36.4%*	*28.5%*	*38.5%*	(0.1)	-26%	(0.1)	-28%	(0.1)	-22%
Net Operating Earnings from Continuing Ops.	19.4	37.0	10.3	13.6	(3.3)	-24%	(9.1)	-47%	(26.7)	-72%
GAAP Adjustment	(32.6)	(9.0)	23.1	-	23.1	NE	55.7	-171%	32.1	-357%
GAAP Income From Cont. Ops	$ (13.2)	$ 28.0	$ 33.4	$ 13.6	19.8	146%	46.6	-353%	5.4	19%
	-	-	-	-						
Basic Net Op. Earnings Per Share from Cont. Ops	$ 0.07	$ 0.13	$ 0.04	$ 0.05	$ 0.04	-24%	$ (0.03)	-47%	$ (0.10)	-72%
GAAP Adjustment	$ (0.12)	$ (0.03)	$ 0.08	$ -	$ 0.08	NE	$ 0.20	-170%	$ 0.12	-356%
GAAP Basic Earnings Per Share from Cont. Ops	$ (0.05)	$ 0.10	$ 0.12	$ 0.05	$ 0.07	146%	$ 0.17	-351%	$ 0.02	19%
Basic Average Common Shares Outstanding (MM)	275.4	277.6	278.1	277.6	0.5	0%	2.7	1%	0.5	0%
Consolidated EBITDA	$ 281	$ 303	$ 259	$ 276	(17.0)	-6%	(21.8)	-8%	(43.2)	-14%
Consolidated EBITDA (TTM)	$ 1,496	$ 1,543	$ 1,521	$ 1,538	(17.0)	-1%	25.0	2%	(21.8)	-1%

Source: Company data and Wells Fargo Securities, LLC estimates

Maintaining Market Perform and Increasing Valuation Range to $18-20 From $17-$18

We primarily value NiSource using a sum-of-the-parts (SOP) valuation analysis; however, we also use P/E multiple based valuation analysis which is supported by our SOP. Below we have provided an updated sum-of-the-parts analysis that is based on a range of EV/EBITDA multiples, which are a reflection of each individual business segments growth and risk profiles. For the gas distribution segment we apply a 6.75-7.75x multiple, for gas transmission and storage we apply an 8.25-9.25x multiple, for the electric segment we apply a 6.5-7.5x multiple, and for the corporate and other segment we apply a 4.5-5.5x multiple to our 2012 EBITDA estimates. We then subtract out our estimate for net debt and pension liabilities to arrive at our equity value which we then divide by the number of diluted shares outstanding to arrive at our equity valuation range per share. As outlined at the bottom of our SOP analysis, this implies that shares should trade at roughly 13 to 14x our 2012 EPS estimate to arrive at our target valuation range. Historically shares have traded on average at approximately 13.7x 1-year forward EPS estimates.

Exhibit 2. NiSource Sum-of-the-parts Scenario Analysis

NiSource Corp. (NI): Sum-of-the-Parts Scenario Analysis Valuation Build-up												
($ in millions except were noted)			*2012 Valuation Senario Analysis*							2012E Valuation / Share		
Regulated Segments:			**Low Case**		**Base Case**		**High Case**					
Segment	**Metric:**	**2012E**	**Valuation Multiple**	**E.V. ($ MM)**	**Valuation Multiple**	**E.V. ($ MM)**	**Valuation Multiple**	**E.V. ($ MM)**		**Low Case**	**Base Case**	**High Case**
Gas Distribution	EBITDA:	$650MM	*6.75 x*	$ 4,389	*7.25 x*	$ 4,714	*7.75 x*	$ 5,040		$14.51	$15.59	$16.67
Gas Transmission and Storage	EBITDA:	$584MM	*8.25 x*	$ 4,816	*8.75 x*	$ 5,108	*9.25 x*	$ 5,400		$15.93	$16.89	$17.86
Electric	EBITDA:	$560MM	*6.5 x*	$ 3,637	*7.0 x*	$ 3,917	*7.5 x*	$ 4,197		$12.03	$12.95	$13.88
Corp & Other	EBITDA:	-$40MM	*4.5 x*	$ (180)	*5.0 x*	$ (200)	*5.5 x*	$ (220)		($0.60)	($0.66)	($0.73)
Total Enterprise Value:		**$1,754MM**	7.3 x	$ 12,662	7.8 x	$ 13,539	8.3 x	$ 14,416		$41.87	$44.77	$47.67
2010 Year End Estimated Net Debt				$ (7,575)		$ (7,575)		$ (7,575)		($25.05)	($25.05)	($25.05)
Pension liability (PV @ 10%)				$ (131.9)		$ (131.9)		$ (131.9)		($0.44)	($0.44)	($0.44)
Equity Value :				$ 4,955		$ 5,832		$ 6,708		$16	$19	$22
Diluted Shares Outstanding (MM)				302.4		302.4		302.4				
Valuation:				$16		$19		$22				
Target Implied 2010E P/E Multiple				*13.0x*		*15.6x*		*17.8x*				
Target Implied 2011E P/E Multiple				*12.1 x*		*14.5 x*		*16.6 x*				
Target Implied 2012E P/E Multiple				*11.2 x*		*13.6 x*		*15.5 x*				
Potential upside (excluding dividend)				-8%		11%		26%				
Potential upside (including dividend)				-3%		16%		31%				

Source: Company Data and Wells Fargo Securites, LLC estimates

Exhibit 3. NiSource Consolidated Income Statement

NiSource Inc. (Fiscal Yr. End Dec. 30) *(In millions, except per share amounts)*	FY 2007A	FY 2008A	FY 2009A	1Q10A	2Q10A	3Q10A	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Total net revenues	3,303.8	3,233.1	3,342.3	1,069.6	745.3	708.4	926.7	3,450.0	3,606.5	3,954.2	4,130.7	4,318.3	4,511.4
Operating Expenses													
Operations and maintenance	1,250.3	1,248.8	1,350.0	329.5	338.9	354.4	376.7	1,399.5	1,467.7	1,613.1	1,685.8	1,762.3	1,842.8
Operations and maintenance - trackers	202.8	210.7	247.3	107.1	37.2	32.9	73.4	250.6	259.1	270.4	279.0	287.9	297.0
Depreciation and amortization	559.2	567.0	583.0	147.3	148.5	149.4	146.7	591.9	583.6	696.2	730.2	766.0	803.8
Depreciation and amortization - Trackers	-	-	6.2	2.5	3.1	3.8							
Other taxes	207.2	204.7	200.5	54.7	51.3	52.4	48.0	206.4	204.4	220.4	227.1	234.3	241.8
Other taxes - trackers	95.8	100.8	81.1	31.0	12.7	9.1	22.3	75.1	75.1	75.1	75.1	75.1	75.1
Total Operating Expenses	2,315.3	2,332.0	2,478.1	672.1	591.7	602.0	667.0	2,523.4	2,589.8	2,875.3	2,997.2	3,125.5	3,260.5
Equity Earnings in Unconsolidated Affiliates	9.4	12.3	16.1	7.4	0.4	3.5	6.5	17.8	18.1	18.4	18.8	19.2	19.6
Operating Earnings	997.9	913.4	880.3	404.9	154.0	109.9	261.2	928.8	1,008.8	1,081.3	1,136.3	1,194.0	1,254.5
Net Operating margin	*30.2%*	*28.3%*	*26.3%*	*37.9%*	*20.7%*	*15.5%*	*28.2%*	*26.9%*	*28.0%*	*27.3%*	*27.5%*	*27.7%*	*27.8%*
Other Earnings (Deductions)													
Interest expense, net	(400.7)	(375.2)	(399.4)	(98.7)	(98.4)	(97.6)	(100.0)	(394.7)	(399.6)	(401.0)	(407.1)	(409.0)	(412.6)
Other, net	(6.5)	0.6	(1.4)	2.6	2.6	2.1	(2.0)	5.3	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Total Other Income (Deductions)	(407.2)	(374.6)	(400.8)	(96.1)	(95.8)	(95.5)	(102.0)	(389.4)	(403.6)	(405.0)	(411.1)	(413.0)	(416.6)
Operating Earnings From Cont. Ops. Before Tax	590.7	538.8	479.5	308.8	58.2	14.4	159.2	537.2	605.2	676.3	725.1	781.0	837.9
Income Taxes	214.9	192.6	184.4	110.5	21.2	4.1	58.9	194.7	223.9	250.2	268.3	289.0	310.0
Effective Tax Rate (%)	*36.4%*	*35.7%*	*38.5%*	*35.8%*	*36.4%*	*28.5%*	*37.0%*	*36.2%*	*37.0%*	*37.0%*	*37.0%*	*37.0%*	*37.0%*
Net Operating Earnings from Continuing Ops.	375.8	346.2	295.1	198.3	37.0	10.3	100.3	342.5	381.3	426.0	456.8	492.0	527.9
GAAP Adjustment	(53.8)	21.0	(64.3)	(1.0)	(9.0)	23.1	-	13.1					
GAAP Income From Cont. Ops	$ 322.0	$ 367.2	$ 230.8	$ 197.3	$ 28.0	$ 33.4	$ 100.3	$ 355.6	$ 381.3	$ 426.0	$ 456.8	$ 492.0	$ 527.9
Basic Net Op. Earnings Per Share from Cont. Ops	$ 1.37	$ 1.26	$ 1.07	$ 0.72	$ 0.13	$ 0.04	$ 0.36	$ 1.23	$ 1.33	$ 1.42	$ 1.51	$ 1.63	$ 1.75
GAAP Adjustment	$ (0.20)	$ 0.08	$ (0.23)	$ (0.00)	$ (0.03)	$ 0.08	$ -	$ 0.05	$ -	$ -	$ -	$ -	$ -
GAAP Basic Earnings Per Share from Cont. Ops	$ 1.18	$ 1.34	$ 0.84	$ 0.71	$ 0.10	$ 0.12	$ 0.36	$ 1.28	$ 1.33	$ 1.42	$ 1.51	$ 1.63	$ 1.75
Basic Average Common Shares Outstanding (MM)	270.9	274.0	276.0	276.9	277.6	278.1	278.1	277.7	287.2	299.4	302.4	302.4	302.4
Dividends per 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
Dividends per share (TTM)	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92
Dividend Payout Ratio (TTM)	67%	73%	86%	79%	72%	74%	74%	75%	69%	65%	61%	57%	53%
Segment EBITDA:													
Gas Distribution EBITDA	$ 584.7	$ 556.3	$ 577.4	$ 297.2	$ 99.3	$ 23.2	$ 176.4	$ 596.1	$ 618.9	$ 660.3	$ 674.7	$ 699.6	$ 726.7
Gas Transmission EBITDA	$ 488.9	$ 494.3	$ 530.3	$ 156.8	$ 106.4	$ 109.2	$ 149.8	$ 521.2	$ 548.9	$ 583.7	$ 607.9	$ 633.1	$ 659.3
Electric EBITDA	$ 480.7	$ 429.8	$ 368.0	$ 98.5	$ 101.2	$ 133.7	$ 86.7	$ 420.1	$ 450.5	$ 559.5	$ 599.5	$ 643.0	$ 689.3
Consolidated EBITDA	1,557.1	1,480.4	1,463.3	552.2	302.5	259.3	407.9	1,518.5	1,692.3	1,777.5	1,866.4	1,959.9	2,058.3
Consolidated EBITDA (TTM)	1,557.1	1,480.4	1,463.3	1,504.1	1,543.0	1,521.2	1,521.9	1,518.5	1,692.3	1,777.5	1,866.4	1,959.9	2,058.3

Source: Company data and Wells Fargo Securities, LLC estimates

NiSource Inc. (Fiscal Yr. End Dec. 30)
Consolidated Stmt of Cash Flows & Balance Sheet - Quarterly (FY Ending Sept. 30)

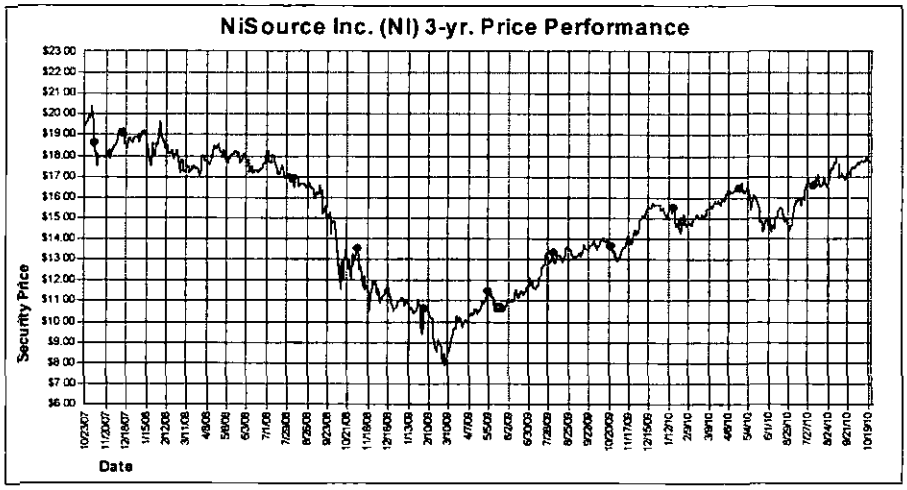
Cash Flow Statement ($MM)	FY2007A	FY 2008A	FY 2009A	1Q10A	2Q10A	3Q10A	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Operating Activities:													
Net Income	$ 321.40	$ 79.00	$ 217.70	$ 197.30	$ 28.10	$ 33.20	$ 100.30	$ 358.90	$ 381.26	$ 426.04	$ 458.84	$ 492.04	$ 527.86
Depreciation And Depletion/Imp of Unproven Prop.	540.90	567.20	599.00	149.80	151.60	153.10	146.66	601.16	593.51	696.23	730.16	765.97	803.81
Deferred Taxes	5.40	132.10	378.20	19.80	18.80	92.00	23.56	154.16	111.95	125.11	134.15	144.49	155.01
Stock Based Comp	4.40	9.50	9.60	2.20	3.80	17.20	-	23.20	-	-	-	-	-
Other	(15.50)	277.20	24.90	(22.00)	11.10	(14.80)	-	(25.70)	-	-	-	-	-
Net Cash Provided Bef. Work. Cap Change	856.90	1,065.00	1,219.40	347.10	213.40	280.70	270.52	1,111.72	1,086.71	1,247.38	1,321.15	1,402.50	1,486.67
Working Capital Changes	(116.90)	(459.00)	685.80	(232.70)	119.50	(340.60)	-	(453.80)	-	-	-	-	-
Total: Cash Prov. By Continuing Ops.	739.00	566.00	1,905.20	114.40	332.90	(59.90)	270.52	657.92	1,086.71	1,247.38	1,321.15	1,402.50	1,486.67
Net operating activties used for discountinued ops	18.20	(2.20)	(254.60)	(31.10)	(13.70)	(10.10)	-	(54.90)	-	-	-	-	-
Net cash flows from operating activities	757.20	563.80	1,650.70	83.30	319.20	(70.00)	270.52	603.02	1,086.71	1,247.38	1,321.15	1,402.50	1,486.67
Investing Activities:													
Capital Expenditures	(786.40)	(1,299.60)	(777.20)	(136.80)	(198.10)	(216.80)	(270.00)	(823.70)	(925.00)	(950.00)	(1,050.00)	(1,100.00)	(1,150.00)
Disposition / (Acquisitions)	102.20	(130.70)	156.80	0.20	0.10	3.50	-	3.80	-	-	-	-	-
Proceeds From Sales Of Assets, Other	19.60	(59.40)	(42.00)	(56.20)	(1.50)	(153.90)	-	(211.60)	-	-	-	-	-
Total: Funds Used In Inv. Act.	(664.60)	(1,489.70)	(662.40)	(194.80)	(199.50)	(367.20)	(270.00)	(1,031.50)	(925.00)	(950.00)	(1,050.00)	(1,100.00)	(1,150.00)
Net investing activties from discountinued operations	(16.60)	388.90	7.60	0.40	-	-	-	0.40	-	-	-	-	-
Net cash flows used for investing activities	(681.40)	(1,092.80)	(654.80)	(194.40)	(199.50)	(367.20)	(270.00)	(1,031.10)	(925.00)	(950.00)	(1,050.00)	(1,100.00)	(1,150.00)
Financing Activities:													
Net Add To (Dec In) ST & LT Debt	173.10	787.20	(770.30)	266.80	(162.20)	500.70	63.45	668.75	(103.90)	(227.30)	7.06	(24.29)	(58.47)
Common Stock Issued (Purchased)	6.10	1.30	23.50	2.20	3.20	3.80	-	9.20	206.43	205.54	-	-	-
Dividends Paid	(252.10)	(252.40)	(253.30)	(63.70)	(63.90)	(63.80)	(63.96)	(255.36)	(264.24)	(275.41)	(278.21)	(278.21)	(278.21)
Total: Cash Prov. By (Used In) Finan.	(72.90)	516.10	(1,000.10)	205.30	(222.90)	440.70	(0.52)	422.58	(161.71)	(297.38)	(271.15)	(302.50)	(336.67)
Increase (Dec.) In Cash And Cash Equiv.	1.50	(407.60)	242.70	124.90	(89.50)	13.60	-	49.00					
Cash contribution from discountinued operations	1.40	394.70	(246.90)	(30.70)	(13.70)	(10.10)	-	(54.50)					
Cash And Cash Equiv. At End Of Year	34.60	20.60	16.40	110.60	7.40	10.90	10.90	10.90	10.90	10.90	10.90	10.90	10.90

Balance Sheet Summary ($MM)	FY2007A	FY 2008A	FY 2009A	1Q10A	2Q10A	3Q10A	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Cash	$ 34.60	$ 20.60	$ 16.40	$ 110.60	$ 7.40	$ 10.90	$ 10.90	$ 10.90	$ 10.90	$ 10.90	$ 10.90	$ 10.90	$ 10.90
Restricted cash	57.70	286.60	174.70	220.80	212.70	276.50	276.50	276.50	276.50	276.50	276.50	276.50	276.50
Current Assets	2,368.10	3,103.60	2,032.50	1,865.80	1,673.30	1,908.10	1,908.10	1,908.10	1,908.10	1,908.10	1,908.10	1,908.10	1,908.10
Net, Property, Plant And Equipment	9,575.60	10,388.10	10,683.90	10,697.20	10,800.00	10,921.50	11,044.84	11,044.84	11,376.33	11,630.10	11,949.95	12,283.97	12,630.17
Total Other Investment	763.40	250.50	313.70	308.80	278.60	354.50	354.50	354.50	354.50	354.50	354.50	354.50	354.50
Goodwill	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30	3,677.30
Other Assets	1,513.60	2,305.50	2,373.20	2,471.10	2,398.80	2,376.60	2,376.60	2,376.60	2,376.60	2,376.60	2,376.60	2,376.60	2,376.60
Total Assets	$ 18,010.30	$ 20,032.20	$ 19,271.70	$ 19,351.60	$ 19,048.10	$ 19,525.40	$ 19,648.74	$ 19,648.74	$ 19,980.23	$ 20,234.00	$ 20,553.85	$ 20,887.87	$ 21,234.07
Current Liabilities	$ 2,309.20	$ 2,950.60	$ 2,311.30	$ 1,903.40	$ 1,785.80	$ 1,799.70	$ 1,799.70	$ 1,799.70	$ 1,799.70	$ 1,799.70	$ 1,799.70	$ 1,799.70	$ 1,799.70
Deferred Credits And Other Liabilities	3,941.20	4,778.10	5,318.90	5,461.70	5,458.50	5,432.00	5,455.56	5,455.56	5,567.52	5,692.62	5,826.77	5,971.26	6,126.27
Shareholders' Equity	5,076.60	4,728.80	4,854.10	4,928.80	4,894.90	4,877.90	4,914.23	4,914.23	5,237.68	5,593.64	5,772.27	5,986.10	6,235.75
Short-term & Long-term Debt	6,689.30	7,576.70	6,787.40	7,057.70	6,908.90	7,415.80	7,479.25	7,479.25	7,375.34	7,148.04	7,155.10	7,130.81	7,072.35
Total Liabilities And Shareholders' Equity	$ 18,010.30	$ 20,032.20	$ 19,271.70	$ 19,351.60	$ 19,048.10	$ 19,525.40	$ 19,648.74	$ 19,648.74	$ 19,980.23	$ 20,234.00	$ 20,553.85	$ 20,887.87	$ 21,234.07
Source: Company data and Wells Fargo Securities, LLC estimates													
Check	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Ratios And Returns	FY2007A	FY 2008A	FY 2009A	1Q10A	2Q10A	3Q10A	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Return On Average Assets	3.0%	0.4%	1.1%	1.4%	1.6%	1.8%	1.8%	1.8%	1.9%	2.1%	2.2%	2.4%	2.5%
Return On Average Equity	9.9%	1.6%	4.5%	5.5%	6.2%	7.2%	7.3%	7.3%	7.5%	7.9%	8.0%	8.4%	8.6%
Return On Average Capital													
Current Ratio	1.07	1.18	0.96	1.15	1.06	1.22	1.22	1.22	1.22	1.22	1.22	1.22	1.22
Total Debt / Capitalization	68.6%	61.6%	58.3%	58.9%	58.5%	60.3%	60.3%	60.3%	58.5%	56.1%	55.3%	54.4%	53.1%
Total Debt / (Total Debt + Equity- Goodwill)	82.7%	87.6%	85.2%	84.9%	85.0%	86.1%	85.8%	85.8%	82.5%	78.9%	77.4%	75.5%	73.4%
Total Debt / Equity	131.8%	160.2%	139.8%	143.2%	141.1%	152.0%	152.2%	152.2%	140.8%	127.8%	124.0%	119.1%	113.4%
Interest Coverage Ratio (x)	2.9 x	2.4 x	2.2 x	2.2 x	2.4 x	2.4 x	2.4 x	2.3 x	2.5 x	2.7 x	2.8 x	2.9 x	3.0 x
Debt / EBITDA	4.3x	5.1x	4.6x	4.7x	4.5x	4.9x	4.9x	4.9x	4.6x	4.0x	3.8x	3.8x	3.4x
FFO/Debt	12.9%	8.5%	11.9%	12.2%	13.0%	12.8%	12.8%	12.8%	13.2%	15.7%	16.6%	17.6%	18.8%
EBITDA / Interest expense	0.7x	3.9x	3.7x	5.6x	3.1x	2.7x	4.1x	3.8x	4.0x	4.4x	4.6x	4.8x	5.0x
Total Debt To Cash Flow (years)	7.7	9.7	5.7	5.7	5.4	6.7	6.7	6.7	6.8	5.7	5.4	5.1	4.8
Total Debt To FFO (years)	7.8	11.7	8.4	8.2	7.7	7.8	7.8	7.8	7.6	6.4	6.0	5.7	5.3
FFO (TTM)	$ 861.6	$ 646.2	$ 806.7	$ 861.6	$ 898.0	$ 951.5	$ 960.1	$ 960.1	$ 974.8	$ 1,122.3	$ 1,187.0	$ 1,258.0	$ 1,331.7
CFO (TTM)	$ 739.0	$ 566.0	$ 1,905.2	$ 899.8	$ 1,035.3	$ 933.3	$ 657.9	$ 657.9	$ 1,086.7	$ 1,247.4	$ 1,321.1	$ 1,402.5	$ 1,486.7
Cash Flow from Ops. Per Share	$ 2.70	$ 2.07	$ 6.90	$ 3.25	$ 3.73	$ 3.36	$ 2.37	$ 2.37	$ 3.78	$ 4.17	$ 4.37	$ 4.64	$ 4.92
Cash Flow (NI + DD&A+Deferred Taxes)	$ 867.0	$ 778.3	$ 1,184.9	$ 1,236.5	$ 1,280.7	$ 1,105.9	$ 1,114.2	$ 1,114.2	$ 1,086.7	$ 1,247.4	$ 1,321.1	$ 1,402.5	$ 1,486.7
Cash Flow from Ops. Per Share	$ 3.17	$ 2.84	$ 4.29	$ 4.47	$ 4.61	$ 3.98	$ 4.01	$ 4.01	$ 3.78	$ 4.17	$ 4.37	$ 4.64	$ 4.92
Free Cash Flow (cashflow - capex)	$ 80.6	$ (521.3)	$ 407.7	$ 527.4	$ 552.2	$ 360.7	$ 290.5	$ 290.5	$ 161.7	$ 297.4	$ 271.1	$ 302.5	$ 336.7
FCF/Share	$ 0.29	$ (1.90)	$ 1.48	$ 1.90	$ 1.99	$ 1.30	$ 1.04	$ 1.05	$ 0.56	$ 0.99	$ 0.90	$ 1.00	$ 1.11
Earnings Per Share- Gaap	$ 1.17	$ 0.29	$ 0.79	$ 0.71	$ 0.10	$ 0.12	$ 0.35	$ 1.28	$ 1.33	$ 1.42	$ 1.51	$ 1.63	$ 1.75
Earnings Per Share - Gaap (TTM)	$ 2.08	$ 3.24	$ 0.79	$ 0.96	$ 1.08	$ 1.25	$ 1.29	$ 1.29	$ 1.33	$ 1.42	$ 1.51	$ 1.63	$ 1.75
Dividends Per 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
Book Value Per Share	$ 18.53	$ 17.26	$ 17.59	$ 17.80	$ 17.63	$ 17.54	$ 17.67	$ 17.70	$ 18.24	$ 18.69	$ 19.09	$ 19.80	$ 20.62
Tangible Book Value Per Share	$ 5.11	$ 3.84	$ 4.26	$ 4.52	$ 4.39	$ 4.32	$ 4.45	$ 4.45	$ 5.43	$ 6.40	$ 6.93	$ 7.63	$ 8.46
Basic Shares Outstanding (MM)	273.90	274.00	276.00	276.90	277.60	278.10	278.10	277.68	287.21	298.36	302.40	302.40	302.40

Source: Company data and Wells Fargo Securities, LLC estimates

Required Disclosures



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	10/23/2007		Brothwell			
	10/23/2007	NA	2	20.00	22.00	19.49
●	11/2/2007	18.87	2	19.00	20.00	18.63
●	8/5/2008	16.81	2	18.00	19.00	16.93
●	11/4/2008	13.52	2	13.00	15.00	13.52
●	2/4/2009	10.47	2	10.00	12.00	10.63
●	5/4/2009	11.24	2	11.00	12.00	11.48
■	5/19/2009		Lefebvre			
●	8/4/2009	13.35	2	12.00	13.00	13.35
●	10/22/2009	13.65	2	13.00	14.00	13.69
●	1/19/2010	15.29	2	15.50	16.50	15.52
●	2/1/2010	14.85	2	16.00	17.00	14.85
●	4/20/2010	16.39	2	16.50	17.50	16.46
●	8/3/2010	16.58	2	17.00	18.00	16.58

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	❐	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

I certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC or its affiliates managed or comanaged a public offering of securities for NiSource Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from NiSource Inc.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from NiSource Inc. in the past 12 months.
- NiSource Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to NiSource Inc.
- Wells Fargo Securities, LLC or its affiliates may have a significant financial interest in NiSource Inc.

NI: Risks to the shares achieving our valuation range over the next 12 months may include unexpected regulatory actions, operational execution of investment projects designed to grow earnings, and achievement of further operating cost savings.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
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EQUITY RESEARCH | INSTANT INSIGHTS

1 February 2011

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NI reported Q4'10 EPS and initiated 2011 guidance in-line with consensus. We see the company's guidance as rather conservative, while prudent, and leaves adequate flexibility to readdress the range later in the year when there is greater clarity and certainty around the direction of the economy. On our current '11/'12 EPS estimates of $1.32/$1.41 NI looks roughly fair-value to slightly rich versus the rest of the electric utility group, albeit with a 40 bps premium yield. It is worthwhile noting that while NI looks more expensive to electrics, it continues to trade at a discount to more gas heavy peers that trade at meaningful premiums to our larger coverage universe.

Reviewing the Quarter and 2010

NI reported adjusted Q4'10 and FY'10 EPS of $0.33/$1.22 vs.... FY'09 EPS of $1.07. Driving the Y/Y improvement were increased margins and improved demand at NIPSCO electric, rate relief at the gas LDCs, and new projects in the gas transmission and storage segment. Partial offsets at NIPSCO electric, the gas LDCs, and the gas T&S segments were increased taxes and higher operating costs, while lower volatility and reduced basis challenged the gas T&S segment.

The company initiated 2011 guidance of $1.25-$1.35, in-line with current consensus estimates. This year will likely be positively impacted by rate relief, primarily due to the NIPSCO gas (~$55M) and Columbia Gas of VA ($5M) settlements, new growth projects at Gas T&S, and interest savings. Offsetting these positives for the year will be higher depreciation, other taxes, and O&M.

Details from the Conference Call

The largest takeaways from NI's conference call were the company's focus on settling the current NIPSCO electric rate case, possible strategic options (MLP seems to be on back burner), and economic outlook (they expect a moderate but deliberate recovery). The company expects all three business units to be operating well in its 2011 guidance.

Recapping Where We Stand in the NIPSCO Electric Rate Case Process

For background, NIPSCO received its final order back in August and due to issues taken up by certain intervenors on how rates would be allocated, rates from the case have not been put into effect. The company has asked the IURC to dismiss the case so that NIPSCO and intervenors can focus on settling the second NIPSCO electric case. There is a settlement hearing scheduled for April 18 and we are using this date as our target for a possible settlement announcement.

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Mentioned Stocks (Ticker, Date, Price)
NiSource, Inc. (NI, 31-Jan-2011, USD 18.62), 2-Equal Weight/1-Positive, A/C/D/E/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.
Risks which May Impede the Achievement of the 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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BMO Capital Markets

February 1, 2011

NiSource

(NI-NYSE)

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

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4Q10 & 2011 Guidance Meets the Street

Event

NI reported clean 4Q10 EPS of $0.33, in line with our estimate and $0.01 below consensus. For 2010, adjusted EPS of $1.22 increased 21% y/y, effectively resetting NI's EPS foundation. While 4Q10 EPS was on point, there were deltas: 1) a $0.04 beat in gas utility from higher usage and lower depreciation (IN rate settlement); 2) a $0.03 miss in Pipes from lower park and loan revenues; and 3) a $0.01 net miss between Electric and Corporate. While there were no major surprises in the conference call, management gave its view of timing on the NIPSCO 2010 rate case impact to be early 2012, a quarter beyond our expectation; we do note that further delays are unlikely given the backstop of a likely Commission ruling in 4Q11 should the preferential path of a settlement this summer not be achieved. NI also initiated 2011 guidance of $1.25-$1.35—in line with consensus of $1.31 and the range we stated in our published 2011 Outlook—and reiterated its 3%-5% CAGR target. That said, we remain comfortable at the high end of guidance given positive regulatory actions already received (e.g., the +$0.10 EPS impact from lower depreciation at NIPSCO gas), and NI's growing track record of under-promise and over-deliver (2010 results are above initial guidance of $1.10-$1.20).

Impact

Neutral

Forecasts

We are slightly lowering our 2011 EPS to $1.33 owing to lower usage in Electric from a slow economic recovery (roll through of lower 4Q10 volumes) and timing of new rates at NIPSCO. 2012 and 2013 EPS also decline 1% to $1.45 and $1.52.

Valuation

Reiterate $19 target based on sum-of-the-parts blend using P/E and EV/EBITDA.

Recommendation

Maintain **MARKET PERFORM** with ~6.4% total return potential.

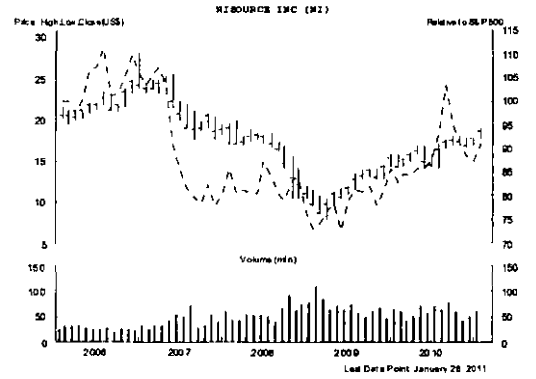
Securities Info

Price (1-Feb)	**$18.73**	**Target Price**	**$19**
52-Wk High/Low	$19/$14	Dividend	$0.92
Mkt Cap (mm)	$5,213	Yield	4.9%
Shs O/S (mm, BASIC)	278.3	Float O/S (mm)	276.0
Options O/S (mm)	na	ADVol (30-day, 000s)	2,694

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
NiSource 6.8% '19	114	Baa3 / BBB-	4.62%	196bp
NiSource 6.4% '18	111	Baa3 / BBB-	4.51%	185bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2009A	2010A	2011E	2012E
EPS Pro Forma	$1.01	$1.22	$1.33↓	$1.45↓
P/E			14.1x	12.9x
First Call Cons.		*$1.22*	*$1.31*	*$1.39*
EPS GAAP	$0.79	$1.05	$1.33	$1.45
OCF	$4.45	$4.27	$3.48↓	$3.63↓
P/OCF			5.4x	5.2x
EBITDA ($mm)	$1,383	$1,514	$1,520	$1,640
EV/EBITDA			7.9x	7.3x
Rev. ($mm)	$6,299	$6,335	$6,221	$6,378
EV/Rev			1.9x	1.9x

Quarterly EPS	1Q	2Q	3Q	4Q
2010A	$0.72	$0.13	$0.04	$0.33
2011E	$0.76↑	$0.11	$0.13	$0.33↓

Balance Sheet Data (30-Sep)			
Net Debt ($mm)	$6,740	TotalDebt/EBITDA	4.6x
Total Debt ($mm)	$6,988	EBITDA/IntExp	3.7x
Net Debt/Cap.	54.8%	Price/Book	1.1x

Notes: All values in US$.

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

Changes	Annual EPS	Annual OCF	Quarterly EPS
	2011E $1.35 to $1.33	2011E $3.52 to $3.48	Q1/11E $0.75 to $0.76
	2012E $1.47 to $1.45	2012E $3.65 to $3.63	Q4/11E $0.37 to $0.33

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Exhibit 1: NiSource Sum-of-the-Parts Valuation

Sum-of-the-Parts Valuation Analysis

	2012E	Valuation Multiple		Notes:
EBITDA by Segment				
Gas Distribution	$629	8.0x	$5,030	
Gas Pipelines	$582	9.0x	$5,241	
Electric	$463	7.0x	$3,241	
Other	($8)	5.0x	($39)	- Plus pension expense (analogous to interest) risked at 50% (net of NIPSCO recovery)
Value of Operations			$13,473	
Net Debt (year-end 2011E)			($7,501)	
Preferred & Minority Interests			---	
Pension/OPEB Underfunded Obligation	($1,182)	50%	($591)	- Projected 2010 Obligation; assumes partial recovery in rates
Net Equity Value			$5,381	
Diluted Shares Outstanding			292	
$/sh			**$18.45**	
P/E by Segment*				
Gas Distribution	$0.60	12.0x	$7.22	Reduced from LDC average given lower depreciation rates
Gas Pipelines	$0.60	15.0x	$8.98	
Electric	$0.32	11.0x	$3.48	
Other	($0.07)	10.0x	($0.68)	
Consolidated EPS	$1.45	13.1x	**$19.01**	
*based on EBIT % as proxy				
Average Target Price (rounded):			**$19.00**	
Valuation Summary:				
Current Price			$18.73	
Current Dividend			$0.92	
Appreciation Potential			**1.4%**	
Current Yield			**4.9%**	
Total Return Potential			**6.4%**	

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource Income Statement

Consolidated Earnings ($ Millions Except Per Share Data)	2008A	2009A	Q1	Q2	Q3	Q4	2010E	Q1	Q2	Q3	Q4	2011E	2012E	2013E
Operating Revenues:														
Gas Distribution	$5,171	$3,303	$1,341	$454	$327	$974	$3,096	$1,586	$673	$258	$1,050	$3,568	$3,614	$3,661
Pipelines & Storage	1,132	1,241	370	264	271	356	1,261	258	220	234	267	979	1,007	1,025
Electric	1,357	1,213	318	341	398	319	1,375	318	314	375	328	1,335	1,410	1,441
Other	1,216	542	329	112	143	19	603	235	58	93	(46)	340	346	353
Revenues	8,876	6,299	2,358	1,171	1,138	1,668	6,335	2,397	1,265	959	1,599	6,221	6,378	6,481
Operating Expenses:														
Cost of Sales	5,632	2,978	1,286	439	420	752	2,898	1,321	529	207	670	2,726	2,720	2,727
Operation & Maintenance	1,456	1,650	439	377	382	456	1,654	441	393	399	471	1,704	1,740	1,770
DD&A	567	589	150	152	153	142	596	137	137	138	138	551	567	573
Loss (gain) on asset sales	8	16	0	0	1	0	1	0	0	0	0	0	0	0
Taxes and Other	308	283	87	65	62	73	287	85	65	67	77	293	299	305
Total Operating Expenses	7,971	5,516	1,963	1,032	1,018	1,423	5,436	1,983	1,124	811	1,356	5,274	5,326	5,375
Operating Income	906	783	396	139	120	245	899	414	141	148	244	947	1,051	1,106
Other:														
Equity in Earnings	12	16	7	0	4	4	15	6	6	6	6	22	22	22
Minority Interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	18	(6)	3	3	2	(4)	4	0	0	0	0	0	0	0
Total Other Income	30	10	10	3	6	0	19	6	6	6	6	22	22	22
Reported EBIT	**$936**	**$793**	**$406**	**$142**	**$125**	**$245**	**$918**	**$419**	**$146**	**$154**	**$249**	**$969**	**$1,073**	**$1,128**
EBITDA	**$1,503**	**$1,383**	**$556**	**$293**	**$279**	**$387**	**$1,514**	**$557**	**$284**	**$292**	**$388**	**$1,520**	**$1,640**	**$1,701**
EBIT Composition														
Gas Distribution	336	328	235	19	(42)	113	324	256	43	2	124	426	446	469
Pipelines & Storage	367	389	126	75	76	100	377	141	79	91	109	421	443	466
Electric	219	117	45	50	96	44	234	37	38	75	31	181	234	243
Corporate & Other	14	(40)	(0)	(1)	(4)	(12)	(18)	(15)	(15)	(15)	(15)	(58)	(50)	(50)
Total EBIT	$936	$793	$406	$142	$125	$245	$918	$419	$146	$154	$249	$969	$1,073	$1,128
Interest Expense	380	399	99	98	98	98	392	88	97	97	97	380	386	391
Preferred Distributions of Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Expense	380	399	99	98	98	98	392	88	97	97	97	380	386	391
Income Before Taxes	556	394	307	43	28	148	526	331	49	57	152	589	687	737
Income Taxes														
Current	53	(214)	83	4	(4)	35	118	78	11	13	36	138	167	180
Deferred	132	378	27	11	(2)	19	55	42	6	7	19	74	90	97
Total Income Taxes	186	165	110	15	(6)	54	173	119	18	20	55	212	258	276
Effective Inc. Tax Rate (%)	33%	42%	36%	35%	-20%	36%	33%	36%	36%	36%	36%	36%	38%	38%
Net Income From Continuing Operations	370	229	197	28	33	94	353	212	31	36	97	377	429	461
Discontinued Operations, net	(291)	(12)	(0)	0	(0)	0	(0)	0	0	0	0	0	0	0
Change in Accounting	0	(0)	0	0	0	(58)	(58)	0	0	0	0	0	0	0
GAAP Net Income to Common	**$79**	**$218**	**$197**	**$28**	**$33**	**$36**	**$294**	**$212**	**$31**	**$36**	**$97**	**$377**	**$429**	**$461**
Adjustments to Core														
Asset Impairment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	13	(8)	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	13	(40)	(3)	(9)	23	0	11	0	0	0	0	0	0	0
Total Adjustments	26	(49)	(3)	(9)	23	0	11	0	0	0	0	0	0	0
Non-GAAP Core Earnings	**$344**	**$278**	**$200**	**$37**	**$10**	**$94**	**$342**	**$212**	**$31**	**$36**	**$97**	**$377**	**$429**	**$461**
Shares Outstanding (mm)														
Avg Diluted Shares Out	275	276	278	278	279	283	280	280	280	286	292	284	296	304
Avg. Basic Shares Out	274	275	277	278	278	279	278	279	279	285	291	283	295	303
Period-end basic Shares Out	277	276	277	278	278	279	279	279	279	291	291	291	303	303
Earnings Per Share (Diluted)														
GAAP EPS	**$0.29**	**$0.79**	**$0.71**	**$0.10**	**$0.12**	**$0.13**	**$1.05**	**$0.76**	**$0.11**	**$0.13**	**$0.33**	**$1.33**	**$1.45**	**$1.52**
Core EPS	**$1.25**	**$1.01**	**$0.72**	**$0.13**	**$0.04**	**$0.33**	**$1.22**	**$0.76**	**$0.11**	**$0.13**	**$0.33**	**$1.33**	**$1.45**	**$1.52**
EPS Growth (core)	6.0%	-19.4%	14.5%	2507.7%	144.3%	-6.2%	21.0%	5.1%	-15.9%	244.8%	0.2%	8.8%	9.3%	4.6%
Dividends														
Cash per share	$0.92	$0.92	$0.23	$0.23	$0.23	$0.23	$0.92	$0.23	$0.23	$0.23	$0.23	$0.92	$0.92	$0.92
Payout Ratio (%)	320.7%	116.6%					87.5%					69.3%	63.5%	60.7%

Source: BMO Capital Markets estimates, company data.

Exhibit 3: NiSource Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2008A	2009A	Q1	Q2	Q3	Q4	2010E	Q1	Q2	Q3	Q4	2011E	2012E	2013E
Operating Activities														
GAAP Net Income from Cont. Ops	79	218	197	28	33	33	292	212	31	36	97	377	429	461
DD&A	567	589	150	152	153	142	596	137	137	138	138	551	567	573
Deferred income tax benefit	132	378	27	11	92	70	200	42	6	7	19	74	90	97
Deferred Revenues	(24)	4	(16)	(1)	(6)	2	(20)	0	0	0	0	0	0	0
Amortization of premium on debt	8	13	0	5	3	2	10	0	0	0	0	0	0	0
Less Gain or Loss on assets	8	(4)	(0)	0	1	(1)	(0)	0	0	0	0	0	0	0
Less Equity Earnings plus Cash Distributions	(25)	(15)	(7)	(0)	5	10	7	(3)	(3)	(3)	(3)	(11)	(11)	(11)
Other non-cash income items	321	36	(4)	18	(0)	98	112	(2)	0	0	0	(2)	0	0
OCF (pre-working capital)	$1,085	$1,219	$347	$213	$281	$356	$1,197	$386	$172	$179	$252	$989	$1,075	$1,119
OCF per share	$3.87	$4.42	$1.25	$0.77	$1.01	$1.26	$4.27	$1.38	$0.62	$0.63	$0.86	$3.48	$3.63	$3.68
												1,023	1,064	1,064
Working Capital:														
Accounts and notes receivable	(206)	259	(138)	408	29	(543)	(244)					0	0	0
Inventory	(82)	129	333	(185)	(180)	136	103					0	0	0
Less Change of Price Risk Management Activities	0	0	0	0	0	0	0					0	0	0
Accounts payable	(27)	(192)	(103)	(132)	(31)	305	38					0	0	0
Customer deposit, net	15	25	(125)	20	94	(14)	(25)					0	0	0
Other assets	(237)	83	(176)	(0)	57	(87)	(206)					0	0	0
Other Liabilities	40	382	(24)	9	(310)	238	(66)					0	0	0
Changes in Working Capital	(499)	686	(233)	120	(341)	34	(420)	0	0	0	0	0	0	0
Discontinued Operations	(2)	(255)	(31)	(14)	(10)	(2)	(57)	0	0	0	0	0	0	0
Cash Flow From Operations	564	1,651	83	319	(70)	368	720	386	172	179	252	989	1,075	1,119
Investing Activities														
Capital Spending (to PP&E)	(970)	(777)	(139)	(198)	(217)	(250)	(804)	(275)	(275)	(275)	(275)	(1,100)	(1,000)	(1,000)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	(330)	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	48	6	0	0	0	1	1	0	0	0	0	0	0	0
Other	(238)	109	(56)	(1)	(150)	67	(140)	0	0	0	0	0	0	0
Cash Used in Investing	(1,490)	(662)	(195)	(200)	(367)	(182)	(944)	(275)	(275)	(275)	(275)	(1,100)	(1,000)	(1,000)
Discontinued Operations	397	8	0	0	0	0	0	0	0	0	0	0	0	0
Investing Cash Flow	(1,093)	(655)	(194)	(200)	(367)	(182)	(943)	(275)	(275)	(275)	(275)	(1,100)	(1,000)	(1,000)
Financing Activities														
Sale of Common Stock	1	26	4	2	5	4	14	0	0	200	0	200	200	0
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	959	1,460	0	0	0	250	250	0	700	0	0	700	0	0
Redemption of Common Stock	0	(3)	(1)	1	(1)	(0)	(2)	0	0	0	0	0	0	0
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(295)	(1,170)	(1)	(4)	(11)	(1,054)	(1,071)	0	0	0	0	0	(315)	0
Change in Notes Payable, LC, ST Debt	103	(1,061)	268	(158)	512	658	1,280	0	(650)	(50)	50	(650)	250	170
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	(252)	(253)	(64)	(64)	(64)	(64)	(256)	(59)	(59)	(60)	(62)	(240)	(252)	(259)
Other	0	0	0	0	0	0	0	0	0	(6)	0	(6)	(6)	0
Cash From (For) Financing	516	(1,000)	205	(223)	441	(207)	216	(59)	(9)	84	(12)	4	(123)	(89)
Discontinued Operations	(1)	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	515	(1,000)	205	(223)	441	(207)	216	(59)	(9)	84	(12)	4	(123)	(89)
Change in Cash	($14)	($4)	$94	($103)	$4	($2)	($7)	$52	($112)	($13)	($35)	($107)	($47)	$31
Cash & Temp. Inv. Beginning of Yr.	$35	$21	$16	$111	$7	$11	$16	$9	$62	($50)	($63)	$9	($98)	($145)
Cash & Temp. Inv. End of Yr.	$21	$16	$111	$7	$11	$9	$9	$62	($50)	($63)	($98)	($98)	($145)	($115)
LC Facility Available (Expiration 07/2011)		$1,312	$1,429	$1,385	$873	$215	$215	$215	$865	$915	$865	$865	$615	$445
Total LC Liquidity		$1,312	$1,429	$1,385	$873	$215	$215	$215	$865	$915	$865	$865	$615	$445
Total Cash		$16	$111	$7	$11	$9	$9	$62	($50)	($63)	($98)	($98)	($145)	($115)
Total Liquidity		$1,328	$1,540	$1,392	$884	$225	$225	$277	$815	$852	$767	$767	$470	$331
Debt Maturities						$882								

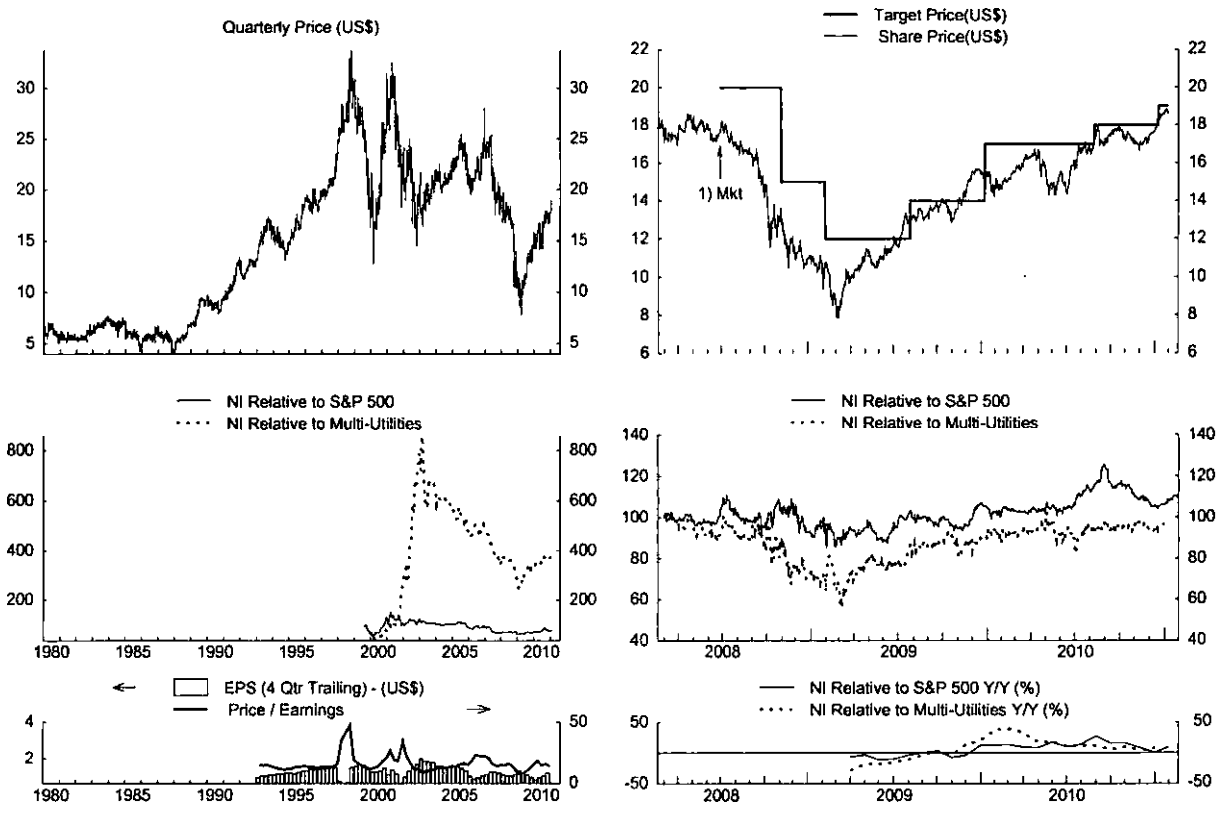
Source: BMO Capital Markets estimates, company data.

Exhibit 4: NiSource Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2008A	2009A	Q1	Q2	Q3	Q4	2010E	Q1	Q2	Q3	Q4	2011E	2012E	2013E
Assets:														
Cash & Equivalent	21	16	111	7	11	9	9	62	(50)	(63)	(98)	(98)	(145)	(116)
Restricted Cash	287	175	221	213	277	203	203	203	203	203	203	203	203	203
Receivables	1,188	848	1,019	629	559	1,121	1,121	1,121	1,121	1,121	1,121	1,121	1,121	1,121
Allowance for Uncollectable Accts.	(45)	(40)	(69)	(61)	(41)	(41)	(41)	(41)	(41)	(41)	(41)	(41)	(41)	(41)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	180	40	114	110	136	136	136	136	136	136	136	136	136	136
Inventories	671	385	230	383	571	428	428	428	428	428	428	428	428	428
ST Assets Price Risk Management	150	173	190	189	216	160	160	160	160	160	160	160	160	160
Regulatory Assets	315	238	170	168	194	152	152	152	152	152	152	152	152	152
Other Current Assets	645	387	212	254	274	283	283	283	283	283	283	283	283	283
Total Current Assets	3,411	2,224	2,197	1,893	2,196	2,449	2,449	2,501	2,389	2,376	2,341	2,341	2,294	2,325
Plant & Equipment (Gross)	18,469	19,038	19,141	19,347	19,387	19,590	19,590	19,865	20,140	20,415	20,690	20,690	21,690	22,690
Accumulated DD&A	(8,081)	(8,354)	(8,444)	(8,547)	(8,445)	(8,493)	(8,493)	(8,630)	(8,767)	(8,905)	(9,044)	(9,044)	(9,610)	(10,183)
Plant & Equipment, Net	10,388	10,684	10,697	10,800	10,922	11,097	11,097	11,235	11,372	11,509	11,646	11,646	12,079	12,506
Investments	205	295	309	279	355	349	349	349	349	349	349	349	349	349
LT Assets Price Risk Management	201	238	271	240	280	240	240	240	240	240	240	240	240	240
Regulatory Assets	1,640	1,644	1,720	1,696	1,641	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650
Goodwill	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677
Intangible Assets	331	320	317	314	311	309	309	309	309	309	309	309	309	309
Other Long Term Assets (& flywheel)	180	53	163	148	144	168	168	173	175	184	187	187	204	215
Total Assets	20,032	19,134	19,352	19,048	19,525	19,939	19,939	20,134	20,162	20,295	20,399	20,399	20,802	21,271
Liabilities & Equity:														
Short Term Debt	1,633	800	1,094	932	1,452	1,417	1,417	1,417	787	717	787	787	1,017	1,187
Accounts Payables	693	502	407	343	243	582	582	582	582	582	582	582	582	582
ST Liabilities Price Risk Management	287	190	211	207	257	174	174	174	174	174	174	174	174	174
Regulatory Liabilities	40	44	52	84	99	93	93	93	93	93	93	93	93	93
Other	1,930	1,575	1,234	1,152	1,202	1,384	1,384	1,384	1,384	1,384	1,384	1,384	1,384	1,384
Total Current Liab	4,583	3,111	2,997	2,717	3,251	3,649	3,649	3,649	2,999	2,949	2,999	2,999	3,249	3,419
Long Term Debt	5,944	5,988	5,964	5,977	5,964	5,936	5,936	5,936	6,636	6,636	6,636	6,636	6,321	6,321
LT Liabilities Price Risk Management	169	170	201	176	219	182	182	182	182	182	182	182	182	182
Accumulated Deferred Taxes	1,550	2,018	2,053	2,111	2,243	2,243	2,243	2,285	2,291	2,298	2,318	2,318	2,408	2,505
Regulatory Liabilities	1,386	1,559	1,571	1,592	1,582	1,596	1,596	1,596	1,596	1,596	1,596	1,596	1,596	1,596
Other Liabilities	1,652	1,572	1,636	1,578	1,408	1,409	1,409	1,409	1,409	1,409	1,409	1,409	1,409	1,409
Total Liabilities	15,303	14,418	14,423	14,153	14,648	15,016	15,016	15,057	15,114	15,071	15,140	15,140	15,185	15,432
Preferred Equity/Securities of Consolidated Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,729	4,717	4,929	4,895	4,878	4,923	4,923	5,076	5,048	5,224	5,260	5,260	5,617	5,840
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	20,032	19,134	19,352	19,048	19,525	19,939	19,939	20,134	20,162	20,295	20,399	20,399	20,802	21,271

Source: BMO Capital Markets estimates, company data.

NISOURCE INC (NI)



NI - Rating as of 19-Feb-08 = NR

	Date	Rating Change	Share Price
1	26-Jun-08	NR to Mkt	$17.57

Last Daily Data Point: January 28, 2011

nportant Disclosures

nalyst'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 (December 31, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.3%	14.0%	39.1%	38.6%	45.1%	53.2%
Hold	Market Perform	62.3%	12.0%	59.4%	57.5%	51.8%	41.7%
Sell	Underperform	2.4%	8.3%	1.6%	3.9%	3.1%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

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OP = Outperform - Forecast to outperform the market;
Mkt = Market Perform - Forecast to perform roughly in line with the market;
Und = Underperform - Forecast to underperform the market;
(S) = speculative investment;
NR = No rating at this time;
R = Restricted – Dissemination of research is currently restricted.

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NiSource Inc (NI)

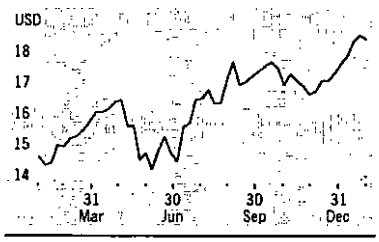
4Q In-line; Gas and Electric Higher; Pipes & Storage Lag

■ Company Update

- **EPS In-line** – NI reported adjusted EPS of $0.33, which was in-line with our estimate and a penny below consensus. Higher gas and electric utility earnings were offset by lower pipeline and storage results. NI issued guidance for 2011 of $1.25 to $1.35. Our estimate is $1.34.
- **Gas Utilities Ahead** – 4Q EBIT was $113 mm (adjusted for weather), ahead of our expectations of $100 mm. Operating expenses were lower than we expected. Columbia Gas of Pennsylvania filed a rate case requesting a $38 mm rate increase for infrastructure related costs. New rates are expected to go into effect in 4Q'11. We have not modeled this rate increase into our earnings.
- **Electric Ahead** – 4Q EBIT was $44 mm, ahead of our estimate of $31 mm. Electric usage was up 3% over the same period last year. The largest pick-up came from Industrial usage year-over-year, but was flat sequentially. Full year growth in power demand was up 6%. NIPSCo's rate case ($76 mm, 11.75% ROE, $2.7 BN rate base) is under review by the commission and a decision is expected near the end of 2011. We include very little of this increase in our model.
- **Pipeline & Storage Low** – 4Q EBIT was $100 mm, below our estimate of $115 mm. Both transport and storage revenues were flat over last year. Higher expenses caused the downside. Management expects costs to remain flat in 2011 and have very little upside built into their guidance from optimization. Columbia Gulf filed a rate case last year with rates expected to go into effect in 2Q.
- **Recommendation** – We maintain our Hold rating and $20 price target.

Hold/Medium Risk	**2M**
Price (01 Feb 11)	US$18.73
Target price	US$20.00
Expected share price return	6.8%
Expected dividend yield	4.9%
Expected total return	**11.7%**
Market Cap	US$5,213M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.63A	0.00A	0.02A	0.35A	1.00A	1.06A
2010E	**0.72A**	**0.10A**	**0.06A**	**0.33E**	**1.20E**	**1.22E**
Previous	0.72A	0.10A	0.06A	0.33E	1.20E	na
2011E	**0.71E**	**0.14E**	**0.14E**	**0.36E**	**1.34E**	**1.31E**
Previous	0.71E	0.14E	0.14E	0.36E	1.34E	na
2012E	**0.74E**	**0.18E**	**0.17E**	**0.37E**	**1.46E**	**1.42E**
Previous	0.74E	0.18E	0.17E	0.37E	1.46E	na

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

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Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	14.5	18.7	15.6	14.0	12.8
EV/EBITDA adjusted (x)	9.4	10.3	9.6	9.5	8.9
P/BV (x)	1.1	1.1	1.1	1.0	1.0
Dividend yield (%)	4.9	4.9	4.9	4.9	4.9
Per Share Data (US$)					
EPS adjusted	1.29	1.00	1.20	1.34	1.46
EPS reported	0.29	0.79	1.26	1.34	1.46
BVPS	17.14	17.57	17.61	18.27	18.76
DPS	0.92	0.92	0.92	0.92	0.92
Profit & Loss (US$M)					
Net sales	8,876	6,297	5,923	6,108	6,201
Operating expenses	-7,960	-5,457	-5,031	-5,133	-5,147
EBIT	**917**	**840**	**892**	**975**	**1,054**
Net interest expense	-375	-399	-392	-389	-389
Non-operating/exceptionals	13	19	22	16	21
Pre-tax profit	**555**	**459**	**522**	**602**	**686**
Tax	-199	-183	-187	-217	-247
Extraord./Min.Int./Pref.div.	-277	-59	15	0	0
Reported net income	**79**	**218**	**350**	**385**	**439**
Adjusted earnings	356	277	335	385	439
Adjusted EBITDA	1,484	1,429	1,497	1,520	1,603
Growth Rates (%)					
Sales	11.3	-29.1	-5.9	3.1	1.5
EBIT adjusted	-7.9	-8.4	6.2	9.3	8.1
EBITDA adjusted	-4.5	-3.7	4.7	1.5	5.5
EPS adjusted	-7.1	-22.4	19.9	11.6	9.1
Cash Flow (US$M)					
Operating cash flow	**588**	**1,905**	**1,052**	**925**	**968**
Depreciation/amortization	567	589	605	545	549
Net working capital	-483	686	-31	-5	-19
Investing cash flow	**-1,114**	**-655**	**-961**	**-727**	**-727**
Capital expenditure	-970	-777	-754	-727	-727
Acquisitions/disposals	216	6	0	0	0
Financing cash flow	**515**	**-1,000**	**340**	**-46**	**-58**
Borrowings	767	-770	582	0	0
Dividends paid	-252	-253	-256	-264	-276
Change in cash	**-14**	**-4**	**376**	**151**	**183**
Balance Sheet (US$M)					
Total assets	**20,032**	**19,272**	**20,077**	**20,427**	**20,808**
Cash & cash equivalent	307	191	524	675	859
Accounts receivable	1,143	809	845	854	864
Net fixed assets	10,388	10,684	10,971	11,154	11,332
Total liabilities	**15,303**	**14,418**	**15,167**	**15,178**	**15,178**
Accounts payable	693	502	569	574	574
Total Debt	7,577	6,787	7,393	7,393	7,393
Shareholders' funds	**4,729**	**4,854**	**4,910**	**5,249**	**5,630**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	16.7	22.7	25.3	24.9	25.8
ROE adjusted	7.3	5.8	6.9	7.6	8.1
ROIC adjusted	4.6	4.0	4.2	4.5	4.7
Net debt to equity	153.7	135.9	139.9	128.0	116.1
Total debt to capital	61.6	58.3	60.1	58.5	56.8

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4Q 2010 Quarterly Comparison

Figure 1. Actual vs. Estimates

Operating Income	Actual	Estimate	Variance	EPS Impact	Reason for Material Variance
Gas Distribution	113.0	100.9	12%	$0.03	Lower opex than expected
Gas Transmission & Storage	100.0	115.0	-13%	($0.03)	Higher expenses, low gas volatility limiting optimization
Electric	43.8	34.5	27%	$0.02	Good demand pick-up by industrial customers
Corporate/Other	(6.3)	(6.3)	0%	($0.00)	N/A

Other	Actual	Estimate	Variance	EPS Impact	Reason for Variance
Interest Expense	(97.5)	(97.3)	0%	$0.00	Debt refinancing expected to lower costs in '11
Effective Tax Rate	36.3%	36.5%	-1%	$0.01	N/A
Share Count	282.6	278.9	0%	$0.00	N/A

Electric Sales (Gwh)	Actual	Estimate	Variance (Total)	Variance (%)	Reason for Variance
Residential	792.4	795.9	(4)	0%	In-line
Commercial	928.8	926.3	3	0%	In-line
Industrial	2137.2	1967.5	170	9%	Indication of economic recovery
Wholesale	181.4	215.4	(34)	-16%	N/A
Other	58.2	46.5	12	25%	N/A

Source: Citi Investment Research and Analysis

NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $20 target.

Our NAV yields a value of $23.49. 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. For Millennium pipeline, which has not yet contracted all of its capacity, we apply a 20% discount to the pipeline multiple.

Our DDM, which incorporates our rate base growth assumptions, values the company at $16.27.

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 $21.23 and $18.93.

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.

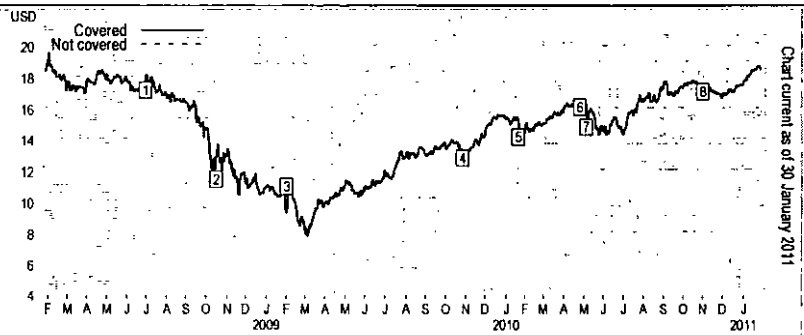
Appendix A-1

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

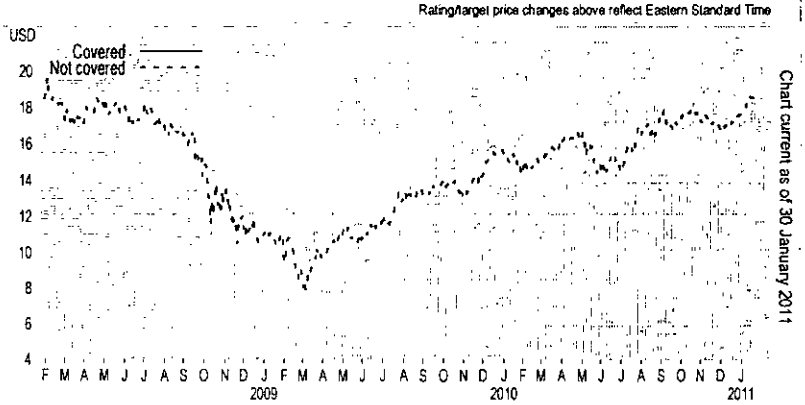


	Date	Rating	Target Price	Closing Price
1	30-Jun-08	2H	*20.00	17.92
2	16-Oct-08	*1H	*15.00	12.91
3	2-Feb-09	1H	*14.00	9.38
4	27-Oct-09	1H	*15.00	13.47
5	20-Jan-10	*2M	*16.00	15.46
6	26-Apr-10	2M	*16.50	16.60
7	5-May-10	2M	*17.00	16.20
8	1-Nov-10	2M	*18.00	17.17
9	30-Jan-11	2M	*20.00	18.61

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			*Relative Rating*		
Data current as of 31 Dec 2010	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	45%	44%	40%	0%	44%	0%

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

Equities

30 January 2011 | 50 pages

Gas Pipelines & Utilities

Rotating Ratings; Sector Fairly Valued; LNG & AGL to Buy

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- **Ratings Changes** — We are upgrading Cheniere Energy (LNG) and AGL Resources (AGL) to Buy. We are upgrading Integrys (TEG) to Hold. We are downgrading Southwest Gas and UGI Corp. to Hold. We continue to rate Sempra Energy (SRE) and CenterPoint Energy (CNP) Buy.

- **AGL Resources** — We are upgrading AGL to Buy from Hold. Negative sentiment surrounding the merger with Nicor appears overdone. We estimate the deal is essentially earnings neutral without synergies. We also estimate pre-tax synergies of $40 million can be achieved. AGL trades at the lowest P/E multiple in the defensive gas pipeline/utility group at 11.0X 2012 EPS with a 4.9% dividend yield.

- **Cheniere Energy** — We are upgrading Cheniere to Buy. We rate the stock Speculative given the binary outcome of the story. If Cheniere can secure an LNG export license for its facility, we estimate the value of the stock at over $10 per share. However, without a permit, Cheniere could experience liquidity issues resulting in a zero outcome. We currently believe Cheniere can obtain a license. Furthermore, Cheniere has MOUs for 7.7 million tons/annum of interest for bi-directional capacity at its facility.

- **Gas Pipeline & Utility Outlook** — We are raising valuations for our pipeline and utility stocks to 14.5x P/E and 1.5x rate base from 13.0x and 1.3x previously. These metrics are partially based on our estimate of where these assets should trade versus corporate bond yields. Furthermore, our estimates for allowed ROEs and current equity premium yield similar results. Our conclusion is the sector is fairly valued except for a few special situation stories.

	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
AGL	2M	1M	US$38.00	US$41.00	US$2.71	US$2.57	US$3.09	US$3.11
ATO	2M	2M	US$30.00	US$32.00	US$2.40	US$2.32	US$2.45	US$2.50
CNP	1M	1M	US$16.00	US$18.00	US$1.05	US$1.05	US$1.25	US$1.20
LNG	2S	1S	US$5.00	US$10.00	US$-3.00	US$-2.87	US$-3.32	US$-2.82
NI	2M	2M	US$18.00	US$20.00	US$1.20	US$1.20	US$1.33	US$1.34
SE	2H	2M	US$23.00	US$25.00	US$1.44	US$1.44	US$1.59	US$1.65
SRE	1M	1M	US$60.00	US$60.00	US$3.80	US$3.81	US$4.19	US$4.27
STR	1L	1L	US$19.00	US$19.00	US$1.09	US$1.09	US$1.13	US$1.13
SWX	1M	2M	US$37.00	US$41.00	US$2.17	US$2.19	US$2.26	US$2.43
TEG	3H	2H	US$44.00	US$46.00	US$2.96	US$2.52	US$3.15	US$3.15
TRP.TO	2H	2H	C$37.00	C$36.00	C$1.91	C$1.91	C$2.17	C$2.03
UGI	1M	2M	US$33.00	US$33.00	US$2.27	US$2.23	US$2.36	US$2.38
WC	2M	2M	US$26.00	US$26.00	US$1.65	US$1.56	US$1.91	US$1.71

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Gas Pipeline & Utility Outlook

In this note we discuss the macroeconomic outlook for gas pipeline and utilities as well as the rationale for our new valuation metrics. We also upgrade AGL Resources (AGL) and Cheniere Energy (LNG) to Buy from Hold. We are upgrading Integrys (TEG) to Hold from Sell. We are downgrading shares of Southwest Gas (SWX) and UGI Corp (UGI) to Hold from Buy. We continue to rate Sempra Energy (SRE) and CenterPoint Energy (CNP) Buy.

Overall, most of our Buy ratings are special situations. AGL is currently closing on a merger that would fundamentally change the size and scope of the company. Cheniere has the opportunity to export natural gas out of the US through a utility based model if the Department of Energy (DOE) issues an export license. This is a binary event. Sempra is materially changing its earnings stream from one that had over 30% of earnings from commodities trading to one that is mostly utility-based following the sale of its commodities assets.

Other than these specific stories, our macroeconomic analysis suggests the overall gas pipeline and utility sector is fairly valued based on where current corporate bond yields and equity risk premium stand. Furthermore, our analysis demonstrates that we have reached a bottom in allowed ROEs in the US. While it appears some regulators are attempting to cram down ROEs based on what interest rate were late last year, that time has passed. There appears to be little logic to see ROEs come down further. However, state political risk always has to be taken into account.

Figure 1. Recommendations & Valuation Matrix

Ticker	Company	Rating	Current Price	Target Price	Upside to Target	Net Asset Value	DDM / DCF	Multiple EBITDA	Multiple Earnings	Cost of Capital
AGL	AGL Resources	Buy/Medium	$36.53	$41.00	12%	$49.04	$39.69	$33.22	$44.38	5.76%
ATO	Atmos Energy	Hold/Medium	$33.00	$32.00	-3%	$35.79	$27.71	$28.44	$34.62	5.59%
CNP	Centerpoint Energy	Buy/Medium	$16.09	$18.00	12%	$16.71	$18.84	$17.89	$19.32	5.47%
LNG	Cheniere Energy	Buy/Speculative	$6.45	$10.00	24%	$21.53	$0.00	N/A	N/A	8.29%
NI	Nisource	Hold/Medium	$18.76	$20.00	1%	$23.49	$16.27	$21.23	$18.93	5.72%
SRE	Sempra Energy	Buy/Medium	$52.62	$60.00	14%	$61.70	$55.45	$56.54	$66.79	5.44%
SE	Spectra Energy	Hold/Medium	$25.77	$25.00	-3%	$27.49	$23.54	$24.34	$23.87	6.49%
STR	Questar Corp	Buy/Low	$17.84	$19.00	7%	$19.59	$20.95	$17.38	$17.98	7.36%
SWX	Southwest Gas	Hold/Medium	$37.42	$41.00	10%	$50.36	$30.97	$45.27	$37.10	6.18%
TEG	Integrys Energy	Hold/High	$48.08	$46.00	-4%	$53.07	$43.01	$42.55	$48.32	6.44%
TRP	TransCanada	Hold/High	$37.30	$36.00	-3%	$35.41	$36.92	$32.71	$38.11	5.97%
UGI	UGI Corp	Hold/Medium	$32.64	$33.00	1%	$33.33	$31.28	$34.14	$33.61	5.06%
VVC	Vectren Corporation	Hold/Medium	$26.61	$26.00	-2%	$27.18	$21.66	$27.47	$25.69	6.14%

Source: Citi Investment Research and Analysis

Sempra Energy (SRE) remains our preferred pick in the Gas Pipeline and Utilities sector (Buy/Medium Risk, Target $60). After outperforming the sector in 2009, the stock underperformed in 2010 with the slow sale of the commodities assets and lower than expected 2011 guidance. The stock trades at one of the lowest P/E multiples in the group despite having a growing portfolio of gas pipeline, gas utility, power transmission and renewable power assets. We continue to believe these set of assets are amongst the highest quality in our coverage group. The major headwind this year for the stock will be the shifting political winds in California with the appointment of two new commissions to the California Public Utility Commission (CPUC).

Cheniere Energy (LNG) has recently come back to life. After being a first mover in 2003 to build a regasification plant in the US, the company took on too much leverage by building out risky merchant capacity. For the last two years, shale gas production has sent US gas imports of LNG to a low. With gas production continuing to grow in the US, Cheniere has turned the tables and now proposes to offer US producers an outlet for their growing supply. More importantly, Cheniere is offering global purchasers of gas another source of supply based on Henry Hub pricing. So far, Cheniere has quickly been able to secure MOUs

totaling 7.7 million tons per annum (mtpa) of capacity at its proposed liquefaction facility on the same grounds as its regas plant at Sabine Pass, Louisiana. Our Buy/Speculative risk rating and $10 target price is predicated on Cheniere obtaining an export license from the Department of Energy.

AGL Resources (AGL) is upgraded to Buy/Medium risk with a $41 target from Hold largely on valuation. Last month, AGL announced it would purchase Nicor (GAS) for $3.1 billion. AGL is paying a relatively high multiple on rate base for the asset and it appears the market is hesitant on AGL's ability to digest Nicor and make it accretive for shareholders. However, the fact is, Nicor had unused balance sheet capacity of $1.0 billion. Nicor was rated AA by S&P before the announcement. When we take this into account, we estimate the deal is essentially earnings neutral without synergies. Furthermore, we estimate the company can achieve sufficient synergies to overcome the premium paid over regulatory asset base (RAB). The last time AGL did a transaction of this magnitude (NUI in 2004), the stock lagged during the merger process and when it became apparent the company could in fact create value from the scale of its business, the value of the stock was reset.

Centerpoint Energy (CNP) continues to screen cheap on our valuation metrics. We continue to rate the stock Buy/Medium risk and increased our target price to $18 per share. CNP's most attractive assets continue to be the pipelines, midstream and electric transmission assets. These assets offer a strong cash flow profile and steady growth trajectory. The gas utilities offer a slow growing but steady earnings stream. Recently, CNP's growth in gathering and processing volumes in 2012 has been called into question given the slow down in activity in the Haynesville. While we believe we could see slowing activity, it does not change the fact that the Haynesville contains a massive resource that will be tapped in coming years. Any slowdown in volume growth would be temporary. Separately, we continue to have a positive bias towards CNP's stranded cost case currently being decided by the Supreme Court of Texas. There is no statutory deadline by which the Court has to rule, however, it as been over a year since briefs and oral arguments were filed and heard.

Southwest Gas (SWX) is downgraded to a Hold/Medium risk from Buy on valuation. SWX has navigated the regulatory process in AZ and NV with skill. By taking a patient approach with regulators, the company has proven that it can establish a working relationship with regulators even if they are elected. While we find SWX's assets attractive, we are unable to recommend the stock at this time and are therefore downgrading the stock to Hold on valuation. We are increasing our target to $41 to take into account SWX's upcoming rate case and decoupling effort in AZ as well as our new valuation metrics. The next catalyst for SWX will be the recovery in growth in the desert southwest. This could take the next 2-3 years to materialize.

UGI Corp. (UGI) is downgraded to Hold/Medium risk from Buy on valuation. Our target remains $33 per share. Our target remains unchanged largely as a result of how we treat UGI's interest in Amerigas. In order to be consistent with all the companies in our coverage universe that have interests in master limited partnerships, we are tax affecting the value of these assets. Our EPS growth rate for UGI is now 6% through 2014 from flat previously.

Spectra Energy's (SE) risk rating is upgraded to Medium from High as a result of our view on midstream margins and natural gas liquids prices. We continue to rate the company Hold and have increased our target to $25. Liquids' prices were in flux in 2009 as a result of the recession. However, with the US being a low cost producer of chemicals vis-à-vis the rest of the world, we see a sustained pricing and volume level for liquids and midstream services from Spectra's joint venture in DCP Midstream. We therefore apply a lower risk to the stock.

Integrys (TEG) is upgraded to Hold / High risk from Sell. Our target price moves to $46 per share from $44 using our new valuation metrics we have outlined in this note. The stock still has downside to our target, however, the dividend yield results in a positive absolute return. We remain somewhat concerned over escalating costs at the utility, but believe TEG can obtain rate relief in the event higher costs impact long-term achieved ROEs.

Earnings Outlook

Figure 2. CIRA Earnings vs. Consensus

Ticker	Company	CQ4 '10 CIRA Est.	CQ4 '10 Consensus*	Delta	FY 2011 CIRA Est.	FY 2011 Consensus*	Delta	FY 2012 CIRA Est.	FY 2012 Consensus*	Delta
AGL	AGL Resources	$0.71	$0.82	($0.11)	$3.11	$3.14	($0.03)	$3.29	$3.30	($0.01)
ATO	Atmos Energy**	$0.79	$0.87	($0.08)	$2.32	$2.31	$0.02	$2.50	$2.40	$0.11
CNP	Centerpoint Energy	$0.25	$0.29	($0.04)	$1.20	$1.19	$0.01	$1.35	$1.25	$0.10
LNG	Cheniere Energy	($0.70)	($0.05)	($0.65)	($2.82)	$0.13	($2.95)	($2.95)	$0.44	($3.39)
NI	Nisource	$0.33	$0.34	($0.01)	$1.34	$1.31	$0.03	$1.46	$1.39	$0.07
STR	Questar Corp	$0.32	$0.32	($0.00)	$1.13	$1.13	$0.01	$1.22	$1.20	$0.02
SRE	Sempra Energy	$0.91	$0.95	($0.04)	$4.27	$4.22	$0.05	$4.59	$4.23	$0.36
SWX	Southwest Gas	$0.91	$1.03	($0.12)	$2.43	$2.22	$0.21	$2.83	$2.37	$0.25
SE	Spectra Energy	$0.37	$0.40	($0.03)	$1.65	$1.68	($0.04)	$1.72	$1.81	($0.10)
TEG	Integrys Energy	$0.72	$0.77	($0.05)	$3.15	$3.33	($0.19)	$3.48	$3.55	($0.07)
TRP	TransCanada***	$0.50	$0.53	($0.03)	$2.03	$2.30	($0.26)	$2.30	$2.46	($0.16)
UGI	UGI Corp**	$0.81	na	na	$2.36	$2.36	$0.02	$2.53	$2.55	($0.02)
VVC	Vectren Corporation	$0.47	$0.56	($0.09)	$1.71	$1.84	($0.13)	$1.87	$2.02	($0.15)

*Thompson FirstCall ** Sept Year End *** Canadian Dollars

Source: Citi Investment Research and Analysis

Figure 3. EPS Calendar

Ticker	Company	Conference Call Info			
		Date	Time	Number	Conference ID
AGL	AGL Resources	2/9	9:00 AM	888-383-8108	22398102
ATO	Atmos Energy	2/9	8:00 AM	877-485-3107	n/a
CNP	Centerpoint Energy	3/1	11:30 AM	800-653-1761	35640383
LNG	Cheniere Energy	2/25	TBD	TBD	N/A
NI	NiSource	2/1	9:00 AM	888-286-8010	19419278
STR	Questar Corp	2/22	9:30 AM	800-342-1687	32876071
SRE	Sempra Energy	2/25	TBD	TBD	TBD
SWX	Southwest Gas	2/25	TBD	TBD	TBD
SE	Spectra Energy	2/3	10:00 AM	888-252-3715	35168258
TEG	Integrys Energy	2/24	9:00 AM	TBD	TBD
TRP	TransCanada	2/23	TBD	TBD	TBD
VVC	Vectren Corporation	2/17	2:00 PM	TBD	TBD

Source: Citi Investment Research and Analysis, Company data

Relative Valuation

Figure 4. Valuation

Company	Ticker	Rating	P/E 2011E	P/E 2012E	P/E 2013E	Div Yield	EPS 2011E	EPS 2012E	EPS 2013E	2011E ROIC
Gas Processing and Pipelines										
Cheniere Energy Inc	LNG	1S	-2.3x	-2.1x	-2.0x	0.0%	($2.82)	($2.95)	($3.14)	3.5%
Oneok Inc	OKE	2M	18.5x	17.3x	16.2x	2.6%	$3.18	$3.40	$3.64	9.3%
Questar Corp	STR	1L	15.2x	14.1x	13.2x	3.0%	$1.13	$1.22	$1.31	10.1%
Southern Union Co	SUG	1M	14.5x	12.2x	11.9x	2.3%	$1.82	$2.14	$2.20	4.9%
Spectra Energy Corp	Spectra Er	2M	15.6x	15.0x	14.4x	3.9%	$1.65	$1.72	$1.78	7.5%
Median			15.2x	15.2x	15.2x	2.4%				7.1%

Company	Ticker	Rating	P/E 2011E	P/E 2012E	P/E 2013E	Div Yield	EPS 2011E	EPS 2012E	EPS 2013E	2011E ROIC
Gas Pipelines/Utilities and Power										
CenterPoint Energy Inc	CNP	1M	13.4x	11.9x	11.3x	4.9%	$1.20	$1.35	$1.42	7.6%
NiSource Inc	NI	2M	13.9x	12.7x	12.7x	4.9%	$1.34	$1.46	$1.47	6.0%
Sempra Energy	SRE	1M	12.2x	11.3x	10.0x	3.0%	$4.27	$4.59	$5.20	7.2%
Integrys Energy Group, Inc.	TEG	2H	15.2x	13.7x	13.4x	5.7%	$3.15	$3.48	$3.55	5.3%
TransCanada Corp	TRP.TO	2H	17.9x	15.8x	12.7x	4.4%	$2.03	$2.30	$2.85	4.8%
Vectren Corp	VVC	2M	15.4x	14.1x	13.6x	5.2%	$1.71	$1.87	$1.93	7.0%
Mean			14.7x	13.3x	12.3x	4.7%				6.3%

Company	Ticker	Rating	P/E 2011E	P/E 2012E	P/E 2013E	Div Yield	EPS 2011E	EPS 2012E	EPS 2013E	2011E ROIC
Utilities										
AGL Resources Inc	AGL	1M	11.6x	11.0x	10.7x	4.9%	$3.11	$3.29	$3.38	7.7%
Atmos Energy Corp	ATO	2M	14.0x	13.0x	12.9x	4.1%	$2.32	$2.50	$2.53	7.9%
Southwest Gas Corp	SWX	2M	15.3x	14.1x	13.7x	2.7%	$2.43	$2.63	$2.72	7.2%
UGI Corp	UGI	2M	13.4x	12.6x	12.4x	3.1%	$2.38	$2.53	$2.58	12.3%
Nicor Inc*	GAS	n/a	17.2x	16.9x	19.4x	3.7%	$2.90	$2.95	$2.58	n/a
ITC Holdings Corp*	ITC	n/a	19.7x	16.1x	13.7x	2.0%	$3.34	$4.09	$4.79	n/a
New Jersey Resources*	NJR	n/a	16.1x	15.4x	15.0x	3.3%	$2.62	$2.74	$2.80	n/a
Northwest Natural Gas Co*	NWN	n/a	15.6x	15.2x	n/a	3.8%	$2.83	$2.89	n/a	n/a
Piedmont Natural Gas Co*	PNY	n/a	17.8x	16.9x	17.1x	4.0%	$1.59	$1.67	$1.65	n/a
South Jersey Industries Inc*	SJI	n/a	17.1x	16.0x	14.4x	2.6%	$3.05	$3.26	$3.63	n/a
Mean			15.9x	14.8x	14.5x	3.4%				8.1%

Source: Citi Investment Research and Analysis

*Not under coverage. Estimates based on consensus.

Gas Pipeline & Utility Trends

We created a Gas Utility index comprised of both major pipeline companies and gas utilities within North America, some of which we do not currently cover. These specific stocks are different from some of our other integrated natural gas companies in that they have no oil and gas producing assets. For details on the integrated natural companies such as Williams (WMB) and El Paso (EP), see our note dated January 19th.

On average, the gas utility index has outperformed the S&P 500 over the last five years. The outperformance has been more pronounced lately with bond yields dropping over the last two years. The question now becomes with bond yields at current levels, how much more upside is left in these stocks? Our conclusion is the overall sector is fairly valued with the exception of a few names. We present our macroeconomic and fundamental valuation thesis below.

Figure 5. Gas Utility Return against other Investments

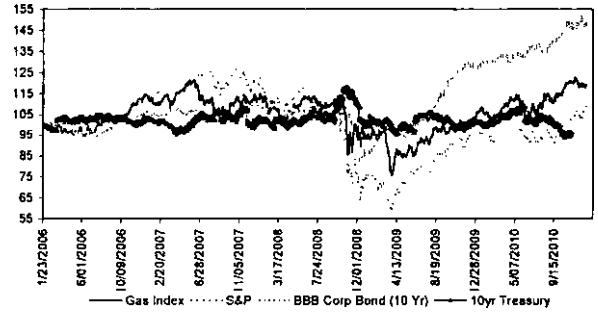
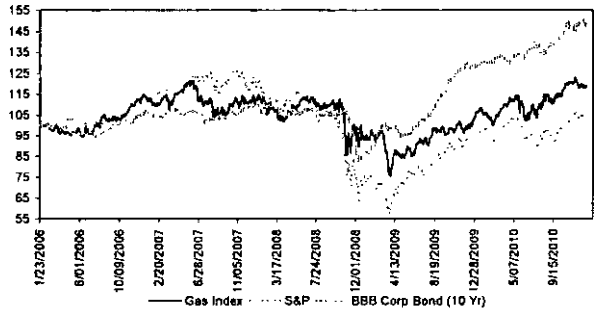


Figure 6. Gas Utility Return vs. BBB Bonds & S&P



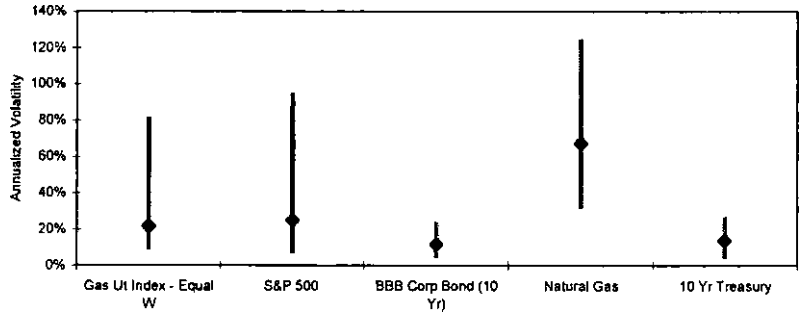
Source: Citi Investment Research and Analysis, Factset

Gas Utility Index: ATO, AGL, CNP, ENB, PNY, NI, NWN, NJR, SE, SJI, SRE, SWX, TEG, TRP, UGI, VVC, WGL

Over the past five years, despite a significant correction in many asset classes, the defensive pipeline and gas utilities have managed to outperform the broader US equity market. In addition, the sector has also faired well given natural gas as a commodity has been in a bear market for more than two years.

Although markets have been volatile over the last few years, gas utilities have averaged 21% annual volatility over the last 5 years, which is lower than the broader equity markets (24%). Clearly, natural gas has seen the largest swing in price as a result of dramatic moves in fundamentals, yet gas utilities have performed reasonably well, providing relatively stable returns on their core gas franchises' and selectively expanding into non-regulated markets.

Figure 7. Comparing Volatility across investments (2006-2010)

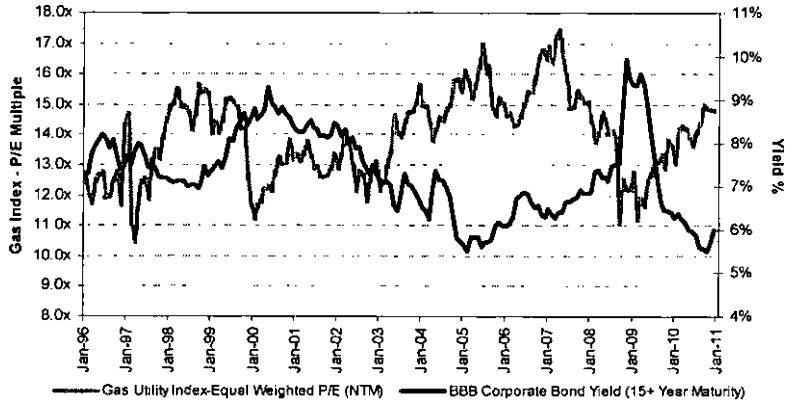


Source: Citi Investment Research and Analysis, Factset

Macroeconomic Valuation: The Relationship between Corporate Bonds & Gas Utilities

Historically, gas utilities have served as a defensive sector with an inverse relationship to corporate bond yields. **Our analysis (see figures below) suggests that the statistical relationship is not overwhelming (R2=0.46) but compared to the S&P 500, gas utilities have a tendency of moving more with corporate bond yields than the broader market.** It appears that investors are interested in receiving the highest rate of return but cognizant of risk across asset classes to varying degrees, hence the tipping point between gas utility valuations and corporate bond spreads is worth monitoring.

Figure 8. BBB Corporate Bond Yields vs. Gas Utility Index P/E



Source: Citi Investment Research and Analysis, Factset, Haver

The current spread between BBB corporate bonds and the 10 year treasury is 287 basis points. This is close to the average over the last decade of 283 basis points. The gas utility index P/E multiples are acting similarly, as the current multiple is slightly higher than its average. (14.8X vs. 14.1X average over the past decade). Separately, if one wanted to take the mean reversion approach to gas utilities, the sector would appear overvalued. However, this would not take into account the relative yield of different investment instruments.

The gas utility index P/E multiple has continued to steadily expand into 2011 since bottoming at the beginning of 2009. At the same time, long-term BBB corporate bond yields have trended lower, and appear to be forming lows going into the 2011.

Figure 9. BBB Corporate Bond Yields vs. Gas Utility P/E – Risk/Reward Scenarios

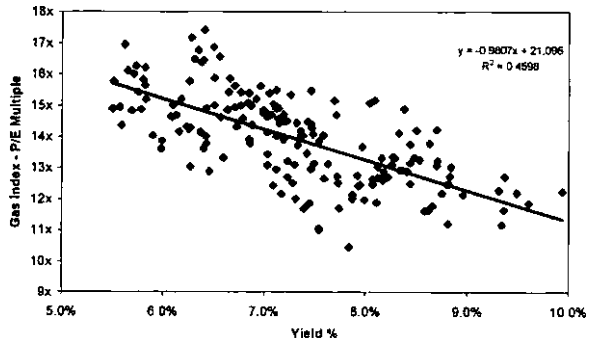
BBB Yield	Implied Gas Utility Yield	Gas Utility P/E	Implied Up/(downside) for Gas Index
4.50%	3.15%	16.7x	10%
4.75%	3.25%	16.4x	8%
5.00%	3.34%	16.2x	6%
5.25%	3.44%	15.9x	5%
5.50%	3.53%	15.7x	3%
5.75%	3.63%	15.4x	2%
6.00%	3.72%	15.2x	0%
6.25%	3.82%	15.0x	-2%
6.50%	3.91%	14.7x	-3%
6.75%	4.01%	14.5x	-5%
7.00%	4.11%	14.2x	-6%
7.25%	4.20%	14.0x	-8%
7.50%	4.30%	13.7x	-10%
7.75%	4.39%	13.5x	-11%
8.00%	4.49%	13.3x	-13%
8.25%	4.58%	13.0x	-14%
8.50%	4.68%	12.8x	-16%
8.75%	4.77%	12.5x	-18%
9.00%	4.87%	12.3x	-19%

Source: Citi Investment Research and Analysis, Fact Set

In order to outline the relationship between corporate bond yields and relative value in the gas sector, we constructed the table above to demonstrate the valuation sensitivity to changes in corporate bond yields. The area outlined is where BBB Corporate Bond Yields (15+ Years) currently trade. Using the relationship between corporate bond yields and gas utility P/Es, we estimate gas utilities should be trading at roughly 15.2X P/E on average. As a group, the index is essentially within the range suggesting to us that the sector is fairly valued at current levels.

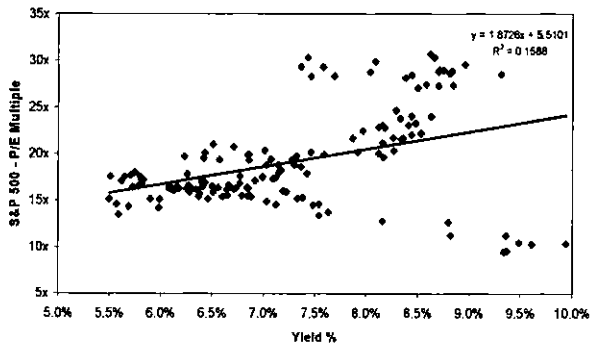
Below, we illustrate the relationship that the gas utilities exhibit to overall bond yields. Clearly, the gas pipeline/utilities show a strong trend to the yields, while the broader market shows little relationship.

Figure 10. Relationship between BBB Corporate Bond Yields and Gas Utility Index PE between 2000-2010



Source: Citi Investment Research and Analysis, Factset, Haver

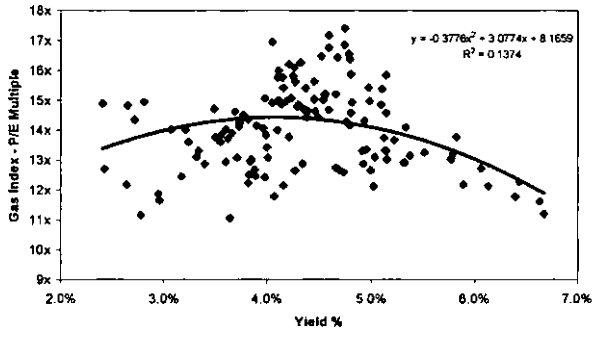
Figure 11. Relationship between BBB Corporate Bond Yields and S&P 500 P/E between 2000-2010



Source: Citi Investment Research and Analysis, Factset, Haver

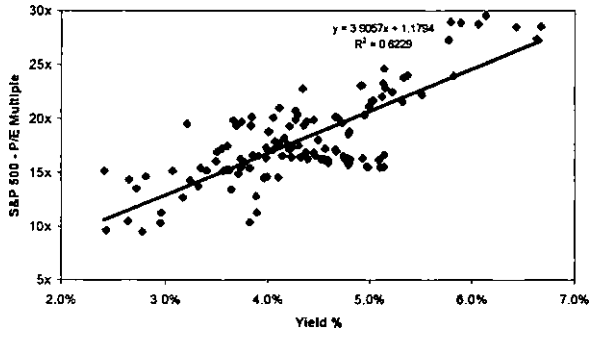
In general, a higher R2 indicates the strength of a relationship between variables. Based on the data in figures 10 and 11 it appears that BBB corporate bond yields move more in tandem with gas utility P/E multiples, nearly 50% of the time, in comparison to the broader market. Investors should be cognizant of this macro relationship as an indicator over the business cycle.

Figure 12. Relationship between 10 Year Treasury Yields and Gas Utility Index PE between 2000-2010



Source: Citi Investment Research and Analysis, Factsel, Haver

Figure 13. Relationship between 10 Year Treasury Yields and S&P 500 P/E between 2000-2010



Source: Citi Investment Research and Analysis, Factset, Haver

We also looked at government bonds and utility valuation. The US 10 year treasury appears to have a more significant correlation with the S&P 500 compared to gas utilities (see figures 12 and 13). **In general, our analysis indicates that gas utilities would be less impacted by rising long term interest rates compared to the broader equity markets.**

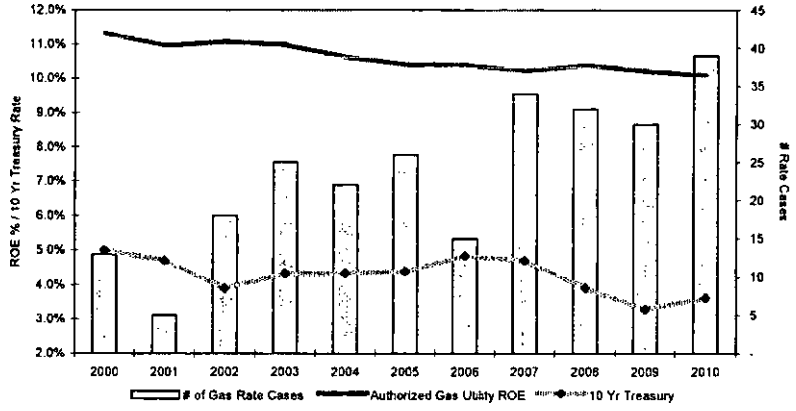
Our conclusion is that we should be using somewhere between a 14.0 and 15.2x multiple on the gas pipeline and utility companies. This is one of our inputs into our valuation matrix approach. This multiple would also imply an EBITDA multiple on the group of between 7.5x to 8.0x.

Fundamental Valuation

During the last 12 months, the equity markets have rallied causing the equity risk premium in the market to drop by 50 bps to 4.6%. Furthermore, with the leveling off of the equity markets since 2008 and 2009, utility betas have normalized. The net result is a lower cost of capital for most of our stocks. Using these new assumptions in our proprietary dividend discount model, our valuations have moved up. The dividend discount model essentially implies that on average the gas pipeline and utility stocks should trade at about 14.5x P/E and 1.5x rate base.

One of the key assumptions in our analysis is the return on equity for the utilities in our group. Based on our analysis, we believe ROE's have bottomed close to 10.25%. At this point, given where corporate bond yields are and where current ten year and thirty year treasuries stand, we do not see downside to our ROE assumptions.

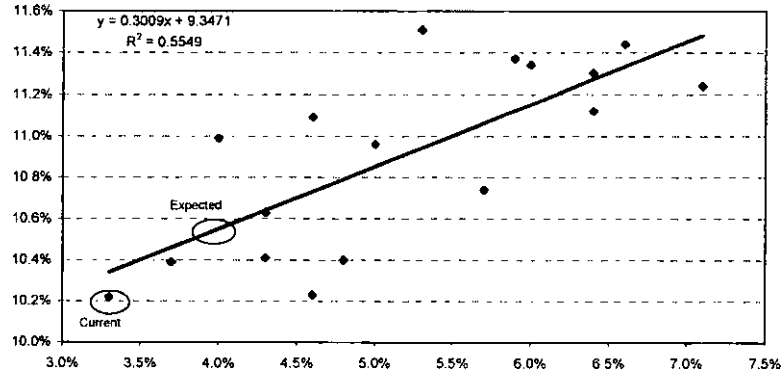
Figure 14. Gas Utility Authorized ROEs



Source: Citi Investment Research and Analysis, SNL Financial, Factset

Authorized gas utility returns have exhibited a healthy relationship to the 10-year treasury yield over the past decade. We attribute this to risk-free rates serving as an input used by utility commissions to arrive at the cost of equity. Although not in perfect unison, investors should expect authorized ROE's to follow the same trajectory as the 10-year yield. As chatter over rising inflation and long-term rates grows, we could be nearing an inflection point in the cycle for authorized gas utility ROE's.

Figure 15. Allowed ROE and Ten Year Treasury Yield



Source: Citi Investment Research and Analysis

Based on the current situation for ROEs, beta, the risk free rate and overall utility rate base growth of 3% a year, our fundamental analysis suggests that our stocks should trade at 14.5x P/E and 1.5x rate base. The clearly conclusion here is that a cash flow and dividend discount analysis essentially yields the same result as our macro analysis. Below we illustrate the sensitivity to the major components such as beta and ROE.

Figure 16. Gas Utility P/E Sensitivity to Beta and Allowed ROE

	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.85
9.00%	18.0x	17.1x	16.2x	15.5x	14.8x	14.1x	13.6x	13.0x	12.5x	12.1x
9.25%	18.1x	17.2x	16.4x	15.6x	14.9x	14.3x	13.7x	13.1x	12.6x	12.2x
9.50%	18.3x	17.3x	16.5x	15.7x	15.0x	14.4x	13.8x	13.2x	12.7x	12.3x
9.75%	18.4x	17.5x	16.6x	15.8x	15.1x	14.5x	13.9x	13.3x	12.8x	12.3x
10.00%	18.5x	17.6x	16.7x	15.9x	15.2x	14.6x	14.0x	13.4x	12.9x	12.4x
10.25%	18.6x	17.7x	16.8x	16.0x	15.3x	14.7x	14.1x	13.5x	13.0x	12.5x
10.50%	18.8x	17.8x	16.9x	16.1x	15.4x	14.8x	14.1x	13.6x	13.1x	12.6x
10.75%	18.9x	17.9x	17.0x	16.2x	15.5x	14.8x	14.2x	13.7x	13.1x	12.7x
11.00%	19.0x	18.0x	17.1x	16.3x	15.6x	14.9x	14.3x	13.7x	13.2x	12.7x
11.25%	19.1x	18.1x	17.2x	16.4x	15.7x	15.0x	14.4x	13.8x	13.3x	12.8x
11.50%	19.2x	18.2x	17.3x	16.5x	15.7x	15.1x	14.5x	13.9x	13.4x	12.9x

Source: Citi Investment Research and Analysis

Figure 17. Gas Utility Rate Base Multiple Sensitivity to Beta and Allowed ROE

	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.85
9.00%	1.62x	1.54x	1.46x	1.39x	1.33x	1.27x	1.22x	1.17x	1.13x	1.09x
9.25%	1.68x	1.59x	1.51x	1.44x	1.38x	1.32x	1.26x	1.21x	1.17x	1.12x
9.50%	1.74x	1.65x	1.57x	1.49x	1.43x	1.36x	1.31x	1.26x	1.21x	1.16x
9.75%	1.79x	1.70x	1.62x	1.54x	1.47x	1.41x	1.35x	1.30x	1.25x	1.20x
10.00%	1.85x	1.76x	1.67x	1.59x	1.52x	1.46x	1.40x	1.34x	1.29x	1.24x
10.25%	1.91x	1.81x	1.72x	1.64x	1.57x	1.50x	1.44x	1.38x	1.33x	1.28x
10.50%	1.97x	1.87x	1.78x	1.69x	1.62x	1.55x	1.49x	1.43x	1.37x	1.32x
10.75%	2.03x	1.92x	1.83x	1.74x	1.67x	1.60x	1.53x	1.47x	1.41x	1.36x
11.00%	2.09x	1.98x	1.88x	1.79x	1.71x	1.64x	1.57x	1.51x	1.45x	1.40x
11.25%	2.14x	2.03x	1.93x	1.84x	1.76x	1.69x	1.62x	1.55x	1.50x	1.44x
11.50%	2.20x	2.09x	1.99x	1.90x	1.81x	1.73x	1.66x	1.60x	1.54x	1.48x

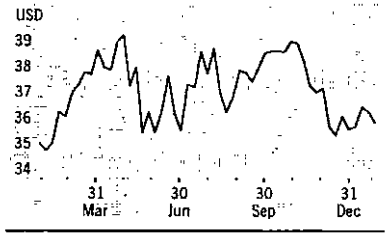
Source: Citi Investment Research and Analysis

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy/Medium Risk	1M
from Hold/Medium Risk	
Price (28 Jan 11)	US$36.09
Target price	US$41.00
from US$38.00	
Expected share price return	13.6%
Expected dividend yield	4.9%
Expected total return	**18.5%**
Market Cap	US$2,817M

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



AGL Resources Inc (AGL)

Too Cheap to Ignore; Upgrade to Buy; Market Overly Pessimistic on Merger with Nicor

- **4Q 2010 Earnings Outlook** – We expect AGL to report earnings of $0.71 during the quarter, or down 22% Y/Y primarily on a drop in Wholesale margins. Going into the peak season for gas demand, we expect LDC revenues to be up 5% over the same period last year on recent rate relief. Weather on the East Coast and Mid-Atlantic was colder than normal compared to last year in Q4. We expect Retail Energy Services to be down in 4Q as we adjust margins to more normal levels when compared to last year. We expect Wholesale Services to be lower over last year given the reduction in natural gas prices in 4Q when compared to 2Q and 3Q 2010. Essentially the WACOG gas price for Sequent is higher than the realized price observed in Henry Hub in 4Q. We expect a loss at Sequent.

- **Rate Cases** – Chattanooga received a final decision on its rate case in November. It was authorized a rate increase of $60,000, ROE of 10.05%, Equity component of 46% on a rate base of $93.8 mm. The decision was a fraction of what was filed for ($2.2 mm). In November, AGL received a final decision on its rate case in Georgia ($26.6 mm rate increase; 10.75% ROE).

- **Nicor Acquisition** – We estimated approximately $40 mm in cost reductions are needed to offset the premium paid for Nicor. We believe these synergies are achievable over time. We currently estimate the deal will only be slightly dilutive in the first full year by $0.03 per share (-1%) on our 2012 EPS and essentially break-even in 2013 without synergies. We estimate the $1.4BN equity financing portion of the deal will equate to 38 mm new shares being issued by AGL. The deal is basically break-even on earnings largely because AGL can use GAS's under-levered balance sheet (AA rating, 40% debt –to-capital) and low cost of debt to finance the partial cash purchase (see previous note on AGL).

- **2011 FY outlook** – We expect 2011 EPS of $3.11. We estimate utility EBIT will be up 10% on recent rate cases decisions. We expect the Wholesale business to improve modestly. We believe our Energy Investments profits are conservative.

- **Target Price and Rating** – We are upgrading AGL to Buy and raising our target price to $41 based on our new valuation metrics discussed in this report. The stock currently trades at the lowest P/E multiple in the group.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	1.36A	0.16A	0.08A	0.90A	2.49A	2.88A
2010E	**1.58A**	**0.20A**	**0.08A**	**0.71E**	**2.57E**	**2.99E**
Previous	1.58A	0.20A	0.08A	0.84E	2.71E	na
2011E	**1.69E**	**0.20E**	**0.19E**	**1.03E**	**3.11E**	**3.14E**
Previous	1.70E	0.24E	0.24E	0.91E	3.09E	na
2012E	**1.77E**	**0.25E**	**0.21E**	**1.06E**	**3.29E**	**3.30E**
Previous	1.77E	0.29E	0.26E	0.93E	3.25E	na

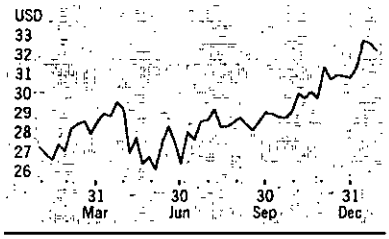
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Hold/Medium Risk	2M
Price (28 Jan 11)	US$32.62
Target price	US$32.00
from US$30.00	
Expected share price return	-1.9%
Expected dividend yield	4.2%
Expected total return	**2.3%**
Market Cap	US$2,957M

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



Atmos Energy Corp (ATO)

Maintain Hold; Long-term EPS Growth 3%; Target to $32

- **Fiscal 1Q 2011 EPS** – We expect F1Q'11 (September Fiscal YE) EPS of $0.79 per share, while consensus is $0.87 p/s. Weather in TX was warmer than normal compared to 2009 for Q1.
- **Gas Distribution** – We expect F1Q'11 EBIT to be $118 mm, 4% higher over last year. Rate increases in KY, TX & LA were higher than we expected. Overall, we estimate ATO is earning a 9.8% ROE on its overall rate base.
- **Gas Marketing** – Weak merchant gas storage fundamentals continue to pressure margins. Optimization margins have been in-line with our estimates; however, commercial margins have been lower. In F1Q, we expect EBIT of $16 mm. This anticipates overall lower margins but higher volumes on seasonality. For 2011, ATO expects commercial margins to rise nearly 10%. We are modeling no change over 2010.
- **Regulated Transmission & Storage** – ATO significantly beat our expectations on 4Q net income ($12.5 mm vs. $3.5 mm). Higher sales of excess gas ($5 mm), revenues from filings under GRIP ($3 mm) and higher compression activity ($3 mm) contributed to the solid performance. ATO has filed a $39 mm rate increase in this segment. We expect a decision by 3Q 2011. For 1Q, we expect EBIT of $13.3 mm, approximately 8% lower Y/Y on higher costs.
- **FY 2011 Earnings outlook** – Our 2011 FY EPS is $2.32, while consensus is $2.31. Guidance is $2.25-$2.35 per share. We estimate long-term EPS of growth of 3.0% mostly driven by utility rate increases.
- **Target Price and Rating** – We are maintaining our Hold/Medium risk rating and increasing our target price to $32 per share based on our updated valuation analysis published in this note.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.71A	1.45A	0.07A	0.03A	2.27A	2.25A
2011E	**0.79E**	**1.39E**	**0.13E**	**0.01E**	**2.32E**	**2.31E**
Previous	0.81E	1.53E	0.04E	0.02E	2.40E	na
2012E	**0.84E**	**1.44E**	**0.18E**	**0.04E**	**2.50E**	**2.40E**
Previous	0.82E	1.55E	0.05E	0.02E	2.45E	na
2013E	**na**	**na**	**na**	**na**	**2.53E**	**2.51E**
Previous	na	na	na	na	2.51E	na

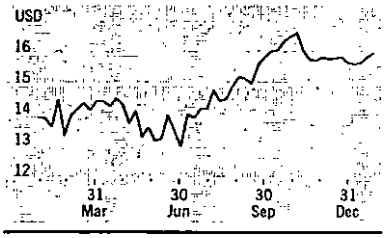
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy/Medium Risk	1M
Price (28 Jan 11)	US$16.03
Target price	US$18.00
from US$16.00	
Expected share price return	12.3%
Expected dividend yield	6.2%
Expected total return	**18.5%**
Market Cap	US$6,802M

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



CenterPoint Energy Inc (CNP)

Anticipating Rate Case Resolution; G&P Growth Continues in '11

- **Gathering Estimates** — We expect EBIT in 4Q of $28 mm, 25% growth over last year. Volumes at Magnolia should continue ramping up with Olympia coming on-line in 1Q. In total, we estimate gathering volumes of 520 Bcf in 2011. This is in-line with the contracts that have been executed with Encana and Shell.

- **Pipeline Backhaul Issue** – CNP has a contract with a Chesapeake Energy (CHK) for back-haul capacity of 500 mmcf/d that is set to end in mid-2011. Without a new contract, pre-tax profits could be $10-15 mm lower in 2011. CNP is actively looking to replace these lost revenues. We will look for an update on the 4Q call.

- **Rate Case Houston electric (CEHE)** — The administrative law judge (ALJ) ruled on CEHE's rate case in December (see earlier CNP note for details). We estimate CEHE is achieving an ROE of 9%. The rate case should push achieved ROEs closer to 10% depending on how the commission votes. Originally, we expected to hear a decision in January, but now expect to hear it in early February. The decision was pushed back to accommodate additional discussions. It appears the commission is in favor of a 45% equity ratio, which is CEHE's actual equity ratio currently. However, the Commission did not agree with the ALJ figure of a 10.4% ROE. We are hard pressed to understand how the commission could logically come up with a lower ROE. However, we would not be surprised if the ROE was 10%.

- **Gas Utilities** – We do not anticipate any material change over last year for Q4. Overall, we estimate the gas utility division is achieving an ROE above 10%. We forecast CNP will earn an ROE of 10.2% in 2011 (normal weather).

- **EPS** — We forecast EPS in 4Q of $0.25 per share, slightly below consensus $0.28. Our full year 2011 estimate is $1.20, which is essentially in-line with the Street at $1.19. Year-over-year, we expect EPS will grow by 17%, with much of the lift continuing to come from the gathering portion of the business. We expect the company to provide 2011 guidance on its conference call.

- **Target Price and Rating** – We are maintain our Buy/Medium risk rating and are increasing our target price to $18 per share based on our updated valuation analysis published in this note.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.26A	0.22A	0.29A	0.27A	1.04A	1.01A
2010E	**0.33A**	**0.21A**	**0.25A**	**0.25E**	**1.05E**	**1.07E**
Previous	0.33A	0.21A	0.25A	0.25E	1.05E	na
2011E	**0.36E**	**0.25E**	**0.31E**	**0.28E**	**1.20E**	**1.19E**
Previous	0.37E	0.27E	0.27E	0.30E	1.25E	na
2012E	**0.40E**	**0.29E**	**0.34E**	**0.32E**	**1.35E**	**1.25E**
Previous	0.42E	0.31E	0.30E	0.34E	1.38E	na

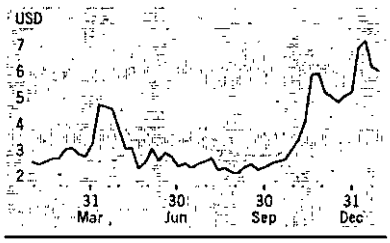
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy/Speculative	1S
from Hold/Speculative	
Price (28 Jan 11)	US$6.34
Target price	US$10.00
from US$5.00	
Expected share price return	57.7%
Expected dividend yield	0.0%
Expected total return	**57.7%**
Market Cap	US$365M

Price Performance (RIC: LNG.A, BB: LNG US)



Cheniere Energy Inc (LNG)

Contract Origination Gains Momentum; Upgrade to Buy

- **Signed Agreements with Counterparties** — During 4Q and this month, Cheniere signed agreements (all MOUs) with multiple counterparties to process domestic gas into LNG for export. ENN Energy, a subsidiary of a Chinese gas utility, agreed to 1.5 mm tones year (mtpa) of bi-directional LNG processing capacity at Sabine Pass. Gas Natural Fenosa, a global integrated gas company, with a large presence in Spain, entered a non-binding agreement to take 1.5 mtpa. Cheniere also entered into an agreement with Morgan Stanley for bi-directional capacity of 1.7 mtpa. It also appears Cheniere is in talks with EDF Trading (a subsidiary of EDF S.A.) to contract between 0.7-1.5 mtpa of bi-directional capacity. Lastly, Cheniere just signed another MOU for 1.5 mtpa of capacity with Sumitomo. The total of all MOUs signed by Cheniere equates to 7.7 mtpa of LNG processing capacity.

- **Shelf Offering** – LNG announced the registration of 10.1 mm shares primarily held by GSO Capital Partners LP. The stock was trading near $7 when announced. The sale will raise the number of outstanding shares by nearly 20%. We believe this large amount of stock will represent an overhang and therefore investors can be patient.

- **LNG Outlook** — We released our global LNG outlook earlier this month (January 13th). In this note, we increased our spot LNG prices to $8-$14 MMBtu in 2011. This is up from our previous estimate of $4-$8. Essentially, the excess supply of LNG is getting mopped up faster than we anticipated.

- **Target price** — We are upgrading Cheniere (ticker: LNG) to Buy from Hold and raising our target price to $10 from $5 per share. The basis for this decision is premised on: 1) multiple contracts having been signed with credible counterparties; 2) potential for further contracts to be originated in the near future; and 3) increasing likelihood that a favorable decision will be made by regulators that will allow Cheniere to export natural gas to non-WTO countries such as China. Our risk rating remains Speculative and we caution investors that there is still a risk that governmental may not issue an export permit. In this scenario, Cheniere (LNG) would face a liquidity event. Furthermore, the way we derive our target relies on the valuation of Cheniere Energy Partners (ticker; CQP). Please see our note from November 14th for details on the corporate structure of CQP and how it relates to LNG.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	-1.70A	-1.15A	0.43A	-0.45A	-2.80A	4.15A
2010E	**-0.64A**	**-0.79A**	**-0.74A**	**-0.70E**	**-2.87E**	**-1.18E**
Previous	-0.64A	-0.79A	-0.74A	-0.82E	-3.00E	na
2011E	**-0.70E**	**-0.70E**	**-0.71E**	**-0.71E**	**-2.82E**	**0.13E**
Previous	-0.83E	-0.83E	-0.83E	-0.84E	-3.32E	na
2012E	**-0.72E**	**-0.73E**	**-0.74E**	**-0.75E**	**-2.95E**	**0.44E**
Previous	-0.85E	-0.86E	-0.87E	-0.89E	-3.48E	na

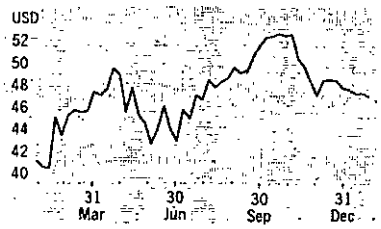
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Hold/High Risk	2H
from Sell/High Risk	
Price (28 Jan 11)	US$47.71
Target price	US$46.00
from US$44.00	
Expected share price return	-3.6%
Expected dividend yield	5.7%
Expected total return	**2.1%**
Market Cap	US$3,701M

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



Integrys Energy Group, Inc. (TEG)

Expense Control a Concern; Upgrade to Hold on New Matrix

- **4Q EPS** – We estimate 4Q'10 EPS of $0.72 per share. Weather in Q4, within TEG's core operating areas, was generally colder (~5%) than normal. This should have a positive impact on results.
- **Gas Utility** – During 3Q'10, TEG's gas utility operating costs were up $27 mm over the previous year or 18% on higher dismantling costs, employee benefit costs, bad debt expense, stock-based compensation and energy conservation. At this point we estimate TEG can achieve close to its allowed ROE only if it files a rate case every year in most of its jurisdictions. Our estimates remain at risk if these objectives can not be met.
- **Electric Utility** – During 3Q'10, residential, commercial & industrial margins were up 13% as a result of warmer weather (2-3X warmer than 2009). Rate increases at Wisconsin Public Service (WPS) and Upper Peninsula Power also added to the quarter. Like the gas utility, opex was up 14% Y-o-Y, dampening the up-lift from warmer weather. WPS has a rate case under review that it anticipates will be resolved by the end of this year. TEG is requesting nearly $70 mm in a rate increase (ROE 11.25%) while the Staff recommendation is for $30 mm (ROE 10.30%).
- **Energy Services** – Over the last two years, TEG has sold down its Texas retail business, its Canadian wholesale electric business, its renewable energy certificate portfolio, its entire US wholesale electric business, parts of the US wholesale gas business and generation assets in Maine through New Brunswick. Earnings from this segment continue to be difficult to model given the ongoing sale of assets. At this point, we continue to have a lack of visibility on TEG's guidance on this business.
- **2011E Guidance–** Management reiterated 2011 guidance of $3.24-$3.57 (16% marketing and trading). Our estimate is $3.15, respectively. TEG recently issued $250 mm of debt at 4.17%.
- **Target Price and Rating** – We are upgrading shares of TEG to Hold. While we estimate there is principal downside, the dividend results in a positive total return. We are increasing our target price to $46 per share based on our new valuation metrics. We estimate TEG has a dividend payout ratio of 85% on our 2011 EPS estimate. This compares to 57% for the defensive gas utility universe.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	1.54A	0.25A	0.35A	0.38A	2.52A	2.41A
2010E	**1.49A**	**0.24A**	**0.08A**	**0.72E**	**2.52E**	**3.08E**
Previous	1.49A	0.42E	0.34E	0.71E	2.96E	na
2011E	**1.67E**	**0.47E**	**0.30E**	**0.71E**	**3.15E**	**3.33E**
Previous	1.66E	0.43E	0.35E	0.70E	3.15E	na
2012E	**1.84E**	**0.52E**	**0.32E**	**0.80E**	**3.48E**	**3.55E**
Previous	1.85E	0.50E	0.39E	0.80E	3.54E	na

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

Company Focus

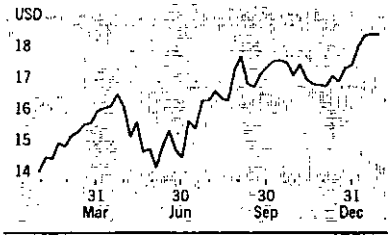
- Company Update
- Target Price Change
- Estimate Change

NiSource Inc (NI)

EPS Momentum Continues; Attractive Outlook; Fairly Valued

Hold/Medium Risk	2M
Price (28 Jan 11)	US$18.61
Target price	US$20.00
from US$18.00	
Expected share price return	7.5%
Expected dividend yield	4.9%
Expected total return	**12.4%**
Market Cap	US$5,179M

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



- **EPS Outlook** — We expect 4Q EPS to be $0.33 per share, down 6% over the same period last year. Lower gas distribution earnings are driving the lower y-o-y decline. Our 2011 FY estimate is $1.34, ahead of consensus of $1.31. Despite a soft 4Q for gas distribution, we estimate overall earnings for gas distribution to rise 11% in 2011 based on lower D&A at NIPSCo Gas and infrastructure trackers in other territories.

- **Gas Utility** — 4Q EBIT is expected to be $101 mm. No major surprises are expected. However, higher operating costs have recently become a concern and we will look for details on the earnings call. NI plans to begin constructing of a $2.3 mm gas line in Ohio under the Columbia Gas of Ohio subsidiary. Columbia Gas of Virginia also has a pending rate case of $13 mm (11.5% ROE; 44% equity; $392 mm rate base) filed in May/2010. No timeline for a decision has been provided.

- **Electric (NIPSCo)** — We expect 4Q EBIT of $35 mm. Our year-over-year estimates are the same. 4Q tends to be a seasonal low in terms of earnings for the electric utility. The EPA finalized a settlement with NI, requiring an investment of $600 mm in environment related programs. We expect a large percentage of this amount to be passed through to rate base over the next several years. A rate case was filed in November for $76 mm (11.75% ROE, 47% equity, $2,706 mm rate base). A decision is expected in the final quarter of 2011. Overall, the entire risk profile and growth outlook for NIPSCo electric has changed. One of the principal reasons for the increase in our target related to this utility.

- **Transmission & Storage** — We estimate 4Q EBIT to be $115 mm. We don't anticipate any surprises but will be focused on the trend in volumes. Columbia Gulf filed for rate increase with FERC in late October. This is Columbia Gulf's first filing in more than a decade. We estimate a modest rate increase in our estimates.

- **Capital Raise** – During 4Q, NI tendered $273 mm of debt for a total $325 mm outstanding 10.75% notes due in 2016. We have adjusted our interest expense down to take this into account.

- **Target Price and Rating** – We maintain our Hold/Medium risk rating. We are raising our target price to $20 per share based on our new valuation metrics.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.63A	0.00A	0.02A	0.35A	1.00A	1.06A
2010E	**0.72A**	**0.10A**	**0.06A**	**0.33E**	**1.20E**	**1.22E**
Previous	0.72A	0.10A	0.06A	0.33E	1.20E	na
2011E	**0.71E**	**0.14E**	**0.14E**	**0.36E**	**1.34E**	**1.31E**
Previous	0.70E	0.15E	0.14E	0.34E	1.33E	na
2012E	**0.74E**	**0.18E**	**0.17E**	**0.37E**	**1.46E**	**1.39E**
Previous	0.72E	0.18E	0.17E	0.36E	1.43E	na

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

Company Focus

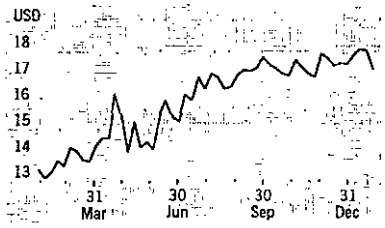
■ Company Update

Questar Corp (STR)

Maintain Buy; $19 Target; Attractive Free Cash Flow Profile

Buy/Low Risk	1L
Price (28 Jan 11)	US$17.21
Target price	US$19.00
Expected share price return	10.4%
Expected dividend yield	3.0%
Expected total return	**13.4%**
Market Cap	US$3,030M

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



- **Wexpro** — We estimate that STR will grow Wexpro investment base from $445mm at the end of Q3'10 to ~$600mm by the end of $2015 ($580mm of incremental capex). We assume an average return on investment of ~20%. We derive a 2015 net income figure of $119mm, up from the expected $88mm in 2010 (~6% CAGR). Given Wexpro's regulated structure, we believe that this earnings stream carries less risk / volatility than pure-play E&P counterparts. That said, if gas prices continue to linger at current levels, there may be some downside risk to Wexpro capex.
- **Pipelines** — We estimate that STR can grow pipeline earnings to $85mm in 2015, up from $64mm in 2010 (~6% CAGR). We currently model ~$170mm of incremental (2011+) expansion projects, all of which should be on-line at the end of 2011. STR will likely have additional opportunities to grow rate base, however, we do not model in any hypothetical projects at this time.
- **Distribution** — We believe that STR will be able to grow net income to $57mm in 2015, up from $45mm in 2010 (~4% CAGR versus company guidance of 8%). We model a hypothetical rate case in 2013 to support the $300 million plus feeder-line replacement program.
- **Free Cash Flow** — We estimate STR will be able to generate ~$630mm of total free cash flow between 2011- 2015. We currently assume zero buybacks or dividend increases but realize that the company has ample room to grow the dividend and / or repurchase shares.
- **Quarter** — We estimate STR will earn $0.32p/s in Q4'10 versus consensus of $0.31p/s and (pro-forma) $0.28p/s in 2009. Company guidance implies a mid-point earnings figure of $0.28p/s.
- **Rating & Target** — We continue to rate STR Buy, Low risk. We estimate STR will earn a $1.13p/s in 2011. We estimate STR can grow earnings ~5% per year through 2015 as a result of expansion projects at the pipeline, utility and investment base growth at Wexpro. Our 2012 EPS estimate is $1.22p/s.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.36A	0.15A	0.12A	0.28A	0.91A	2.81A
2010E	**0.41A**	**0.20A**	**0.16A**	**0.32E**	**1.09E**	**1.08E**
Previous	0.41A	0.20A	0.16A	0.32E	1.09E	na
2011E	**0.40E**	**0.21E**	**0.17E**	**0.35E**	**1.13E**	**1.13E**
Previous	0.40E	0.21E	0.17E	0.35E	1.13E	na
2012E	**0.45E**	**0.22E**	**0.19E**	**0.36E**	**1.22E**	**1.20E**
Previous	0.45E	0.22E	0.19E	0.36E	1.22E	na

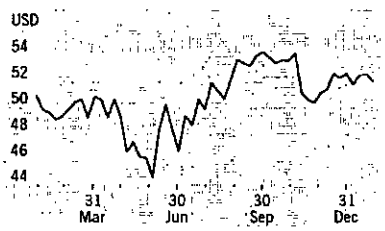
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

Buy/Medium Risk	1M
Price (28 Jan 11)	US$51.87
Target price	US$60.00
Expected share price return	15.7%
Expected dividend yield	3.0%
Expected total return	**18.7%**
Market Cap	US$12,452M

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



Sempra Energy (SRE)

Maintain Buy; California Politics a Temporary Headwind

- **EPS** — We estimate 4Q'10 EPS of $0.91 per share, which is lower than last year. Consensus is $0.94 per share. Last year, SRE enjoyed a 23% tax rate and higher LNG revenues. We estimate 2011 EPS of $4.27 per share, which includes SRE recent announced deal to buy remaining stakes of two utilities in Chile and Peru (see note dated January 20th). We estimate 2012 EPS of $4.59 per share, which continues to be nearly 10% above consensus.
- **Dividend** — SRE currently pays an annual dividend of $1.56, which translates to a 34% payout ratio on our 2012 estimate. We expect SRE to increase its dividend this year between 15% and 25% given the recent sale of the commodities business.
- **Divestiture of Trading Business and Generation Assets** — Societe General purchased the residual assets from RBS Sempra Commodities for an undisclosed amount. Sempra Generation sold their 50% stake in the Elk Hills Plant (550 MW) during the quarter for a total of $179 mm ($650/kw).
- **Rate Cases** – SoCal Gas filed on 12/15/10 for a $308 mm base rate increase premised on a 2012 test year. SDG&E filed for a $276 mm base rate increase across its utility system on 12/15/10. See our note from January 10th on the details of this case including the political situation in California.
- **SDG&E Litigation** – A settlement was reached in December with Cox Communications, whereby Cox will pay SDG&E $444 mm to settle damages related to a fire. Payments will be received during 1Q/11.
- **New Project Development** – SDG&E began construction of a 500 kV transmission line ($1.8 bn) in December that will transport power generated from renewable sources of power to San Diego. Sempra Generation completed construction of a 48 MW solar facility in Nevada that is under a purchase power agreement for 20 years. SRE also received approval to build a 200 MW solar plant in Southern California that's expected to come on-line in 2013.
- **Target Price and Rating** – We maintain our Buy/Medium risk rating. Our target price remains $60 per share.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	1.30A	1.14A	1.18A	1.16A	4.78A	4.52A
2010E	**0.84A**	**0.98A**	**1.08A**	**0.91E**	**3.81E**	**3.64E**
Previous	0.84A	0.97A	1.08A	0.91E	3.80E	na
2011E	**1.07E**	**0.92E**	**1.31E**	**0.97E**	**4.27E**	**4.22E**
Previous	1.07E	0.90E	1.30E	0.93E	4.19E	na
2012E	**1.16E**	**0.98E**	**1.33E**	**1.11E**	**4.59E**	**4.23E**
Previous	1.15E	0.95E	1.35E	1.10E	4.56E	na

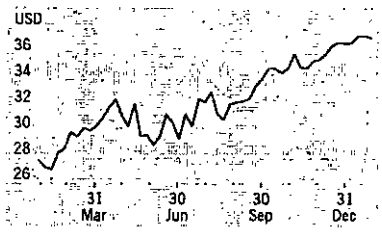
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Hold/Medium Risk	2M
from Buy/Medium Risk	
Price (28 Jan 11)	US$37.15
Target price	US$41.00
from US$37.00	
Expected share price return	10.4%
Expected dividend yield	2.7%
Expected total return	**13.1%**
Market Cap	US$1,692M

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



Southwest Gas Corp (SWX)

Downgrade to Hold; AZ Regulation Stable; FCF Ramping

- **Earnings** – Q3 earnings were -$0.11 per share vs. our estimate of -$0.23. This includes an $8 mm inflow from a company owned life insurance policy. We expect 4Q EPS of $0.91, down over last year. We estimate weather was almost 10% warmer than last year in AZ. Our FY 2011 EPS is $2.43 vs. consensus of $2.22. Lower financing costs from the retirement of high cost debt and our expectations of a rate case resolution in AZ in 4Q are likely the main differences in our estimate versus the Street.

- **Gas Operations** – 3Q EBIT was a loss of $6.7 mm vs. our estimate of a loss of $2.4 mm. Overall, we did not anticipate as dramatic of a decline in revenues during the quarter. Deceleration in demand due to conservation efforts and higher residential vacancy rates in the Southwest region were the causes. We expect 4Q EBIT of $77 mm, down over last year on weather. SWX submitted a rate case proposing a decoupling mechanism to lower volumetric risk in AZ. Regulators approved a policy statement last month for decoupling policies at gas and electric utilities in AZ.

- **Rate Case** - SWX filed for rate case in AZ for $73 mm on a rate base of $1.5 billion. The rate increase is intended to recover higher operating costs, investments in infrastructure, capital costs and lower gas usage. We assume that SWX will recover at least $20 mm assuming an equity capitalization of 43% and an achieved ROE of 10%. The last approved rate case (12/08) in AZ had an equity capitalization of 43% and ROE of 10%.

- **Construction Operations** – 3Q EBIT was essentially in line ($6.9 mm vs. $6.0 mm). We expect 4Q EBIT of approximately $4 mm, up nearly 20% over last year. We look for management to provide an updated outlook on the pipeline construction market during the quarter. We don't expect anything material to change in the outlook.

- **Target Price and Rating** – We are downgrading SWX to Hold/Medium risk from Buy/Medium risk. We are increasing our target price to $41 per share from $37 based on our new valuation metrics.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	1.15A	-0.10A	-0.29A	0.96A	1.74A	1.94A
2010E	**1.41A**	**-0.02A**	**-0.11A**	**0.91E**	**2.19E**	**2.21E**
Previous	1.41A	-0.03E	-0.23E	1.02E	2.17E	na
2011E	**1.46E**	**-0.05E**	**-0.08E**	**1.10E**	**2.43E**	**2.22E**
Previous	1.43E	-0.03E	-0.21E	1.07E	2.26E	na
2012E	**1.55E**	**0.01E**	**-0.04E**	**1.11E**	**2.63E**	**2.37E**
Previous	1.48E	0.00E	-0.21E	1.08E	2.34E	na

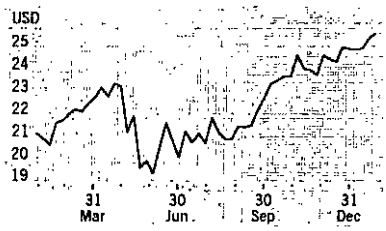
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Hold/Medium Risk	2M
from Hold/High Risk	
Price (28 Jan 11)	US$25.70
Target price	US$25.00
from US$23.00	
Expected share price return	-2.7%
Expected dividend yield	3.9%
Expected total return	**1.2%**
Market Cap	US$16,659M

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



Spectra Energy Corp (SE)

Maintain Hold; Target to $25; Pipeline Growth Steady

- **EPS** – We expect 4Q EPS of $0.37 per share, a 12% increase over last year. We estimate 2011 EPS of $1.65, which is in-line with SE's most recent guidance. We assume oil prices of $90 per barrel, an NGL to crude price ratio of 52% and natural gas prices of $4.25.
- **Gas Transmission** – We estimate EBIT of $235 mm in 4Q, which is 22% higher than last year. Phase 1 of TEMAX/TIME III was completed in 2H'10. We expect additional phases of TEMAX/TIME III to ramp up during 2011.
- **Gas Distribution** – We estimate 4Q'10 EBIT of $99 mm, slightly lower than last year. During the quarter, weather on the eastern sea-board was approximately 10% colder than last year. We could see upside in our numbers.
- **Western Canada** – We expect 4Q to be $91 mm which is lower than last year; however it appears much of this decline is mostly timing. Growth of unconventional gas in the Montney and Horn River continue and the company expects to deliver expansions on schedule and on-budget. SE remains focused on growing fee-based earnings over commodity priced volumes. In Northern British Columbia, the Fort Nelson processing facility (250 MMcf/d) is under construction and should be on-line in 2012. We estimate 2011 EBIT of $430 mm compared to $367 mm in 2010.
- **Target Price and Rating** – We maintain our Hold rating. We are upgrading our risk rating on SE to Medium from High on what we believe is a more stable commodity price environment for DCP Midstream. We are increasing our target price to $25 per share based on our new valuation matrix analysis.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.32A	0.22A	0.29A	0.33A	1.17A	1.18A
2010E	**0.49A**	**0.27A**	**0.31A**	**0.37E**	**1.44E**	**1.49E**
Previous	0.49A	0.27A	0.31A	0.37E	1.44E	na
2011E	**0.49E**	**0.33E**	**0.40E**	**0.43E**	**1.65E**	**1.68E**
Previous	0.47E	0.32E	0.38E	0.41E	1.59E	na
2012E	**0.51E**	**0.35E**	**0.42E**	**0.44E**	**1.72E**	**1.81E**
Previous	0.51E	0.35E	0.41E	0.43E	1.71E	na

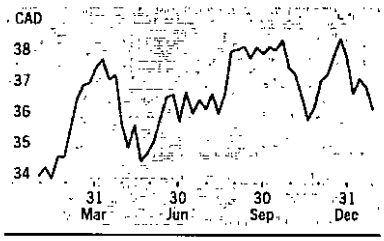
Source. Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Hold/High Risk	2H
Price (28 Jan 11)	C$36.32
Target price	C$36.00
from C$37.00	
Expected share price return	-0.9%
Expected dividend yield	4.4%
Expected total return	**3.5%**
Market Cap	C$25,287M
	US$25,279M

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



TransCanada Corp (TRP.TO)

Maintain Hold; Risk to 2011 EPS

- **EPS** — Our 4Q estimate is C$0.50, below consensus of $0.53. Our 2011 estimate is $2.03 which is far below consensus of $2.30. We expect a significant earnings short-fall in power in 2011 based on our estimate forward power curves, capacity prices and plant outages.

- **Pipelines** — Our 4Q EBIT is $598 mm. We continue to expect headline risk surrounding current tariffs on the Canadian Mainline. The Canadian National Energy Board (NEB) rejected proposed interim tolls by TRP in December that would have allowed for rates from Empress to Dawn and Toronto to reset to $1.23 and $1.35 per GJ. Given the change in structure of the rates, it appears the NEB did not have adequate time to deal with such a radical change in the structure of the tariffs. Without the interim toll, TRP is proceeding with a cost of service toll that would in fact raise rates to $1.89 and $2.24 per GJ to Dawn and Toronto. This would clearly put Canadian producers in a bind. Separately, TRP's Bison pipeline (Rocky Mountains) entered service this month.

- **Power** – We expect 4Q EBIT of $188 mm. Sundance units 1 and 2 went down in at the end of 4Q and are expected to be down until mid-February, but there's a possibility that the units could be down longer given the extent of maintenance required. We believe TRP is still responsible for making capacity payments, and will look to recover lost revenues through the regulatory process. Power prices have edged higher in January in Alberta, but have not gone parabolic as a result of the outages due to healthy reserve margins in the province. Forward power prices indicate marginal signs of a significant pick-up in demand later in the year in Alberta.

- **Keystone** – We expect the first phase of the project to report EBIT this quarter of $38 mm. We estimate 380,000 contracted bbl/day flowed during the quarter. The extension to Cushing, OK is expected to be completed in Q1/11, adding another 495,000 bbl//day that is contracted. Recently, the expansion of Keystone (XL) has been called into question given lobbying efforts by environmental groups against further imports of oil sands volumes into the US. We believe national security concerns, especially in the wake of the situation in Egypt, will push the Department of State to issue a permit.

- **Target Price and Rating** – We are reducing our target price to $36 per share from $37 and maintain our Hold/High risk rating.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.55A	0.49A	0.49A	0.48A	2.01A	2.03A
2010E	**0.48A**	**0.40A**	**0.53A**	**0.50E**	**1.91E**	**1.97E**
Previous	0.48A	0.40A	0.53A	0.50E	1.91E	na
2011E	**0.45E**	**0.51E**	**0.59E**	**0.48E**	**2.03E**	**2.30E**
Previous	0.53E	0.52E	0.61E	0.51E	2.17E	na
2012E	**0.53E**	**0.52E**	**0.66E**	**0.58E**	**2.30E**	**2.46E**
Previous	0.55E	0.54E	0.67E	0.58E	2.35E	na

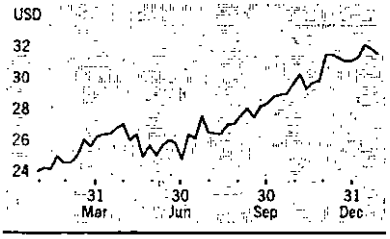
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Rating Change
- Estimate Change

Hold/Medium Risk	2M
from Buy/Medium Risk	
Price (28 Jan 11)	US$31.97
Target price	US$33.00
Expected share price return	3.2%
Expected dividend yield	3.1%
Expected total return	**6.3%**
Market Cap	US$3,532M

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



UGI Corp (UGI)

Downgrade to Hold; Target Remains $33; Storage assets shifted

- **Beat on EPS** - UGI reported adjusted EPS $0.93, ahead of our estimate of $0.91 (2%). Consensus was $0.93. UGI recently shifted 14.7 Bcf of gas storage from UGI Central Penn Gas to its UGI Storage subsidiary. FERC also granted UGI market-based rates for these assets.

- **Amerigas –** EBIT in 1Q was $92 mm vs. our estimate of $102 mm, a shortfall of 11%. Revenues were up compared to last year (6%). However, volumes were down (-4%) compared to our estimate, and was the main cause for the shortfall on weather (2% warmer than normal). Operating expenses were higher (~6%) on higher labor costs as result of overtime related to weather.

- **Gas & Electric Utility –** Gas Utility EBIT in 1Q was $75 mm, ahead of our estimate of $63 mm on colder than normal weather in their service territory (8% higher HDD than normal). Both operating margins and throughput volumes were up Y/Y nearly 10%. At the Electric Utility, 1Q EBIT $3.6 mm, below our expectation of $5.3 mm. Power demand was down (284 gwh estimate vs. actual of 251 gwh) even though weather was 5% colder than normal. UGI Central Penn Gas filed a request with the Pennsylvania PUC to increase rates by $16.5 mm in January/11. We estimate that most of this increase would be required given that UGI is earning an 8% ROE.

- **International Propane –** 1Q EBIT was €41 mm compared to our estimate of €31 mm. Weather in France was nearly 10% colder than normal and was much colder than the same time last year. Volumes were higher nearly 36% Y/Y, higher than normal due to acquisitions and weather. Higher propane prices in Europe are a headwind for UGI's European operations.

- **Energy Services –** EBIT was in-line with our expectations at $27.5 mm, flat over last year. Revenues were down on an outage at the Hunlock plant, which is being reconstructed to become a natural gas plant and the sale of Atlantic Energy in middle of 2010.

- **Target Price and Rating** – We are downgrading UGI to Hold. Our target price remains $33 per share. While we believe UGI has strong growth opportunities in the Midstream and pipeline space given it geographic footprint in the Marcellus, our valuation analysis warrants a downgrade at this time. We estimate long-term EPS growth of 6% through 2014.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.97A	1.44A	-0.02A	-0.08A	2.33A	2.36A
2010E	**0.90A**	**1.43A**	**0.03A**	**-0.11A**	**2.23E**	**2.41E**
Previous	0.90A	1.43A	0.06E	-0.12E	2.27E	na
2011E	**0.91E**	**1.51E**	**0.03E**	**-0.11E**	**2.38E**	**2.36E**
Previous	0.90E	1.50E	0.06E	-0.10E	2.36E	na
2012E	**0.96E**	**1.60E**	**0.05E**	**-0.11E**	**2.53E**	**2.55E**
Previous	0.91E	1.50E	0.07E	-0.09E	2.39E	na

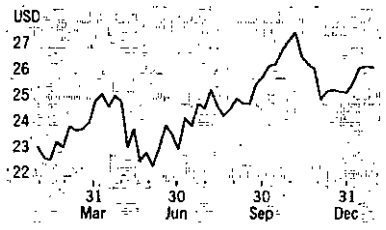
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

Hold/Medium Risk	2M
Price (28 Jan 11)	US$26.35
Target price	US$26.00
Expected share price return	-1.3%
Expected dividend yield	5.2%
Expected total return	**3.8%**
Market Cap	US$2,152M

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



Vectren Corp (VVC)

Maintain Hold; Coal Friend or Foe?

- **Earnings** – In Q4, we expect EPS of $0.47 per share. This is lower year-over-year as a result of lower storage margins and a normal tax rate. We assume a higher tax rate than realized last year which is the main cause for the decrease. We estimate 2011 EPS of $1.71 per share down from previous estimate of $1.91. We continue to expect headwinds from VVC's gas marketing operations.
- **Gas Utility** – We expect EBIT in 4Q of $44 mm, flat over last year. Weather in the VVC's service area was on average 5% colder compared to the same quarter last year. There could be some upside to our numbers here.
- **Electric Utility** – We expect operating 4Q earnings of $25 mm. In 3Q, retail margins were up on warmer weather and better customer margins. VVC's subsidiary, Southern Indiana Gas & Electric, filed a rate case 12/09 that is expected to reach a decision by end of Q1/11. ($59 mm request; 10.7% ROE; $43.5 mm capital; Rate base $1.3 bn) VVC received approval in December/10 to build the final phase of a 345 kV transmission line connecting 3 power plants in Indiana and Kentucky.
- **Non-utility** – We expect 4Q EBIT of $16 mm. We remain focused on the outlook for the re-pricing of coal contracts and production plans for the Oaktown coal mines. VVC expects coal demand to remain strong due to lower Appalachian coal production, growth in load for electricity and export demand. Storage margins remain a head-wind for VVC.
- **Target Price and Rating** – We maintain our Hold/Medium risk rating. Our target price is unchanged at $26 per share.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.90A	0.06A	0.15A	0.67A	1.79A	1.80A
2010E	**0.78A**	**0.11A**	**0.20A**	**0.47E**	**1.56E**	**1.69E**
Previous	0.78A	0.10E	0.16E	0.61E	1.65E	na
2011E	**0.84E**	**0.12E**	**0.21E**	**0.55E**	**1.71E**	**1.84E**
Previous	0.94E	0.13E	0.20E	0.65E	1.91E	na
2012E	**0.89E**	**0.15E**	**0.24E**	**0.60E**	**1.87E**	**2.02E**
Previous	0.98E	0.17E	0.25E	0.69E	2.09E	na

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

AGL Resources Inc

Valuation

We apply four valuation methods to derive a $41 target.

Our NAV yields a value of $49.04. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines/storage). We value the Energy Investments unit, which includes storage assets and a propane facility at 8x 2011 EBITDA (in-line with the pipeline/storage multiple), given the stable cash flows. AGL's wholesale and retail segments at slightly lower multiples, considering their less stable earnings and cash flow profiles. These segments are valued at 6x and 6.5x 2011 EBITDA, in-line with midstream and marketing multiples. These values are partially offset by AGL's net debt.

Atlanta Gas Light includes regulatory assets associated with the pipeline replacement program, which we treat as rate base as the program's costs earns a return on capital invested. Environmental Recovery Costs are not included in rate base, as no return is associated with this program.

Our DDM values the company at $36.69. We calculate a hypothetical dividend, based on AGL's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x and 10x for the company's regulated and midstream/marketing assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 6.5x for the company's regulated and midstream/marketing assets. Our P/E and EV/EBITDA analyses (2012 earnings) yield values of $44.38 and $33.22.

Risks

We rate AGL Medium Risk. Our Risk rating is based on a stable stream of earnings from the utility and constructive relationships with regulators, offset by earnings volatility at the wholesale gas business, which is exposed to regional price differential in addition to changes in gas prices over time.

Regulatory: AGL continues to spend a substantial amount of capital in excess of depreciation to repair its distribution system and make it compliant with environmental regulation, while subsequently filing for rate reimbursement.

Market and Counterparty Risk: AGL's wholesale segment is exposed to counterparty risk since it deals with over 270 counterparties and re-contracting risk related to its asset management activities and adverse movements in commodity prices.

Customer growth: An unexpected increase or decrease in population could affect earnings and cash flows (favorably or unfavorably).

Capital Markets: AGL is a relatively small utility in terms of market cap and trading volumes, impacting AGL's ability to access capital markets while this type of liquidity may make it difficult for institutional

Integration risk: AGL has a history of M&A. The integration of the Nicor (GAS) deal could face challenges given AGL's entrance into a new regional territory and scrutiny from regulators in arriving at cost cuts to generate value from the deal.

If the impact on the company from any of these factors proves to be less or more than we anticipate, the stock could materially outperform or underperform our target.

Atmos Energy Corp

Valuation

We average multiple valuation methodologies to derive our $32 target.

Our NAV yields a value of $35.79. We value regulated assets at a multiple of rate base (1.5x for utilities). We value the pipeline assets at 8x '11 EBITDA and the marketing business at 5x '10 EBITDA. These values are partially offset by the company's net debt.

Our DDM values the company at $27.71. We calculate a hypothetical dividend, based on ATO's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5X, 14.5x and 8.0x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8.0x and 5.0x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2012 earnings) yield values of $34.62 and $28.44.

Risks

Our Medium Risk rating is based on stable regulated earnings (80% earnings), offset by earnings volatility at the company's marketing unit.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery.

Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably.

Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock.

ATO operates a gas marketing business. Our research shows that ATO hedges their physical delivery of gas using its access to storage and pipeline transportation capacity. If the financial hedges and local markets become dislocated, ATO could incur a liability.

CenterPoint Energy Inc

Valuation

We average multiple valuation methodologies to derive our $18 target.

Our NAV yields a value of $16.71. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). The company's marketing and midstream segments are valued at 5x and 7x 2011 EBITDA. These values are partially offset by the company's net debt.

Our DDM values the company at $18.84.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x and 14.5x on 2012 earnings for the company's utility and pipeline assets, while applying 12x and 8x multiples to the company's gathering and marketing assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 8x on 2012 EBITDA for the company's utility and pipeline assets, while applying 7x and 5x multiples to the company's gathering and marketing assets. Our P/E and EV/EBITDA analyses yield values of $17.89 and $19.32.

Risks

We rate CNP Medium Risk.

Risks to the stock achieving our target include the following:

Stranded Costs: CNP currently has a case pending with the Texas Supreme Court relating to stranded costs on previously-owned generation assets. The outcome of this case is uncertain though we estimate potential upside is $2/share in value and potential downside is $1/share.

TX Regulatory Environment — At this point, the PUCT cannot affect the price of power, but can affect charges for delivery. The PUCT may look to reduce delivery rates below what we consider to be a reasonable rate of return.

Capital Investment Recovery – CNP, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery.

Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably.

Commodity Prices – Earnings at the field services segments are highly sensitive to changes in NGL and natural gas prices.

Gathering Projects - Our estimates are dependent on the future build-out of gathering facilities in the Haynesville Shale. Any decision to limit the build-out or difficulties encountered during the build-out could impact our estimates.

Cheniere Energy Inc

Valuation

We use two valuation analyzes to derive our $10.00 per share target price.

Our NAV analysis results in $21.53 per share. Our analysis is based on the liquidation value of the pipelines owned at Cheniere Energy, Inc, 10.9 million units of CQP common units at $22.45 per unit (closing price Jan 28/11) and $7.71 per subordinated unit for the 135 million subunits owned by Cheniere, Inc.

Our DCF analysis results in a share price of slightly less than zero on a consolidated basis. This is a result of a relatively high cost of capital and a large initial capital outlay. For the proposed liquefaction facility.

Our WACC reflects an equity risk premium of 4.64%, an assumed bond spread to the ten-year Treasury yield of roughly 800 bps, a risk free rate of 4% and a two-year beta of 1.86. The Company's cost of capital is 12.48%.

The average of these values yields $10.24 per share. The net result is an $10.00 per share target price.

Risks

We rate LNG Speculative. The stock is an extremely risky and speculative investment. Cheniere generates no earnings and will not generate any earnings in our model for the next five to six years. Our recommendation is based on Cheniere moving forward with at least one liquefaction train. The company has a substantial amount of debt on its balance sheet that could come due in the middle of next year. If the company is unable to move forward with a liquefaction train, Cheniere (LNG) could experience a liquidity event in which case equity investors could lose all their investment.

If the impact on the company from any of the factors discussed above and below proves to be greater/less than we anticipate, the stock will likely have difficulty achieving our target price or could outperform it.

The Department of Energy (DOE) – Cheniere needs a permit from the DOE to export LNG to non-free trade countries.

Natural gas prices – Currently natural gas prices are low, which makes US exports competitive to the rest of the world.

Regulatory Issues - Failure to obtain or maintain regulatory approvals could limit or suspend activities of Cheniere's assets.

Integrity costs at the pipelines or LNG terminals could impose significant costs pressures.

Declines in natural gas production in the US could cause Cheniere's proposal to come under pressure.

The Company's tight liquidity position could limit its ability to execute on its plan.

Cheniere has proposed signing contracts with foreign buyers in China, and most recently with EDF SA and Morgan Stanley. While we believe in contract sanctity, history has shown that contracts can always be changed in the oil and gas industry.

Integrys Energy Group, Inc.

Valuation

We average multiple valuation methodologies to derive our $46 target.

Our NAV yields a value of $53.08. We value regulated assets at a multiple of rate base (1.5x for utilities). A 10% discount is applied to Peoples Gas, which earns below its authorized return level. We value TEG's retail operations at 5x EBITDA. The company's ownership in FERC regulated transmission is valued at 14.5x earnings, which is derived from our dividend discount analysis for that unit. These values are partially offset by the company's net debt.

Our DDM values the company at $43.02. Through this analysis, we value each utility by determining earnings and cash flow potential based on regulated asset base and authorized returns.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use a multiple of 14.5x for the company's utility assets. For our EV/EBITDA analysis, we use a multiple of 7.5x for the company's utility assets. For the company's FERC regulated transmission, we derive a multiple of 13.5X earnings from our dividend discount model for the unit. We value the retail operations in line with trading businesses at 8x earnings and 5x EBITDA. Our P/E and EV/EBITDA analyses (based on 2012 estimates) yield values of $47.21 and $41.45.

Risks

Our High risk rating is based on uncertainty surrounding Energy Services (including proceeds surrounding asset sales) and lack of clarity on rate relief, partially offset by the high proportion of earnings related to regulated operations.

Capital Investment – TEG spends capital in excess of depreciation to maintain and expand its utility, relying on adequate base rates to earn its cost of capital. We assume regular, fair rate relief.

Concentration in the Midwest – Changes in the economy in TEG's service areas could increase or decrease the need for gas and power.

Weather Fluctuations – Without weather normalization or decoupling rate mechanisms at all its gas and electric utilities, TEG is exposed to fluctuations in temperatures and conservation.

Higher Gas and Purchased Power Costs – TEG may encounter energy costs, which are generally passed on to customers, but lead to near term working capital requirements.

Marketing Business – TEG's energy marketing business continually enters into forwards and options which may create unanticipated gains and losses depending on any changes in contract values. Uncertainty surrounding the future of this business and collateral requirements may also impact the value of the stock.

Short Interest - A significant short interest in the stock could lead to near-term volatility.

If the impact on the company from any of these factors is more or less than we expect, the stock could outperform or underperform our target.

NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $20 target.

Our NAV yields a value of $23.49. 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. For Millennium pipeline, which has not yet contracted all of its capacity, we apply a 20% discount to the pipeline multiple.

Our DDM, which incorporates our rate base growth assumptions, values the company at $16.27.

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 $21.23 and $18.93.

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.

Questar Corp

Valuation

We average multiple valuation methodologies to derive our $19 target.

Our NAV analysis yields $19.59per share. We use a multiple of 1.3x rate base for the gas utility and 1.5x for the pipeline and storage assets, and value Wexpro at $1.7 billion based on our DDM.

Our DCF valuation is $20.95/s. We use a cost of capital of 7.36% resulting from our WACC calculation.

Using a 16x P/E multiple on our 2012 EPS estimate yields a price of $18.15 per share. Using a 8.1x blended EV/EBITDA multiple on our 2013 EBITDA estimate yields a price of $17.38 per share (discounted to 2012 at the cost of equity).

Risks

We rate Questar Corp Low Risk as we note 1) a stable regulated earnings stream from the transmission pipelines and natural gas distribution businesses; 2) a regulated E&P business (although STR still assumes the cost of dry holes).

Risks to the achievement of our target price include the following:

1) Lack of drilling success at the regulated E&P segment would result in a lower investment base and therefore a lower return

2) A decrease in natural gas demand at the Utility

3) Delays on the ongoing pipeline expansion projects

Sempra Energy

Valuation

We average multiple valuation methodologies to derive our $60 target.

Our NAV yields a value of $61.70. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines, transmission and storage assets). The company's trading business is valued at the expected sale price. We value SRE's electric generation at replacement value ($800-$1,000/KW for CCGT assets). These values are partially offset by the company's net debt.

Our DDM values the company at $55.45. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we apply multiples of 14.5x , 14.5x and 16.0x to 2012 earnings at the utility, pipeline and generation segments. Our P/E analysis yields a value of $66.79.

For our EV/EBITDA analysis, we apply multiples of 7.5x, 8x and 9x to 2012 utility, pipeline and generation EBITDA. Our EV/EBITDA analysis yields a value of $56.54.

Risks

Our Medium Risk rating takes into account a constructive regulatory environment in California and an extensive capital expansion program supported by regulated and/or capacity contracts partially offset by SRE's more volatile merchant energy businesses.

Additional risks include:

The utilities are subject to regulation from federal, state and local authorities which may impose rulings adverse to Sempra's interests.

California's Department of Water Resources holds a power contract with Sempra Generation that expires in 2011. If this contract is not renewed or the capacity is not sold to another party, earnings may be materially impacted.

Uncertainty in the contracting of capacity on expansions at the company's LNG facilities may negatively impact earnings in the coming years.

Sempra is exposed to currency issues in Mexico and earnings could be impacted with significant volatility in the value of the Mexican Peso.

Ability to access debt or equity markets at a reasonable cost in the future could materially impact growth in the future.

The opportunity for further upside exists if Sempra can take advantage of the growing need for renewable generation in the desert SW.

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

Our Medium Risk rating takes into account a constructive regulatory environment in California and an extensive capital expansion program supported by regulated and/or capacity contracts partially offset by SRE's more volatile merchant energy businesses.

Southwest Gas Corp

Valuation

We average multiple valuation methodologies to derive our $41 target.

Our NAV yields a value of $50.36. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). We value the Construction Services segment at 5x EBITDA, based on a midstream asset multiple. These values are partially offset by the company's net debt.

Our DDM values the company at $30.97. We calculate a hypothetical dividend, based on SWX's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x, 14.5x and 8x for the company's utility, pipeline and pipeline construction assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8x and 5x for the company's utility, pipeline and pipeline construction assets. Our P/E and EV/EBITDA analyses yield values of $37.10 and $45.27.

Risks

Our Medium Risk rating for SWX is based the company's exposure to a historically difficult regulatory body in Arizona, the potential need to raise equity to fund the capex program, high sensitivity of earnings to changes in weather, the stock's relative lack of trading liquidity, and the relatively low market capitalization of the company compared with other utilities. These concerns are offset by a stable regulated earnings stream from the transmission pipelines and natural gas utilities which account for 95% of earnings. Risks to the shares attaining our target price include:

Population growth - Housing demand could slow to a rate below estimates or increase above our estimates, causing us to revise our estimates and valuation.

Capital investment recovery - SWX spends capital to maintain and expand its operations. The company will continue to rely on state regulatory commissions to recover costs in excess of depreciation. While we believe SWX's relationship with the ACC has been more productive than those of other utilities operating in the state, the ACC and the other commissions may not allow the company to earn a reasonable rate of return on its rate base.

Capital Markets - SWX is a relatively small utility in terms of market capitalization and daily volumes. This may impact its ability to access the capital markets.

Spectra Energy Corp

Valuation

We apply multiple valuation methodologies to derive our $25 target.

Our NAV yields a value of $27.49. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). We value the Field Services segment at 7.5x 2011 EBITDA, based on our midstream multiple. These values are partially offset by the company's net debt.

Our 10-year DCF yields a value of $23.54, by utilizing a 6.5% WACC.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x, 14.5x and 10x for the company's utility, pipeline and midstream assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8x and 6x for the company's utility, pipeline and midstream assets. We value the Canadian pipelines at a slight discount to account for lower authorized returns. Our P/E and EV/EBITDA analyses yield values of $23.87 and $24.34.

Risks

Our Medium Risk rating is based on significant capital requirements over the medium-term and the earnings sensitivity to volatile commodity prices and the Canadian dollar.

If the impact on the company from any of the following factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price.

Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Capital Investment Recovery — SE spends capital to maintain and expand its pipeline and distribution operations. SE relies on the OEB and the FERC to recover costs or approve projects.

Processing Contract Volatility — SE is exposed to commodity price volatility through its POP and keep-whole processing contracts. An increase in commodity prices could allow SE to outperform our expectations.

Production from Gas Producing Regions — SE is dependent on volumes from producing fields throughout North America. Significant production declines could require SE to charge producers higher fees to compensate for lower volume on its systems, potentially degrading its competitive position. Conversely, production increases could enhance its competitive position.

Demand from Refineries and Petrochemical Producers — Nat gas liquids produced by SE are primarily marketed to refineries and petrochemical producers. Lower demand could lead to margin compression.

TransCanada Corp

Valuation

We average multiple valuation methodologies to derive our $36 target.

Our NAV yields a value of $35.41. We value regulated assets at a multiple of rate base (1.5x for pipelines and storage assets). We apply a 10% haircut to Canadian assets as they earn lower authorized returns. We value SRE's power generation assets at replacement value. These values are partially offset by the company's net debt.

Our 10-year DCF yields a value of $36.92, using a 5.97% WACC.

Our P/E and EV/EBITDA multiples for the pipelines are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. This analysis yields a multiple of 14.5x 2013 earnings and 8x 2013 EBITDA. We apply a merchant power multiple of 14x and 8x to power generation 2013 earnings and EBITDA. Our P/E and EV/EBITDA analyses yield values of $38.11 and $32.71.

Risks

We rate TRP High Risk. This rating is based on a number of factors:

Exchange Rates – TRP has energy assets in the US and Canada. Significant changes in exchange rates could materially increase or decrease earnings.

Regulatory – TRP spends capital in excess of depreciation to maintain and expand its pipeline infrastructure and relies on fair regulated returns. Changes in the regulatory environment could adversely impact returns.

Nuclear Risk – Because of the high safety risks of operating a nuclear power plant, regulatory impediments may arise. Unplanned outages from sensitive technology, cost overruns or even terrorist attacks could also cause damage and create outages, impacting earnings.

Capital Risk – We expect about half of TRP capex program will be funded through debt. Difficulties getting the appropriate debt funding could reduce the likelihood of projects being built timely.

Energy Prices – TRP sells to the merchant market. Changes in power prices and/or cost of fuel could materially impact our estimates or WC requirements.

Execution Risk – Expansion projects should add incremental earnings, but overspending could lead to lower returns. There is also a risk that projects will not be completed on-time or at all.

Ravenswood – We assume capacity energy prices in NYC will fall in'11 due to capacity oversupply. Any differences in capacity pricing to our estimates could also impact our long-term estimates.

If the impact of any of these factors proves to be less/more than we anticipate, the stock could materially outperform/underperform out target price.

UGI Corp

Valuation

We average multiple valuation methodologies to derive our $33 target.

Our NAV yields a value of $33.33. We value regulated assets at a multiple of rate base (1.5x for gas utilities). The company's gas marketing segment is valued at 7x EBITDA, in-line with multiples for other marketers. These values are partially offset by the UGI's net debt.

We value UGI's interest in APU at its market price. We value UGI's GP interest based upon GP distributions of ~$1.5 million.

We value UGI's coal-fired power plants at their estimated replacement cost, which includes a discount applicable to Central App coal plants, of $980/KW.

International propane operations are valued at a 15% discount to our gas utility EV/EBITDA multiple of 7.5x, due to significant exposure to weather and exchange rates.

Our DDM values the company at $31.28. We calculate a hypothetical dividend, based on UGI's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current ERPs, betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x and 12.3x and 10.0X for the company's utility/propane and marketing/energy services assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 6x for the company's utility/propane and marketing/energy services assets. International propane operations are valued at a 15% discount to our gas utilities, due to exposure to weather and exchange rates. Our P/E and EV/EBITDA analyses yield values of $34.14 and $33.61.

Risks

We rate UGI Medium Risk. Most of UGI's cash flows arise from regulated assets or the mature propane market. Slightly offsetting these stable cash flows are sensitivities to weather and exchange rates.

Upside and downside risks to the stock achieving our target price include the following:

The international propane unit accounts for 20% of UGI's operating income while AmeriGas accounts for 40%. Propane distributors compete in an unregulated market. While the barriers to entry are high, namely capital costs, UGI competes with a number of propane distributors and "mom & pop" dealers in the U.S. and Europe.

Flaga and Antargaz's earnings remain exposed to foreign currency fluctuations.

UGI's utility earnings are sensitive to weather. Our earnings estimates assume normal weather and recovery of capital spent in excess of depreciation through higher customer rates. These rates depend on orders from Pennsylvania Public Utility Commission. At this point, we believe the commission has been constructive with regard to utility rate making.

Earnings in the propane business are also impacted by weather as changes in weather can significantly impact volumes.

Our margin assumptions at UGI's power plants are based on market prices and the capacity market in PJM. Higher fuel costs or regulatory impediments within the PJM market could adversely affect our earnings estimates.

Vectren Corp

Valuation

We average multiple valuation methodologies to derive our $26 target.

Our NAV yields a value of $27.18. We value regulated assets at a multiple of rate base (1.5x for gas utilities). We value ProLiance at 8x earnings, in-line with our estimated marketing multiple. The company's coal mining and energy services segments are valued at 6x and 5x 2011 EBITDA, based on midstream and marketing multiples. These values are partially offset by the company's net debt.

Our DDM values the company at $21.66. We calculate a hypothetical dividend, based on VVC's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use 2012 multiples of 14.5x and 10x for the company's utility and unregulated assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 5.5x for the company's utility and unregulated assets. Our P/E and EV/EBITDA analyses yield values of $21.66 and $27.47.

Risks

Our Medium Risk rating is based on stable regulated earnings from the utilities and regulated coal deliveries to its utility affiliate, offset by uncertainties surrounding marketing, coal mining and energy services earnings. The following are risks to our target price:

Capital Investment Growth — VVC spends capital to maintain and expand its utility systems. VVC relies on adequate base rates to earn its cost of capital.

Concentration in the Midwest — Changes in the service area's economy could reduce demand for power.

Gas and Purchased Power Costs — Higher costs can lead to higher working capital requirements and interest expense.

Coal Margins — Key drivers behind the performance of the coal mining unit include coal prices, volumes and costs, which are all volatile.

Non-Regulated Business — VVC's unregulated business continually enters into forwards and options that may create unanticipated losses.

Capital Markets — VVC is a relatively small utility in terms of market cap and volume compared with other utilities. This may affect its ability to access the capital markets.

Customer Growth — An unexpected increase or decrease in population could affect earnings substantially.

Events that would present upside risk to our target price include: 1) an improving economy in Vectren's service areas; 2) increased natural gas price volatility, including wider summer/winter differentials; and 3) improvements in coal production volumes and per unit margins.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

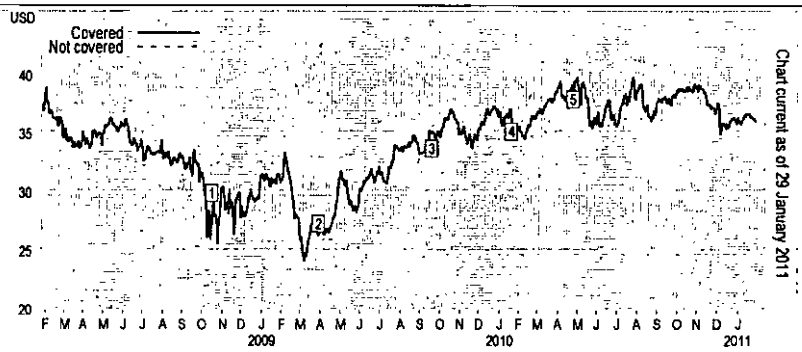
IMPORTANT DISCLOSURES

AGL Resources Inc (AGL)

Ratings and Target Price History

Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	16-Oct-08	2M	*29.00	28.14
2	29-Mar-09	2M	*27.00	26.89
3	18-Sep-09	2M	*34.00	35.11
4	20-Jan-10	2M	*36.00	36.75
5	26-Apr-10	2M	*38.00	39.16

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

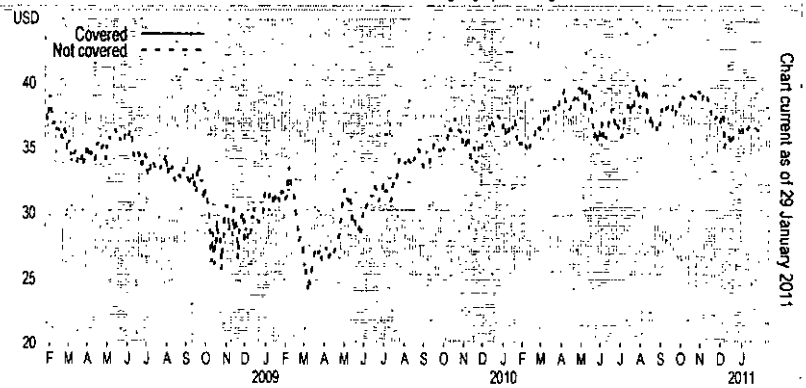
AGL Resources Inc (AGL)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Faisel Khan, CFA



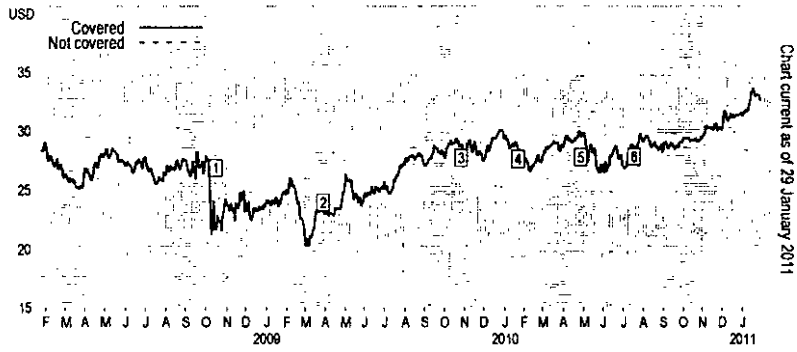
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	16-Oct-08	2M	*22.50	21.95
2	29-Mar-09	2M	*24.50	23.62

	Date	Rating	Target Price	Closing Price
3	27-Oct-09	*2L	*28.00	28.84
4	21-Jan-10	2L	*30.00	28.55

	Date	Rating	Target Price	Closing Price
5	27-Apr-10	2L	*31.00	29.46
6	16-Jul-10	*2M	*30.00	28.02

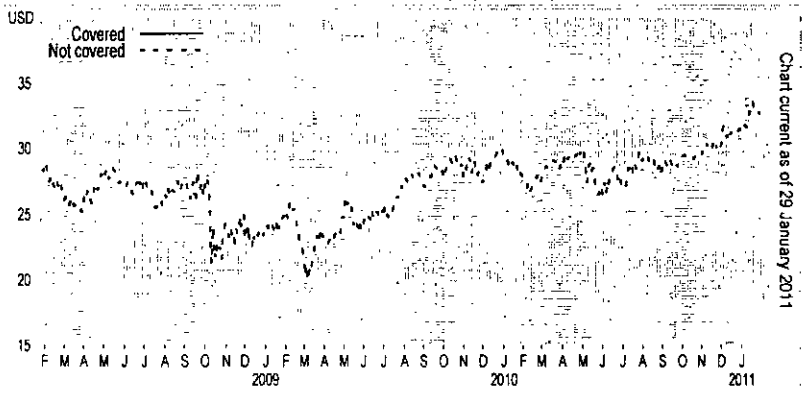
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Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

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

Analyst: Faisel Khan, CFA



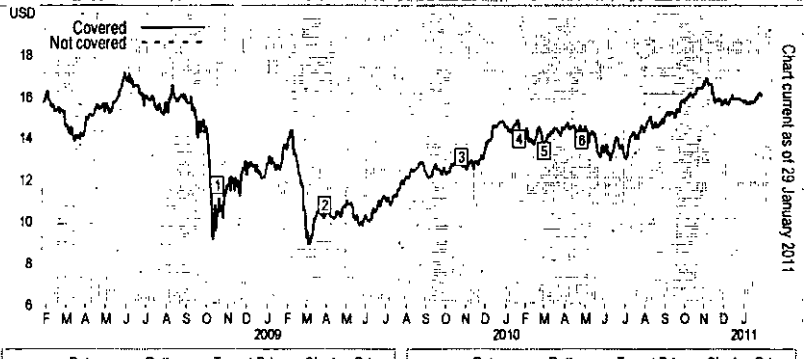
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Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	16-Oct-08	*1H	*14.00	10.27
2	29-Mar-09	1H	*13.00	10.17

	Date	Rating	Target Price	Closing Price
3	26-Oct-09	*1M	*14.00	12.70
4	21-Jan-10	1M	*16.00	14.56

	Date	Rating	Target Price	Closing Price
5	1-Mar-10	1M	*15.50	13.60
6	27-Apr-10	1M	*16.00	14.18

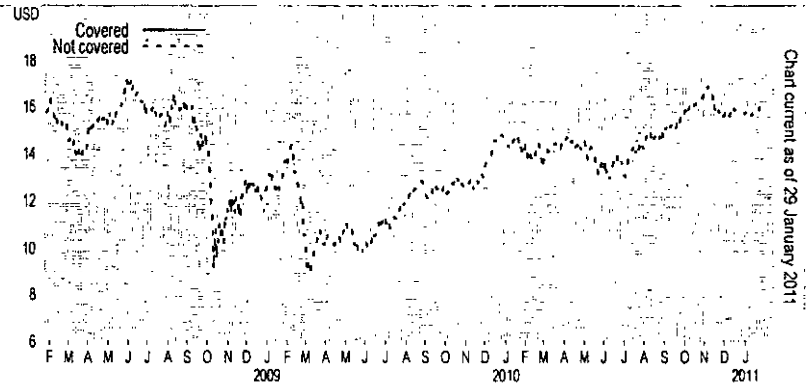
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Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

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

Analyst: Faisel Khan, CFA



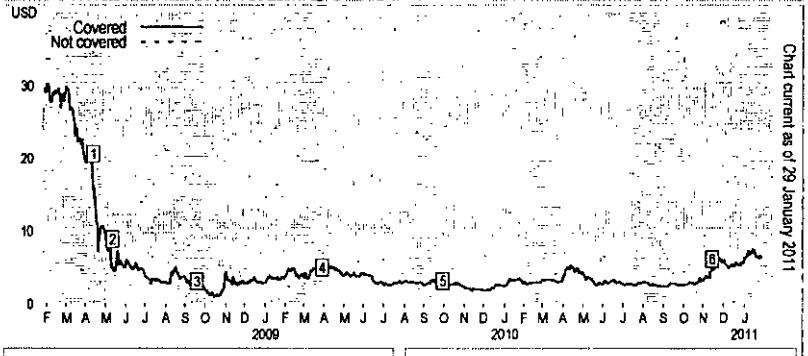
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Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	11-Apr-08	1S	*37.00	15.66
2	12-May-08	*2S	*7.00	5.00

	Date	Rating	Target Price	Closing Price
3	18-Sep-08	2S	*3.00	3.05
4	29-Mar-09	2S	*5.00	4.58

	Date	Rating	Target Price	Closing Price
5	30-Sep-09	2S	*3.75	2.93
6	14-Nov-10	2S	*5.00	4.37

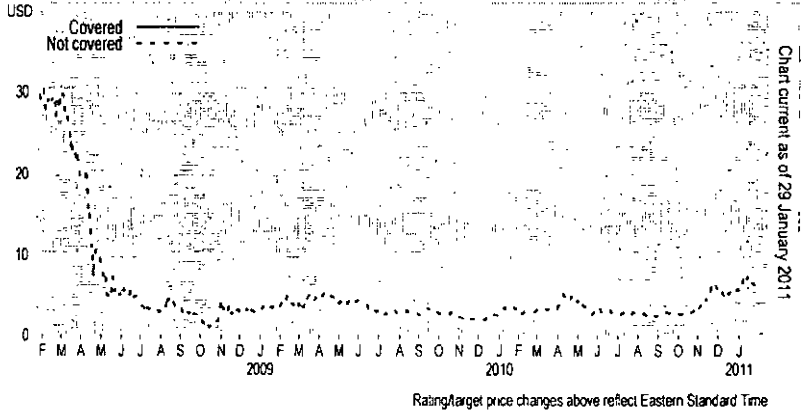
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Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

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

Analyst: Faisel Khan, CFA



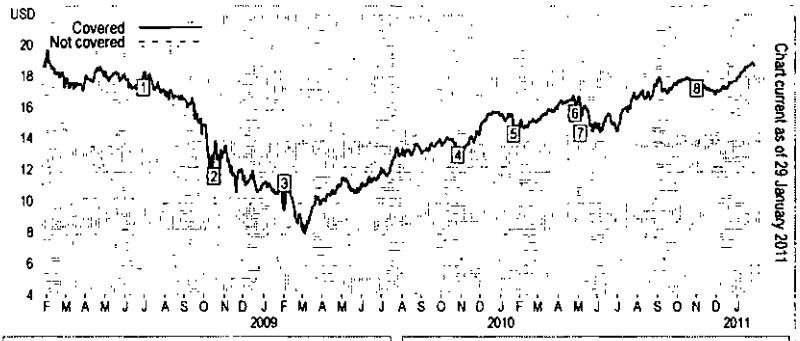
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Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	30-Jun-08	2H	*20.00	17.92
2	16-Oct-08	*1H	*15.00	12.91
3	2-Feb-09	1H	*14.00	9.38
4	27-Oct-09	1H	*15.00	13.47
5	21-Jan-10	*2M	*16.00	14.87
6	27-Apr-10	2M	*16.50	16.27
7	5-May-10	2M	*17.00	16.20
8	1-Nov-10	2M	*18.00	17.17

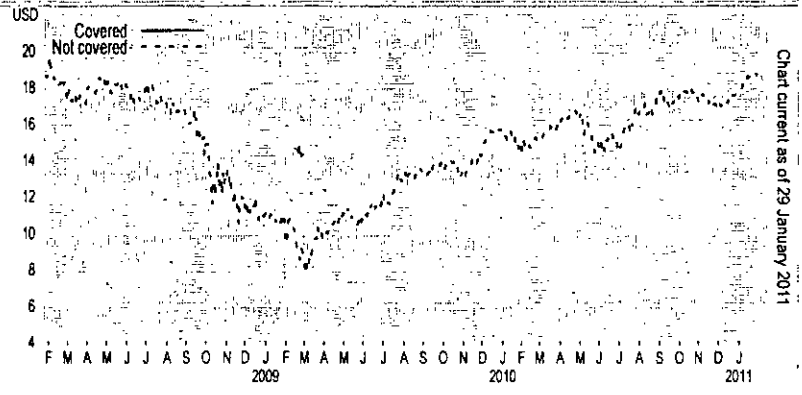
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Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

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

Analyst: Faisel Khan, CFA



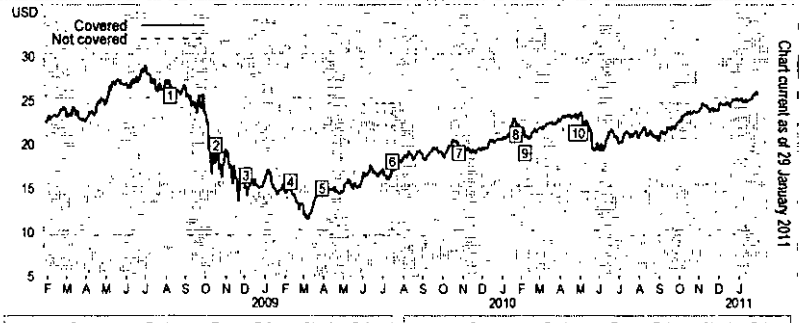
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Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	6-Aug-08	2M	*30.00	26.91
2	16-Oct-08	*2H	*21.00	18.14
3	2-Dec-08	2H	*17.00	15.32
4	9-Feb-09	2H	*15.00	14.86
5	29-Mar-09	2H	*14.00	14.52
6	15-Jul-09	2H	*16.00	17.10
7	26-Oct-09	*3H	*18.00	19.69
8	21-Jan-10	3H	*21.50	22.61
9	4-Feb-10	*2H	21.50	20.93
10	28-Apr-10	2H	*23.00	23.15

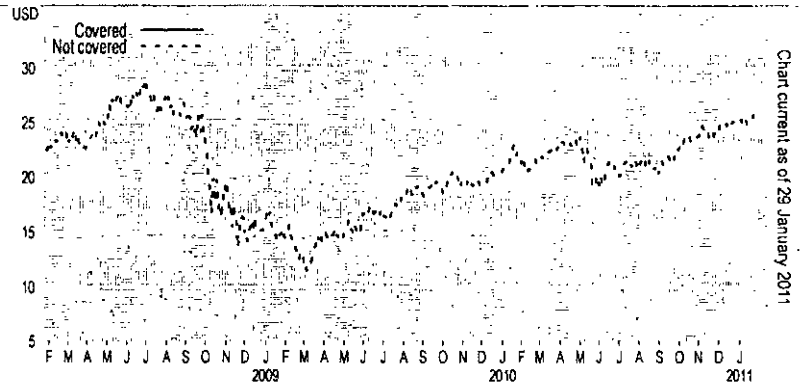
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Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

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

Analyst: Faisel Khan, CFA



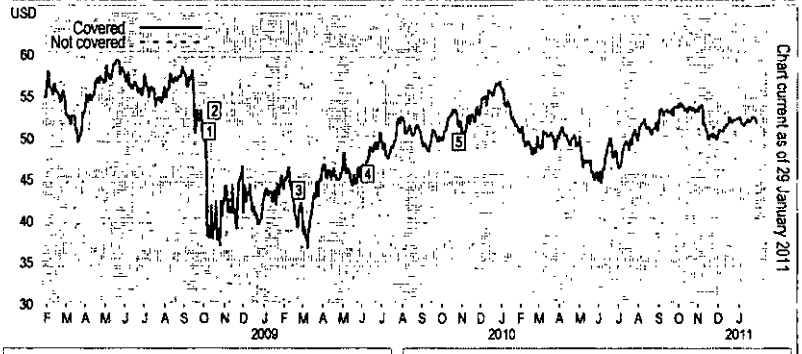
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Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	8-Oct-08	*1H	69.00	39.53
2	16-Oct-08	1H	*51.00	39.87
3	22-Feb-09	1H	*49.00	39.37
4	9-Jun-09	*1M	*55.00	47.22
5	27-Oct-09	1M	*60.00	51.75

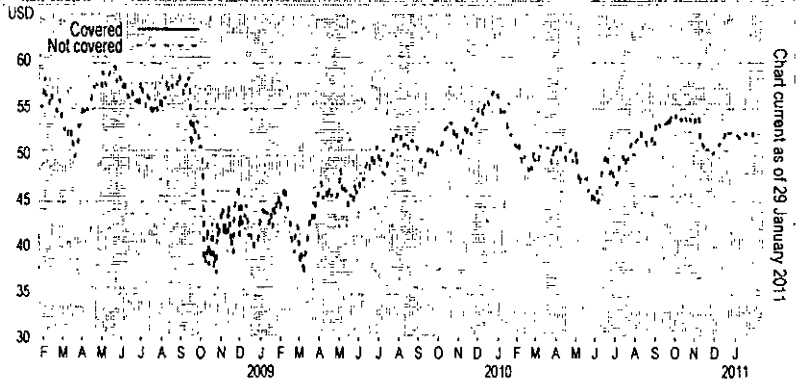
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

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

Analyst: Faisel Khan, CFA

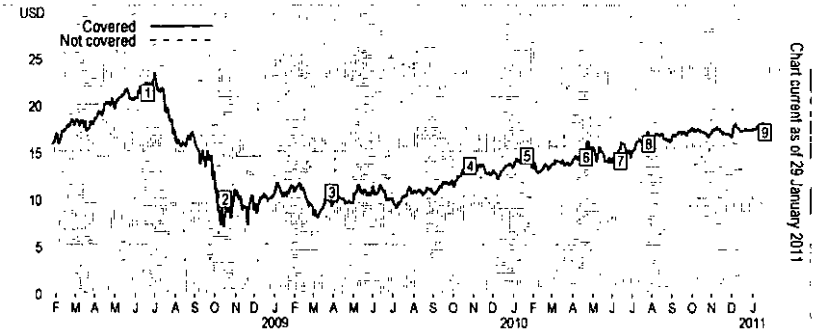


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



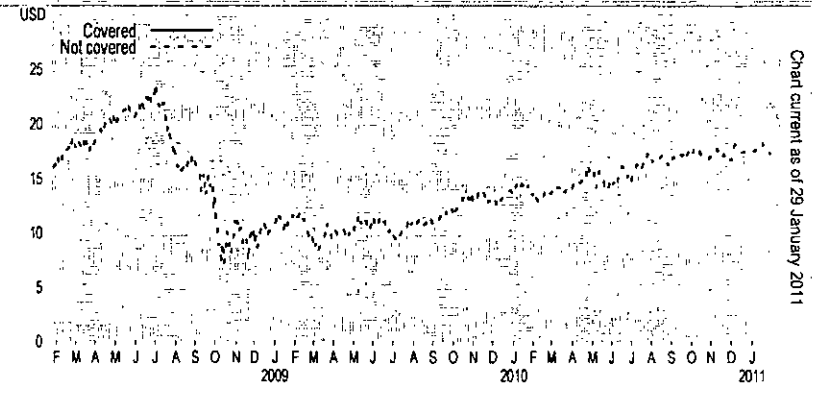
	Date	Rating	Target Price	Closing Price
1	19-Jun-08	1M	*25.78	22.14
2	16-Oct-08	*1H	*16.11	8.00
3	29-Mar-09	1H	*11.92	9.88
4	27-Oct-09	*1M	*14.82	13.08
5	21-Jan-10	1M	*17.40	14.57
6	21-Apr-10	1M	*17.72	14.78
7	14-Jun-10	1M	*18.05	15.41
8	27-Jul-10	1M	*18.05	17.20
9	20-Jan-11	*1L	*19.00	17.92

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA

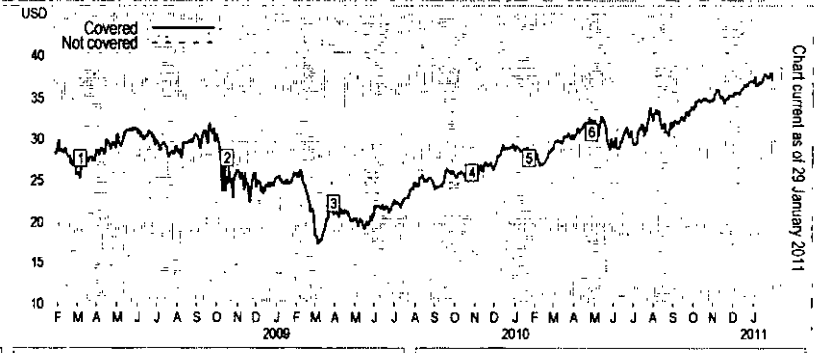


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	6-Mar-08	*1H	37.00	25.19
2	16-Oct-08	1H	*34.00	24.99
3	29-Mar-09	1H	*30.00	21.45
4	27-Oct-09	*1M	30.00	25.21
5	21-Jan-10	1M	*35.00	28.31
6	27-Apr-10	1M	*37.00	31.51

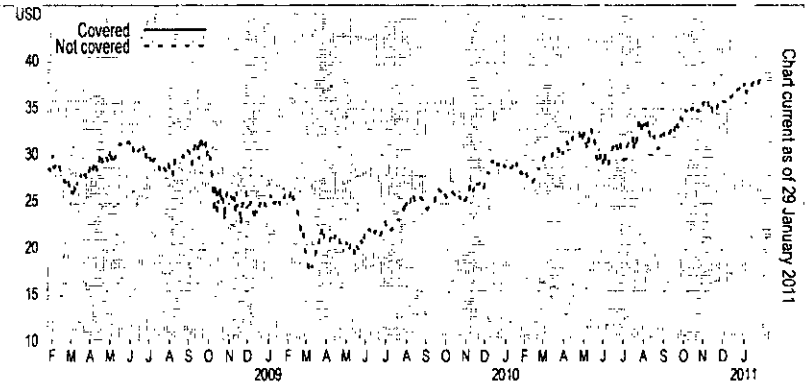
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

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

Analyst: Faisel Khan, CFA



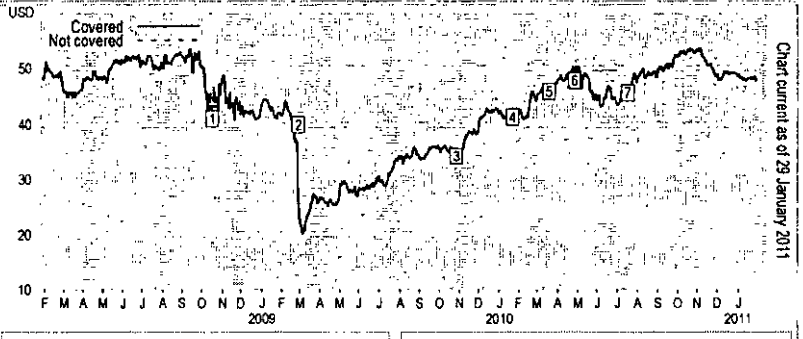
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	16-Oct-08	2H	*49.00	43.05
2	26-Feb-09	*2S	*27.00	26.85
3	27-Oct-09	*2H	*35.00	34.59
4	21-Jan-10	2H	*40.00	42.79
5	18-Mar-10	*3H	*42.00	46.89
6	27-Apr-10	3H	*43.00	49.19
7	16-Jul-10	3H	*44.00	45.60

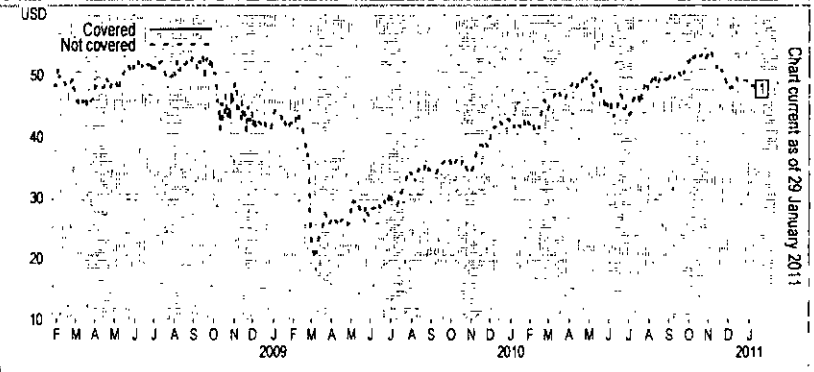
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

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

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	48.32

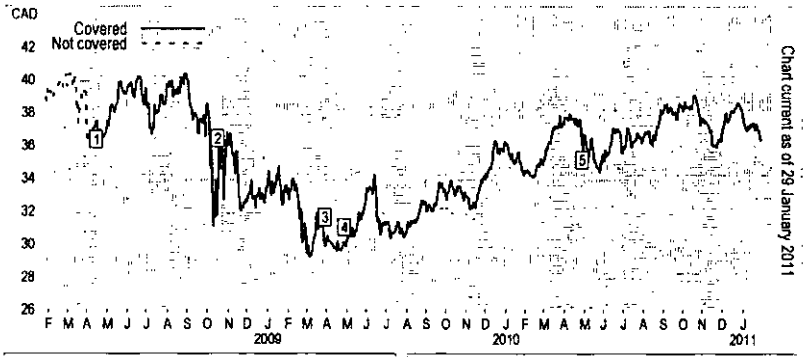
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since April 16 2008



	Date	Rating	Target Price	Closing Price
1	15-Apr-08	*2H	*43.00	37.41
2	16-Oct-08	2H	*35.00	32.16

	Date	Rating	Target Price	Closing Price
3	29-Mar-09	2H	*33.00	30.33
4	28-Apr-09	2H	*32.00	30.05

	Date	Rating	Target Price	Closing Price
5	28-Apr-10	2H	*37.00	36.31

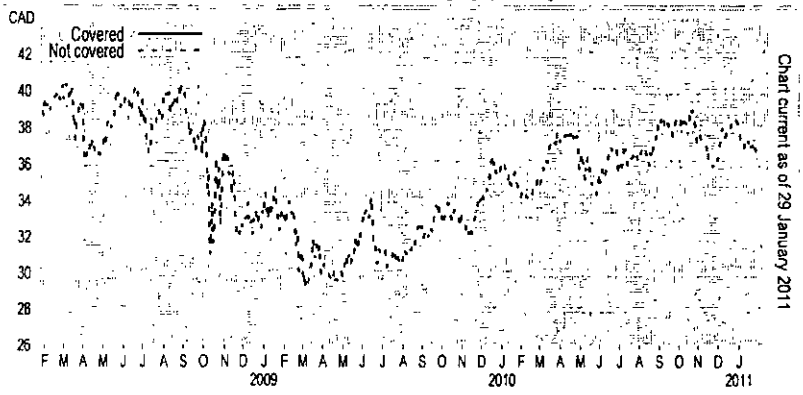
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

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

Analyst: Faisel Khan, CFA
Covered since April 16 2008



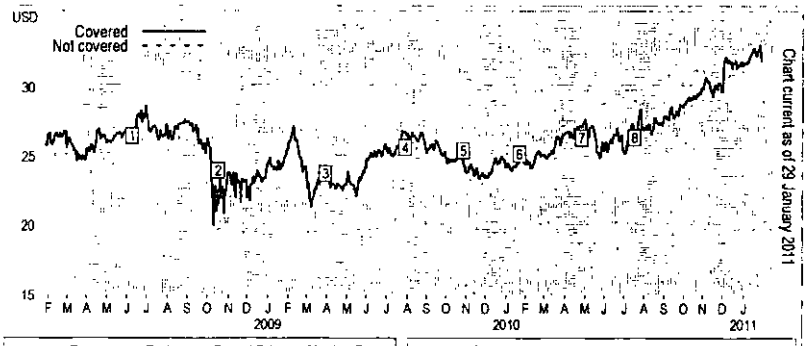
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	9-Jun-08	2H	*26.00	26.60
2	16-Oct-08	2H	*21.00	22.61
3	29-Mar-09	2H	*24.00	23.36

	Date	Rating	Target Price	Closing Price
4	29-Jul-09	2H	*26.00	26.78
5	27-Oct-09	*2M	26.00	24.79
6	21-Jan-10	*1M	*31.00	25.15

	Date	Rating	Target Price	Closing Price
7	27-Apr-10	1M	*32.00	27.09
8	16-Jul-10	1M	*33.00	26.59

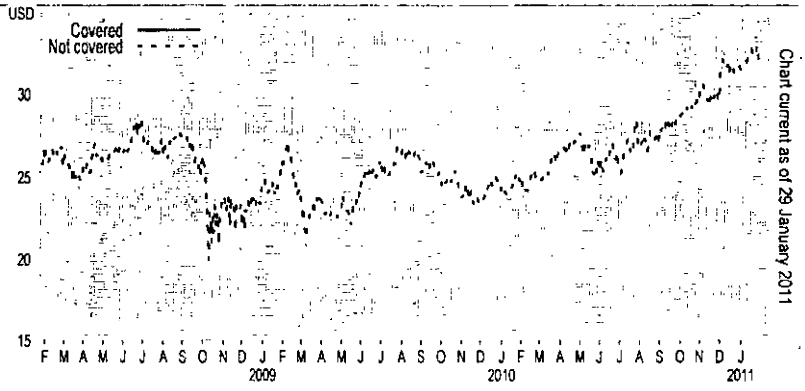
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

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

Analyst: Faisel Khan, CFA



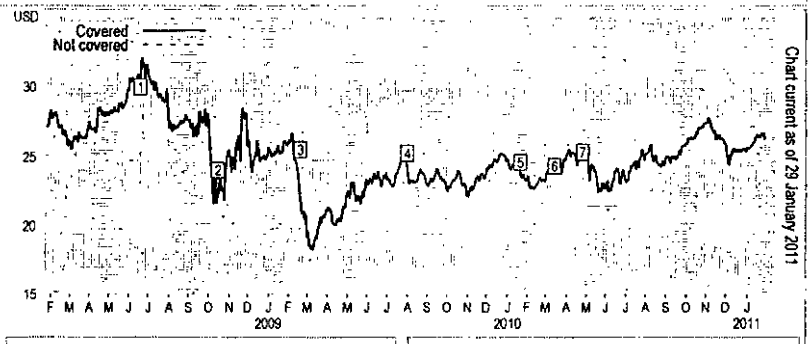
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	19-Jun-08	*1M	*36.00	30.46
2	16-Oct-08	1M	*28.00	22.14
3	19-Feb-09	1M	*25.00	21.99
4	2-Aug-09	*2M	25.00	24.56
5	21-Jan-10	2M	*26.00	23.80
6	15-Mar-10	2M	*25.00	23.92
7	27-Apr-10	2M	*26.00	24.83

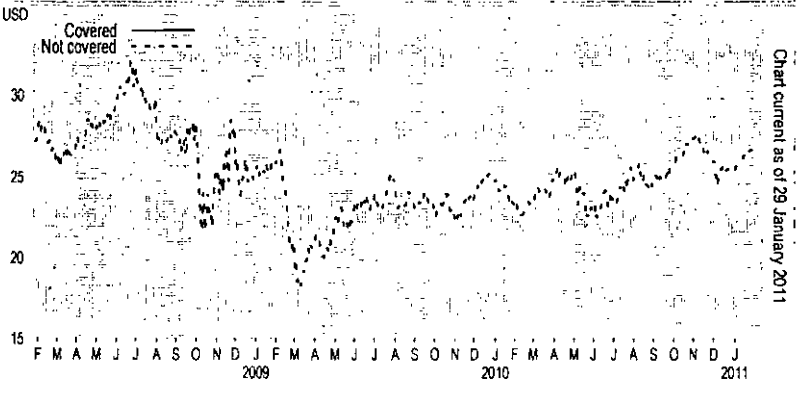
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

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

Analyst: Faisel Khan, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

06 February 2011
Americas/United States
Equity Research
Natural Gas

CREDIT SUISSE

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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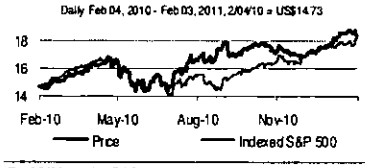
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INCREASE TARGET PRICE*

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.

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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. 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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06 February 2011

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 Slano, 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	564.7	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	480.7	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)	(2.6)	(2.3)	(2.0)	(1.6)
Total EBITDA (recurring)	1,557.1	1,485.1	1,468.6	554.7	305.6	263.1	390.2	1,513.8	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	288.8	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)	(8.3)	(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	405.9	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	438.8	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	2,546.7	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	33.9	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%	159.8%	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

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

Disclosure Appendix

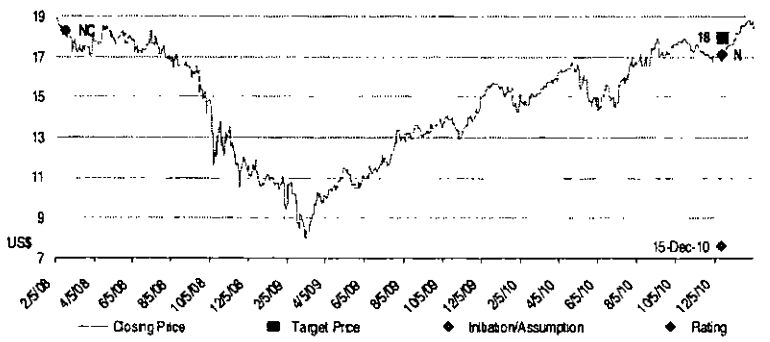
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See the Companies Mentioned section for full company names.

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

NI	Closing Price	Target Price		Initiation/
Date	(US$)	(US$)	Rating	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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Underperform/Sell*	11%	(54% banking clients)
Restricted	2%	

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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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01 February 2011
Americas/United States
Equity Research
Natural Gas

NiSource Inc (NI)

Rating	**NEUTRAL***
Price (28 Jan 11, US$)	18.61
Target price (US$)	18.00†
52-week price range	18.82 - 14.25
Market cap. (US$ m)	5,179.27
Enterprise value (US$ m)	12,538.11

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

EARNINGS

First Blush: Results Just Shy of Expectations

- **Results slightly below our expectations:** NI reported recurring 4Q10 EPS of $0.33 vs. our and the consensus estimates of $0.34. Relative to our estimate, the slight miss was attributable to lower net revenue (-$0.07), lower equity earnings (-$0.01), and higher "other expense" (-$0.01) partially offset by lower operating expenses (+$0.03), lower D&A expense (+$0.04) and a lower tax rate of (+$0.01). By segment, better than expected EBIT at Gas Distribution and NIPSCO Electric were offset by lower than expected EBIT at Gas Transmission & Storage. Full year 2010 recurring EPS of $1.22 was in line with management's guidance of $1.20 – 1.25.
- **Provides 2011 Outlook:** NI expects 2011 EPS of $1.25 – 1.35, the midpoint of which is slightly below our estimate of $1.32 and the consensus estimate of $1.31. NI's outlook incorporates a "modest and gradual" economic recovery. NI continues to expect earnings to grow an average of 3-5% per year long term. NI anticipates $1.1 billion of capex in 2011 compared to our estimate of $1.0 billion.
- **What's New?** Columbia Gas of Pennsylvania filed a rate case on 1/14/11 seeking an annual revenue increase of $38 million, which incorporates infrastructure investments and a change in rate structure.
- **NI Conference Call at 9AM Eastern should provide additional details.**

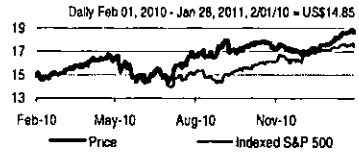
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Share price performance



On 01/28/11 the S&P 500 index closed at 1276.34

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.62	0.02	0.07	0.36
2010E	0.71	0.13	0.04	0.34
2011E	0.73	0.16	0.06	0.39

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (US$)	1.07	1.22	1.32	1.43
Prev. EPS (US$)	—	—	—	—
P/E (x)	17.5	15.2	14.1	13.1
P/E rel. (%)	96.1	103.3	109.2	114.7
Revenue (US$ m)	6,147.2	5,483.4	5,202.4	5,508.2
EBITDA (US$ m)	1,468.6	1,528.0	1,631.9	1,759.4
OCFPS (US$)	6.04	2.39	4.30	3.49
P/OCF (x)	2.5	7.4	4.3	5.3
EV/EBITDA (current)	8.1	8.2	7.6	7.0
Net debt (US$ m)	6,775	7,359	7,184	7,206
ROIC (%)	4.65	4.78	5.01	5.35
Number of shares (m)	278.31	IC (12/10E, US$ m)		10,955.26
BV/share (current, US$)	17.9	EV/IC (x)		1.1
Net debt (current, US$ m)	7,358.8	Dividend (current, US$)		0.92
Net debt/tot. cap. (current, %)	153.0	Dividend yield (%)		4.9

Source: Company data, Credit Suisse estimates.

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,500 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 annual capex program of approximately $1 billion starting in 2011.

Exhibit 1: NI Quarterly Variance Table

	4Q10 Actual	4Q10 CS Estimate	Diff.	Diff. (%)	EPS Impact Actual vs Est.	4Q09 Actual
Segment EBITDA						
Gas Distribution	163	165	(3)	-2%	($0.01)	176
NIPSCO Electric	96	89	7	7%	$0.02	88
Gas Transmission & Storage	136	149	(13)	-9%	($0.05)	148
Other	(4)	1	(5)	-490%	($0.02)	(5)
Total EBITDA (recurring)	**390**	**405**	**(14)**	**-4%**	**($0.05)**	**407**
Segment EBIT						
Gas Distribution	113	101	12	12%	$0.04	115
NIPSCO Electric	44	35	9	25%	$0.03	36
Gas Transmission & Storage	100	117	(17)	-14%	($0.06)	117
Other	(8)	(3)	(5)	194%	($0.02)	(8)
Total EBIT (recurring)	**249**	**250**	**(1)**	**-1%**	**($0.01)**	**259**
Interest Expense	98	98	(0)	0%	($0.00)	99
Other Expenses	4	0	4	NM	$0.01	(1)
Taxes	54	57	(4)	-6%	($0.01)	62
Recurring Net Income	**94**	**95**	**(1)**	**-1%**	**($0.01)**	**99**
Basic weighted average units outstanding	279	279	0	0%	$0.00	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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Companies Mentioned *(Price as of 31 Jan 11)*
NiSource Inc (NI, $18.61, NEUTRAL, TP $18.00)

Disclosure Appendix

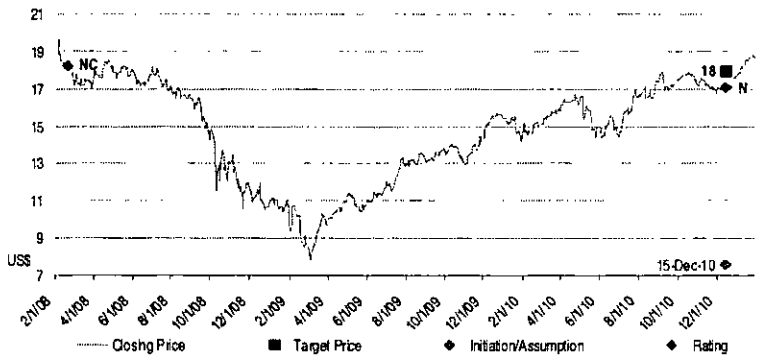
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See the Companies Mentioned section for full company names.

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

NI	Closing Price	Target Price		Initiation/
Date	(US$)	(US$)	Rating	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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Neutral/Hold*	41%	(59% banking clients)
Underperform/Sell*	11%	(53% banking clients)
Restricted	2%	

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Price Target: (12 months) for (NI)
Method: We derive our 12-month price target of $18 for NiSource through a combination of P/E and sum of the parts valuation. Our price is based on a P/E multiple of 13.6 times our 2011 EPS estimate of $1.32, 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 $18 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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15 December 2010
Americas/United States
Equity Research
Natural Gas

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NiSource, Inc. (NI)

Rating	**NEUTRAL***
Price (13 Dec 10, US$)	17.31
Target price (US$)	18.00[1]
52-week price range	17.91 - 14.25
Market cap. (US$ m)	4,817.47
Enterprise value (US$ m)	12,176.32

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

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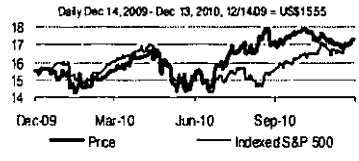
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INITIATION

Initiating Coverage with a Neutral Rating and $18 Target Price

- **Bottom Line:** We initiate coverage of NI with a Neutral rating and a 12-month target price of $18. NI offers an attractive 5.3% dividend yield and visible long-term earnings growth potential of 3.0-5.0% per year. Its current valuation, coupled with lingering uncertainty around the outcome of the second NIPSCO Electric rate case, puts us on the sidelines for now.
- **Investments In Infrastructure to Drive Long-Term Earnings Growth:** NI is an integrated natural gas company that operates natural gas transmission and storage, local distribution companies and a regulated electric utility. Earnings growth is underpinned by relatively low-risk infrastructure investments across its portfolio of mostly rate-regulated businesses. In our view, growth opportunities within its gas transmission and storage segment are particularly attractive, given that NI's footprint within the growing Marcellus Shale enables it to pursue high-return expansion projects.
- **Two Catalysts to Watch:** (1) The outcome of the second NIPSCO Electric rate case. NI filed the case on November 19, 2010, and a decision is expected by year-end 2011, although a settlement could occur sooner. NI requested a rate increase of approximately $76 million and our model incorporates an approximate $40 million increase in 2012, which translates to a $0.08 year-over-year increase in EPS. (2) Incremental investments in NI's gas transmission and storage segment. We model approximately $340 million in total annual capex for the segment starting in 2011. An incremental $100 million of capex would add about $0.02 to EPS by our estimates.
- **Valuation:** We derive our target price of $18 through a combination of P/E and sum-of-the-parts analysis. Our target price implies a P/E ratio of 13.6 times our 2011 EPS estimate of $1.32.

Share price performance



On 12/13/10 the S&P 500 index closed at 1240.46

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.62	0.02	0.07	0.36
2010E	0.71	0.13	0.04	0.34
2011E	0.73	0.16	0.06	0.39

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (US$)	1.07	1.22	1.32	1.43
Prev. EPS (US$)	—	—	—	—
P/E (x)	16.2	14.2	13.1	12.1
P/E rel. (%)	92.0	98.9	104.5	109.8
Revenue (US$ m)	6,147.2	5,483.4	5,202.4	5,508.2
EBITDA (US$ m)	1,468.6	1,528.0	1,631.9	1,759.4
OCFPS (US$)	6.04	2.39	4.30	3.49
P/OCF (x)	2.5	7.2	4.0	5.0
EV/EBITDA (current)	7.9	8.0	7.4	6.8
Net debt (US$ m)	6,775	7,359	7,184	7,206
ROIC (%)	4.65	4.78	5.01	5.35

Number of shares (m)	278.31	IC (12/10E, US$ m)	10,955.26
BV/share (current, US$)	17.9	EV/IC (x)	1.1
Net debt (current, US$ m)	7,358.8	Dividend (current, US$)	0.92
Net debt/tot. cap. (current, %)	153.0	Dividend yield (%)	5.3

Source: Company data, Credit Suisse estimates.

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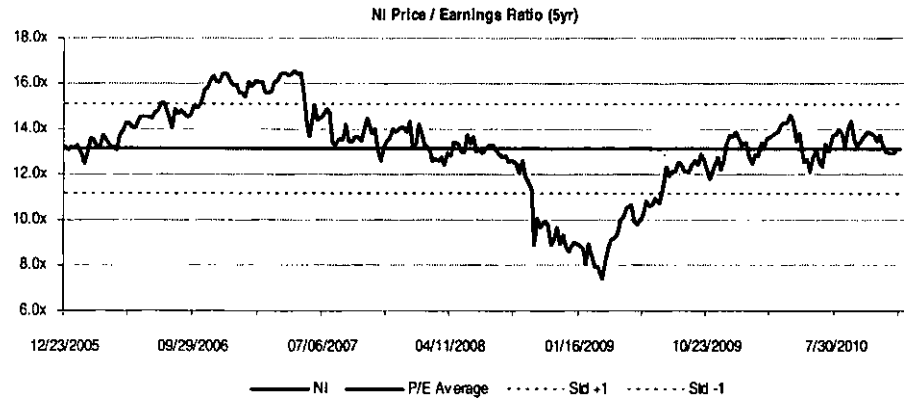
Investment Thesis

NI offers an attractive 5.3% 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 annual capex program of approximately $1 billion starting in 2011.

NI offers an attractive 5.3% dividend yield coupled with visible earnings growth driven by infrastructure investments across its portfolio of mostly regulated businesses

We believe NI is well positioned for future growth. However, some uncertainty around the second NIPSCO Electric rate case exists (albeit significantly lower than the previous NIPSCO rate case, in our view), which when coupled with the stock's current valuation (relative to its historic average) and year to date out-performance puts us on the sidelines for now. NI is trading at its five year average price to forward earnings multiple of 13.1 times.

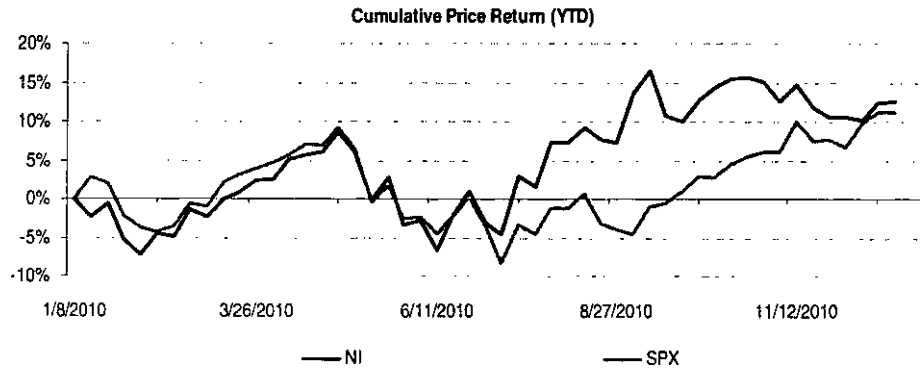
Exhibit 1: NI Price to Forward Earnings Ratio – Five Year Average 13.1 Times



Source: FactSet, Credit Suisse estimates

NI has out-performed the S&P 500 Index year-to-date. Year to date (through 12/13/10) total return for NI is 19% compared to 13% for the S&P 500 Index.

Exhibit 2: Year-to-Date Price Performance



Source: FactSet, Credit Suisse estimates

That said, we believe the downside risk to our earnings estimates is limited. Moreover, there are two main factors that could drive upside to our earnings forecast and consequently our target price. These factors include: (1) the outcome of the second NIPSCO Electric rate case is more favorable than we assume and (2) Faster growth in its gas transmission and storage segment versus our forecast, specifically faster development of Marcellus Shale related projects.

Catalysts to watch: (1) outcome of NIPSCO Electric rate case (2) spending in transmission and storage

(1) **The Outcome of the Second NIPSCO Electric Rate Case Is More Favorable Than We Assume:** In its second NIPSCO Electric rate case, NI filed for a rate increase of $75.7 million predicated on a $2.7 billion rate base, an 11.75% ROE, and a capitalization of 46.53% equity. Our model assumes similar rate base and equity capitalization. However, our model incorporates an allowed ROE of approximately 10.25%, which is slightly below the recent 10.4% ROE allowed in the 2007 Southern Indiana Gas and Electric rate case and compares with the 9.9% ROE authorized in the first NIPSCO rate case order issued by the Indiana Utility Regulatory Commission (IURC) on August 25, 2010. If we were to assume a 10.4% ROE, our EPS estimate would increase by approximately $0.01-0.02.

Exhibit 3: Rate Case Sensitivity (USD Million Except per Share Amounts)

	CS Model	NI Request*	Low Case
Rate Increase Requested	76	76	76
Authorized Rate Change	**40**	**76**	**0**
Net Income	**26**	**44**	**0**
Shares Outstanding**	302	302	302
EPS Impact	**$0.08**	**$0.15**	**$0.00**

*Source: Company data, Credit Suisse estimates; *NI requested case rate increase and net income impact are based on NIPSCO's rate case filing dated 11/19/10. **2012 Weighted Average Share Count*

(2) **Additional Capital Spending in the Gas Transmission and Storage Segment:** The Gas Transmission and Storage segment generates an estimated 15% return on invested capital, the highest across NI's business segments. Should NI accelerate the pace of development in this segment, the company could realize incremental returns. We estimate that for every $100 million of growth capital, NI can add $0.02 to EPS assuming 50/50 debt/equity financing, a 6.25% interest rate on the debt, and a $16.50 stock price.

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.

NI is a diversified energy company that operates in three segments: natural gas distribution, gas transmission and storage, and electric operations

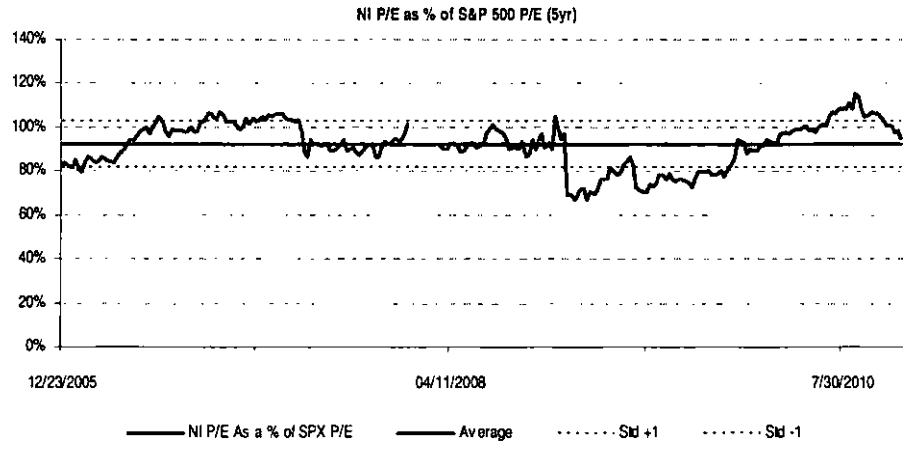
Valuation

Our target price of $18 is based on a projected 2011 price to earnings multiple of 13.6 times, compared with its five year average forward price to earnings multiple of 13.1 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 14.2 times 2010 and 13.1 times 2011, respectively. NI is currently trading at a price to earnings multiple that is 95% of that of the S&P 500 compared to its five year historical average of 92% and ten year historical average of 80%. We rationalize that this may be the result of investors' appetite for yield.

Our 12-month target price of $18 is based on 13.6 times our 2011 EPS

NI provides a relative attractive yield of 5.3% versus 3.3% for its integrated natural gas peers, 4.5% for its regulated utilities peers and 1.9% for the S&P 500.

Exhibit 4: NI Price to Earnings Multiple Versus S&P 500 Price to Earnings Multiple



Source: FactSet, Credit Suisse estimates.

Our sum-of-the-parts valuation yields a value of approximately $18 per share. In our base case, we apply a price to earnings multiple of 13.5 times on our 2011 net income estimate for electric services, an 8.0 times enterprise value to EBITDA multiple to the natural gas utilities and a 9.0 times enterprise value to EBITDA multiple to the transmission and storage segment. Our multiples are based on current trading ranges for regulated electric utilities, local distribution companies, and pipeline companies. Since NI has substantially de-risked earnings at its gas utilities, we afford it an EV/EBITDA multiple that is at the upper end of peers.

Our 12-month target price of $18 is based is consistent with our sum-of-the-parts analysis

Exhibit 5: NI Sum-of-the-Parts Valuation

	2011E		Multiple			Enterprise Value / Equity Value		
	EBITDA / NI	Metric	Low	Base	High	Low	Base	High
Electric Services	143.1	P/E	13.0x	13.5x	14.0x	1,860.8	1,932.3	2,003.9
Natural Gas Utilities	638.7	EV/EBITDA	7.5x	8.0x	8.5x	4,789.9	5,109.3	5,428.6
Transmission and Storage	559.5	EV/EBITDA	8.5x	9.0x	9.5x	4,755.6	5,035.3	5,315.1
Total Enterprise / Equity Value						**11,406.3**	**12,077.0**	**12,747.6**
Less Net Debt						6,907.5	6,907.5	6,907.5
Total Equity Value						**4,498.8**	**5,169.4**	**5,840.1**
Shares Outstanding						288	288	288
Per Share						**$15.63**	**$17.96**	**$20.29**
Current Share Price						$17.31	$17.31	$17.31
Return						(10%)	4%	17%
Dividend per share						$0.92	$0.92	$0.92
Dividend Yield						*5%*	*5%*	*5%*
Total Return						*(4%)*	*9%*	*23%*
2011E EPS						$1.32	$1.32	$1.32
Implied P/E						**11.8x**	**13.6x**	**15.3x**

Source: Company data, Credit Suisse estimates.

Exhibit 6: **Integrated Natural Gas Comp Sheet**

Integrated Natural Gas

(Dollars in millions, except per share amounts)

CREDIT SUISSE

Companies	Ticker	Rating	Price as of 13-Dec-10	12-Month Target Price	TR Upside / Downside	CS Estimated EPS * 2010E	CS Estimated EPS * 2011E	CS Estimated EPS * 2012E	Price-to-Earnings 2010E	Price-to-Earnings 2011E	Price-to-Earnings 2012E	CS Estimated EBITDA 2010E	CS Estimated EBITDA 2011E	CS Estimated EBITDA 2012E	EV-to-EBITDA 2010E	EV-to-EBITDA 2011E	EV-to-EBITDA 2012E
Centerpoint Energy Inc.	CNP	Neutral	15.93	17.00	12%	1.07	1.21	1.26	14.9x	13.2x	12.7x	2,151	2,281	2,360	7.3x	6.9x	6.6x
NiSource Inc.	NI	Neutral	17.31	18.00	9%	1.22	1.32	1.43	14.2x	13.1x	12.1x	1,528	1,632	1,759	7.8x	7.3x	6.8x
Dominion Resources Inc.^	D	Neutral	42.05	39.00	-3%	3.41	3.21	3.23	12.3x	13.1x	13.0x	4,969	4,779	4,970	6.2x	6.6x	6.2x
El Paso Corp.	EP	NR	13.53	NR	NR	0.99	1.08	1.25	13.7x	12.6x	10.8x	2,849	3,139	3,604	7.9x	7.2x	6.2x
ONEOK Inc.	OKE	NR	64.24	NR	NR	3.01	3.21	3.54	18.0x	16.9x	15.3x	1,177	1,256	1,332	9.8x	8.3x	7.8x
Spectra Energy Corp.	SE	NR	24.97	NR	NR	1.49	1.68	1.83	16.8x	14.9x	13.7x	2,675	3,032	3,197	10.1x	8.9x	8.5x
Sempra Energy	SRE	NR	51.35	NR	NR	3.84	4.18	4.22	14.1x	12.3x	12.2x	2,361	2,767	3,038	6.8x	7.5x	6.8x
Questar Corp.	STR	NR	17.44	NR	NR	1.11	1.12	1.21	15.7x	15.5x	14.5x	561	540	568	7.7x	8.0x	7.6x
Southern Union Co.	SUG	NR	24.80	NR	NR	1.84	1.98	2.18	13.5x	12.5x	11.4x	828	979	982	8.2x	6.9x	6.9x
Williams Cos.	WMB	NR	24.14	NR	NR	1.17	1.25	1.51	20.6x	19.3x	16.0x	2,715	3,284	3,690	8.0x	6.6x	5.9x
Average						**1.89**	**2.02**	**2.16**	**15.4x**	**14.3x**	**13.2x**				**8.3x**	**7.6x**	**7.1x**
Median						**1.35**	**1.50**	**1.67**	**14.5x**	**13.2x**	**12.8x**				**8.1x**	**7.4x**	**6.9x**
S&P 500 (Consensus)	**SPX**		**1,240**			**80.68**	**93.24**	**93.50**	**15.4x**	**13.3x**	**13.3x**						

*Estimates Estimates represent First Call estimates for non-covered companies

^Covered by Credit Suisse Utilities Team

NR = Not Rated

Companies	Ticker	52 Week High	52 Week Low	Total Return LTM	Total Return YTD	Shares latest qtr	Market Cap	Net Debt latest qtr	Enterprise Value	S&P/Mdy's Debt Rating	Net Debt/ Cap	Net Debt/ TTM EBITDA	P/BV latest qtr	Dividend Yield 2010E	Dividend Payout 2010E
Centerpoint Energy Inc.	CNP	17.00	5.54	19.3%	15%	423	6,740	8,884	15,624	BBB/ Ba1	57%	4.0x	2.2x	4.9%	78%
NiSource Inc.	NI	17.96	14.13	20.3%	19%	278	4,817	7,128	11,946	BBB- / WR	60%	4.7x	1.0x	5.3%	75%
Dominion Resources Inc.	D	45.12	36.12	12.8%	12%	581	24,410	16,453	40,863	A- / Baa2	40%	4.1x	2.0x	4.4%	54%
El Paso Corp.	EP	14.08	8.94	44.6%	37%	704	9,527	12,962	22,489	BB / Ba3	49%	4.1x	3.1x	0.3%	4%
ONEOK Inc.	OKE	64.92	29.56	35.6%	26%	106	6,775	4,811	10,386	BBB / Baa2	39%	3.7x	2.4x	3.5%	60%
Spectra Energy Corp.	SE	24.88	18.57	27.6%	25%	648	16,181	10,843	27,024	BBB+ /	39%	4.9x	2.2x	4.0%	67%
Sempra Energy	SRE	57.10	43.91	-3.1%	-6%	242	12,427	8,360	20,807	BBB+ / Baa1	39%	3.6x	1.4x	3.0%	42%
Questar Corp.	STR	18.30	12.33	44.4%	35%	176	3,070	1,232	4,302	A / A3	28%	1.5x	3.2x	3.2%	48%
Southern Union Co.	SUG	26.88	20.00	21.6%	10%	124	3,087	3,685	6,772	BBB- / Baa3	54%	5.7x	1.2x	2.4%	33%
Williams Cos.	WMB	24.66	17.53	25.2%	16%	584	14,098	7,495	21,593	BBB- / Baa3	33%	2.3x	2.0x	2.1%	37%
Average					**19%**		**10,013**	**8,167**	**18,181**		**44%**	**3.9x**	**2.1x**	**3.3%**	**49%**
Median					**18%**		**8,133**	**7,938**	**18,215**		**40%**	**4.1x**	**2.1x**	**3.4%**	**51%**
S&P 500 (Consensus)	**SPX**	**1,227**	**1,011**		**13%**									**1.7%**	

*Estimates Estimates represent First Call estimates for non-covered companies

NR = Not Rated

Source: FactSet, Credit Suisse estimates.

Strengths and Opportunities

NI's strengths/opportunities: (1) attractive footprint around the Marcellus Shale, (2) Inventory of investments at its LDCs, (3) Substantially de-risked earnings at its LDCs, and (4) Potential to Create and MLP

- **Well Positioned Assets Around the Marcellus Shale:** Columbia Gas Transmission, which comprises the majority of the Gas Transmission & Storage segment's operating earnings, has an attractive footprint in the Marcellus Shale that provides for high return potential growth opportunity. From 2007 to 2010, NI gas transmission and storage has or will have placed roughly $450 million of growth capital projects in service (excluding its portion of the Millennium Pipeline), that in aggregate are expected to generate $75 million of operating earnings (17% return). On an EBITDA basis, the projects were completed at 5x EBITDA (20% return). We believe the company can continue to generate these strong returns in the near- to midterm and we incorporate $200 million of Marcellus Shale related capex in our model per year. This capex spending translates to roughly $40 million of incremental EBITDA per year.

- **Sizable $4.35 Billion, 20-plus Year Infrastructure Investment Program at the Gas Utilities:** NI has outlined a program of infrastructure replacement investments in its gas utilities that should help drive visible, low-risk annual growth of at least 3% in the segment. Importantly, at most of the gas utilities, the regulatory lag should be minimized, given the trackers in place.

- **Earnings Substantially De-Risked at the Gas Utilities:** NI embarked on an aggressive regulatory agenda for its gas utilities in 2007-08 and has started to reap the benefits. Specifically, at several of its gas utilities, NI has virtually eliminated weather and conservation risk through decoupling and/or levelized rates and has trackers in place that reduce regulatory lag in recovery of certain costs (i.e., pension, other postemployment benefits, etc.).

- **Potential to Create a Master Limited Partnership (MLP) Could Provide an Alternate Financing Vehicle:** On December 21, 2007, NI filed a Form S-1 registration statement with the SEC for a proposed initial public offering of MLP units. At that time, the intent was to create an MLP around the Columbia Gulf transmission assets and the associated growth projects. The IPO did not move forward due to damage at one of its facilities and the deterioration of the financial markets in 2008. The registration statement was subsequently withdrawn. We do not believe an MLP is imminent; however, given its asset base, an MLP could provide an alternate form of financing for NI to fund the long-term growth projects at its pipeline segment. In our view, a potential MLP would center around Columbia Gas Transmission and associated Marcellus Shale related growth projects. The MLP could also potentially unlock value for NI shares, as the enterprise value to EBITDA multiples afforded MLPs tend to be higher than non-MLP peers given the tax treatment of MLPs. However, at this point, NI remains competitive with MLPs for growth projects in the Marcellus Shale, given its footprint.

Risks and Challenges

NI's risks/challenges: (1) NIPSCO Electric sensitive to economy, (2) Rate Case, (3) Pipeline re-contracting risk, and (4) Pension Liabilities

- **The Potential for a Less Favorable Outcome to the NIPSCO Electric Rate Case Compared with our Model:** We highlighted the sensitivities earlier in the report. We believe that the uncertainty surrounding the second NIPSCO Electric rate case should be substantially lower than the uncertainty around the first one, given that the second rate case, filed on November, 19, 2010, is much less complicated than the first. In essence, the second NIPSCO Electric Rate case is a true-up on costs. That said, regulatory risk remains and EPS could be impacted should the outcome be lower than our expectations.

- **NIPSCO Electric Is More Sensitive to the Economy, Given Its Sales Breakdown:** Although industrial customers represent less than 1% of NIPSCO's customer base, these customers account for approximately 50% of the load. In addition, steel related

industrial customers represented more than 60% of total industrial sales in 2009. Therefore, a prolonged economic slowdown could impact NIPSCO earnings. Indeed, sales decline is one of the drivers of the second NIPSCO Electric rate case, in addition to pension cost increases. Note that the second NIPSCO rate case uses the 12 months ended June 30, 2010 as the test year.

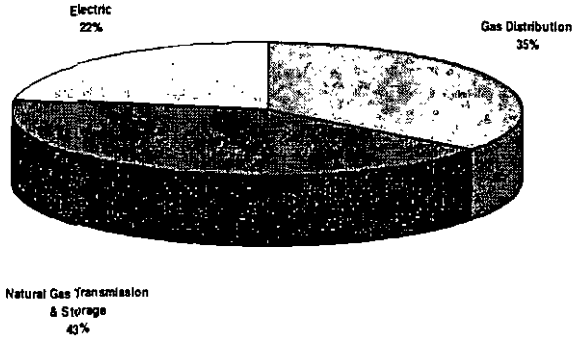
- **Pipeline Recontracting Risk on its Columbia Gulf Transmission System:** Although it only represents approximately 10% of the Gas Transmission and Storage operating earnings, NI filed a $50 million rate case at Columbia Gulf Transmission. We estimate that 70% of the rate increase requested, or $35 million, is tied to cost of service increases and 30%, or $15 million is tied to volumetric declines.
- **Pension liabilities could increase.** Discount rates are adjusted annually, and depending on the change in the discount rate, NI may need to make potentially large cash contributions to its pension plan beyond 2010. That said, NI has pension expense trackers across several of its gas utilities.

Business Overview

NI sold several non-core assets over the past few years, including Northern Utilities, Granite State Gas Transmission, Whiting Clean Energy and non-strategic Columbia Gulf Transmission offshore assets in the Gulf of Mexico. We do not expect any additional significant asset sales in the near term. NI currently operates in three main segments consisting of Gas Distribution, Gas Transmission and Storage, and NIPSCO Electric.

NI's three main segments consist of Gas Distribution, Gas Transmission and Storage, and NIPSCO Electric

Exhibit 7: 2010E Operating Income by Segment—$934 million



Source: Company data, Credit Suisse estimates; Excludes Other/Intersegment.

Solid Execution Under Four Point Strategic Plan for Growth

NI operates under a four point strategic plan for growth. The plan is comprised of: (1) expansion at its Gas Transmission and Storage segment, (2) regulatory and commercial initiatives at the utilities, specifically utility infrastructure programs synchronized with regulatory initiatives, (3) financial and balance sheet management (includes maintaining investment grade credit ratings), and (4) cost management.

We note that NI has executed well on its platform over the past three years: (1) NI has or will have placed approximately $450 million of growth capital projects in service at its Gas Transmission and Storage segment from 2007 to 2010. (2) Has embarked on several regulatory initiatives and has an inventory of $4.35 billion of utility infrastructure programs at its gas utilities as well as several environmental related projects totaling more than $600 million at NIPSCO Electric. (3) Demonstrated strong balance sheet management most recently through its approximate $400 million forward equity issuance as well as recent

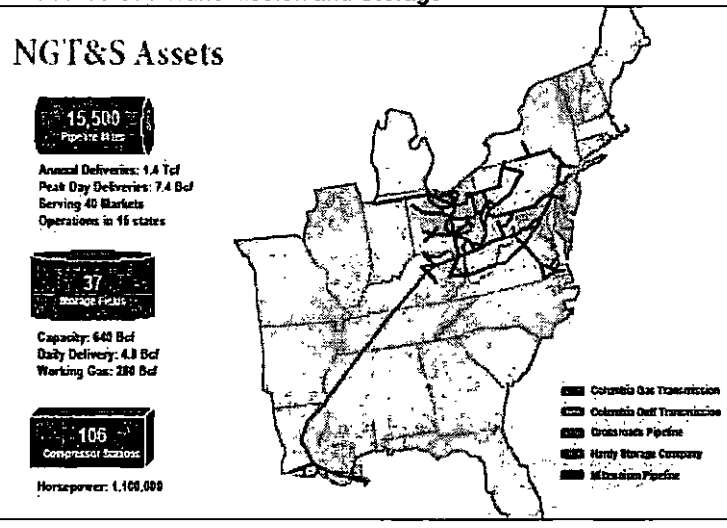
NI's has executed well on its four point strategic plan for growth

$250 million 30-year notes offering. (4) Reduced operating costs by $30 million at its Gas Transmission and Storage segment in 2009.

Gas Transmission & Storage Footprint - Opportunity for High-Return Expansion Projects

Gas Transmission and Storage represents 43% of estimated segment operating income in 2010. We view Gas Transmission and Storage as the growth driver for NI. The segment consists of 15,500 miles of pipeline and 37 storage fields with 640 Bcf of total capacity and 280 Bcf of working gas capacity that serve 40 markets. Local distribution companies represent the majority of the segment's customer base and demand charges account for approximately 90% of operating earnings.

Exhibit 8: NISource Gas Transmission and Storage



Source: Company data, Credit Suisse estimates.

The two main transmission systems are Columbia Gas Transmission and Columbia Gulf transmission. In 2009, Columbia Gas Transmission, which is located primarily in the North East and Mid-Atlantic, accounted for approximately 90% of Gas Transmission and Storage operating earnings.

Marcellus Shale related opportunities to provide growth in Gas Transmission & Storage

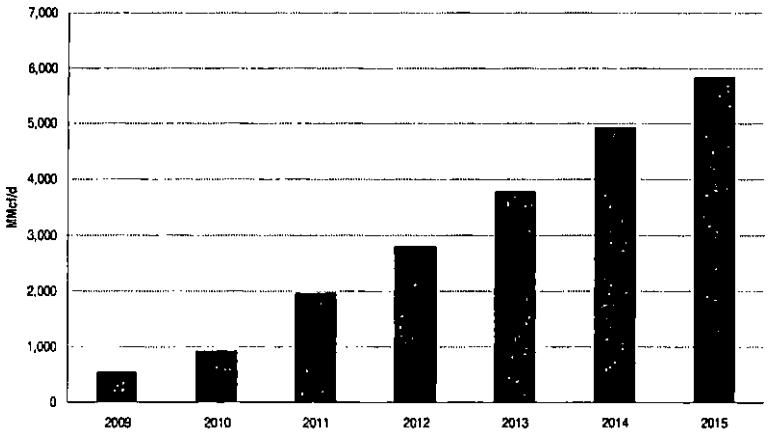
Columbia Gas Transmission and the opportunities around the Marcellus Shale will generate the vast majority of growth in the Gas Transmission and Storage segment, in our view. At its investor day in July 2010, NI provided a detailed review of its Gas Transmission and Storage's Marcellus Shale strategy. We provide highlights below.

For background we note that NI has executed well on gas transmission and storage expansion strategy. From 2007 to 2010, NI gas transmission and storage has or will have placed roughly $450 million of growth capital projects in service (excluding its portion of the Millennium Pipeline), that in aggregate are expected to generate $75 million of operating earnings (17% return). On an EBITDA basis, the projects were completed at 5x EBITDA (20% return).

Columbia Gas Transmission sits on top of the Marcellus Shale. NI believes that it is well positioned to capitalize from the growth of the Marcellus Shale, specifically given its "spider web" of pipelines in the region. NI has several small diameter pipelines and existing right of ways in the region that provide it with a competitive advantage with respect to growth projects. Of the estimated 2.0 - 2.5 Bcf per day of current production in the Marcellus Shale, NI currently has 700 MMcf per day of firm transport commitments or approximately 30% share. NI believes that as Marcellus production grows to 6 Bcf per day in 2015 (which is consistent with the Credit Suisse Oil and Gas Exploration and Production

team estimates), and 13 Bcf per day in 2020 according to a recent study, it can maintain 25-30% share of transport commitments given its footprint. One of NI's key competitive advantages, in our view, is its ability to expand its capacity incrementally, thus producers do not need to make large volume commitments to help fund growth projects.

Exhibit 9: Credit Suisse Marcellus Shale Production Forecast



Source: EIA, Credit Suisse estimates.

NI has identified $2.0-2.5 billion of potential Marcellus related projects over the next 5 to 7 years ranging from smaller gathering projects to larger FERC regulated interstate pipeline and storage projects. NI plans to focus on the smaller supply aggregation projects in the near term (i.e., moving gas to a processing plant). Over the next four years, NI plans to spend approximately $200 million per year on Marcellus related growth projects. NI is currently working on projects with MarkWest Energy Partners (MWE) and UGI Corporation (UGI).

NI has identified $2.0-2.5 billion of potential Marcellus related projects over the next 5 to 7 years

NI estimates its gas storage and transmission business can generate 15% pretax return on invested capital. We believe the company can continue to generate these strong returns in the near- to midterm and we incorporate $200 million of Marcellus Shale related capex in our model per year. This capex spend translates to roughly $40 million of incremental EBITDA per year.

Moreover, NI believes that given its current cost of capital, it can be competitive with MLPs in developing growth projects in the Marcellus Shale. At this time, NI does not believe the MLP structure to be the right structure for its gas transmission and storage business; however, NI continues to evaluate the potential.

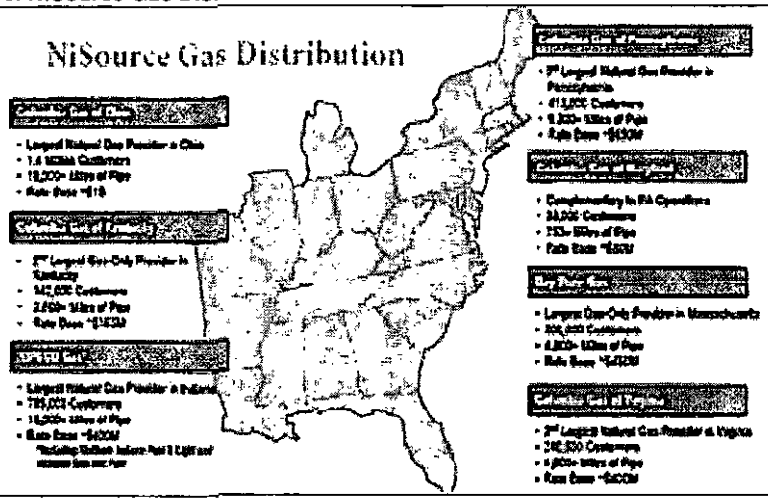
Rate Case Filed at Columbia Gulf Transmission

NI filed a rate case on its Columbia Gulf Transmission Pipeline resulting from a combination of changing natural gas flows and costs. NI is requesting an increase of $50 million. We estimate that $35 million, or 70%, of the requested rate increase is attributable to cost of service increases with the remaining $15 million, or 30% tied to lower volumes driven by changing natural gas flows. We expect NI to settle the case.

Gas Distribution—Earnings Have Been Substantially De-Risked

NI operates seven local distribution companies (LDCs) that collectively represent 35% of estimated segment operating income in 2010. The LDCs, located in Ohio, Indiana, Kentucky, Massachusetts, Pennsylvania, Virginia, and Maryland, serve a combined customer base of 3.3 million, and are estimated to have an aggregate rate base of approximately $3.1 billion.

Exhibit 10: NiSource Gas Distribution



Source: Company data, Credit Suisse estimates.

Over the past three years, NI has substantially de-risked its gas distribution earnings. The table below highlights the significant progress made since 2007. Specifically, NI has virtually eliminated weather and other volumetric related risk. Moreover, it has reduced regulatory lag in cost recovery and infrastructure replacement to within 12 months given the trackers in place at several of its gas utilities. Most recently, the Indiana Utility Regulatory Commission (IURC) approved NIPSCO Gas's rate settlement. The settlement calls for an overall rate reduction of $14.9 million. However, depreciation expense was lowered, thus enabling NIPSCO Gas to rebuild rate base. The combination of these and other items should add approximately $60 million to pre-tax earnings on a full year basis. The settlement took effect in November, thus NI should realize two months of the incremental pre-tax income in 2010.

NI has made significant regulatory progress across its LDCs

Exhibit 11: NiSource Gas Distribution Earnings Substantially De-Risked

2007	OH	IN	PA	MA	VA	KY	MD
Levelized Rates; Decoupling; Customer Charge Increased							
Uncollectible Expense Tracker; Gas Cost Uncollectibles in GCA	X			X			
Accelerated Infrastructure tracker; Expedited Rate Treatment							
Pension/OPEB Tracker; Pension/OPEB Deferral				X			

2010	OH	IN	PA	MA	VA	KY	MD
Levelized Rates; Decoupling; Customer Charge Increased	X	Filed		X	X	X	
Uncollectible Expense Tracker; Gas Cost Uncollectibles in GCA	X	Filed	X	X	Filed	X	X
Accelerated Infrastructure tracker; Expedited Rate Treatment	X	NA	X	X	X	X	X
Pension/OPEB Tracker; Pension/OPEB Deferral	X	Filed	X	X	Current	Current	Current

Source: Company data, Credit Suisse estimates.

NI has an inventory of investment opportunities in the gas distribution segment that can help drive operating income CAGR of 3%-plus over the next several years. Indeed, the company estimates it has $4.35 billion worth of investment opportunity over the next 20 years through the replacement of aging infrastructure, with annual spending in the $190-250 million range. In addition, NI also estimates it has a $120 million investment opportunity through the installation of new automated meter readers at the LDCs where it has not yet done so. These infrastructure and automated meter reader projects are estimated to generate return on invested capital of roughly 11%. In addition, and importantly, as previously mentioned, at several of the LDCs, NI has a tracker mechanism leading to recovery within 12 months. Note that our model assumes approximately $420 million of total capex per year starting in 2011 and flattish customer growth.

NI has a large inventory of infrastructure investments at its LDCs

Exhibit 12: NiSource Gas Distribution Table of Investments

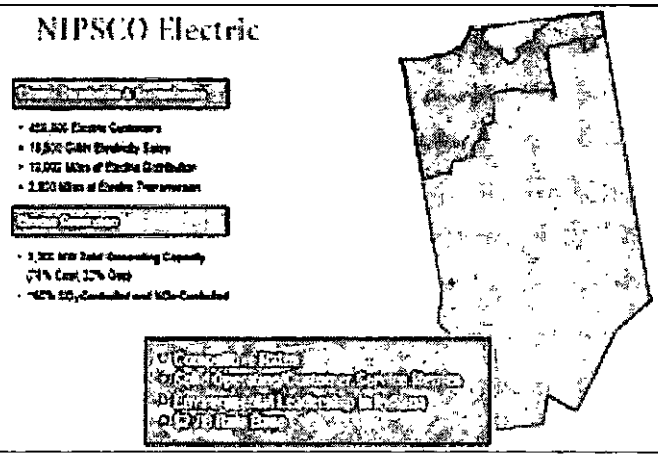
	OH	PA	MA	VA	KY	MD	Total
Total Tracked Investment Opportunity ($MM)	1,800	1,700	400	150	200	100	4,350
Annual Tracked Investment Range ($MM)	90 to 110	65 to 85	20 to 30	5 to 10	7 to 10	4 to 10	190 to 250
Automated Meter Reader Opportunity ($MM)	80	22	Complete	9	9	Complete	120
Program Length (Years)	25	20	15	NA	30	20	
Regulatory Treatment							

Source: Company data, Credit Suisse estimates

NIPSCO Electric—Second Rate Case Should Be Simpler

NIPSCO Electric is located in Indiana and represents 22% of estimated segment operating income in 2010. NIPSCO Electric has 450,000 electric customers and a $2.7 billion rate base.

Exhibit 13: NIPSCO Electric



Source: Company data, Credit Suisse estimates.

On August 25, 2010 NI received an order regarding its NIPSCO Electric Rate case that had been filed in 2008. We note that this was a comprehensive and complicated rate case, given that the last time rates were established was in 1987. In addition, the rate case used 2007 as the test year. In its August 25 order, the commission allowed for gross margin of $899 million predicated on a return on equity of 9.9%. The Commission indicated that the allowed return on equity may be adjusted higher if NIPSCO Electric can show improved

On August 25, 2010 the commission allowed for gross margin of $899 million predicated on a return on equity of 9.9%

performance and customer service in a future rate case filing. According to Research Regulatory Associates/SNL Financial, the order implies a revenue reduction of $48.9 million; however, when including the impact of the expiration of the $55 million of annual credits, we believe the outcome calls for flattish revenues. Following additional commentary and any challenges, the new rates should be in effect in early second quarter 2011.

In the second NIPSCO Electric rate case, NI filed for a rate increase of $75.7 million using a $2.7 billion rate base, 11.75% ROE and 46.53% equity capitalization

NI filed the second NIPSCO rate case on November 19, 2010, even though the rates from the August 25, 2010, order are not yet effective. In the second NIPSCO rate case, the company aims to address the market slowdown and cost increases since 2007. In the second NIPSCO Electric rate case, which uses the 12 months ended June 30, 2010 as the test year, NI filed for a rate increase of $75.7 million predicated on a $2.7 billion rate base, an 11.75% ROE and a capitalization of 46.53% equity. As indicated earlier in the report, our model assumes a similar rate base and equity capitalization. However, our model incorporates approximately 10.25% allowed ROE, which is slightly below the recent 10.4% ROE allowed in the 2007 Southern Indiana Gas and Electric rate case and compares with the 9.9% ROE authorized by the commission in the first NIPSCO Electric rate case order issued on August 25, 2010. If we were to assume a 10.4% ROE our EPS estimate would increase by approximately $0.01-0.02. NI filed the second rate case under an expedited timeline. Note that we incorporate new rates starting in 2012. However, should NIPSCO Electric reach settlement, new rates could go into effect earlier, thus driving our 2011 EPS estimate higher.

Overall economic activity affects NIPSCO Electric's sales to a greater degree relative to utilities that have a larger portion of sales tied to residential customers

We believe it is important to highlight NIPSCO's sensitivity to the economy. For NIPSCO Electric, although industrial customers represent less than 1% of total customers, the industrial load represents approximately 50% of the total electricity sales. Moreover, a majority of the industrial load is steel related. Consequently, overall economic activity (including manufacturing) tends to impact NIPSCO Electric's sales to a greater degree relative to other utilities that have a larger portion of sales tied to residential customers. We highlight that electricity sales declined 9.4% in 2009 excluding any weather related impact.

NIPSCO earnings are expected to grow at a CAGR of 3% over the next several years, driven primarily by regulatory relief and environmental trackers. Infrastructure investments should generate 11% return on invested capital. Beyond the NIPSCO Electric Rate case outcome, our model assumes annual capex of approximately $220 million at NIPSCO. We forecast a moderate increase in electricity sales over the next few years driven by an overall improvement in the economy. Note that NI has identified more than $600 million of environmental related investment opportunities for NIPSCO Electric after having invested approximately $300 million since 2003.

Exhibit 14: NIPSCO Electric – Inventory of Environmental Investment Opportunity

	Shahfer	Michigan City	Bailly
SO2	300	170	
NOx	30		
Mercury	60	4	
Ash	50	10	10
Total	**440**	**184**	**10**

Source: Company data, Credit Suisse estimates

Financials

Forecast

We forecast EPS of $1.22, $1.32 and $1.43 in 2010, 2011 and 2012, respectively

We forecast 2010 EPS of $1.22, which is within management's guidance of $1.20-1.25. For 2011, we forecast EPS of $1.32, which represents a year-over-year increase of 8.3%. The key growth driver in our 2011 forecast is a 9.2% increase in operating income at gas distribution, driven by the recent NIPSCO gas rate case settlement as well as

infrastructure spending. In addition, we forecast operating income growth of 7.3% for gas transmission and storage based on the high return capital expenditures NI has undertaken. We expect slight improvement in operating earnings for NIPSCO electric, driven by continued modest improvement in the economy. We are not incorporating any outcome for either of the NIPSCO electric rate cases. We include approximately 12 million shares (about half) from the forward equity sale at the end of the third quarter 2011. (We discuss the forward equity issuance in the Balance Sheet and Liquidity section of the report).

We forecast 2012 EPS of $1.43, which represents a year-over-year increase of 7.8%. The biggest driver of growth in our model is an approximate 15% increase in operating earnings at NIPSCO Electric. NIPSCO Electric filed a second rate case in November 2010, that we expect to be resolved by late 2011. We incorporate a rate increase of approximately $40 million (compared with the company's requested $75 million). We incorporate the remaining portion of the forward equity at the end of the third quarter 2012, which adds approximately 12 million shares.

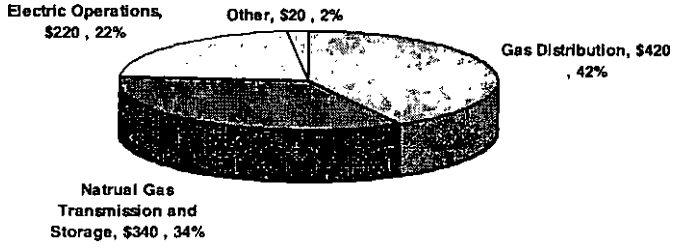
Beyond 2012 we forecast EPS growth at the high end of NI's 3-5% growth outlook. Our model assumes NI spends approximately $1 billion per year in capex, flattish LDC customer growth (less than 1%), and electricity sales growth of approximately 1.0 – 1.5%.

Capex

We forecast approximately $1 billion of annual capex spending for NI starting in 2011. Roughly 60% of that spending represents growth capex. We believe this level of spend should drive EPS growth at the high end of the company's stated 3-5% range.

We forecast approximately $1 billion of annual capex spending for NI

Exhibit 15: Capex Breakdown By Segment (USD Millions)

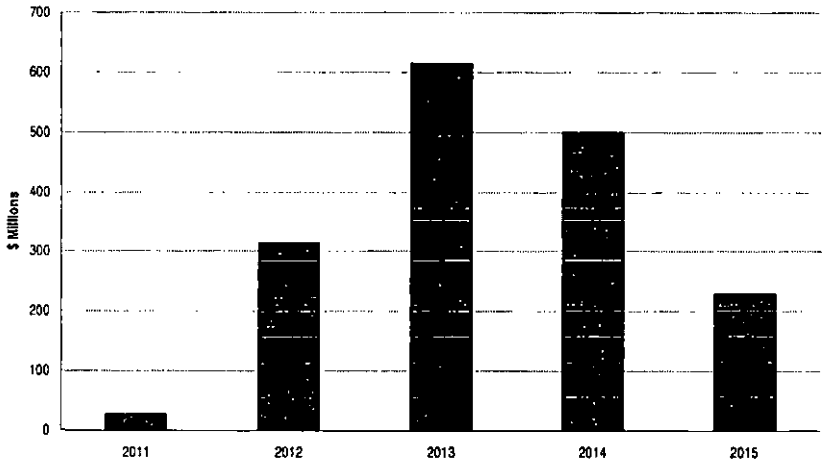


Source: Company data, Credit Suisse estimates.

Balance Sheet and Liquidity

NI has a solid investment grade balance sheet, which it maintained through the recent credit crisis. S&P rates NI's senior unsecured notes BBB-. NI has prefunded its 2010 debt maturity, has minimal maturity in 2011 and $315 million in 2012. We estimate total debt to capital of approximately 60% at the end of the third quarter of 2010. NI's revolving credit facility expires in July 2011; we suspect NI will lock in a new facility in the first quarter of 2011. At the end of the third quarter of 2010, NI had net available liquidity of $904 million, not including the forward equity issuance discussed below.

Exhibit 16: Debt Maturity Chart (2011 – 2015)



Source: Company data, Credit Suisse estimates.

We believe NI has locked in adequate liquidity through its forward equity issuance in early September 2010 to fund its capex The forward equity issuance removes share price risk (share price locked in at $16.50) and mitigates dilution risk, as shares are not added at the date of the forward equity issuance, but rather as NI settles the issuance. NI has through September 10, 2012 to settle the issuance. The forward equity consisted of 24.265 million shares priced at $16.50 per share, however, after all fees, we estimate NI would receive proceeds of approximately $390 million assuming full settlement. Note that NI has not received any proceeds from the forward equity issuance.

Management

Exhibit 17: Management Team

Name	Title	Position Held Since
Ian M. Rolland	Chairman of the Board	2006
Robert C. (Bob) Skaggs, Jr.	President and Chief Executive Officer	2004/2005
Stephen P. Smith	Executive Vice president and Chief Financial Officer	2008
Christopher A. Helms	Executive Vice president and Group CEO NiSource Gas Transmission & Storage	2005
Jimmy Staton	Executive Vice president and Group CEO NiSource Gas Distribution and NIPSCO Electric	2008/1010

Source: Company data, Credit Suisse estimates.

CREDIT SUISSE

15 December 2010

Exhibit 18: 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	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Segment EBITDA													
Gas Distribution	584.7	556.0	577.4	297.2	99.3	23.2	165.2	584.9	638.7	669.1	698.2	728.4	759.9
NIPSCO Electric	480.7	429.8	368.0	98.5	101.2	133.7	89.2	422.6	434.5	498.3	517.6	534.2	550.7
Gas Transmission & Storage	488.9	494.3	530.3	157.4	106.4	108.2	149.2	521.2	559.5	592.1	627.4	670.0	715.9
Other	2.8	5.0	(7.1)	1.6	(1.3)	(2.0)	1.0	(0.7)	(0.7)	(0.1)	0.5	1.0	1.7
Total EBITDA (recurring)	1,557.1	1,485.1	1,468.8	554.7	305.6	263.1	404.6	1,528.0	1,631.9	1,759.4	1,843.6	1,933.6	2,028.2
Segment EBIT													
Gas Distribution	350.2	327.3	329.3	234.7	35.9	(40.7)	100.6	330.5	372.8	391.3	408.3	426.6	446.1
NIPSCO Electric	288.8	220.2	162.4	46.2	48.3	80.0	35.1	209.6	214.3	271.9	284.8	295.2	305.3
Gas Transmission & Storage	371.8	376.7	408.8	125.9	74.9	76.4	116.9	394.1	424.1	447.0	472.5	505.5	541.6
Other	(12.9)	(6.3)	(21.3)	(1.9)	(5.1)	(5.8)	(2.8)	(15.6)	(16.3)	(16.3)	(16.3)	(16.3)	(16.3)
Total EBIT (recurring)	997.9	917.9	879.2	404.9	154.0	109.9	249.8	918.6	994.8	1,093.8	1,149.4	1,210.5	1,276.8
Interest Expense	400.7	375.3	399.2	98.7	98.4	97.6	97.6	392.3	385.8	405.1	408.4	429.1	462.3
Other Expenses	6.5	(0.9)	1.6	(2.6)	(2.6)	(2.1)	0.0	(7.3)	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	152.2	533.6	609.1	688.7	741.0	781.8	814.5
Taxes	214.9	194.6	184.3	110.5	21.2	4.1	57.1	192.9	228.4	258.3	277.9	293.2	305.4
Recurring Net Income	375.8	348.9	294.1	198.3	37.0	10.3	95.1	340.7	380.7	430.4	463.1	488.6	509.1
Recurring EPS													
Basic	$1.37	$1.27	$1.07	$0.72	$0.13	$0.04	$0.34	$1.23	$1.33	$1.43	$1.50	$1.57	$1.63
Diluted	$1.37	$1.27	$1.07	$0.71	$0.13	$0.04	$0.34	$1.22	$1.32	$1.43	$1.49	$1.57	$1.62
YoY %Change		*-7.4%*	*-15.9%*	*16.2%*	*488.8%*	*-46.1%*	*-5.0%*	*14.5%*	*8.3%*	*7.8%*	*4.6%*	*4.8%*	*3.5%*
Weighted Average Shares Outstanding													
Basic	273.8	274.0	275.1	276.9	277.6	278.1	278.6	277.8	286.0	300.2	308.3	310.3	312.4
Diluted	274.6	275.4	275.9	277.5	278.4	279.9	280.4	279.1	287.8	302.0	310.1	312.1	314.2
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%*					*75.0%*	*69.1%*	*64.2%*	*61.2%*	*58.4%*	*56.5%*
Abbreviated Balance Sheet													
Cash and Equivalents	50.0	20.6	16.4	110.6	7.4	10.9	57.0	57.0	31.8	8.8	29.6	42.1	13.0
Restricted Cash	59.4	286.6	174.7	220.8	212.7	276.5	276.5	276.5	276.5	276.5	276.5	276.5	276.5
Accounts Receivables	977.6	1,143.2	808.6	949.9	568.9	517.8	733.3	733.3	669.1	708.8	738.1	769.3	801.9
Inventories	458.2	511.8	384.8	79.0	230.6	438.8	345.9	345.9	321.5	340.3	354.6	370.3	386.8
Other Current Assets	950.0	1,448.3	839.1	836.9	873.8	951.5	876.5	876.5	894.8	919.0	951.9	996.8	1,058.1
Current Assets	2,495.2	3,410.5	2,223.6	2,197.2	1,893.4	2,195.5	2,289.1	2,289.1	2,193.6	2,253.4	2,350.7	2,455.0	2,536.2
Net PP&E	9,693.0	10,276.0	10,654.0	10,605.8	10,766.9	10,829.3	10,899.5	10,899.5	11,262.4	11,596.8	11,902.5	12,179.7	12,428.4
Other Assets	5,856.9	6,345.7	6,394.1	6,548.6	6,387.8	6,500.6	6,500.6	6,500.6	6,500.6	6,500.6	6,500.6	6,500.6	6,500.6
Total Assets	18,045.1	20,032.2	19,271.7	19,351.6	19,048.1	19,525.4	19,689.2	19,689.2	19,956.6	20,350.8	20,753.8	21,135.3	21,465.2
Accounts Payable	743.3	693.9	502.3	407.1	278.9	242.9	426.6	426.6	487.9	516.8	538.2	560.9	584.7
Current Portion of LT Debt	33.9	469.3	719.7	723.1	718.8	726.9	726.9	726.9	726.9	726.9	726.9	726.9	726.9
Other Short Term Borrowings	1,061.0	1,163.5	103.0	370.7	212.8	724.6	724.6	724.6	524.6	524.6	724.6	874.6	949.6
Other Current Liabilities	1,584.6	2,256.7	1,824.6	1,496.3	1,506.9	1,556.8	1,505.8	1,505.8	1,594.2	1,605.8	1,614.4	1,623.5	1,633.0
Current Liabilities	3,422.8	4,583.4	3,149.6	2,997.2	2,717.4	3,251.2	3,383.9	3,383.9	3,333.6	3,374.2	3,604.1	3,785.9	3,894.2
Long Term Debt	5,594.4	5,943.9	5,969.1	5,963.9	5,977.3	5,964.3	5,964.3	5,964.3	5,964.3	5,963.4	5,957.1	5,953.6	5,953.6
Other Liabilities	3,941.2	4,776.1	5,298.9	5,461.7	5,458.5	5,432.0	5,432.0	5,432.0	5,432.0	5,432.0	5,432.0	5,432.0	5,432.0
Total Liabilities	12,958.4	15,303.4	14,417.6	14,422.8	14,153.2	14,647.5	14,780.2	14,780.2	14,729.9	14,769.6	14,993.2	15,171.5	15,279.8
Shareholders Equity	5,086.7	4,728.8	4,854.1	4,928.8	4,894.9	4,877.9	4,909.0	4,909.0	5,226.7	5,581.2	5,760.7	5,963.8	6,185.4
Total Liabilities and Equity	18,045.1	20,032.2	19,271.7	19,351.6	19,048.1	19,525.4	19,689.2	19,689.2	19,956.6	20,350.8	20,753.8	21,135.3	21,465.2
Financial Metrics													
Total Debt / Total Cap	56.8%	61.6%	58.3%	58.9%	58.5%	60.3%	60.2%	60.2%	58.0%	56.4%	56.3%	55.9%	55.2%
Net Debt / Total Cap	56.6%	61.5%	58.3%	58.5%	58.5%	60.3%	60.0%	60.0%	57.9%	56.4%	56.2%	55.7%	55.2%
Net Debt / Equity	130.5%	159.8%	139.6%	140.9%	141.0%	151.8%	149.9%	149.9%	137.4%	129.1%	128.1%	126.0%	123.1%
Book Value Per Share	$18.51	$17.17	$17.59	$17.76	$17.58	$17.43	$17.51	$17.59	$18.16	$18.48	$18.58	$19.11	$19.69
Net Debt / TTM EBITDA	4.3x	5.1x	4.6x	4.6x	4.5x	4.8x	4.8x	4.8x	4.4x	4.1x	4.0x	3.9x	3.8x

Source: Company data, Credit Suisse estimates.

CREDIT SUISSE

15 December 2010

Exhibit 19: NI Income Statement, 2007–2015E

NiSource Inc. (NYSE: NI)
Consolidated Income Statement - Year ending December 31
(Non-GAAP, $ millions except for per share data)

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

	2007	2008	2009	1Q10	2Q10	3Q10	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
INCOME STATEMENT													
Operating Revenues (Total Revenue)	7,980.0	8,873.6	6,147.2	2,050.6	1,095.1	1,004.5	1,333.2	5,483.4	5,202.4	5,508.2	5,728.2	5,961.3	6,204.0
Cost of Gas & Other Energy (COGS)	4,676.2	5,632.4	2,805.4	981.0	349.8	296.1	398.4	2,025.3	1,602.2	1,699.6	1,764.1	1,828.6	1,894.6
Net Revenue	3,303.8	3,241.2	3,341.8	1,069.6	745.3	708.4	934.8	3,458.1	3,600.2	3,808.6	3,964.1	4,132.7	4,309.3
Net Operating Margin	3,000.8	2,933.7	3,060.2	983.9	681.3	646.9	847.8	3,159.9	3,287.1	3,479.2	3,622.0	3,776.9	3,939.3
Operating, Maintenance & General (SG&A)	1,453.1	1,460.9	1,507.6	436.6	376.1	387.3	449.6	1,649.6	1,672.7	1,737.3	1,796.6	1,862.0	1,930.3
Revenue-Related Tax, Op. Expense Recovery	303.0	307.5	281.6	65.7	64.0	61.5	87.0	298.2	313.2	329.4	342.1	355.8	370.0
Other Income/(Expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment and (gain)/loss on sale of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expense	1,756.1	1,768.4	1,889.2	522.3	440.1	448.8	536.5	1,947.7	1,985.9	2,066.7	2,138.7	2,217.7	2,300.4
Equity Earnings (Loss) in Unconsolidated Affiliates	9.4	12.3	18.0	7.4	0.4	3.5	6.4	17.7	17.6	17.6	18.1	18.7	19.2
EBITDA	1,557.1	1,485.1	1,468.6	554.7	305.6	263.1	404.6	1,528.0	1,631.9	1,759.4	1,843.6	1,933.6	2,028.2
Total Depreciation & Amortization	559.2	567.2	589.4	149.8	151.6	153.2	154.8	609.4	637.1	665.7	694.2	722.8	751.4
EBIT	1,557.1	1,485.1	1,468.6	554.7	305.6	263.1	404.6	1,528.0	1,631.9	1,759.4	1,843.6	1,933.6	2,028.2
Interest on LTD	400.7	375.3	399.2	98.7	98.4	97.6	97.6	392.3	385.8	405.1	408.4	429.1	462.3
Interest on Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Divs on pref securities of subsid trust	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Expenses (Income)	1.4	(0.9)	1.6	(2.6)	(2.6)	(2.1)	0.0	(7.3)	0.0	0.0	0.0	0.0	0.0
Minority Interest in JVs Income (Expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Taxes	590.7	543.5	478.4	308.8	58.2	14.4	152.2	533.6	609.1	688.7	741.0	781.8	814.5
Income Taxes	214.9	194.6	184.3	110.5	21.2	4.1	57.1	192.9	228.4	258.3	277.9	293.2	305.4
Income Tax Rate	36.4%	35.8%	38.5%	35.8%	36.4%	28.5%	37.5%	36.1%	37.5%	37.5%	37.5%	37.5%	37.5%
Earnings Before Extraordinary Items (Recurring)	375.8	348.9	294.1	198.3	37.0	10.3	95.1	340.7	380.7	430.4	463.1	488.6	509.1
Discontinued Operations/Extraordinary Items	(53.8)	(267.2)	(76.4)	(1.0)	(8.9)	22.9	0.0	13.0	0.0	0.0	0.0	0.0	0.0
Net Earnings to Common Stock (GAAP)	322.0	81.7	217.7	197.3	28.1	33.2	95.1	353.7	380.7	430.4	463.1	488.6	509.1
Adjustment - Extraordinary Item	0.0	243.9	76.4	1.0	8.9	(22.9)	0.0	(13.0)	0.0	0.0	0.0	0.0	0.0
Earnings Per share													
Basic													
Before Extraordinary Item (Recurring)	$1.37	$1.27	$1.07	$0.72	$0.13	$0.04	$0.34	$1.23	$1.33	$1.43	$1.50	$1.57	$1.63
Extraordinary Item	($0.20)	$0.69	$0.28	$0.00	$0.03	($0.08)	$0.00	($0.05)	$0.00	$0.00	$0.00	$0.00	$0.00
After Extraordinary Item	$1.18	$0.90	$0.79	$0.71	$0.10	$0.12	$0.34	$1.27	$1.33	$1.43	$1.50	$1.57	$1.63
Diluted													
Before Extraordinary Item (Recurring)	$1.37	$1.27	$1.07	$0.71	$0.13	$0.04	$0.34	$1.22	$1.32	$1.43	$1.49	$1.57	$1.62
Extraordinary Item	($0.20)	$0.89	$0.28	$0.00	$0.03	($0.08)	$0.00	($0.05)	$0.00	$0.00	$0.00	$0.00	$0.00
After Extraordinary Item	$1.17	$0.90	$0.79	$0.71	$0.10	$0.12	$0.34	$1.27	$1.32	$1.43	$1.49	$1.57	$1.62
Diluted Recurring EPS YoY % Change	-3.9%	-7.4%	-15.9%	0.0%	0.0%	0.0%	0.0%	14.5%	8.3%	7.8%	4.8%	4.8%	3.5%
Weighted Average Shares O/S													
Basic	273.8	274.0	275.1	276.9	277.6	278.1	278.5	277.9	286.9	300.2	308.3	310.3	312.4
Diluted	274.6	275.4	275.9	277.5	278.4	279.9	280.4	279.1	287.6	302.0	310.1	312.1	314.2
Dividend Per 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

Source: Company data, Credit Suisse estimates.

CREDIT SUISSE

Exhibit 20: NI Balance Sheet, 2007–2015E

NiSource Inc. (NYSE: NI)
Consolidated Balance Sheet - Year ending December 31
($ millions except for per share data)

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

	2007	2008	2009	1Q10	2Q10	3Q10	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Assets													
Current													
Cash & Equivalents	50.0	20.6	16.4	110.6	7.4	10.9	57.0	57.0	31.8	8.8	29.6	42.1	13.0
Restricted Cash	59.4	286.6	174.7	220.8	212.7	276.5	276.5	276.5	276.5	276.5	276.5	276.5	276.5
Accounts Receivable	977.6	1,143.2	808.8	949.9	568.9	517.8	733.3	733.3	669.1	708.8	738.1	769.3	801.9
Inventories (gas in storage)	458.2	511.8	384.8	79.0	230.6	438.8	345.9	345.9	321.5	340.3	354.6	370.3	386.8
Other	950.0	1,448.3	839.1	636.9	873.8	951.5	876.5	876.5	894.8	919.0	951.9	996.8	1,058.1
Total Current assets	2,495.2	3,410.5	2,223.8	2,197.2	1,893.4	2,195.5	2,289.1	2,289.1	2,193.8	2,253.4	2,350.7	2,455.0	2,536.2
Net PP&E	10,031.8	10,388.7	10,668.0	10,697.2	10,800.0	10,921.5	10,991.7	10,991.7	11,354.6	11,689.0	11,994.7	12,271.9	12,520.6
Investments in Unconsolidated Affiliates	72.7	200.7	237.6	271.3	240.2	280.2	280.2	280.2	280.2	280.2	280.2	280.2	280.2
Goodwill, Intangible Assets	4,099.3	4,007.9	3,996.9	3,994.1	3,991.4	3,988.7	3,988.7	3,988.7	3,988.7	3,988.7	3,988.7	3,988.7	3,988.7
Other	1,346.1	2,024.4	2,125.6	2,191.8	2,123.1	2,139.5	2,139.5	2,139.5	2,139.5	2,139.5	2,139.5	2,139.5	2,139.5
Total Assets	18,045.1	20,032.2	19,271.7	19,351.6	19,048.1	19,525.4	19,689.2	19,689.2	19,956.6	20,350.8	20,753.8	21,135.3	21,465.2
Liabilities and Shareholders Equity													
Current portion of LTD	33.9	469.3	719.7	723.1	718.8	726.9	726.9	726.9	726.9	726.9	726.9	726.9	726.9
Accounts payable	743.3	693.9	502.3	407.1	278.9	242.9	426.6	426.6	487.9	516.8	538.2	560.9	584.7
Commercial paper	1,061.0	1,163.5	103.0	370.7	212.8	724.6	724.6	724.6	524.6	524.6	724.6	874.6	949.6
Other	1,584.6	2,256.7	1,824.6	1,496.3	1,506.9	1,556.8	1,505.8	1,505.8	1,594.2	1,605.8	1,614.4	1,623.5	1,633.0
Total Current Liabilities	3,422.8	4,583.4	3,149.6	2,997.2	2,717.4	3,251.2	3,383.9	3,383.9	3,333.6	3,374.2	3,604.1	3,785.9	3,894.2
Total Long-Term Debt	5,594.4	5,943.9	5,969.1	5,963.9	5,977.3	5,964.3	5,964.3	5,964.3	5,964.3	5,963.4	5,957.1	5,953.6	5,953.6
Deferred Credits and Noncurrent deferred revenue	152.0	129.0	120.5	119.0	112.2	112.0	112.0	112.0	112.0	112.0	112.0	112.0	112.0
Deferred income tax	1,563.3	1,549.8	2,018.2	2,053.3	2,074.3	2,207.7	2,207.7	2,207.7	2,207.7	2,207.7	2,207.7	2,207.7	2,207.7
Postretirement benefits and other reserves	547.9	1,238.5	1,134.2	1,190.8	1,190.5	1,029.5	1,029.5	1,029.5	1,029.5	1,029.5	1,029.5	1,029.5	1,029.5
Other	1,676.0	1,856.8	2,026.0	2,098.6	2,081.5	2,082.8	2,082.8	2,082.8	2,082.8	2,082.8	2,082.8	2,082.8	2,082.8
Total Liabilities	12,958.4	15,303.4	14,417.6	14,422.8	14,153.2	14,647.5	14,780.2	14,780.2	14,729.9	14,769.6	14,993.2	15,171.5	15,279.8
Common Stock	4,011.1	4,020.3	4,057.6	4,068.5	4,080.4	4,091.4	4,091.4	4,091.4	4,291.6	4,491.8	4,491.8	4,491.8	4,491.8
Premium on Capital Stock	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Accumulated other comp. Income / Reinvested Income	11.7	(172.0)	(18.4)	(50.4)	(31.3)	(57.4)	(57.4)	(57.4)	(57.4)	(57.4)	(57.4)	(57.4)	(57.4)
Less Treasury	(23.3)	(23.3)	(25.9)	(27.4)	(27.4)	(27.4)	(27.4)	(27.4)	(27.4)	(27.4)	(27.4)	(27.4)	(27.4)
Less Common held in trust	0.0	0.0	(27.5)	0.0	(29.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained Earnings	1,084.5	901.1	865.5	935.3	899.5	868.5	899.6	899.6	1,017.1	1,171.4	1,350.9	1,554.0	1,775.7
Total Common Shareholder's Equity	5,086.7	4,728.8	4,854.1	4,928.8	4,894.9	4,877.9	4,909.0	4,909.0	5,226.7	5,581.2	5,760.7	5,963.8	6,185.4
Total Liabilities and Equity	18,045.1	20,032.2	19,271.7	19,351.6	19,048.1	19,525.4	19,689.2	19,689.2	19,956.6	20,350.8	20,753.8	21,135.3	21,465.2

Source: Company data, Credit Suisse estimates.

CREDIT SUISSE

15 December 2010

Exhibit 21: NI Cash Flow Statement, 2007–2015E

NiSource Inc. (NYSE: NI)
Consolidated Cash Flow Statement - Year ending December 31
($ millions except for per share data)

Credit Suisse - Master Limited Partnerships and Natural Gas
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	2007	2008	2009	1Q10	2Q10	3Q10	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Net income	331.4	79.0	217.7	197.3	28.1	33.2	95.1	353.7	380.7	430.4	463.1	488.6	509.1
Adjustments:													
Depreciation and amortization	559.2	567.0	589.0	149.8	151.6	153.1	154.8	609.3	637.1	665.7	694.2	722.8	751.4
Other adjustments	5.4	425.2	412.7	(0.0)	33.7	94.4	0.0	128.1	0.0	0.0	0.0	0.0	0.0
Changes in assets and liabilities:													
Restricted cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	(45.0)	(202.4)	234.0	(116.3)	386.2	54.2	(215.5)	108.6	64.2	(39.7)	(29.3)	(31.2)	(32.6)
Inventories	94.4	(82.4)	128.7	332.7	(185.1)	(180.4)	92.9	60.1	24.4	(18.8)	(14.4)	(15.7)	(16.5)
Accounts payable	(41.8)	(30.0)	(191.5)	(103.0)	(132.4)	(31.4)	183.7	(83.1)	61.2	29.0	21.3	22.8	23.7
Taxes accrued	2.3	(89.7)	116.2	96.4	(90.2)	(102.3)	(61.7)	(157.8)	88.5	11.6	8.5	9.1	9.5
Other assets/liabilities	(9.5)	(36.5)	7.9	5.3	(2.4)	(12.6)	75.0	65.3	(18.3)	(24.3)	(32.9)	(44.8)	(61.4)
Other assets/liabilities	(125.5)	(42.4)	406.0	(447.8)	143.4	(68.1)	10.7	(361.8)	0.0	0.0	0.0	0.0	0.0
Net Cash Flows from Continuing Operations	**770.9**	**587.8**	**1,920.7**	**114.4**	**332.9**	**(59.9)**	**335.1**	**722.5**	**1,237.7**	**1,053.9**	**1,110.7**	**1,151.5**	**1,183.3**
Net Cash Flows (used for) or from Discontinued Operations	0.3	(2.5)	(254.5)	(31.1)	(13.7)	(10.1)	0.0	(54.9)	0.0	0.0	0.0	0.0	0.0
Net Cash Flows from Operating Activities	**771.2**	**585.3**	**1,666.2**	**83.3**	**319.2**	**(70.0)**	**335.1**	**667.6**	**1,237.7**	**1,053.9**	**1,110.7**	**1,151.5**	**1,183.3**
Investing Activities													
Capital expenditures	(788.3)	(1,253.2)	(714.5)	(138.3)	(198.1)	(213.6)	(225.0)	(775.2)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Proceeds from disposition of assets	4.2	47.8	5.7	0.2	0.1	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Restricted cash	83.1	(228.8)	111.9	(46.1)	8.1	(63.8)	0.0	(101.8)	0.0	0.0	0.0	0.0	0.0
Other investing activities	19.6	(77.3)	(65.5)	(10.6)	(9.6)	(89.6)	0.0	(109.8)	0.0	0.0	0.0	0.0	0.0
Net Investing Activities used for Continuing Operations	**(681.4)**	**(1,511.5)**	**(662.4)**	**(194.8)**	**(199.5)**	**(367.2)**	**(225.0)**	**(986.5)**	**(1,000.0)**	**(1,000.0)**	**(1,000.0)**	**(1,000.0)**	**(1,000.0)**
Net Investing Activities used for Discontinued Operations	0.0	397.2	7.6	0.4	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Net Cash Flows used for Investing Activities	**(681.4)**	**(1,114.3)**	**(654.8)**	**(194.4)**	**(199.5)**	**(367.2)**	**(225.0)**	**(986.1)**	**(1,000.0)**	**(1,000.0)**	**(1,000.0)**	**(1,000.0)**	**(1,000.0)**
Financing Activities													
Issuance of long-term debt	803.6	959.3	1,460.0	0.0	0.0	0.0	250.0	250.0	213.0	315.0	545.0	500.0	230.0
Retirement of long-term debt	(457.9)	(294.6)	(1,169.8)	(0.9)	(4.3)	(11.1)	(250.0)	(266.3)	(213.0)	(315.9)	(551.3)	(503.5)	(230.0)
Premium of debt retirement	(40.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in short-term debt	(132.0)	102.5	(1,060.5)	267.7	(157.9)	511.8	0.0	621.6	(200.0)	0.0	200.0	150.0	75.0
Retirement of preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of common stock	8.2	1.3	10.6	3.6	3.2	3.8	0.0	10.6	200.2	200.2	0.0	0.0	0.0
Acquisition of treasury stock	(2.1)	0.0	(2.6)	(1.4)	0.0	0.0	0.0	(1.4)	0.0	0.0	0.0	0.0	0.0
Dividends paid common shares	(252.1)	(252.4)	(253.3)	(63.7)	(63.9)	(63.8)	(64.1)	(255.5)	(263.1)	(276.1)	(283.6)	(285.5)	(287.4)
Net Financing Activities used for Continuing Operations	**(72.9)**	**515.0**	**(1,015.6)**	**205.3**	**(222.9)**	**440.7**	**(64.1)**	**359.0**	**(262.9)**	**(76.9)**	**(89.9)**	**(139.0)**	**(212.4)**
Net Financing Activities used for Discontinued Operations	0.0	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flows used for Financing Activities	**(72.9)**	**515.0**	**(1,015.6)**	**205.3**	**(222.9)**	**440.7**	**(64.1)**	**359.0**	**(262.9)**	**(76.9)**	**(89.9)**	**(139.0)**	**(212.4)**
Increase (decrease) in cash and cash equivalents	**16.9**	**(14.0)**	**(4.2)**	**94.2**	**(103.2)**	**3.5**	**46.1**	**40.6**	**(25.2)**	**(22.9)**	**20.8**	**12.5**	**(29.1)**
Cash and cash equivalents at beginning of Period	33.1	34.6	20.6	16.4	110.6	7.4	10.9	16.4	57.0	31.8	8.8	29.6	42.1
Cash and cash equivalents at end of period	**50.0**	**20.6**	**16.4**	**110.6**	**7.4**	**10.9**	**57.0**	**57.0**	**31.8**	**8.8**	**29.6**	**42.1**	**13.0**

Source: Company data, Credit Suisse estimates.

Companies Mentioned *(Price as of 13 Dec 10)*
CenterPoint Energy, Inc. (CNP, $15.93, NEUTRAL, TP $17.00)
Dominion Resources (D, $42.05, NEUTRAL, TP $39.00)
El Paso Corp. (EP, $13.53)
Laclede Group Inc/The (LG, $36.47)
MarkWest Energy Partners, LP (MWE, $41.96)
New Jersey Resources Corp. (NJR, $43.04)
Nicor (GAS, $49.83)
NiSource Inc (NI, $17.31, NEUTRAL, TP $18.00)
Northwest Natural Gas Co (NWN, $46.53)
ONEOK, Inc. (OKE, $54.24)
Piedmont Natural Gas Co. (PNY, $29.21)
Questar (STR, $17.44)
Sempra Energy (SRE, $51.35)
South Jersey Industries (SJI, $52.63)
Southern Union Co (SUG, $24.80)
Southwest Gas (SWX, $35.72)
Spectra Energy Corp (SE, $24.97)
UGI Corp. (UGI, $31.72)
WGL Holdings, Inc. (WGL, $36.04)
Williams Companies (WMB, $24.14)

Disclosure Appendix

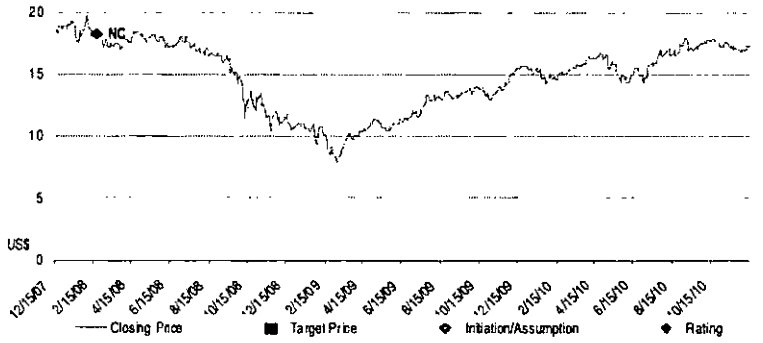
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See the Companies Mentioned section for full company names.

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	



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

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rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.
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Underperform/Sell*	11%	(53% banking clients)
Restricted	2%	

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See the Companies Mentioned section for full company names.
Price Target: (12 months) for (NI)
Method: We derive our 12-month price target of $18 for NiSource through a combination of P/E and sum of the parts valuation. Our price is based on a P/E multiple of 13.6 times our 2011 EPS estimate of $1.32, 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 $18 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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Electric Utilities
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February 3, 2011

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 3

Company reports lower fourth quarter earnings and introduces higher 2011 earnings guidance

Key Metrics

NI - NYSE (Price as of 2/2/11)	$18.35
Price Target	NA
52-Week Range	$18.93 - $14.12
Shares Outstanding (mm)	278.6
Market Cap. ($mm)	$5,112
3-Mo. Average Daily Volume	2,560,000
Institutional Ownership	76.0%
Debt/Total Capital	59.9%
ROE (ttm)	6.5%
Book Value/Share	$17.65
Price/Book Value	1.04x
Indicated Dividend / Yield	$0.92 5.0%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2009	Prior 2010E	2010	Prior 2011E	Curr. 2011E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.07		$1.22		$1.30
P/E	17.1x		15.0x		14.1x
Payout	86%		77%		71%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2009	Prior 2010E	2010	Prior 2011E	Curr. 2011E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$6,275		$6,422	--	$6,450

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 fourth quarter net operating earnings of $0.33 per share versus $0.36 per share in the fourth quarter of 2009.** Earnings were slightly below the consensus estimate of $0.34 per share. Fourth quarter results benefitted from higher electric sales and margins. Industrial sales rose 13% and continue to recover. The company's gas distribution and gas transmission and storage operations businesses posted declines in the quarter. For the year, NiSource earned $1.22 per share compared to $1.07 per share, an increase of 14%. Both electric and gas distribution operations posted earnings gains in 2010 while NI's gas transmission and storage business saw its earnings contribution decline last year.
- **Management introduces 2011 earnings guidance to a range of $1.25 to $1.35 per share.** We are maintaining our 2011 earnings estimate of $1.30 per share, which represents the midpoint of company guidance. This would represent nearly a 7% increase in earnings from last year. In addition, NiSource believes that its balanced business strategy combined with its growth opportunities will enable the company to grow its long-term earnings in the range of 3% to 5% annually.
- **We maintain our Neutral rating on NiSource as we believe the stock is fairly valued.** The stock is trading at 14.1x projected 2011 earnings and a modest premium to the group. However, we believe the company's fundamentals continue to improve. NiSource has significantly strengthened its financial profile and is now in a position to expand its capital spending to drive future growth. With a 5.0% dividend yield and an improving fundamental outlook, we would maintain positions in the stock.

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 a modest premium to its peer group, which is trading at approximately 13.5x estimated 2011 earnings. However, we believe the company has a solid long-term fundamental outlook. NI believes that a combination of rate relief and continued investment in its gas infrastructure business can drive future earnings growth at NiSource. The company expects to spend up to $1.1 billion in capital investments in 2011 on system modernization, growth projects and environmental investments. In addition, the company has filed for rate increases at Northern Indiana Public Service Company as well as both its Columbia Gulf pipeline and Columbia Gas of Pennsylvania operations. Management believes the company can achieve long-term growth near the upper end of its 3% to 5% target range. We project earnings of $1.30 per share for 2011 and believe earnings could reach $1.40 per share in 2012. Moreover, the company remains committed to both its dividend and an investment grade credit rating. With an above average dividend yield of 5.0% and seemingly improving growth prospects, we remain comfortable holding NiSource shares.

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

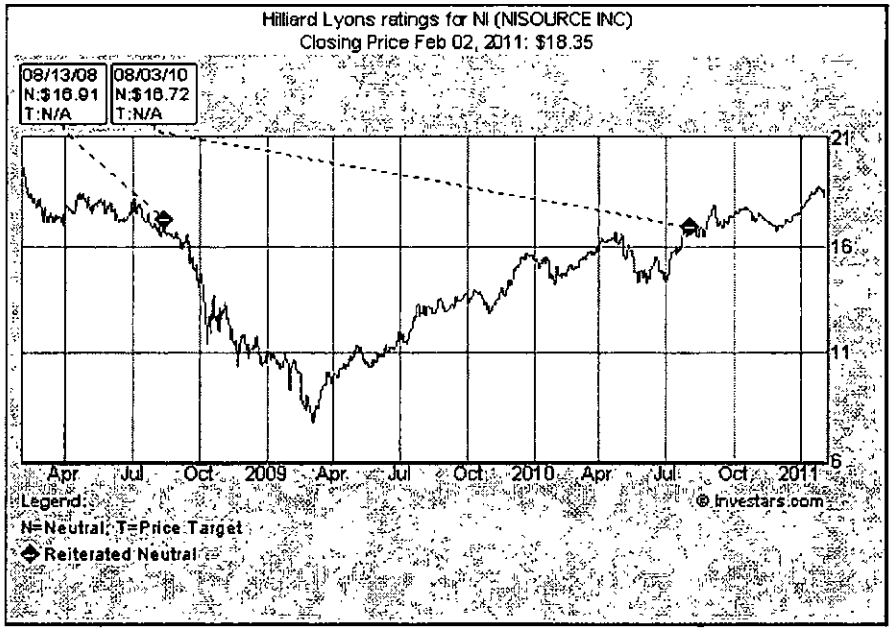
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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	42	25%	0%	100%
Long-term Buy	34	20%	0%	100%
Neutral	88	52%	2%	98%
Underperform	5	3%	0%	100%

As of 10 January 2011

Other Disclosures

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J.P.Morgan

North America Equity Research
02 February 2011

NiSource, Inc.

Adjust Model After 4Q10 Results; Update PT to $18

Neutral

NI, NI US
Price: $18.73

▲ **Price Target: $18.00**
Previous: $17.00

NI reported 4Q10 operating EPS of $0.34, slightly lower than our estimate of $0.35 on lower-than-expected results at the Distribution and T&S segments. The company issued 2011 EPS guidance of $1.25-$1.35, implying yoy EPS growth of 2-10%, vs. our previous estimate of $1.26.

- **Gas T&S miss on higher expenses.** T&S EBITDA of $136 mm missed our forecast of $142 mm despite yoy throughput increases. Lower short-term transportation and storage fees resulting from a lack of natural gas price volatility resulted in revenue decrease of $20 mm from over $40 mm in 2009, partially offsetting the revenue growth from expansion projects. For 2011, NI plans to spend $328 mm in this segment. For its Columbia Gulf Transmission rate case ($50 mm revenue increase request), NI expects new rates to go into effect in May. NI budgets $160 mm of growth capex to T&S, primarily focused on the Marcellus. Two West Virginia projects, the Clendenin and Southern Appalachia projects, are expected to come online in 2Q11.
- **Gas Distribution results lower than expected.** 4Q10 Gas Distribution EBITDA of $163 mm was slightly lower than our estimate of $168 mm. In December, Columbia Gas of Virginia received approval on a $5 mm increase in revenues with new rates in effect on January 1, 2011. In January, Columbia Gas of Pennsylvania filed a rate case for a $38 mm revenue increase seeking recovery of investments in infrastructure and new rate designs.
- **Rate cases at NIPSCO along with environmental initiatives.** Electric operations 4Q10 EBITDA of $96 mm was in line with our estimate. In the segment, NIPSCO filed a rate case in November last year with the IURC which it expects to be resolved by year-end. NI plans to make environmental investments in Indiana totaling ~$600 mm over the next 6-8 years.
- **NI forecasts 2011 capex up to $1.1 bn.** NI guided 2011 EPS in the range of $1.25-$1.35. NI expects to spend up to $1.1 bn in 2011, up from 2010's $912 mm. NI expects to finance part of its capital needs using 50% of its $400 mm equity forward sale agreement.
- **Adjusting estimates on updated guidance.** We adjust our 2011 EPS estimate to $1.31 from the previous $1.26. We adjust our 2011 PT to $18 based on 4Q10 results and maintain our Neutral rating.

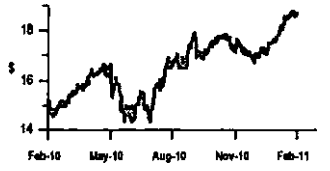
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Price Performance



	YTD	1m	3m	12m
Abs	5.0%	5.0%	9.1%	26.1%

NiSource, Inc. (NI;NI US)

	2009A	2010E (Old)	2010A (New)	2011E (Old)	2011E (New)
EPS ($)					
Q1 (Mar)	0.62	0.72	0.72	0.72	0.77
Q2 (Jun)	0.02	0.13	0.13	0.14	0.15
Q3 (Sep)	0.07	0.04	0.04	0.05	0.05
Q4 (Dec)	0.36	0.35	0.34	0.35	0.34
FY	1.07	1.23	1.22	1.26	1.31
P/E FY	17.5	15.2	15.3	14.9	14.3

Source: Company data, Bloomberg, and J.P. Morgan estimates.

Company Data	
Price ($)	18.73
Date Of Price	01 Feb 11
52-week Range ($)	18.93 - 14.12
Mkt Cap ($ bn)	5.21
Fiscal Year End	Dec
Shares O/S (mn)	278
Div. Yield	4.9%
Dividend ($)	0.92
Price Target ($)	18.00
Price Target End Date	31 Dec 11

See page 6 for analyst certification and important disclosures.

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Table 1: 4Q10 NI Actuals vs. Estimates
$ in millions (except per unit data)

	4Q10A	4Q10E	Diff.
EBITDA			
Gas Distribution	163	168	(5)
Gas Transmission & Storage	136	142	(6)
Electric Operations	96	96	(1)
Other	(8)	(5)	(3)
Total Sgmt EBITDA	386	401	(16)
Net operating earnings per share	$0.34	$0.35	($0.01)

Source: Company reports and J.P. Morgan estimates.

Valuation

We adjust our 2011 EPS estimate to $1.31 from $1.26 after the 4Q10 results. Based on updated guidance, we adjust our December 2011 price target to $18, which provides for a potential 2.4% total return.

We use two methodologies to arrive at NI's price target: a sum-of-parts analysis and a P/E multiple.

1. Sum-of-Parts Analysis
In our sum-of-the-parts analysis, we separately value each of NI's three business units: Distribution, NGT&S, and Electric. We calculate value for each segment using EV/2011E EBITDA multiples; we apply 7.5x to 8.5x for the Distribution segment, 8.3x to 8.8x for NGT&S, and 7.3x to 8.3x for Electric. All of these multiples are based on trading peers' comps, discounted due to lack of growth and/or risks associated with regulatory uncertainty. Using this method, we arrive at a target value of $17.04 for NI.

Table 2: Sum-of-Parts Valuation
$ in millions (except per share data)

	2011E EBITDA	Bear Case Multiple	Bear Case EV	Bull Case Multiple	Bull Case EV
Distribution	621	7.5x	4,656	8.5x	5,276
Transmission	531	8.3x	4,383	8.8x	4,649
Electric	436	7.3x	3,162	8.3x	3,598
Corp and other	(20)	3.0x	(60)	3.5x	(70)
Net Debt (current)			(7,344)		(7,344)
Underfunded Pension Liabilities			(675)		(675)
Equity Value			4,123		5,435
Share Count (MM)			280		280
Equity Value per Share			$ 14.70		$ 19.38
Target Share Price					$ 17.04

Source: J.P. Morgan estimates.

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2. P/E Multiple Approach

The natural gas utilities peer group currently trades at 15.4x P/2011E EPS. To derive NI's target price, we apply a 5% discount to this multiple due to lack of growth and/or risk associated with regulatory uncertainty, and apply this number to NI's expected 2011 EPS. Using this method, we arrive at a target value of $19.17 for NI.

Table 3: Implied Stock Price from P/E Multiple Approach

Group Median P/2011 E Multiple		15.4x
Premium (Discount)		-5%
NI 2011E EPS	$	1.31
Implied Stock Price	$	19.17

Source: J.P. Morgan estimates.

Blended Price Target Calculation

We derived NI's blended price target as an average of the target values derived by the two methodologies, assigning equal weights to each. We arrive at a December 2011 price target of $18. Investing in NI at current prices provides for a total expected return (including dividend) of 2.4%

Table 4: Blended Price Target Calculation

Valuation Method		Price	Weight
P/E Approach	$	19.17	50%
Sum-of-the-parts	$	17.04	50%
Blended Price Target	$	18	

Source: J.P. Morgan estimates.

Risks to Our Rating

We have assumed continued improvement in the profitability of the company's storage and pipeline assets as a result of progress on multiple expansion projects. If the company reports materially better or worse results, it would likely impact the relative valuation of the company's pipeline system. Longer term, the company is pursuing a number of regulatory initiatives at its gas and electric utilities businesses. If NiSource were to receive a materially different regulatory treatment than anticipated in the next couple of years, the stock could either outperform or underperform based on the direction of the change in regulatory outlook. Lastly, NIPSCO has exposure to industry and commercial user demand. In a recessionary environment, significantly lower electric demand and higher bad-debt expense could reduce NIPSCO's earnings, thus causing share underperformance.

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Appendix I: NI Income Statement

$ in MM (except per share data)

Income Statement	2009A	1Q10A	2Q10A	3Q10A	4Q10A	2010A	1Q11E	2Q11E	3Q11E	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E
Segment EBITDA																
Gas Distribution	577	297	99	23	163	582	321	104	24	171	621	328	106	25	174	633
Gas Transmission & Storage	530	157	106	108	136	508	163	111	114	143	531	173	117	121	152	563
Electric Operations	368	99	101	134	96	429	100	103	136	97	436	105	108	143	102	457
Other	(19)	(2)	(5)	(6)	(8)	(21)	(5)	(5)	(5)	(5)	(20)	(5)	(5)	(5)	(5)	(20)
Total Sgmt EBITDA	1,457	551	302	259	386	1,498	580	313	269	406	1,568	600	327	283	423	1,633
Depreciation and amortization	(578)	(146)	(148)	(149)	(137)	(581)	(149)	(151)	(153)	(155)	(609)	(156)	(157)	(158)	(159)	(630)
Interest expense	(399)	(99)	(98)	(98)	(98)	(392)	(96)	(96)	(96)	(96)	(383)	(96)	(96)	(95)	(95)	(382)
Other net	(2)	3	3	2	(4)	4	-	-	-	-	-	-	-	-	-	-
Income before tax	478	309	58	14	148	529	335	66	20	155	576	349	74	30	169	621
Income tax expense	(184)	(111)	(21)	(4)	(54)	(189)	(121)	(24)	(7)	(56)	(207)	(125)	(27)	(11)	(61)	(224)
Income before other items (non - GAAP)	294	198	37	10	94	340	214	42	13	99	369	223	47	19	108	398
Income before other items (GAAP)	229	197	28	33	36	295	214	42	13	99	369	223	47	19	108	398
Other	(12)	-	0	(0)	-	(0)	-	-	-	-	-	-	-	-	-	-
Net Income	218	197	28	33	36	294	214	42	13	99	369	223	47	19	108	398
Number of shares diluted	276	278	278	280	280	279	280	280	286	291	284	291	291	297	302	295
Basic Net Operating Earnings per Share	$1.07	$0.72	$0.13	$0.04	$0.34	$1.22	$0.77	$0.15	$0.05	$0.34	$1.31	$0.77	$0.16	$0.06	$0.36	$1.36
EPS (continuing operations), diluted	$0.83	$0.71	$0.10	$0.12	$0.13	$1.05	$0.77	$0.15	$0.05	$0.34	$1.30	$0.77	$0.16	$0.06	$0.36	$1.35
EPS (discontinued operations), diluted	($0.04)	$0.00	$0.00	($0.00)	$0.00	($0.00)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
EPS (diluted)	$0.79	$0.71	$0.10	$0.12	$0.13	$1.06	$0.77	$0.15	$0.05	$0.34	$1.30	$0.77	$0.16	$0.06	$0.36	$1.35
Basic Net Operating Earnings Growth	*-15.4%*					*14.4%*					*7.0%*					*3.8%*

Source: Company reports and J.P. Morgan estimates.

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Appendix II: NI Balance Sheet and Cash Flow Statement

$ in MM

Balance Sheet	2009A	1Q10A	2Q10A	3Q10A	4Q10A	2010A	1Q11E	2Q11E	3Q11E	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E
Cash and cash equivalents	16	111	7	11	9	9	10	10	10	10	10	10	10	10	10	10
Other current assets	2,207	2,087	1,886	2,185	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440
Total current assets	2,224	2,197	1,893	2,196	2,449	2,449	2,450	2,450	2,450	2,450	2,450	2,450	2,450	2,450	2,450	2,450
Net PPE	10,584	10,697	10,800	10,922	11,097	11,097	11,217	11,335	11,451	11,565	11,565	11,632	11,697	11,762	11,825	11,825
Other assets	6,364	6,457	6,355	6,408	6,393	6,393	6,393	6,393	6,393	6,393	6,393	6,393	6,393	6,393	6,393	6,393
Total assets	19,272	19,352	19,048	19,525	19,939	19,939	20,059	20,177	20,293	20,408	20,408	20,474	20,540	20,604	20,668	20,668
Short-term debt and current portion of LT debt	822	1,094	932	1,452	1,417	1,417	-	-	-	-	-	-	-	-	-	-
Accounts Payable	502	407	279	243	582	582	582	582	582	582	582	582	582	582	582	582
Other current liabilities	1,809	1,496	1,507	1,557	1,651	1,651	1,651	1,651	1,651	1,651	1,651	1,651	1,651	1,651	1,651	1,651
Total current liabilities	3,134	2,997	2,717	3,251	3,649	3,649	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233
Long-term debt	6,787	5,964	5,977	5,964	5,936	5,936	7,303	7,423	7,378	7,439	7,439	7,329	7,394	7,294	7,298	7,298
Other long-term liabilities and deferred credits	5,319	5,462	5,459	5,432	5,430	5,430	5,450	5,470	5,490	5,510	5,510	5,530	5,550	5,570	5,590	5,590
Total capital	4,854	4,929	4,895	4,878	4,923	4,923	5,074	5,052	5,193	5,226	5,226	5,382	5,363	5,508	5,547	5,547
Total liabilities and capital	19,272	19,352	19,048	19,525	19,939	19,939	20,059	20,177	20,293	20,408	20,408	20,474	20,540	20,604	20,668	20,668
Credit Stats																
EBITDA	1,457	551	302	259	386	1,498	580	313	269	406	1,568	600	327	283	423	1,633
Interest	399	99	98	98	98	392	96	96	96	96	383	96	96	95	95	382
Total Debt	7,610	8,152	7,841	8,867	8,770	8,770	7,303	7,423	7,378	7,439	7,439	7,329	7,394	7,294	7,298	7,298
EBITDA/Interest	3.6x	3.7x	3.8x	3.9x	3.8x	3.8x	3.9x	4.0x	4.0x	4.1x	4.1x	4.1x	4.2x	4.2x	4.3x	4.3x
Debt/EBITDA	5.2x	5.4x	5.1x	5.8x	5.9x	5.9x	4.8x	4.8x	4.8x	4.7x	4.7x	4.6x	4.6x	4.5x	4.5x	4.5x
Cash Flow	2009A	1Q10A	2Q10A	3Q10A	4Q10A	2010A	1Q11E	2Q11E	3Q11E	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E
Net income	218	197	28	33	33	292	214	42	13	99	369	223	47	19	108	398
Depreciation and amortization	589	150	152	153	142	596	149	151	153	155	609	156	157	158	159	630
Other items	158	(31)	20	84	82	155	20	20	20	20	78	20	20	20	20	80
Change in working capital	686	(233)	120	(341)	34	(420)	-	-	-	-	-	-	-	-	-	-
Net cash provided by operating activities	1,651	83	319	(70)	388	720	384	213	186	274	1,056	399	224	197	287	1,108
Capex	(777)	(139)	(198)	(217)	(250)	(804)	(269)	(269)	(269)	(269)	(1,077)	(223)	(223)	(223)	(223)	(890)
Divestitures	6	0	0	-	5	6	-	-	-	-	-	-	-	-	-	-
Other	117	(56)	(1)	(87)	63	(81)	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	(655)	(194)	(199)	(367)	(182)	(943)	(269)	(269)	(269)	(269)	(1,077)	(223)	(223)	(223)	(223)	(890)
Debt net	(770)	267	(162)	501	(147)	459	(49)	120	(45)	62	88	(110)	65	(100)	5	(141)
Equity Issuance	24	2	3	4	4	13	-	-	194	-	194	-	-	194	-	194
Dividend Paid	(253)	(64)	(64)	(64)	(64)	(256)	(64)	(64)	(65)	(67)	(260)	(67)	(67)	(68)	(69)	(270)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	(1,000)	205	(223)	441	(207)	216	(114)	56	84	(5)	22	(177)	(2)	25	(65)	(218)
Net increase in cash and cash equivalents	(4)	94	(103)	4	(2)	(7)	1	-	-	-	1	-	-	-	-	-
Cash and cash equivalents, beginning	21	16	111	7	11	16	9	10	10	10	9	10	10	10	10	10
Cash and cash equivalents, end	16	111	7	11	9	9	10	10	10	10	10	10	10	10	10	10

Source: Company reports and J.P. Morgan estimates.

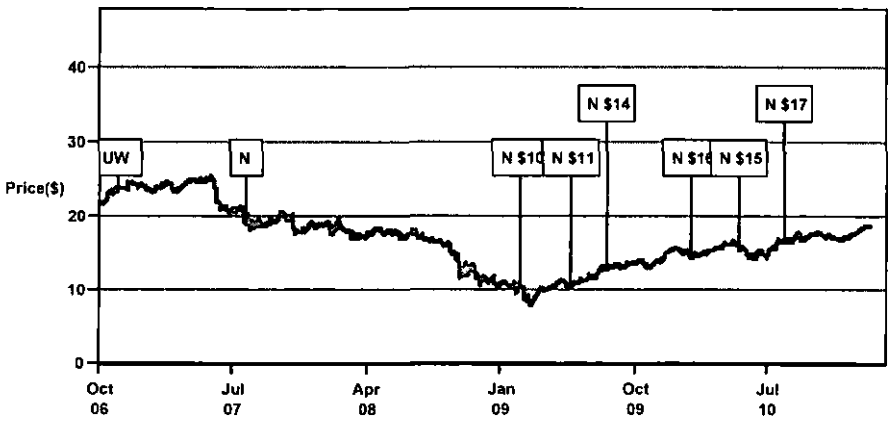
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NiSource, Inc. (NI) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
06-Nov-06	UW	23.63	–
30-Jul-07	N	19.23	–
09-Feb-09	N	10.77	10.00
22-May-09	N	10.47	11.00
05-Aug-09	N	13.35	14.00
25-Jan-10	N	14.67	16.00
05-May-10	N	16.20	15.00
04-Aug-10	N	16.83	17.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Oct 12, 2005 - Jun 30, 2008. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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February 1, 2011
Quick Alert

KeyBanc
Capital Markets

NiSource, Inc. (HOLD)

NI - Quick Alert: 4Q10 in Line; Industrial Rebound Continues

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January 31, 2011 Close: $18.62
4Q10 KBCM EPS Estimate: $0.34 (Consensus: $0.34)
2010 KBCM EPS Estimate: $1.25 (Consensus: $1.22)
2011 KBCM EPS Estimate: $1.30 (Consensus: $1.31)

4Q10 and FY10 Actual Results (vs. 4Q09 and FY09):

- 4Q10 ongoing EPS $0.35 vs. $0.35; GAAP EPS $0.13 vs. $0.32
- FY10 ongoing EPS $1.24 vs. $0.99; GAAP EPS $1.06 vs. $0.79
- The difference between 2010 GAAP and ongoing earnings was due largely to a loss taken to retire $273 million of 10.75% debt early.
- Results were in line with our estimate and consensus of $0.34 per share.
- We include the impact of weather in our estimates. NI reports ongoing results on a weather normalized basis, so release indicates results excluding $0.02 of positive weather for the 4Q and full year.

Guidance: Initiated 2011 guidance of $1.25-$1.35 per share, consensus ($1.31 per share) is currently slightly above the guidance range midpoint. Management reaffirmed long-term growth at upper end of a 3-5% range.

Highlights:

- 4Q Gas Distribution operating earnings were higher on more favorable weather. Excluding weather, results fell slightly on lower margins and off-system sales, nearly offset by new rates and lower costs related to depreciation and bad debt.
- Gas Transmission and Storage declined (operating earnings of $100 million vs. $117 million) as lower short-term transport and storage revenues (given reduced NG price volatility) were partly offset by new projects.
- Electric operations earnings improved (operating earnings up over $8 million) as higher industrial load and margins were partly offset by generation and line O&M. Retail load increased 4.5% (Res. -0.4%, Comm. +0.27% and Ind. +8.6%). For the full year sales rose 8.3% (Res. +11.9%, Comm. +2.2% and Ind. +10.0%).
- Interest expense improved by $1.1 million on redemptions and lower rates.
- 2011 CapEx language of "up to $1.1 billion" is an uptick from prior $1 billion language.

Initial Take: We expect a modestly positive reaction to the earnings as the industrial rebound continues and NI continues its investment strategy.

9:00 AM ET Conference Call #: (866) 730-5763 ID#: 44130960

We will be focused on:

- Economic update on Northern Indiana and sales trends
- Electric rate case update in Indiana; any language around settlement prospects
- Commentary on M&A after NI has been subject of takeout speculation
- Marcellus shale growth initiatives
- Business strategy update

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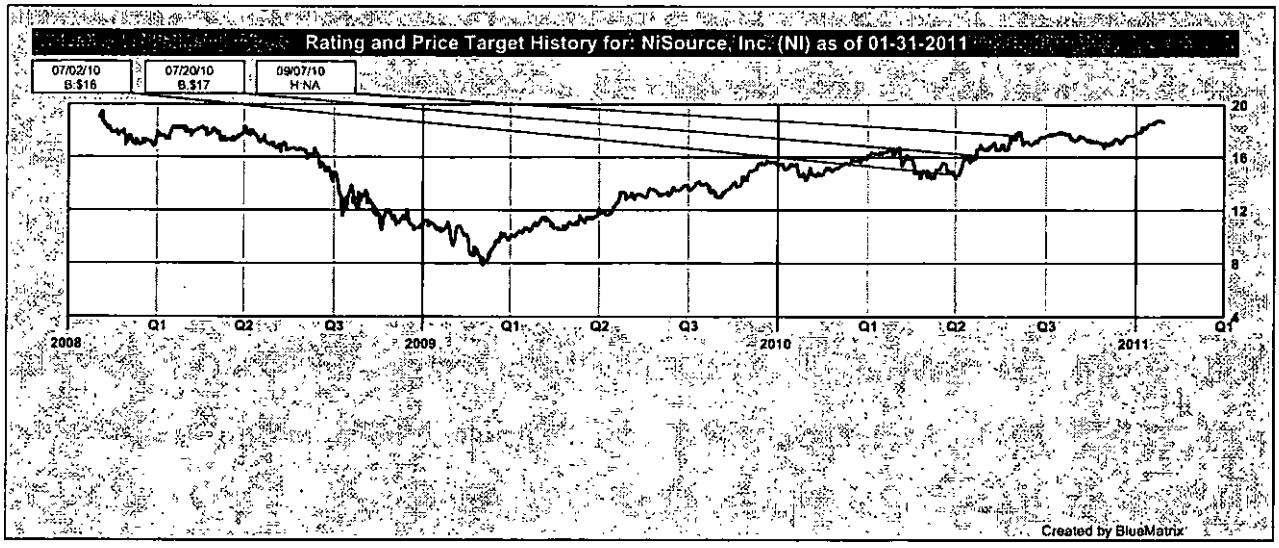
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HOLD [HOLD]	228	52.10	52	22.81	HOLD [HOLD]	36	59.00	22	61.11
SELL [UND]	6	1.40	0	0.00	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

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

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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KBCM 2010 EC&U Conference: Utilities Recap

KeyBanc Capital Markets Inc.,
Member NYSE/FINRA/SIPC

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ACTION STATEMENT

In this report we recap our conference and company takeaways from utilities attending KeyBanc Capital Markets Inc.'s 2010 Engineering, Construction and Utilities Conference in New York City on November 16-17, 2010.

KEY INVESTMENT POINTS

Given the regulated nature of all our utility conference participants, successfully navigating state regulatory environments for company-specific issues was a core running theme.

Also, electric utilities appear to be focused on determining the appropriate business strategies and levels of long-term capital spend in the shadow of uncertain final EPA rules on forthcoming environmental regulations. Meaningful uncertainty remains around how aggressively these regulations will be implemented, particularly after the election changed the face of Congress.

Lastly, we come away feeling that the general economy is somewhat sluggish, albeit more stable with pockets of gradual recovery. Keys for a stronger recovery in our sector would be any improvement in unemployment and residential housing markets. Utilities generally expect flat to modest load and customer growth in the near term.

Our key company-specific takeaways for Avista Corporation (AVA-NYSE), Cleco Corporation (CNL-NYSE), Consolidated Edison, Inc. (ED-NYSE), NiSource, Inc. (NI-NYSE), MDU Resources Group, Inc. (MDU-NYSE), NorthWestern Corporation (NWE-NYSE), Pepco Holdings, Inc. (POM-NYSE) and Southern Company (SO-NYSE) are highlighted below.

KEY COMPANY TAKEAWAYS

Avista Corporation (AVA-NYSE)

AVA continues to see attractive opportunities at its Advantage IQ business. AVA has transitioned this business segment away from simple utility bill processing to higher value energy management and energy efficiency businesses. AVA has effected this change through two acquisitions and appears to be actively pursuing additional acquisition opportunities.

In the near term, growth at IQ through new customer additions appears to face headwinds as customers are reluctant to incur incremental costs despite a relatively attractive payback timeframe. AVA believes that as tight budgets start to loosen, and as it builds out its product offering, Advantage IQ will be well positioned to grow through customer additions and a higher value product mix.

Separately, we continue to believe that management was somewhat conservative in its 2011 guidance of $1.60-$1.80 per share. Guidance was premised on a forecast for a rather flat economy, so any level of economic recovery would be an incremental positive.

We have heard investor concerns around the Washington Commission requesting data regarding a proposed all-party settlement to the pending rate case. The request focused upon the assumption of a $5.13 natural gas price in the calculation of fuel costs. We believe that the magnitude of the benefit to be realized by the Company is not likely to be a major concern. Further, because all intervenors signed the settlement, it would be poor policy to single out a single issue when the settlement is premised upon a compromise where all parties agreed to certain gives and takes.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGE 4 OF THIS NOTE.

Cleco Corporation (CNL-NYSE)

CNL is signing up new customers using electricity for natural gas compression in storage field expansions and moving Haynesville production to market. CNL has previously indicated that it sees a benefit of $0.08 per share in 2011. We believe the benefit is considered to be sustainable as the compressors need to remain in the area to continue to maintain pressure to deliver gas to market. We also believe there is a similar benefit opportunity (of about 40 MW) through which we could start to gain more visibility in 1H11, although the provider will be decided through a competitive process.

Management has increased its efforts to find a way to realize the value of its 775 MW Evangeline merchant plant asset for the benefit of shareholders. Efforts appear to be looking at the competing strategies of a near-term monetization vs. a more measured approach, which could ultimately create greater value. Competing strategies include potentially selling the entire asset outright to another buyer vs. potentially selling output under a PPA or ratebasing some portion under a Cleco Power utility RFP process. However, the latter (more measured) alternatives could be dilutive (due to non-cash depreciation) if CNL were to let the asset sit essentially idle until opportunities developed to market the output as demand grows and contracts expire in 2014.

CNL continues to target a 50-60% dividend payout ratio. We believe CNL could raise its annual dividend by 10-12% per year for the next two to three years to achieve this payout objective. The dividend was last raised at CNL's February board meeting, and we believe the February meeting will remain the timeframe for announcing potential increases.

Of the $250 million 6.00% 30-year notes issued November 15, 2010, we believe CNL could use about $50 million-$60 million to help fund the pension next year, alleviating future cash needs. The Company expects its pension plan will be about 85% funded in 2011.

Consolidated Edison, Inc. (ED-NYSE)

ED indicated that tight credit markets for collateral had driven many competitive retail electric suppliers from the market to the benefit of its ConEd Solutions' retail supply segment through 3Q10 year-to-date. ConEd Solutions has not only benefited from capturing share, but the lack of suppliers has also helped margin improvement.

We believe risk to ED is limited from the subject to refund provisions (effective April 2010; $249 million, $32 million and $6 million annually for electric, gas and steam service, respectively) carried over as part of the contractor investigation proceedings at the NYPSC. At September 30, 2010, ED had collected an estimated $464 million from customers subject to potential refund and had not recorded any regulatory liability in connection with this proceeding. In October 2010, a NYPSC consultant reported a $21 million provisional assessment (which the Company disputes) of potential overcharges for construction work related to former employees arrested for defrauding the Company. The refund provisions were originally established as part of an unrelated March 2008 rate order reviewing 2005-2008 capital expenditures, which has ultimately been settled.

ED is attempting to resolve with the IRS damages it is entitled to under a disallowed 1997 LILO (Lease In/Lease Out) transaction, in which the U.S. Court of Federal Claims issued ED a favorable decision. Subsequently, any agreement would have implications on $499 million of net LILO tax deductions taken from 1998-2009 that were also disallowed by IRS audits. ED believes that its LILO transactions have been correctly reported, and has not recorded any reserve with respect to the disallowance of tax losses, which, in our view, seems reasonable given the favorable court opinion. It is our sense that parties are working through issues of interest credits owed to ED from having paid tax deficiencies asserted by the IRS.

MDU Resources Group, Inc. (MDU-NYSE)

MDU's 2011 budgeting and E&P production forecasts are still being determined, but the Company emphasis appears to be on returns and cash flow, not necessarily volumes. We believe that MDU could add a second rig into the Bakken next year to have an oiler production mix, although gas volumes next year may decline by more than its oil production goes up.

Although the timing of recovery remains uncertain, MDU believes that it has positioned itself well when construction markets rebound (particularly in the residential segment) by significantly improving its cost structure. While the construction business segments will likely remain challenging, end markets appear to have stabilized and the Company is filling and working it backlog with opportunities in public works projects aided by federal transportation stimulus funds.

NiSource, Inc. (NI-NYSE)
The NI story appears to remain on track as the Company utilizes constructive regulatory mechanisms at its gas distribution subsidiaries and continues to pursue attractive investment opportunities in the Marcellus region at its natural gas transmission and storage business.

Front and center in management's eyes is the Indiana electric segment. Management appeared cautiously optimistic about the prospects for settlement of the upcoming rate case, which should be filed shortly. It sounds as though parties have been engaged in active dialog.

In our view, this case could be much easier to settle than the last case. The previous rate case (order issued in late August) presented significant headwinds to settlement given a 20+ year lapse since the last rate case, which created significant uncertainty around numerous issues. However, with the commission's recent statement of where it stood on these issues, we believe the discussion around settlement can focus on the limited issues of rate design (probably the issue most likely to generate colorful dialog), pension costs and load attrition due to the economic slowdown since the 2007 test year of the most recent rate case.

NorthWestern Corporation (NWE-NYSE)
NWE reiterated that it saw attractive investment opportunities around distribution, generation, the potential to rate base natural gas reserves and transmission.

Separately, the recent election results indicate current Commissioner Molnar could potentially be named chair. We believe Commissioner Molnar's negative commentary on renewables due to cost considerations could be a headwind for transmission investment. However, the views of Commissioners Elect Gallagher and Kavulla are still somewhat unknown, although language leading up to the election suggested they were cautious around renewables in a difficult economy. We note, however, that Commissioner Elect Kavulla's constituency could be a beneficiary of the economic stimulus renewables and related transmission could provide. We believe the matter bears watching.

Pepco Holdings, Inc. (POM -NYSE)
In October 2010, the Mid-Atlantic Power Pathway (MAPP) project need was reaffirmed by the PJM Board (regional transmission operator) with a revised in-service date from June 2014 to June 2015. Current projected construction cost for MAPP remains at $1.2 billion, with an estimated $163 million and $362 million of project spending in 2011 and 2012, respectively (although timing could change as planning gets to more detailed stages). The MAPP project qualifies for FERC incentive ROE's of 12.8% with full forward-year construction work in process (CWIP) in rate base. We view MAPP to be a robust driver of transmission rate base growth over the next five years.

We believe the transformation of POM into becoming fundamentally a regulated transmission and distribution (T&D) company remains on track. Having completed the sale of its Conectiv wholesale power generation business in mid-2010 and continuing its wind-down of the competitive retail energy supply business, POM's near-term focus now is to address declining ROE trends at state-regulated utilities and to work with regulators and legislators to try to get rate mechanisms in place to fix under-earning due to regulatory lag.

Southern Company (SO-NYSE)
The Georgia rate case process remains on track, with an expected final decision likely this December. In October 22 filed testimony, Georgia PSC Staff recommended about a $420 million rate increase and 10.50% ROE, compared to SO's initial filing request of $615 million and 11.95% ROE. We view Staff's recommendation as constructive.

Separately, the Company is benefiting from the pace of industrial recovery being ahead of expectations. SO feels that as long as industrial demand remains strong, permanent jobs will eventually follow. As it currently stands, higher industrial output demand in the Southeast is being met by overtime with existing workforces as companies have resisted the risk of hiring new workers in case the economy slowed again. Residential and commercial demand will likely remain subdued until job growth returns.

KeyBanc Capital Markets Inc. Disclosures and Certifications

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The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets					ENERGY				
			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	196	47.10	46	23.47	BUY [BUY]	26	42.60	14	53.85
HOLD [HOLD]	212	51.00	51	24.06	HOLD [HOLD]	35	57.40	20	57.14
SELL [UND]	8	1.90	1	12.50	SELL [UND]	0	0.00	0	0.00

Rating System

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Morgan Stanley

February 1, 2011

Stock Rating
Equal-weight
Industry View
Attractive

NiSource, Inc.

Rate Cases + Marcellus Bode Well for 2011

What's Changed

Price Target	$19.00 to $20.00

Conclusion: Plan to restoring earnings power is well underway. 2010 results underscored a solid year towards building the foundation for future earnings power restoration, in our view. Execution on resolving issues at NIPSCO are progressing and will continue to be an area of focus in 2011.

4Q10 results: NI reported operating earnings of $0.33, below MS estimate of $0.34 and consensus of $0.35. Operating results exclude, among other things, $96.7m loss due to the early extinguishment of debt.

Electric operations segment the bright spot for the quarter. The Electric Operations EBIT rose 23.4% y/y to $43.8m due to increased industrial usage and margins. Sales to industrial customers improved 8.6% y/y. Gas Distribution Operations EBIT fell slightly to $113m from $114.6m y/y (a 1.4% decline) given softer residential and commercial margins as well as lower off-system sales. These declines were offset slightly by rate increases and newly implemented service programs. The Gas Transmission and Storage segment reported EBIT of $100m, a 14.3% y/y decline. Although total overall throughput (excluding intra segment volumes) increased 17% y/y, shorter-term transportation and storage demand weighed on earnings.

What's Next: Execution of $1.1b 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.

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Key Ratios and Statistics

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

Price target	$20.00
Shr price, close (Jan 31, 2011)	$18.62
Mkt cap, curr (mm)	$5,216
52-Week Range	$18.92-14.13

Fiscal Year ending	12/09	12/10e	12/11e	12/12e
ModelWare EPS ($)	1.07	1.20	1.33	1.43
Prior ModelWare EPS ($)	-	1.21	1.27	1.31
P/E	14.4	14.7	14.0	13.0
Consensus EPS ($)§	1.07	1.23	1.32	1.41
EBITDA ($mm)	1,469	1,514	1,623	1,693
EV/EBITDA	8.1	8.7	8.2	7.9
Div yld (%)	6.0	5.2	4.9	4.9
Div per shr ($)	0.92	0.92	0.92	0.92
Shrs out, diluted, avg (mm)	276	283	298	304

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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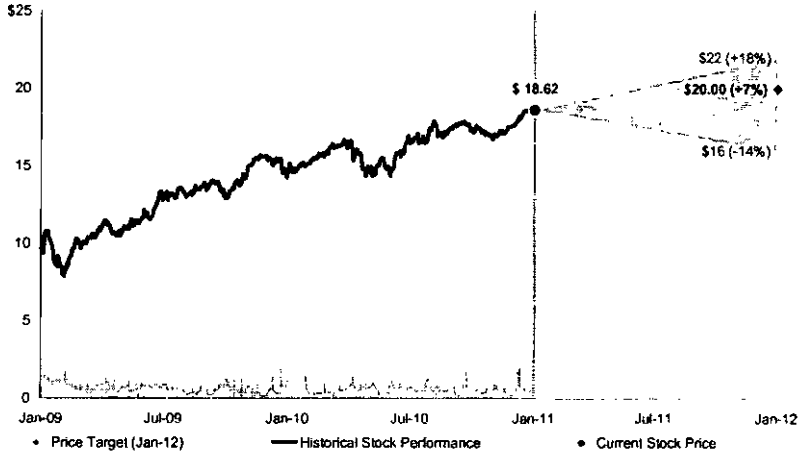
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MORGAN STANLEY RESEARCH

February 1, 2011
NiSource, Inc.

NiSource (NI, $18.62, Equal-weight, Price Target $20)

Risk-Reward View: Marcellus Midstream and Regulated Utilities



Source: FactSet; Morgan Stanley Research

Price Target $20		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 $20	8.5x GT&S '11e EBITDA, 7.0x Electric EBITDA	**Executing on Marcellus opportunities with a modest recovery in utility segments.** NI places Marcellus growth projects on budget and on-time. Industrial electric generation deliveries continue to stabilize/slightly recover, coupled with fair rate case outcomes.
Bear Case $16	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	$4,745	$17
Gas Transmission & Storage	5,007	18
Electric Utility	3,288	12
Value per Share	**$13,040**	**$47**
Net Debt	(7,374)	(26)
Net Equity Value	**$5,666**	**$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).

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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February 1, 2011
NiSource, Inc.

Exhibit 1

4Q10 Earnings Results and 1Q11E Preview

NiSource Inc.

(amounts in 000s, except per unit)

	Actual 4Q09	Actual 4Q10	A / A % chg	MS 4Q10E	A / E % chg	MS 1Q11E
Operating Revenues						
Gas Distribution	841,100	973,600	15.8%	1,104,572	-11.9%	1,609,158
Gas Transportation and Storage	340,800	355,900	4.4%	267,575	33.0%	260,488
Electric	309,900	318,800	2.9%	390,407	-18.3%	345,048
Other	9,700	19,400		-		-
Total operating revenues	**1,501,500**	**1,667,700**	11.1%	**1,762,554**	-5.4%	**2,214,694**
Operating Expenses						
Cost of Sales	585,100	752,300	28.6%	748,061	0.6%	1,103,514
Operation and maintenance	443,700	455,700	2.7%	538,350	-15.4%	464,395
Depreciation and amortization	148,700	141,700	-4.7%	149,400	-5.2%	146,472
Other taxes	71,900	73,200	1.8%	78,178	-6.4%	95,520
Total operating expenses	**1,249,400**	**1,422,900**	13.9%	**1,513,989**	-6.0%	**1,809,901**
Equity Earnings (Loss) in Uncon. Affiliates	**6,400**	**3,700**	-42.2%	**3,400**	8.8%	3,737
EBIT	**258,500**	**248,500**	-3.9%	**251,965**	-1.4%	**408,530**
EBITDA	**407,200**	**390,200**	-4.2%	**401,365**	-2.8%	**555,002**
Interest expense, net	(98,600)	(97,500)	-1.1%	(101,054)	-3.5%	(97,084)
Other income	800	(3,500)		2,100		(3,500)
Total other income and expenses	**(97,800)**	**(101,000)**	3.3%	**(98,954)**	2.1%	**(100,584)**
Earnings From Cont. Oper. Bef. Inc. Taxes	**160,700**	**147,500**	-8.2%	**153,011**	-3.6%	**307,946**
Income tax (provision)	61,800	53,500	-13.4%	55,929	-4.3%	113,671
Net Income (Operating)	**98,900**	**94,000**	-5.0%	**97,083**	-3.2%	**194,275**
Average # of Shares Outstanding	276,800	282,600	2.1%	282,930	-0.1%	285,630
Net Income per Share (Operating)	**$ 0.36**	**$ 0.33**		**$ 0.34**		**$ 0.68**
Net Income per Share (GAAP)	**$ 0.32**	**$ 0.13**		**$ 0.34**		**$ 0.68**
Segment Data						
Gas Distribution (MMDth)						
Residential	83.5	87.8	5.1%	87.7	0.1%	134.6
Commercial	51.1	51.7	1.2%	53.7	-3.6%	74.3
Industrial	89.7	101.7	13.4%	107.6	-5.5%	105.9
Off System	15.0	15.1	0.7%	15.0	0.7%	16.2
Other	0.2	0.1	na	0.1	0.0%	0.1
Gas Transmission & Storage (MMDth)						
Columbia Transmission	292.9	342.3	16.9%	307.5	11.3%	406.9
Columbia Gulf	185.7	223.4	20.3%	195.0	14.6%	213.0
Crossroads Gas Pipeline	7.9	5.2	-34.2%	6.7	-22.6%	8.5
Intrasegment eliminations	(122.8)	(145.5)	18.5%	(152.8)	-4.8%	(157.1)
Electric Operations (Gigawatt Hours)						
Residential	795.9	792.4	-0.4%	835.7	-5.2%	863.9
Commercial	926.3	928.8	0.3%	972.6	-4.5%	982.1
Industrial	1,967.5	2,137.2	8.6%	2,164.3	-1.2%	2,071.4
Wholesale	215.4	181.4	-15.8%	258.5	-29.8%	136.1
Other	46.5	58.2	25.2%	48.8	19.2%	42.2

Source: Company data, Morgan Stanley Research

Higher electric generation costs, line maintenance expenses, administration costs and environmental expenses contributed to higher overall Opex.

Equity earnings decreased by $2.7 million due to decreased earnings from Millennium driven by higher interest costs from the Aug. 2010 debt refinancing.

Operating results exclude several non-recurring items, and the early redemption fees, primarily attributable to early redemption premiums and unamortized discounts and fees, recorded as a loss on the early extinguishment of long-term debt.

Marcellus shale investments bode well for volumes and earnings in NI's NGT&S segment. Additionally, the company's 4Q10 FERC rate case, seeks ~$50m in incremental revenues for the segment. FERC has authorized the company to place the new rates in May 2011.

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February 1, 2011
NiSource, Inc.

Exhibit 2

NI Income Statement

(amounts in thousands, except per unit data)	2009	2010	2011E	2012E	2013E
Net Revenues					
Gas Distribution	3,303,100	3,103,100	3,914,001	4,071,828	4,194,671
Gas Transportation and Storage	1,240,800	1,261,300	1,059,667	1,101,707	1,131,572
Electric	1,244,600	1,374,900	1,558,298	1,699,702	1,768,419
Other	358,700	78,600	-	-	-
Total Net Revenues	6,147,200	5,817,900	6,531,965	6,873,237	7,094,662
Operating Costs					
Cost of Sales	2,805,400	2,379,200	2,686,133	2,821,808	2,911,623
Operation and maintenance	1,607,600	1,655,700	1,924,130	2,047,770	2,116,587
Depreciation and amortization	589,400	596,300	590,297	605,188	620,454
Other taxes	281,600	284,400	313,809	326,090	338,537
Total Operating Costs	5,284,000	4,915,600	5,514,368	5,800,855	5,987,201
Equity Earnings (Loss) in Uncon. Affiliates	16,000	15,000	15,060	15,440	15,830
EBIT	879,200	917,300	1,032,657	1,087,823	1,123,291
EBITDA	1,468,600	1,513,600	1,622,954	1,693,010	1,743,745
Other income					
Interest expense, net	(399,200)	(392,200)	(388,336)	(388,336)	(388,336)
Other income	(1,600)	3,800	(14,000)	(14,000)	(14,000)
Inc. from continuing operations bef inc. taxes	478,400	528,900	630,321	685,486	720,955
Income tax (provision)	184,300	189,300	234,084	249,800	265,261
Operating Net income (Loss)	294,100	339,600	396,237	435,686	455,694
Net Income per Share (Operating)	$1.07	$1.20	$1.33	$1.43	$1.50
Net Income per Share (GAAP)	$0.83	$1.04	$1.33	$1.43	$1.50
Weighted Avg Diluted Units Outstanding	275,800	282,600	297,752	303,812	303,812
Dividends per share	0.92	0.92	0.92	0.92	0.92

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

February 1, 2011
NiSource, Inc.

Exhibit 3
NI Operating Data

	2009	2010	2011E	2012E	2013E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	265.2	258.1	269.0	274.4	278.5
Commercial	169.4	166.8	172.4	175.8	178.4
Industrial	335.9	386.0	424.5	433.0	439.5
Off System	59.7	71.9	77.3	78.8	80.0
Other	0.8	0.9	0.4	0.4	0.4
Total Sales and Transports	831.0	883.7	943.5	962.4	976.8
Weather Adjustment	1.4	5.2	3.3	3.3	3.3
Sales and Transport Vols — Excluding Weather	832.4	888.9	946.8	965.7	980.1
y/y change	*-9.1%*	*6.8%*	*6.5%*	*2.0%*	*1.5%*
Sales Price ($ / Dth)	$4.69	$4.14	$4.13	$4.22	$4.28
y/y change	*-25.1%*	*-11.7%*	*-0.1%*	*2.0%*	*1.5%*
COGS Price ($ / Dth)	$2.75	$2.32	$2.22	$2.27	$2.30
y/y change	*-39.9%*	*-15.6%*	*-4.6%*	*2.5%*	*1.3%*
Gross Margin ($ / Dth)	$1.93	$1.81	$1.92	$1.94	$1.98
y/y change	*15.5%*	*-6.1%*	*5.7%*	*1.5%*	*1.8%*
GAS TRANSMISSION & STORAGE					
Throughput (MMDth):					
Columbia Transmission	1,029.8	1,092.4	1,166.1	1,212.8	1,237.0
Columbia Gulf	894.1	848.4	902.1	929.1	947.7
Crossroads Gas Pipeline	33.9	25.4	26.7	27.5	28.0
Total throughput	1,957.8	1,966.2	2,094.9	2,169.4	2,212.8
Intrasegment eliminations	(566.4)	(568.7)	(590.8)	(623.3)	(633.7)
Total third-party throughput	1,391.4	1,397.5	1,504.1	1,546.1	1,579.1
y/y change	*-6.5%*	*0.4%*	*7.6%*	*2.8%*	*2.1%*
Tariff ($ / Dth)	$0.52	$0.52	$0.56	$0.57	$0.57
y/y change	*13.5%*	*0.1%*	*7.4%*	*1.7%*	*1.0%*
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,241.4	3,625.6	3,702.1	3,794.6	3,889.5
Commercial	3,833.9	3,919.9	4,281.5	4,607.1	4,722.3
Industrial	7,690.9	8,459.0	8,638.9	9,393.2	9,628.1
Wholesale	600.6	817.1	866.1	887.7	909.9
Other	158.9	186.4	194.8	200.6	206.6
Total sales	15,525.7	17,008.0	17,683.3	18,883.3	19,356.4
Weather Adjustment	343.4	(500.2)	-	-	-
Total sales volumes — Adj. for weather impacts	15,869.1	16,507.8	17,683.3	18,883.3	19,356.4
y/y change	*-9.4%*	*4.0%*	*7.1%*	*6.8%*	*2.5%*
Revenue ($ / Gigawatt hour)	$78.95	$83.78	$88.12	$90.01	$91.36
y/y change	*1.1%*	*6.1%*	*5.2%*	*2.1%*	*1.5%*
COGS ($ / Gigawatt hour)	$28.77	$30.80	$33.16	$33.22	$33.90
y/y change	*-9.5%*	*7.1%*	*7.7%*	*0.2%*	*2.0%*
Gross Margin ($ / Gigawatt hour)	$50.18	$52.99	$54.96	$56.79	$57.46
y/y change	*8.4%*	*5.6%*	*3.7%*	*3.3%*	*1.2%*

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

February 1, 2011
NiSource, Inc.

Exhibit 4
NI Balance Sheet

(amounts in thousands, except per unit data)	2009	2010	2011E	2012E	2013E
ASSETS					
Cash and cash equivalents	16,400	9,200	234,753	340,512	321,010
Restricted cash	174,700	202,900	202,900	202,900	202,900
Accounts receivable	808,600	1,079,300	891,209	943,080	949,977
Income tax receivable	24,900	99,000	99,000	99,000	99,000
Gas inventory	384,800	298,200	368,085	420,287	398,752
Regulatory assets	238,300	151,800	151,800	151,800	151,800
Other	127,700	120,800	120,800	120,800	120,800
Total Current Assets	2,223,600	2,448,900	2,556,247	2,766,080	2,731,939
Net Property, Plant and Equipment	10,683,900	11,097,000	11,506,703	11,801,516	12,072,062
Unconsolidated affiliates	165,800	200,900	200,900	200,900	200,900
Other investments	129,200	139,700	139,700	139,700	139,700
Price risk management assets	237,600	240,300	240,300	240,300	240,300
Regulatory assets	1,644,100	1,650,400	1,650,400	1,650,400	1,650,400
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	319,600	308,600	308,600	308,600	308,600
Deferred charges, Postretiremen, other	171,900	167,800	167,800	167,800	167,800
TOTAL ASSETS	19,271,700	19,938,800	20,455,850	20,960,495	21,196,900
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	719,300	34,200	34,200	34,200	34,200
Short-term borrowings	103,000	1,382,500	1,382,500	1,382,500	1,382,500
Accounts payable	502,100	581,800	493,983	562,771	540,070
Dividends payable	200	100	100	100	100
Customer deposits and credits	301,200	318,100	318,100	318,100	318,100
Taxes accrued	212,900	221,100	221,100	221,100	221,100
Interest accrued	125,400	114,400	114,400	114,400	114,400
Price risk management liabilities	190,100	173,900	173,900	173,900	173,900
Exchange gas payable	222,200	266,100	266,100	266,100	266,100
Deferred revenue	27,300	6,800	6,800	6,800	6,800
Regulatory liabilities	43,800	92,900	92,900	92,900	92,900
Acc liab for post-retirement / -employment benefits	23,600	23,300	23,300	23,300	23,300
Other accruals	310,300	336,400	336,400	336,400	336,400
Total Current Liabilities	3,149,600	3,649,400	3,561,583	3,630,371	3,607,670
Long-term debt, excl amounts due within one year	5,965,100	5,936,100	5,936,100	5,936,100	5,936,100
Price risk management liabilities	170,200	181,600	181,600	181,600	181,600
Deferred income taxes	2,018,200	2,209,700	2,209,700	2,209,700	2,209,700
Deferred inc. taxes, credits, other	120,500	102,600	102,600	102,600	102,600
Acc liability for post-retirement/-employment benefits	1,134,200	1,039,600	1,039,600	1,039,600	1,039,600
Regulatory liabilities and other removal costs	1,558,800	1,595,800	1,595,800	1,595,800	1,595,800
Asset retirement obligations	138,200	138,800	138,800	138,800	138,800
Other noncurrent liabilities	152,600	162,000	162,000	162,000	162,000
Total Other Liabilities and Deferred Credits	11,268,000	11,366,200	11,366,200	11,366,200	11,366,200
Common stock	2,800	2,800	2,800	2,800	2,800
Additional paid-in capital	4,057,600	4,103,900	4,353,900	4,453,900	4,453,900
Retained earnings	865,500	901,800	1,028,985	1,185,861	1,362,047
Treasury stock	(25,900)	(57,900)	(57,900)	(57,900)	(57,900)
Accumulated other comprehensive loss	(45,900)	(27,400)	200,283	379,263	462,183
Total Common Stockholders' Equity	4,854,100	4,923,200	5,528,068	5,963,924	6,223,030
TOTAL CAPITALIZATION & LIABILITIES	19,271,700	19,938,800	20,455,850	20,960,495	21,196,900
CONSOLIDATED DEBT METRICS					
Average Total Debt	7,182,050	7,070,100	7,352,800	7,352,800	7,352,800
Average Net Debt	7,163,550	7,057,300	7,230,824	7,065,168	7,022,039
Net Debt/ Total Book Capitalization	59.9%	59.1%	58.0%	55.1%	53.5%
Average Debt/ EBITDA	4.9x	4.7x	4.5x	4.3x	4.2x
Average Interest Rate	5.6%	5.5%	5.3%	5.3%	5.3%

Source: Company data, Morgan Stanley Research

Morgan Stanley

MORGAN STANLEY RESEARCH

February 1, 2011
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

(amounts in thousands, except per unit data)	2009	2010	2011E	2012E	2013E
Cash from Operating Activities					
Net Income	217,700	292,000	396,237	435,686	455,694
Debt: Gain Early Extinguishment / Amort Disc.+Premium	17,500	107,000	-	-	-
Depreciation and Amortization	589,000	596,300	590,297	605,188	620,454
Net Changes in Price Risk Mgmt A / L	(9,100)	(5,500)	-	-	-
Deferred: Inc. Tax/Credits; Revenues	382,500	179,700	-	-	-
Stock Compensation Expense	9,600	30,900	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	19,200	2,000	-	-	-
Income from Unconsolidated Affiliates	(15,100)	(14,800)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	13,500	2,600	-	-	-
AFUDC Equity	(5,400)	(6,100)	-	-	-
Dist. of Earnings Received from Equity Investee	-	12,900	-	-	-
Other	(254,500)	(55,000)	-	-	-
Changes in Assets and Liabilities:	701,300	(419,800)	30,388	(35,285)	(8,062)
Net cash from operating activities	1,666,200	722,200	1,016,922	1,005,589	1,068,085
Cash from Investing Activities					
Capital Expenditures	(777,200)	(803,800)	(1,000,000)	(900,000)	(891,000)
Insurance Recoveries	62,700	5,000	-	-	-
Proceeds from Disposition of Assets	5,700	500	-	-	-
Restricted Cash Deposits (Borrowings)	111,900	(28,200)	-	-	-
Contributions to Equity Investments	(23,500)	(64,100)	-	-	-
Other Investing Activities	(34,400)	(53,100)	-	-	-
Net cash from investing activities	(654,800)	(943,700)	(1,000,000)	(900,000)	(891,000)
Cash from Financing Activities					
Issuance of Long-Term Debt	1,460,000	250,000	-	-	-
Retirement/Repurchase of Long-Term Debt	(1,169,800)	(977,700)	-	-	-
Change in Short-Term Borrowings, Net	(1,060,500)	1,279,500	227,683	178,980	82,920
Issuance of Common Stock	10,600	14,400	250,000	100,000	-
Acquisition of Treasury Stock	(2,600)	(1,400)	-	-	-
Dividends Paid - Common Stock	(253,300)	(255,600)	(269,053)	(278,810)	(279,507)
Other	-	(94,900)	-	-	-
Net cash from financing activities	(1,015,600)	214,300	208,630	170	(196,587)
Net change in cash	(4,200)	(7,200)	225,553	105,759	(19,502)
Cash at beginning of period	20,600	16,400	9,200	234,753	340,512
Cash at end of period	16,400	9,200	234,753	340,512	321,010

Source: Company data, Morgan Stanley Research

Morgan Stanley

Exhibit 6
NI Sum of the Parts Valuation

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$4,745	**$17**
Gas Transmission & Storage	$5,007	**$18**
Electric Utility	$3,288	**$12**
Value per share		**$47**
Net Debt	$7,374	**$26**
Net Equity Value		**$20**
Shares Outstanding (in m)		280

GAS DISTRIBUTION	
Forward EBITDA (2011E)	$633
Forward multiple	7.5x
Enterprise value	**$4,745**

GAS TRANSMISSION & STORAGE	
Forward EBITDA (2011E)	$589
Forward multiple	8.5x
Enterprise value	**$5,007**

ELECTRIC UTILITY	
Forward EBITDA (2011E)	$470
Forward multiple	7.0x
Enterprise value	**$3,288**

Source: Company data, Morgan Stanley Research

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MORGAN STANLEY RESEARCH

February 1, 2011
NiSource, Inc.

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(as of January 31, 2011)

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Morgan Stanley

MORGAN STANLEY RESEARCH

February 1, 2011
NiSource, Inc.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1184**	**41%**	**449**	**44%**	**38%**
Equal-weight/Hold	**1210**	**42%**	**439**	**43%**	**36%**
Not-Rated/Hold	**122**	**4%**	**25**	**2%**	**20%**
Underweight/Sell	**390**	**13%**	**115**	**11%**	**29%**
Total	**2,906**		**1028**		

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.

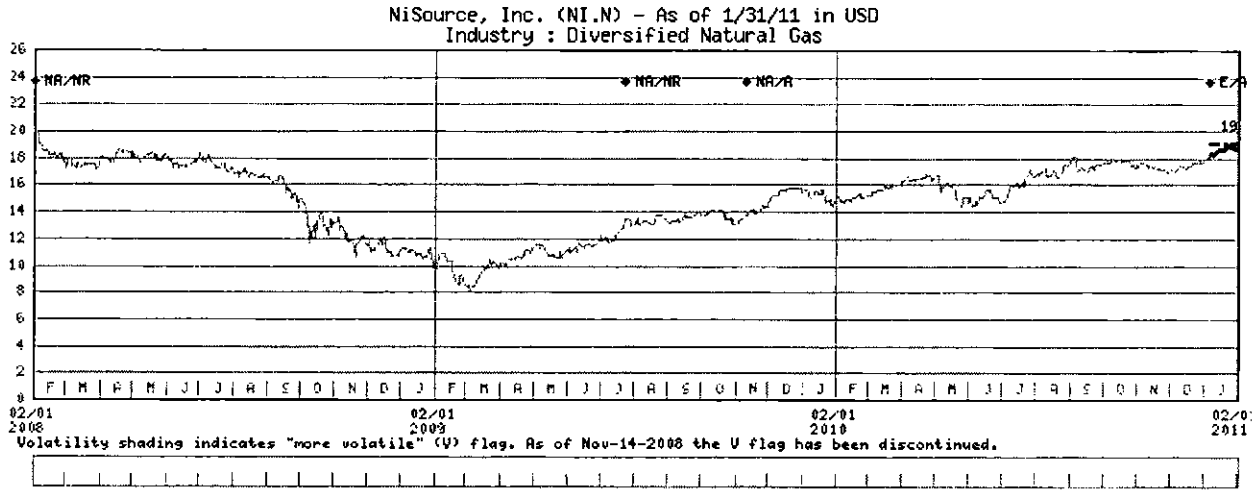
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Stock Rating History: 2/1/08 : NA/NR; 7/23/09 : NA/NR; 11/10/09 : NA/A; 1/6/11 : E/A
Price Target History: 8/16/01 : NA; 1/6/11 : 19

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

February 1, 2011
NiSource, Inc.

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MORGAN STANLEY RESEARCH

February 1, 2011
NiSource, Inc.

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Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (01/31/2011)
Stephen J. Maresca, CFA		
El Paso Corp. (EP.N)	O (05/10/2010)	$15.88
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$21.23
National Fuel Gas Co (NFG.N)	O (01/06/2011)	$68.34
NiSource, Inc. (NI.N)	E (01/06/2011)	$18.62
Oneok Inc. (OKE.N)	E (10/29/2010)	$58.89
Questar Corp. (STR.N)	U (10/29/2010)	$17.43
Southern Union Company (SUG.N)	E (11/10/2009)	$26.72
Spectra Energy Corp. (SE.N)	E (11/10/2009)	$26.23
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$26.99

Stock Ratings are subject to change. Please see latest research for each company.
* 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
18.66 USD	17.00 USD	11.90 USD	23.80 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

NiSource addresses regulatory lag and invests in the Marcellus Shale.

Updated Forecasts and Estimates from 03 Feb 2011

Patrick Goff
Credit Analyst
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The primary analyst covering this company does not own its stock.

Research as of 07 Feb 2011
Estimates as of 03 Feb 2011
Pricing data through 07 Feb 2011
Rating updated as of 07 Feb 2011

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

Contents

- Analyst's Perspective 1
- Key Investment Considerations 1
- Morningstar Analysis
  - Analyst Note -
  - Thesis 2
  - Valuation, Growth and Profitability 2
  - Scenario Analysis 3
  - Economic Moat 3
  - Moat Trend 3
- Bulls Say/Bears Say 4
- Credit Analysis
  - Financial Health 5
  - Capital Structure 5
  - Enterprise Risk 5
- Management & Ownership 6
- Analyst Note Archive 7
- Morningstar Analyst Forecasts 8
- Comparable Company Analysis 12
- Methodology for Valuing Companies 14

Analyst's Perspective 03 Feb 2011

NiSource recently reported 2010 year-end results that were in line with our expectations and management's updated guidance provided in the third-quarter earnings release. In addition, management provided 2011 operating earnings guidance of $1.25 to $1.35 per share premised on a relatively modest and gradual economic recovery across the markets served by its utilities. We are updating our 2011 earnings estimate to $1.33 per share from our previous estimate of $1.30 per share. Potential upside to our 2011 earnings estimate includes the successful settlement of NiSource's 2010 electric rate case and improvement in demand as a result of a faster than expected economic recovery. We anticipate earnings growth to average 5-6% annually driven by the company's $1.0-$1.1 billion of planned annual capital investments in the business and the expectation of favorable regulatory outcomes.

Key Investment Considerations

- With the stock trading at about 14 times our 2011 earnings estimate and over 8 times 2010 EBITDA, we think NiSource is overvalued.
- A diverse set of investment opportunities across several states provides earnings and regulatory diversification.
- Substantial investment in the gas transmission and storage segment will be a key driver of earnings growth during the next five years.

Vital Statistics

Market Cap (USD Mil)	5,193
52-Week High (USD)	18.93
52-Week Low (USD)	14.12
52-Week Total Return %	33.4
YTD Total Return %	7.2
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	4.3
5-Yr Forward EPS CAGR %	9.4
Price/Fair Value	1.10

Valuation Summary and Forecasts

Fiscal Year.	2009	2010	*2011(E)*	*2012(E)*
Price/Earnings	17.5	16.6	*14.0*	*13.1*
EV/EBITDA	7.5	7.3	*7.8*	*7.4*
EV/EBIT	12.9	11.9	*12.4*	*11.8*
Free Cash Flow Yield %	29.9	-2.0	*8.9*	*0.9*
Dividend Yield %	8.4	6.0	*5.0*	*5.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Revenue	6,649	6,422	*6,695*	*6,982*
Revenue YoY %	-25.1	-3.4	*4.3*	*4.3*
EBIT	821	923	*1,010*	*1,064*
EBIT YoY %	-11.3	12.5	*9.4*	*5.3*
Net Income, Adjusted	242	296	*375*	*400*
Net Income YoY %	-35.3	22.1	*26.7*	*6.8*
Diluted EPS	0.88	1.06	*1.33*	*1.42*
Diluted EPS YoY %	-35.4	20.2	*26.2*	*6.3*
Free Cash Flow	898	-84	*461*	*48*
Free Cash Flow YoY %	-333.5	-109.3	*-650.1*	*-89.6*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note

Profile

NiSource is an energy holding company with subsidiaries that provide natural gas and electricity to 3.8 million customers in a corridor that runs from the Gulf Coast through the Midwest to New England. As measured by customers, NiSource is one of the nation's largest natural gas distribution companies. It also serves electric customers in Indiana. NiSource operates in three primary business segments: gas distribution operations, gas transmission and storage operations, and electric operations.

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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
18.66 USD	17.00 USD	11.90 USD	23.80 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

Morningstar Analysis

We anticipate that the gas transmission and storage segment will be the key driver of earnings growth.

Thesis 03 Feb 2011

Management has done a commendable job of getting NiSource's regulatory house in order during the last few years. However, we believe the company's equity is slightly overvalued and that there are better opportunities elsewhere for dividend-seeking investors.

NiSource's strategy is to improve the consistency of earnings from its state-regulated segments, expand its footprint in the Marcellus Shale, and manage the company's cost structure and balance sheet. NiSource's gas distribution segment has historically contributed about 35-40% of consolidated operating earnings. The strategy in this segment is to drive growth through long-term, low-risk infrastructure investments synched with regulatory recovery mechanisms.

Management has been successful in delivering an ambitious regulatory agenda in this segment, having filed base rate cases in 2010 in four states as well as an application to adjust rates associated with riders in Ohio. The combined impact of these cases should increase net revenue and earnings in 2011, highlighting management's commitment to recovering the costs of infrastructure investments in a timely manner. In the aggregate, NiSource management has identified an investment opportunity of $4.0-$4.5 billion during the next 20 to 25 years to advance replacement and upgrades of its infrastructure, which will increase earnings growth in this segment above the rate of inflation.

In the Federal Energy Regulatory Commission-regulated gas transmission and storage segment, which historically has contributed about 40-45% of operating income, management is committed to driving growth through further investment in the Marcellus Shale. During 2010, NiSource completed more than $150 million in strategic growth projects serving the Marcellus Shale production area and capable of providing access to more than 500,000 dekatherms per day of natural gas. The company has developed a significant existing footprint in the Marcellus and plans to invest $2 billion in this business during the next five to seven years. Given this investment program, we anticipate that the gas transmission and storage segment will be the key driver of earnings growth, with operating income growing at a 7% compounded rate from 2011 through 2014.

The company's smallest segment, electric operations, has historically contributed 15%-20% of consolidated operating income. In 2010, NiSource generated improved industrial margins and industrial usage increased 10% in its electric business, which helped boost operating earnings by over $50 million year over year. Nonetheless this segment remains a challenge. Management is trying to restore the earnings power in this segment by executing its regulatory agenda with a new rate case that was filed in November 2010. Management expects to have this case completed by the end of 2011, with rates effective in January 2012. In addition, NIPSCO has begun the first phase of a series of new environmental investments in Indiana totaling about $600 million during the next six to eight years.

We commend management for shoring up its balance sheet through the recent issuance of about $400 million of equity. Ultimately, we see NiSource increasing earnings in the 5%-6% range long term, which combined with the dividend yield provides a reasonable total shareholder return of 10%-11%. We see potential for additional upside if management decides to boost the payout ratio, particularly balance sheet is in better shape.

Valuation, Growth and Profitability 03 Feb 2011

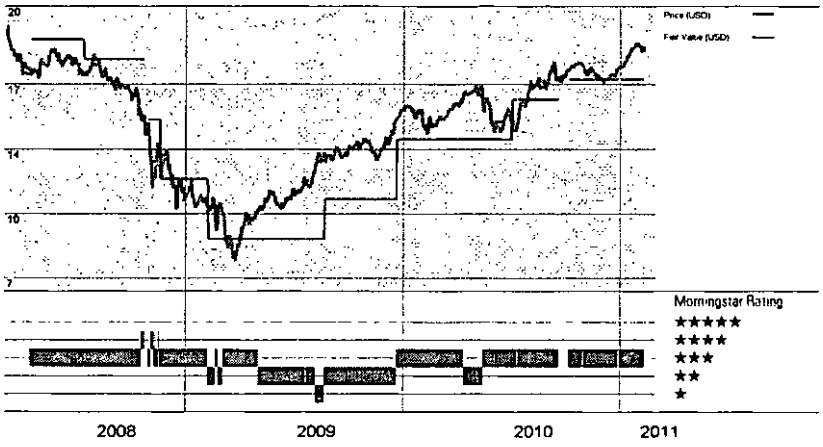
We are reaffirming our $17 fair value estimate. NiSource's profitability is a function of gaining favorable regulatory outcomes in its gas distribution operations and electric segments as well as increased volume and pricing at its gas transmission and storage operations segment. We estimate

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Price/Fair Value Morningstar data as of 07 Feb 2011



that NiSource will invest nearly $5 billion in capital expenditures through 2015, including almost $2 billion in the gas transmission and storage segment. We anticipate that this segment will be the largest driver of earnings growth for NiSource. As evidence, we note that during the last four years, about $450 million of growth capital expenditures invested in this segment resulted in $75 million of operating income. As a result of investments in this segment and the gas distribution segment, we expect long-term earnings growth around 5%-6%. To arrive at our fair value estimate, we use an 11.0% cost of equity assumption along with current credit spreads to discount cash flows at an 7.9% cost of capital.

Scenario Analysis

The largest source of uncertainty in our fair value estimate is the assumed growth in capacity in the gas transmission and storage operations segment. Holding all other variables constant and assuming no change in throughput volume for the gas transmission and storage segment in 2012-15 decreases earnings per share by $0.11 in 2012, $0.22 in 2013, $0.25 in 2014, and $0.47 in 2015 and would also reduce our fair value estimate by $5 per share. In addition, our fair value estimate is sensitive to our cost of capital assumption. A 50-basis-point change in our cost of equity assumption changes our fair value estimate by $2 per share.

Economic Moat

We think the regulated nature of its operations gives NiSource a narrow moat. In exchange for NiSource's monopoly position in its regulated gas and electric utilities, returns are set by regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utilities should, in the long run, allow NiSource to earn its cost of capital. As with all regulated utilities, we think regulatory caps on revenues and returns preclude NiSource from establishing a wide economic moat.

Moat Trend

We believe NiSource's moat trend is stable. We do not foresee long-term changes to the firm's role as a monopoly provider of natural gas and electricity, nor do we see changes to its compact with regulators.

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Bulls Say/Bears Say

Bulls Say

- With regulated utility operations spread across seven states, NiSource has a natural hedge against the negative earnings impact of an unfavorable regulatory decision in any one jurisdiction.
- NiSource has made significant progress addressing regulatory lag in its gas distribution segment.
- NiSource is pursuing expansion projects in its gas transmission and storage segment, an area with solid growth prospects and the potential for healthy returns.
- Management is committed to maintaining its dividend and recently took steps to shore up its balance sheet.

Bears Say

- NiSource's electric and gas rate structures do not allow for efficient cost recovery, creating an unhealthy amount of regulatory lag when weather or usage differs materially from forecasts.
- The company's electric utility, NIPSCO, has above-average exposure to industrial usage, which could depress earnings in the event of another economic slowdown.
- NiSource continues to face a challenging regulatory environment in Indiana.

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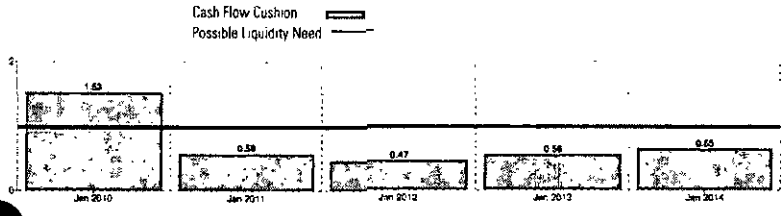
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Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	409	438	445	482	552
Adjusted Free Cash Flow	479	75	125	175	227
Total Cash Available before Debt Service	888	513	570	657	779
Principal Payments	-34	-320	-619	-552	-552
Interest Payments	-425	-450	-475	-500	-525
Other Cash Obligations and Commitments	120	119	119	120	120
Total Cash Obligations and Commitments	-579	-889	-1,213	-1,171	-1,197

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	409	8.1
Sum of 5-Year Adjusted Free Cash Flow	1,081	21.4
Sum of Cash and 5-Year Cash Generation	1,490	29.5
Revolver Availability	1,397	27.7
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	2,887	57.2
Sum of 5-Year Cash Commitments	-5,049	—

Credit Rating Pillars—Peer Group Comparison

	NI	Sector	Universe
Business Risk	5	5.1	5.4
Cash Flow Cushion	9	8.6	5.9
Solvency Score	6	5.5	4.7
Distance to Default	3	2.8	3.8
Credit Rating	BBB	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

As a result of its recent equity raise, NiSource has improved its credit metrics. However, total debt to capitalization of 60% is still on the higher end of the utility universe. Interest coverage and total debt to EBITDA remain manageable at 3.9 times and 4.9 times, respectively.

Capital Structure

With approximately $5.0 billion of capital spending planned between 2011 and 2015, we expect NiSource to be a frequent debt issuer. NiSource has modest refinancing needs in 2011 and 2012; we anticipate NiSource refinancing its debt as it comes due and issuing about $200 million of additional debt each year to fund its growth capital expenditures. Given NiSource's cash from operations and improved balance sheet as a result of the recent equity raise, we do not expect the firm to tap the equity markets in the foreseeable future. As such, we expect total debt/EBITDA to remain in the 4.25-4.75 times range and interest coverage to remain in the 3.50-4.00 times range.

Enterprise Risk

Regulatory risk remains the key uncertainty in our fair value estimate, as nearly all of NiSource's operating income is derived from rate-regulated businesses. NiSource operates in several different jurisdictions, particularly in the gas distribution segment (about 40% of operating income), which helps mitigate and diversify its regulatory risk profile. However, in the electric segment (about 15% of operating income), NiSource is solely dependent on the decisions of the Indiana Utility Regulatory Commission, which historically has been a challenging regulatory body. Achieving satisfactory returns on the aggressive growth agenda in the gas transmission and storage segment is an additional key risk for NiSource.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ROBERT C. SKAGGS,JR	CEO/President/Director,Director	815,324	28 Jan 2011	—
CHRISTOPHER A. HELMS	Executive VP/CEO, Divisional	257,426	28 Jan 2011	—
JIMMY D. STATON	CFO, Divisioinal/Executive VP	209,336	28 Jan 2011	—
STEPHEN P. SMITH	Executive VP/CFO	196,608	28 Jan 2011	—
CARRIE J. HIGHTMAN	Executive VP/Other Executive Officer	161,546	28 Jan 2011	—
ROBERT D. CAMPBELL	Senior VP, Divisional	112,819	28 Jan 2011	—
GLEN L. KETTERING	Senior VP, Divisional	104,579	28 Jan 2011	14,023
W. LEE NUTTER	Director	60,000	05 Nov 2010	—

*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	★★★★	3.68	0.88	-30	31 Dec 2010
T. Rowe Price Mid-Cap Value	★★★★★	1.92	1.05	368	31 Dec 2010
Prudential Jennison Utility B	★★	1.19	2.06	0	31 Dec 2010
T. Rowe Price Value	★★★★	1.14	0.47	0	31 Dec 2010
Vanguard Mid Cap Index Ins	★★★★	1.11	0.24	-17	30 Sep 2010
Concentrated Holders					
First Trust The Dow Target Dividend	★	0.02	5.25	-29	30 Sep 2010
Global Public interest Infra Equity MF		0.04	4.96	0	12 Jan 2010
JNL/Mellon Cap Mgmt Dow Dividend A	★	0.22	4.37	1	30 Sep 2010
JHancock TaxAdvantaged Gbl Shrhldr Yld	★★★★	0.10	4.02	0	30 Nov 2010

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Oppenheimer Value VA	★★★★★	0.22	0.44	615	31 Oct 2010
SEI Instl Invt Lg Cp Discp Equity A		0.23	0.13	599	30 Nov 2009
BlackRock Large Cap Core Inv A	★★★	0.60	0.91	450	30 Sep 2010
T. Rowe Price Mid-Cap Value	★★★★★	1.92	1.05	368	31 Dec 2010
Russell US Small & Mid Cap I	★★	0.07	0.25	206	31 Aug 2010
Top 5 Sellers					
Reaves Utility Income	★★★	0.37	2.47	-325	30 Sep 2010
Principal MidCap Value I Inst	★★★★	0.01	0.04	-236	31 Dec 2010
T. Rowe Price Equity Income Port II	★★★	0.25	0.89	-104	31 Dec 2010
Lyxor EF Highbridge Stat Enh CE EUR		0.00	0.00	-74	31 Dec 2009

Stewardship: C 14 Sep 2010

Robert Skaggs replaced Gary Neale as president and CEO in 2005. Skaggs took the reins under difficult circumstances--a debt-heavy capital structure and a struggling dividend. To NiSource's credit, the chairman and CEO positions were separated when Skaggs replaced Neale. Skaggs' annual compensation consists of a base salary, an annual incentive plan, long-term incentive opportunities, and post-termination benefits. In 2009, Skaggs earned a total compensation package of $4.1 million, which we consider fair. We are pleased that all board members except Skaggs are independent and elected annually, and that a supermajority is no longer necessary for the election of directors. The company would earn a higher Stewardship Grade if it terminated its change-in-control agreements, which provide for very generous compensation for senior management if NiSource is acquired.

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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
18.66 USD	17.00 USD	11.90 USD	23.80 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

Analyst Notes

New Credit Rating: NiSource 30 Sep 2010

Morningstar is initiating credit coverage of NiSource NI with an issuer rating of BBB. This rating reflects the firm's position as a regulated entity, the level of nonfuel automotive rate adjustment mechanisms received, a history of somewhat constructive regulatory relations, and its recent effort to improve the balance sheet.

With about $5.0 billion of capital spending planned between 2010 and 2014, we expect NiSource to be a frequent yet modest debt issuer. The company has virtually no refinancing needs in 2011 and 2012. We anticipate NiSource will refinance its debt as it comes due and issue about $200 million-$250 million of debt each year to fund its growth capital expenditures. Earlier in 2010, NiSource priced an offering of 24.265 million shares at $16.50 each, thereby boosting shareholders' equity by about $400 million. We view this positively, as it takes the company's debt/total capitalization from 58% as of June 30 to an estimated 56% as of Dec. 31.

Given NiSource's cash from operations and improved balance sheet as a result of the recent equity raise, we do not expect the firm to tap the equity markets in the foreseeable future. As a result, we expect total debt/EBITDA to remain in the 4.25-4.50 times range and interest coverage to remain in the 3.75-4.00 range.

Regulatory risk remains the key source of uncertainty for NiSource, as nearly 100% of the company's operating income is derived from rate-regulated businesses. NiSource operates in several different jurisdictions, particularly in the gas distribution segment (about 40% of operating income), which helps to mitigate and diversify its regulatory risk profile. However, in the electric segment (about 15% of operating income), NiSource is solely dependent on the decisions of the Indiana Utility Regulatory Commission, which historically has been a challenging regulatory body.

NiSource Under Review 14 Sep 2010

We are placing NiSource NI under review as we transfer coverage to a new analyst.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*	*5-Year Proj. CAGR*
Revenue	*-6.8*	11.8	-25.1	-3.4	*4.3*	*4.3*	*4.3*
EBIT	*-0.7*	-1.9	-11.3	12.5	*9.4*	*5.3*	*6.2*
EBITDA	*0.4*	-0.6	-5.5	7.8	*6.2*	*4.3*	*4.7*
Net Income	*-2.5*	17.5	-35.3	22.1	*26.7*	*6.8*	*9.8*
Diluted EPS	*-3.1*	17.2	-35.4	20.2	*26.2*	*6.3*	*9.4*
Earnings Before Interest, after Tax	*6.2*	14.7	-41.7	79.2	*-15.0*	*4.0*	*0.3*
Free Cash Flow to the Firm	*-26.5*	-179.7	-228.3	-61.1	*48.8*	*-42.5*	*4.8*

Profitability	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*	*5-Year Proj. Avg*
Operating margin %	*12.4*	10.4	12.4	14.4	*15.1*	*15.2*	*15.4*
EBITDA margin %	*20.6*	16.8	21.2	23.7	*24.1*	*24.1*	*24.1*
Net margin %	*4.2*	4.2	3.7	4.6	*5.6*	*5.7*	*5.8*
Free Cash Flow to the Firm margin %	*4.1*	-8.7	14.9	6.0	*8.5*	*4.7*	*6.1*
ROIC with Goodwill %	*5.1*	6.0	3.4	6.0	*4.9*	*5.0*	*5.1*
ROIC w/out Goodwill %	*6.8*	8.0	4.5	7.9	*6.4*	*6.5*	*6.6*
Return on Assets, pretax %	*4.5*	4.8	4.1	4.7	*5.0*	*5.2*	*5.4*
Return on Equity %	*6.1*	7.5	4.8	6.0	*7.5*	*7.8*	*7.9*

Leverage	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*	*5-Year Proj. Avg*
Debt/Capital	*0.60*	0.62	0.58	0.60	*0.60*	*0.60*	*0.60*
Total Debt/EBITDA	*4.91*	5.08	4.81	4.84	*4.68*	*4.61*	*4.53*
EBITDA/Interest Expense	*3.78*	3.93	3.53	3.87	*3.80*	*3.74*	*3.70*

Valuation Summary and Forecasts

	2009	2010	*2011(E)*	*2012(E)*
Price/Fair Value	1.10	1.04	—	—
Price/Earnings	17.5	16.6	*14.0*	*13.1*
EV/EBITDA	7.5	7.3	*7.8*	*7.4*
EV/EBIT	12.9	11.9	*12.4*	*11.8*
Free Cash Flow Yield %	29.9	-2.0	*8.9*	*0.9*
Dividend Yield %	8.4	6.0	*5.0*	*5.0*

Key Valuation Drivers

Cost of Equity %	11.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.9
Long-Run Tax Rate %	36.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	12.5
Perpetuity Year	15

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

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,766	14.7	6.28
Present Value Stage II	10,228	85.3	36.37
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,994**	**100.0**	—
Cash and Equivalents	9	—	0.03
Debt	7,553	—	-26.15
Net balance sheet impact	-7,344	—	-26.11
Other Adjustments	15	—	0.05
Equity Value	**4,665**	—	**16.67**
Projected Diluted Shares	281		
Fair Value per Share (USD)	**17.00**		

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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18.66 USD	17.00 USD	11.90 USD	23.80 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Pro Forma Income Statement (USD Mil)

	Dec 2008	Dec 2009	Dec 2010	*Forecast* Dec 2011	*Forecast* Dec 2012
Organic Revenue	8,874	6,649	6,422	*6,695*	*6,982*
Acquired (Divested) Revenue	0	0	0	*0*	*0*
Total Revenue	**8,874**	**6,649**	**6,422**	**6,695**	**6,982**
Cost of Goods Sold	5,632	3,318	2,974	*3,121*	*3,277*
Gross Profit	**3,243**	**3,331**	**3,448**	**3,574**	**3,705**
Selling, General & Administrative Expenses	1,455	1,653	1,656	*1,705*	*1,756*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	295	268	272	*255*	*266*
Restructuring & Other Charges (Gains)	8	19	2	*0*	*0*
Depreciation Expense (if reported separately)	567	589	596	*604*	*618*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	0	0	0	*0*	*0*
Total Expenses	**7,957**	**5,848**	**5,501**	**5,684**	**5,918**
Operating Income (EBIT)	**918**	**802**	**921**	**1,010**	**1,064**
Interest Expense	380	399	392	*425*	*450*
Interest & Other Income (Expense)	18	-6	-93	*0*	*11*
Pre-Tax Income	**555**	**397**	**436**	**586**	**625**
Income Tax Expense (Benefit)	185	166	142	*211*	*225*
Income After Taxes	**370**	**231**	**295**	**375**	**400**
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	0	0	0	*0*	*0*
(Preferred Dividends)	0	0	0	*0*	*0*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	-291	-14	-3	*0*	*0*
Net Income (Loss)	**79**	**218**	**292**	**375**	**400**
Net Income (Loss) Excluding Charges	375	242	296	*375*	*400*
Diluted Shares Outstanding (Mil)	275	276	280	*281*	*282*
Diluted EPS Including Charges (USD)	0.29	0.79	1.04	*1.33*	*1.42*
Diluted EPS Excluding Charges (USD)	1.36	0.88	1.06	*1.33*	*1.42*
Dividends Per Common Share (USD)	0.92	0.92	0.91	*0.92*	*0.92*
EBITDA	**1,485**	**1,391**	**1,518**	**1,614**	**1,683**
EBITDA without restructuring	**1,493**	**1,410**	**1,520**	**1,614**	**1,683**

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Morningstar Analyst Forecasts

Pro Forma Balance Sheet (USD Mil)

Assets	Dec 2008	Dec 2009	Dec 2010	Forecast Dec 2011	Forecast Dec 2012
Excess Cash & Investments	0	0	0	*263*	*270*
Operating Cash & Equivalents	21	16	9	*175*	*175*
Accounts Receivable	1,143	809	1,079	*825*	*861*
Inventory	671	547	428	*470*	*494*
Other Short Term Operating Assets	1,577	852	932	*677*	*677*
Total Current Assets	**3,411**	**2,224**	**2,449**	**2,411**	**2,477**
Property Plant & Equipment, Net	10,388	10,684	11,097	*11,543*	*11,975*
Property Plant & Equipment, Gross	18,469	19,038	19,590	*20,640*	*21,690*
(Accumulated Depreciation)	-8,081	-8,354	-8,493	*-9,096*	*-9,715*
Goodwill, Net	3,677	3,677	3,677	*3,677*	*3,677*
Other Intangibles	331	320	309	*309*	*309*
Other Long-Term Operating Assets	1,727	1,810	1,851	*1,695*	*1,580*
Deferred Tax Assets	0	0	0	*0*	*0*
Long-Term Non-Operating Assets, including Pension items	498	557	556	*556*	*556*
Total Assets	**20,032**	**19,272**	**19,939**	**20,191**	**20,573**
Liabilities					
Accounts Payable	693	502	582	*451*	*470*
Short-Term Debt	1,633	822	1,417	*1,417*	*1,417*
Other Current Liabilities	2,257	1,826	1,651	*1,725*	*1,725*
Total Current Liabilities	**4,583**	**3,150**	**3,649**	**3,593**	**3,612**
Long-Term Debt	5,944	5,965	5,936	*6,136*	*6,336*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**5,944**	**5,965**	**5,936**	**6,136**	**6,336**
Long-Term Operating Liabilities	1,386	1,559	1,596	*1,444*	*1,329*
Deferred Tax Liabilities	1,550	2,018	2,210	*2,332*	*2,451*
Long-Term Non-Operating Liabilities	1,840	1,726	1,625	*1,625*	*1,625*
Total Liabilities	**15,303**	**14,418**	**15,018**	**15,130**	**15,353**
Preferred Stock	**0**	**0**	**0**	**0**	**0**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Shareholders' Equity					
Common Stock	4,729	4,853	4,923	*4,923*	*4,923*
Additional Paid in Capital	0	0	0	*22*	*42*
Retained Earnings (Deficit)	0	0	0	*116*	*255*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	0	0	0	*0*	*0*
Total Shareholders' Equity	**4,729**	**4,853**	**4,923**	**5,061**	**5,220**
Total Liabilities + Shareholders' Equity	**20,032**	**19,272**	**19,938**	**20,191**	**20,573**
Difference, from analyst adjustments and restatements	0	0	1	*0*	*0*

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18.66 USD	17.00 USD	11.90 USD	23.80 USD	Medium	Narrow	Stable	C	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Pro Forma Cash Flow (USD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast Dec 2011	Forecast Dec 2012
Net Income from Continuing Operations	79	218	292	*375*	*400*
Depreciation Expense	567	589	596	*604*	*618*
Amortization of Other Intangibles	0	0	0	*0*	*0*
Impairment of Goodwill	0	0	0	*0*	*0*
Other Non-Cash Adjustments to Operating Income	9	-236	45	*0*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	413	403	207	*123*	*119*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	-202	259	-244	*254*	*-35*
(Increase) Decrease in Inventory	-82	129	103	*-42*	*-24*
(Increase) Decrease in Prepayments, other Current Assets	-13	25	42	*255*	*0*
Increase (Decrease) in Accounts Payable	-30	-192	38	*-131*	*20*
Increase (Decrease) in Other Current Liabilities	-156	481	-359	*74*	*0*
Cash from Operations	**585**	**1,675**	**720**	**1,511**	**1,098**
(Capital Expenditures)	-970	-777	-804	*-1,050*	*-1,050*
(Acquisitions)	-330	0	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	48	6	1	*0*	*0*
Other Investing Cash Flows (Outlays)	-259	117	-140	*5*	*0*
Cash from Investing	**-1,511**	**-655**	**-944**	**-1,045**	**-1,050**
Common Stock (Purchase) or Sale	1	8	13	*23*	*20*
Common Stock (Dividends)	-252	-253	-256	*-259*	*-261*
Preferred Stock Issue/(Purchase)/(Dividends)	0	0	0	*0*	*0*
Short Term Debt Issuance and (Retirement)	103	-1,061	1,280	*0*	*0*
Long Term Debt Issuance and (Retirement)	665	290	-821	*200*	*200*
Minority Interest Addback of Income (Loss) Distribution	0	0	0	*0*	*0*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**516**	**-1,016**	**216**	**-36**	**-41**
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*0*	*0*
Net Change in Cash	**-410**	**5**	**-8**	**430**	**7**
Change in Cash on Balance Sheet	-15	-4	-7	*429*	*7*
Difference, from analyst adjustments and restatements	-394	9	0	*1*	*0*

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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	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Kinder Morgan Energy Partners, L.P.	1.09	49.9	44.9	45.5	10.3	8.6	7.8	NM	14.6	14.2	2.3	2.3	2.2	1.9	1.7	1.6
Sempra Energy SRE US	0.98	12.4	15.5	12.8	8.8	9.0	8.1	NM	NM	NM	1.5	1.4	1.3	1.7	1.4	1.4
Atmos Energy Corporation ATO US	1.07	13.5	14.9	14.7	7.1	7.3	7.0	6.4	16.4	NM	1.2	1.4	1.3	0.5	0.6	0.6
Nicor Inc. GAS US	1.05	14.1	16.9	17.8	6.5	6.9	7.3	5.4	NM	40.8	1.8	2.1	2.0	0.7	0.8	0.7
Average		22.5	23.1	22.7	8.2	8.0	7.6	5.9	15.5	27.5	1.7	1.8	1.7	1.2	1.1	1.1
NiSource, Inc. NI US	**1.10**	**16.6**	**14.0**	**13.1**	**7.3**	**7.8**	**7.4**	**NM**	**11.3**	**108.4**	**0.9**	**1.0**	**1.0**	**0.7**	**0.8**	**0.7**

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)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Kinder Morgan Energy Partners, L.P.	22,074 USD	9.7	11.2	12.1	10.3	11.9	12.8	20.5	25.6	26.5	8.6	10.2	11.0	6.0	6.7	7.2
Sempra Energy SRE US	28,512 USD	7.1	5.2	5.5	7.3	5.4	5.6	12.4	7.1	13.2	6.0	4.4	7.2	2.5	3.0	3.2
Atmos Energy Corporation ATO US	6,344 USD	9.1	9.7	6.2	10.5	11.2	7.0	9.0	9.5	9.3	7.0	7.5	7.0	4.7	4.1	4.2
Nicor Inc. GAS US	4,436 USD	6.3	7.0	6.2	6.3	7.0	6.2	13.5	13.0	11.8	4.8	5.3	4.8	4.5	3.7	3.8
Average		8.1	8.3	7.5	8.6	8.9	7.9	13.9	13.8	15.2	6.6	6.9	7.5	4.4	4.4	4.6
NiSource, Inc. NI US	**19,939** USD	**6.0**	**4.9**	**5.0**	**7.9**	**6.4**	**6.5**	**6.0**	**7.5**	**7.8**	**4.7**	**5.0**	**5.2**	**6.0**	**5.0**	**5.0**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Kinder Morgan Energy Partners, L.P.	8,081 USD	15.4	13.5	8.8	7.2	25.4	11.7	21.8	11.7	-1.8	-70.6	-389.2	3.1	2.9	6.0	4.1
Sempra Energy SRE US	8,106 USD	-24.7	9.1	6.2	9.8	-17.7	15.0	9.8	-24.4	21.2	-95.8	NM	25.1	2.1	13.2	6.9
Atmos Energy Corporation ATO US	4,969 USD	-31.2	-3.6	5.1	5.8	8.1	-1.3	4.0	6.9	1.7	-504.3	-55.1	-150.9	1.7	1.4	2.1
Nicor Inc. GAS US	2,652 USD	-29.8	13.7	5.0	19.2	9.4	-6.3	13.3	2.1	-5.1	-226.4	-120.4	-180.3	0.3	0.9	3.4
Average		-17.6	8.2	6.3	10.5	6.3	4.8	12.2	-0.9	4.0	-224.3	188.2	-75.8	1.8	5.4	4.1
NiSource, Inc. NI US	**6,422** USD	**-3.4**	**4.3**	**4.3**	**12.5**	**9.4**	**5.3**	**20.2**	**26.2**	**6.3**	**-109.3**	**-650.1**	**-89.6**	**-0.6**	**0.8**	**0.5**

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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
18.66 USD	17.00 USD	11.90 USD	23.80 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

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Kinder Morgan Energy Partners, L.P.	449 USD	100.0	100.0	100.0	33.9	35.7	36.1	22.6	25.0	25.7	5.6	5.7	5.2	-4.6	11.7	11.1
Sempra Energy SRE US	1,117 USD	59.8	59.2	58.6	31.4	26.2	27.3	21.8	16.5	17.8	13.8	9.6	10.7	-0.5	-14.0	-16.5
Atmos Energy Corporation ATO US	191 USD	27.1	28.5	28.2	13.5	14.8	14.6	9.1	10.2	9.6	3.8	4.3	4.1	8.3	3.8	-1.9
Nicor Inc. GAS US	136 USD	52.1	46.9	44.6	15.7	14.0	12.7	8.3	8.0	7.1	5.1	4.6	4.2	13.2	-2.4	1.8
Average		59.8	58.7	57.9	23.6	22.7	22.7	15.5	14.9	15.1	7.1	6.1	6.1	4.1	-0.2	-1.4
NiSource, Inc. NI US	**286 USD**	**53.7**	**53.4**	**53.1**	**23.7**	**24.1**	**24.1**	**14.4**	**15.1**	**15.2**	**4.6**	**5.6**	**5.7**	**-1.3**	**6.9**	**0.7**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Kinder Morgan Energy Partners, L.P.	12,545 USD	187.7	190.1	194.8	65.0	65.3	65.9	5.6	5.9	5.0	4.6	4.0	3.8	3.3	3.3	3.4
Sempra Energy SRE US	8,651 USD	96.1	94.3	96.8	48.5	48.0	48.1	6.9	4.8	5.0	3.4	3.8	3.8	3.2	3.1	3.1
Atmos Energy Corporation ATO US	2,242 USD	103.0	105.4	105.2	50.7	51.3	51.3	4.4	4.6	5.0	3.3	3.2	3.3	2.9	3.1	3.1
Nicor Inc. GAS US	992 USD	95.6	97.9	93.6	48.9	49.5	48.3	10.8	9.8	8.9	2.4	2.5	2.7	4.3	4.2	4.1
Average		120.6	121.9	122.6	53.3	53.5	53.4	6.9	6.3	6.0	3.4	3.4	3.4	3.4	3.4	3.4
NiSource, Inc. NI US	**7,353 USD**	**149.4**	**149.2**	**148.5**	**59.9**	**59.9**	**59.8**	**3.9**	**3.8**	**3.7**	**4.8**	**4.7**	**4.6**	**4.1**	**4.0**	**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 %		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Kinder Morgan Energy Partners, L.P.	15,613 USD	0.48	0.58	0.54	-35.06	-40.63	-41.25	7.48	8.46	8.75	-1.20	3.38	3.38	208.9	198.5	220.0
Sempra Energy SRE US	12,680 USD	0.59	2.00	3.66	-34.38	-33.23	-36.62	7.58	8.12	7.90	-0.15	-4.99	-6.35	30.5	60.8	29.9
Atmos Energy Corporation ATO US	3,007 USD	1.21	1.43	0.71	-23.26	-23.41	-25.64	10.03	7.86	5.28	4.47	1.99	-1.02	63.6	60.4	60.7
Nicor Inc. GAS US	2,337 USD	1.22	1.18	1.08	-20.58	-22.29	-22.37	12.55	5.44	7.26	7.70	-1.56	1.25	62.6	61.9	67.4
Average		0.9	1.3	1.5	-28.3	-29.9	-31.5	9.4	7.5	7.3	2.7	-0.3	-0.7	91.4	95.4	94.5
NiSource, Inc. NI US	**5,193 USD**	**0.03**	**1.56**	**1.58**	**-26.22**	**-25.30**	**-25.88**	**2.57**	**5.37**	**3.89**	**-0.30**	**1.64**	**0.17**	**87.5**	**69.0**	**65.2**

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Research Methodology for Valuing Companies

Components of Our Methodology

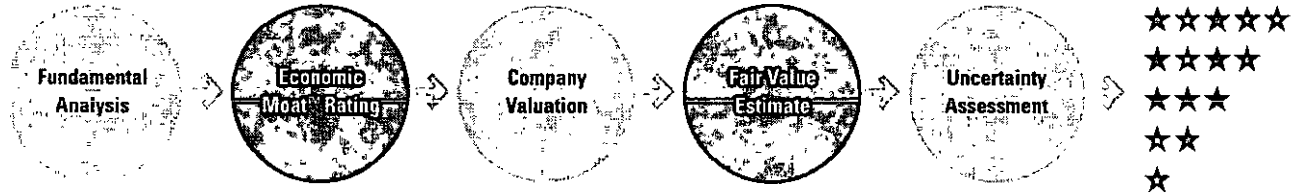
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Grades
- Financial Health Grades

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 con-

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Star Rating.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an uncertainty rating: Low, Medium, High, Very High, or Extreme.

The uncertainty rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

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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.

tinuing value using a standard 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.

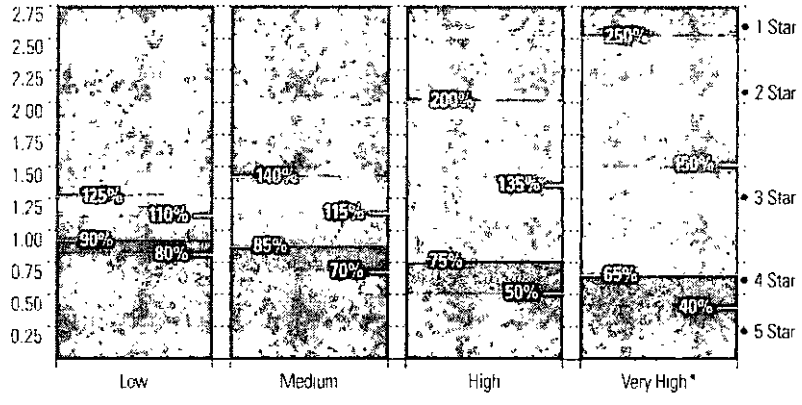
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing 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

Price/Fair Value



* 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 new measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default

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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 com-pany's ability to meet short term cash outflows), profita-bility (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, as are the four underlying ratings. 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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UBS

Global Equity Research

Americas

Electric Utilities

UBS Investment Research

NiSource Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$18.00 *Unchanged*
Price	US$18.62

RIC: NI.N BBG: NI US

1 February 2011

A Productive 2010 Sets the Stage for 2011

■ 4Q results in-line

NI realized recurring 4Q EPS of $0.35 (including the impact of actual weather), in-line with our $0.35 estimate and slightly ahead of the Street's $0.34 mean estimate. Better than anticipated Electric Utility results and below-forecast interest expense offset weaker than expected performance at NGT&S and a marginally higher share count to produce in-line EPS. Figure 1 offers greater detail on operating results.

■ Much accomplished in '10, continued progress on all fronts slated for '11

NI had a transformative 2010 as it concluded important Gas and Electric rate cases, advanced and completed NGT&S projects which support burgeoning gas and NGL production in the Marcellus shale, and secured financing to pursue its broad array of ongoing infrastructure investment opportunities. We look for NI to build upon these achievements in 2011 as it seeks additional Gas, Electric, and Pipeline rate relief and continued development of new NGT&S infrastructure and environmental upgrades at many of its power generation facilities.

■ Mgmt issues 2011 EPS guidance of $1.25-$1.35; Maintaining EPS estimates

In conjunction with reporting 2010 results, mgmt issued 2011 EPS guidance (non-GAAP) of $1.25-$1.35 and noted that near-term EPS growth may exceed its stated 3-5% target due to the impact of 2010-11 regulatory initiatives. In addition, mgmt continues to anticipate $1.0-$1.1B in annual capex as it pursues growth projects. We maintain our 2011-13 EPS estimates of $1.33, $1.45, and $1.46, respectively.

■ Valuation: Maintain Neutral rating and $18 price target

We maintain our DCF and SOP derived $18 price target and Neutral rating on the shares.

Highlights (US$m)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	6,371.00	6,034.80	6,319.87	6,590.76	6,743.55
EBIT (UBS)	844.90	920.30	979.90	1,057.34	1,077.55
Net Income (UBS)	259.67	338.69	383.49	421.72	425.28
EPS (UBS, US$)	0.94	1.21	1.33	1.45	1.46
Net DPS (UBS, US$)	0.92	0.92	0.92	0.92	0.92
Profitability & Valuation	**5-yr hist av.**	**12/10**	**12/11E**	**12/12E**	**12/13E**
EBIT margin %	12.0	15.2	15.5	16.0	16.0
ROIC (EBIT) %	8.6	8.5	8.6	9.1	9.0
EV/EBITDA (core) x	8.5	8.4	8.9	8.4	6.9
PE (UBS) x	15.1	13.4	14.0	12.8	12.8
Net dividend yield %	5.2	5.7	4.9	4.9	4.9

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$18.62 on 31 Jan 2011 19:41 EST

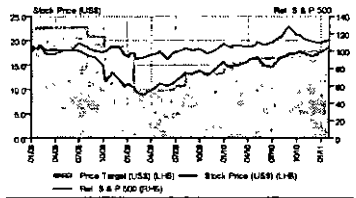
Balance sheet data 12/11E	
Shareholders' equity	US$5.26bn
P/BV (UBS)	1.0x
Net Cash (debt)	(US$7.29bn)

Forecast returns	
Forecast price appreciation	-3.3%
Forecast dividend yield	4.9%
Forecast stock return	+1.6%
Market return assumption	5.6%
Forecast excess return	-4.0%

EPS (UBS, US$)

	12/11E			12/10
	From	To	Cons.	Actual
Q1E	-	0.70	0.73	0.71
Q2E	-	0.14	0.11	0.10
Q3E	-	0.12	0.08	0.06
Q4E	-	0.36	0.40	0.35
12/11E	1.33	1.33	*1.31*	
12/12E	1.45	1.45	*1.40*	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 3.
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Figure 1: NI 4Q10 Results Review

Recurring Operating Income by Division	Actual 4Q10A	UBS Estimates 4Q10A		Year-over-Year 4Q09A	
Gas Distribution	$121.6	$123.5	-1.5%	$113.2	-7.4%
Transmission & Storage	$100.0	$112.3	-10.9%	$116.7	-14.3%
Electric Operations	$44.9	$36.9	21.8%	$36.2	24.0%
Corporate, Other, and Eliminations	($10.5)	($6.0)	-75.0%	($8.2)	-28.0%
Total Operating Income	**$256.0**	**$266.6**	**-4.0%**	**$257.9**	**-0.7%**
Depreciation	($141.7)	($140.5)	0.9%	($145.8)	-2.8%
Other Income / (Expenses)	($3.5)	($4.8)	-27.1%	$0.8	-537.5%
Interest Expense	($97.5)	($103.4)	-5.7%	($98.6)	-1.1%
Income Tax Benefit (Expense)	($56.2)	($60.2)	-6.7%	($61.6)	-8.7%
Recurring Net Income	**$98.8**	**$98.2**	**0.6%**	**$98.5**	**0.3%**
Avg Diluted Shares Outstanding	282.6	280.7	0.7%	276.8	2.1%
Earnings Per Diluted Share	**$0.35**	**$0.35**	**-0.1%**	**$0.36**	**-1.8%**

Source: NI reports and UBS estimates

Note: Adjusted results exclude non-recurring items and do not always reconcile with the adjustments NI has chosen to make in its adjusted reported earnings. Weather fluctuations, for example, are viewed by us to be a reoccurring element of NI's operations, while management chooses to exclude the impacts of non-normal weather.

■ 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.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

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 December 2010.

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.
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Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
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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).
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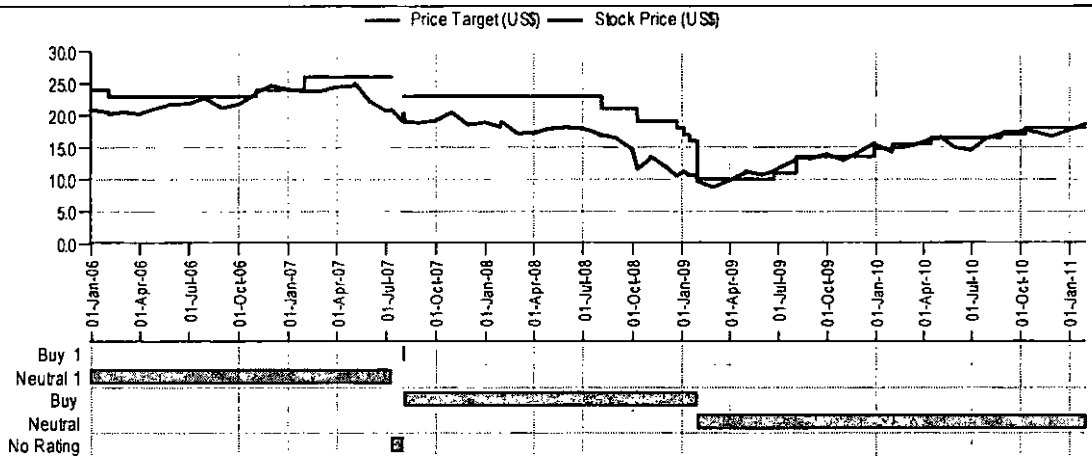
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
NiSource Inc.[4, 6a, 6b, 7, 16]	NI.N	Neutral	N/A	US$18.62	31 Jan 2011

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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NiSource Inc. (US$)



Source: UBS; as of 31 Jan 2011

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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UBS

February 3, 2011

Equity Research

NiSource Inc.

NI: 2010 In Line With Expectations
Maintaining Market Perform Rating And Estimates

Market Perform

Sector: Natural Gas Pipeline
Market Weight

- **Summary.** Maintaining Market Perform rating and our $18-20 valuation range. NI reported Q4 2010 EPS of $0.33, which was slightly below our $0.36 estimate but in line with the $0.34 consensus estimate. 2010 of $1.22 was in line with our and consensus estimates of $1.23. Slightly lower-than-expected earnings were driven by lower gas distribution and transmission earnings, which were partially offset by higher electric earnings, lower interest expense, and taxes (see page 2 for details). We are maintaining our 2011 and introducing our 2012 EPS estimates of $1.33 and $1.43, respectively. Our estimates are predicated on a modest recovery in park and loan activities on Columbia pipeline and gradual electric generation load growth in Indiana.
- **2011 Guidance In Line With Expectations.** NI released 2011 guidance in a range of $1.25-1.35, which is consistent with our $1.33 estimate; both are premised on a modest and gradual economic recovery. The company also reiterated its 3-5% long-term earnings growth rate but noted that near-term earnings may exceed this range if it can successfully execute on its key regulatory initiatives and if the economic recovery is stronger than anticipated. The forward equity offering, completed in September 2010, allowed NI to increase its capital budget from $950MM in 2010 to $1.1B in 2011. Longer term, NI's balance sheet is no longer an inhibiting factor, in our view; therefore the company is now positioned to capitalize on its inventory of investment opportunities.
- **NIPSCO II Progressing Down The Settlement Path.** NI continues to move forward with NIPSCO II rate case but would prefer to settle the case by the end of H1 2011, if possible. New rates are expected to be effective in early 2012. In our view, a settlement is likely to remove a perceived regulatory overhang and finally allow NI the ability to refocus investors attention on its regulated and infrastructure growth opportunities in the gas distribution and transmission segments.
- **Thoughts On The Shares.** With a 5% yield, we believe NiSource remains one of the most-attractive income vehicles under our coverage. In addition, shares screen inexpensive at just 12.8x our 2012E EPS, a discount to its integrated gas and gas utility peer group averages of 15x and 14.5x, respectively. We believe a swift and definitive resolution on the NIPSCO rate cases could help to close a portion of this valuation gap as it should remove uncertainty for investors.

Earnings Reported

	2010A	2011E		2012E	
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	$0.72	$0.75		NE	
Q2 (June)	0.13	0.16		NE	
Q3 (Sep.)	0.04	0.07		NE	
Q4 (Dec.)	0.33	0.36		NE	
FY	$1.22	$1.33	NC	$1.43	
CY	$1.22	$1.33		$1.43	
FY P/E	15.0x	13.8x		12.8x	
Rev.(MM)	$3,439	$3,586		$3,941	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ✎ = Company is on the Priority Stock List

Ticker	NI
Price (02/02/2011)	$18.35
52-Week Range:	$14-19
Shares Outstanding: (MM)	273.1
Market Cap.: (MM)	$5,011.4
S&P 500:	1,304.03
Avg. Daily Vol.:	2,643,680
Dividend/Yield:	$0.92/5.0%
LT Debt: (MM)	$7,375.0
LT Debt/Total Cap.:	59.0%
ROE:	7.0%
3-5 Yr. Est. Growth Rate:	3.0%
CY 2011 Est. P/E-to-Growth:	4.6x
Last Reporting Date:	02/01/2011

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Valuation Range: $18.00 to $20.00
We believe the shares of NI warrant a valuation range of $18 to $20, based on our 2012 EPS estimate and a P/E multiple of roughly 13x to 14x. Risks to the shares achieving our valuation range over the next 12 months may include unexpected regulatory actions, operational execution of investment projects designed to grow earnings, and achievement of further operating cost savings.

Investment Thesis:
NiSource's regulated businesses provide a stable, predictable stream of earnings. The company has improved its balance sheet, sold non-core businesses, and lowered its risk profile. The lack of near-term earnings growth, compounded and driven by multiple regulatory overhangs that also dampen potential for strategic action, effectively limit the stock's attraction, in our view.

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Please see page 4 for rating definitions, important disclosures and required analyst certifications

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Together we'll go far



Company Description:

NiSource Inc. operating companies engage in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution, delivering energy to 3.7 million customers in the Great Lakes, Mid-Atlantic, and New England regions.

NiSource reported 2010 net operating earnings (non-GAAP) of $339.7MM, or $1.22 per share, compared to net operating earnings of $295.1 million, or $1.07 per share for 2009--an increase of 14%. NiSource's consolidated operating earnings (non-GAAP) for 2010, were $917.5MM compared to $880.8MM in 2009. Q4 2010 net operating earnings (non-GAAP) were $94.0MM, or $0.33 per share, compared with $99.1MM, or $0.36 per share, for the same period in 2009 (see Exhibit 1 for more detail).

Exhibit 1. Quarterly Earnings Variance

					Actual Vs. Est.		Y/Y Variance		Sequential Variance	
(In millions, except per share amounts)	4Q09A	3Q10A	4Q10A	4Q10E	VAR ($)	VAR (%)	VAR ($)	VAR (%)	VAR ($)	VAR (%)
Gas Distribution	114.5	(40.7)	113.0	117.3	(4.3)	-4%	(1.5)	-1%	153.7	-378%
Gas Transmission & Storage	116.6	76.4	100.0	115.8	(15.8)	-14%	(16.6)	-14%	23.6	31%
Electric	35.6	80.0	43.8	33.1	10.7	32%	8.2	23%	(36.2)	-45%
Corporate and Other	(8.2)	(5.8)	(8.3)	(5.0)	(3.3)	66%	(0.1)	1%	(2.5)	43%
Operating Earnings	**258.5**	**109.9**	**248.5**	**261.2**	(12.7)	-5%	(10.0)	-4%	**138.6**	**126%**
Net Operating margin	*28.2%*	*15.5%*	*15.5%*	*28.2%*	-12.7%	-45%	-13%	-45%		
Other Earnings (Deductions)	-	-	-							
Interest expense, net	(98.6)	(97.6)	(97.5)	(100.0)	2.5	-3%	1.1	-1%	0.1	0%
Other, net	0.8	2.1	(3.5)	(2.0)	(1.5)	NE	(4.3)	-538%	(5.6)	-267%
Total Other Income (Dedutions)	(97.8)	(95.5)	(101.0)	(102.0)	1.0	-1%	(3.2)	3%	(5.5)	6%
Operating Earnings From Cont. Ops. Before Tax	**160.7**	**14.4**	**147.5**	**159.2**	**(11.7)**	**-7%**	**(13.2)**	**-8%**	**133.1**	**924%**
Income Taxes	61.8	4.1	53.5	58.9	(5.4)	-9%	(8.3)	-13%	49.4	1205%
Effective Tax Rate (%)	*38.5%*	*28.5%*	*36.3%*	*37.0%*	(0.0)	-2%	(0.0)	-6%	0.1	27%
Net Operating Earnings from Continuing Ops.	**98.9**	**10.3**	**94.0**	**100.3**	**(6.3)**	**-6%**	**(4.9)**	**-5%**	**83.7**	**813%**
GAAP Adjustment	(10.4)	23.1	(58.2)	-	(58.2)	NE	(47.8)	460%	(81.3)	-352%
GAAP Income From Cont. Ops	**$ 88.5**	**$ 33.4**	**$ 35.8**	**$ 100.3**	**(64.5)**	**-64%**	**(52.7)**	**-60%**	**2.4**	**7%**
Basic Net Op. Earnings Per Share from Cont. Ops	**$ 0.36**	**$ 0.04**	**$ 0.33**	**$ 0.36**	**$ (0.03)**	**-8%**	**$ (0.03)**	**-8%**	**$ 0.29**	**791%**
GAAP Adjustment	$ (0.04)	$ 0.08	$ (0.21)	$ -	$ (0.21)	NE	$ (0.17)	454%	$ (0.29)	-351%
GAAP Basic Earnings Per Share from Cont. Ops	**$ 0.32**	**$ 0.12**	**$ 0.13**	**$ 0.36**	**$ (0.23)**	**-64%**	**$ (0.19)**	**-60%**	**$ 0.01**	**7%**
Basic Average Common Shares Outstanding (MM)	276	278.1	278.6	278.1	0.5	0%	2.6	1%	0.5	0%
Consolidated EBITDA	**$ 407**	**$ 259**	**$ 387**	**$ 408**	**(20.8)**	**-5%**	**(20.1)**	**-5%**	**127.8**	**49%**
Consolidated EBITDA (TTM)	**$ 1,463**	**$ 1,521**	**$ 1,501**	**$ 1,522**	**(20.8)**	**-1%**	**37.8**	**3%**	**(20.1)**	**-1%**

Source: Company data and Wells Fargo Securities, LLC estimates

Maintaining Market Perform And Valuation Range Of $18-20

We value NiSource using a sum-of-the-parts (SOP) valuation analysis; however, we also use P/E multiple-based valuation analysis, which we believe helps to support our SOP. Below we have provided an updated sum of-the-parts analysis that is based on a range of EV/EBITDA multiples, which are a reflection of each individual business segment's growth and risk profiles. For the gas distribution segment we apply a 6.75-7.75x multiple, for gas transmission and storage we apply an 8.25-9.25x multiple, for the electric segment we apply a 6.5-7.5x multiple, and for the corporate and other segment we apply a 4.5-5.5x multiple to our 2012 EBITDA estimates. We then subtract out our estimate for net debt and pension liabilities to arrive at our equity value, which we then divide by the number of diluted shares outstanding to arrive at our equity valuation range per share. As outlined at the bottom of our SOP analysis, this implies that shares should trade at roughly 13-14x our 2012 EPS estimate to arrive at our valuation range. Historically shares have traded on average at approximately 13.7x one-year forward EPS estimates.

Exhibit 2. NiSource Sum-Of-The-Parts Scenario Analysis

NiSource Corp. (NI): Sum-of-the-Parts Scenario Analysis Valuation Build-up											
($ in millions except were noted)			*2012 Valuation Senario Analysis*						2012E Valuation / Share		
Regulated Segments:			Low Case		Base Case		High Case				
Segment	Metric:	2012E	Valuation Multiple	E.V. ($ MM)	Valuation Multiple	E.V. ($ MM)	Valuation Multiple	E.V. ($ MM)	Low Case	Base Case	High Case
Gas Distribution	EBITDA:	$626MM	6.75 x	$ 4,237	7.25 x	$ 4,551	7.75 x	$ 4,865	$13.99	$15.02	$16.06
Gas Transmission and Storage	EBITDA:	$557MM	8.25 x	$ 4,595	8.75 x	$ 4,874	9.25 x	$ 5,152	$15.17	$16.99	$17.01
Electric	EBITDA:	$588MM	6.5 x	$ 3,822	7.0 x	$ 4,116	7.5 x	$ 4,410	$12.62	$13.59	$14.56
Corp & Other	EBITDA:	-$40MM	4.5 x	$ (180)	5.0 x	$ (200)	5.5 x	$ (220)	($0.59)	($0.66)	($0.73)
Total Enterprise Value:		$1,733MM	7.3 x	$ 12,474	7.8 x	$ 13,340	8.3 x	$ 14,206	$41.18	$44.04	$46.90
2010 Year End Estimated Net Debt				$ (7,437)		$ (7,437)		$ (7,437)	($24.55)	($24.55)	($24.55)
Pension liability (PV @ 10%)				$ (131.9)		$ (131.9)		$ (131.9)	($0.44)	($0.44)	($0.44)
Equity Value :				$ 4,905		$ 5,771		$ 6,637	$16	$19	$22
Diluted Shares Outstanding (MM)				302.9		302.9		302.9			
Valuation:				$16		$19		$22			
Target Implied 2010E P/E Multiple				*13.1x*		*15.0x*		*18.0x*			
Target Implied 2011E P/E Multiple				*12.0 x*		*14.3 x*		*16.5 x*			
Target Implied 2012E P/E Multiple				*11.1 x*		*13.2 x*		*15.3 x*			
Potential upside (excluding dividend)				*-5%*		*2%*		*17%*			
Potential upside (including dividend)				*-0%*		*7%*		*22%*			

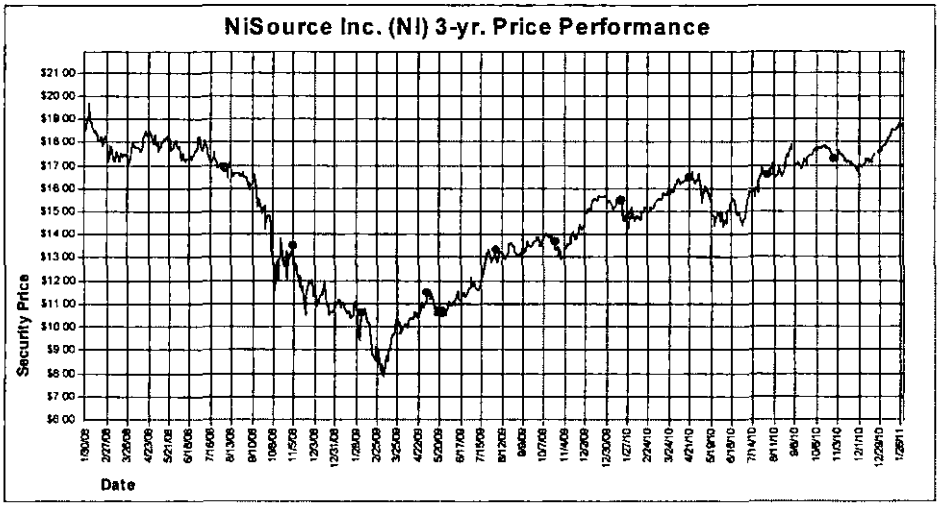
Source: Company Data and Wells Fargo Securites, LLC estimates

Exhibit 3. NiSource Consolidated Income Statement

NiSource Inc. (Fiscal Yr. End Dec. 30) *(In millions, except per share amounts)*	FY 2007A	FY 2008A	FY 2009A	FY 2010A	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Total net revenues	3,303.8	3,233.1	3,342.3	3,436.7	1,107.1	778.8	744.6	955.7	3,586.1	3,940.8	4,118.8	4,305.7	4,502.6
Operating Expenses													
Operations and maintenance	1,250.3	1,248.8	1,360.0	1,415.9	347.1	354.1	369.9	407.6	1,478.7	1,627.4	1,701.2	1,778.9	1,860.7
Operations and maintenance - trackers	202.8	210.7	247.3	239.8	109.1	38.0	33.7	64.1	245.0	255.7	263.8	272.2	280.8
Depreciation and amortization	559.2	567.0	583.0	583.8	143.9	145.8	147.5	145.4	582.6	684.4	718.2	753.9	791.7
Depreciation and amortization - Trackers			6.2	12.5									
Other taxes	207.2	204.7	200.5	207.0	53.8	50.8	52.0	49.8	206.4	223.1	230.1	237.4	245.3
Other taxes - trackers	95.8	100.8	81.1	77.4	31.0	12.8	9.0	24.6	77.4	77.4	77.4	77.4	77.4
Total Operating Expenses	2,315.3	2,332.0	2,478.1	2,536.4	684.9	601.5	612.1	691.6	2,590.1	2,868.0	2,990.7	3,119.8	3,255.8
Equity Earnings in Unconsolidated Affiliates	9.4	12.3	16.1	15.0	7.5	0.4	3.5	3.8	15.2	15.5	15.8	16.1	16.5
Operating Earnings	997.9	913.4	880.3	917.3	425.7	173.7	132.0	263.8	995.2	1,072.2	1,127.7	1,186.0	1,247.2
Net Operating margin	30.2%	28.3%	26.3%	26.7%	38.5%	22.3%	17.7%	27.6%	27.8%	27.2%	27.4%	27.5%	27.7%
Other Earnings (Deductions)													
Interest expense, net	(400.7)	(375.2)	(399.4)	(392.2)	(99.2)	(99.0)	(99.2)	(99.3)	(396.7)	(400.9)	(392.4)	(395.0)	(398.8)
Other, net	(6.5)	0.6	(1.4)	3.8	-	-	-	-	-	-	-	-	-
Total Other Income (Deductions)	(407.2)	(374.6)	(400.8)	(388.4)	(99.2)	(99.0)	(99.2)	(99.3)	(396.7)	(400.9)	(392.4)	(395.0)	(398.8)
Operating Earnings From Cont. Ops. Before Tax	590.7	538.8	479.5	528.9	326.5	74.7	32.8	164.5	598.5	671.4	735.3	791.0	848.4
Income Taxes	214.9	192.6	184.4	189.3	117.5	26.9	11.8	59.2	215.5	241.7	264.7	284.8	305.4
Effective Tax Rate (%)	36.4%	35.7%	38.5%	35.8%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Net Operating Earnings from Continuing Ops.	375.8	346.2	295.1	339.8	209.0	47.8	21.0	105.3	383.0	429.7	470.6	506.2	543.0
GAAP Adjustment	(53.8)	21.0	(64.3)	(45.1)	-	-	-	-	-	-	-	-	-
GAAP Income From Cont. Ops	$ 322.0	$ 367.2	$ 230.8	$ 294.5	$ 209.0	$ 47.8	$ 21.0	$ 105.3	$ 383.0	$ 429.7	$ 470.6	$ 506.2	$ 543.0
Basic Net Op. Earnings Per Share from Cont. Ops	$ 1.37	$ 1.26	$ 1.07	$ 1.22	$ 0.75	$ 0.16	$ 0.07	$ 0.36	$ 1.33	$ 1.43	$ 1.55	$ 1.67	$ 1.79
GAAP Adjustment	$ (0.20)	$ 0.08	$ (0.23)	$ (0.16)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
GAAP Basic Earnings Per Share from Cont. Ops	$ 1.18	$ 1.34	$ 0.84	$ 1.06	$ 0.75	$ 0.16	$ 0.07	$ 0.36	$ 1.33	$ 1.43	$ 1.55	$ 1.67	$ 1.79
Basic Average Common Shares Outstanding (MM)	273.9	274.0	276.0	277.8	278.6	290.8	290.8	290.8	287.7	299.9	302.9	302.9	302.9
Dividends per share	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.23	$ 0.23	$ 0.23	$ 0.23	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92
Dividends per share (TTM)	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92
Dividend Payout Ratio (TTM)	67%	73%	86%	75%	73%	71%	69%	68%	69%	64%	59%	55%	51%
Segment EBITDA:													
Gas Distribution EBITDA	$ 584.7	$ 556.3	$ 577.4	$ 582.2	$ 304.2	$ 101.9	$ 24.3	$ 166.7	$ 597.1	$ 627.7	$ 651.5	$ 676.0	$ 701.2
Gas Transmission EBITDA	$ 488.9	$ 484.3	$ 530.3	$ 507.8	$ 160.6	$ 109.8	$ 111.6	$ 141.5	$ 523.4	$ 557.0	$ 580.1	$ 604.3	$ 629.3
Electric EBITDA	$ 480.7	$ 429.8	$ 368.0	$ 429.2	$ 106.8	$ 111.8	$ 147.7	$ 105.1	$ 473.4	$ 568.0	$ 630.3	$ 675.7	$ 724.3
Consolidated EBITDA	1,557.1	1,480.4	1,463.3	1,501.1	569.6	319.5	279.5	409.3	1,577.9	1,756.6	1,846.0	1,940.0	2,038.9
Consolidated EBITDA (TTM)	1,557.1	1,480.4	1,463.3	1,501.1	1,518.5	1,535.5	1,555.7	1,577.9	1,577.9	1,756.6	1,846.0	1,940.0	2,038.9

Source: Wells Fargo Securities, LLC estimates & Company reports

Required Disclosures



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	1/30/2008		Brothwell			
	1/30/2008	NA	2	19.00	20.00	18.51
●	8/5/2008	16.81	2	18.00	19.00	16.93
●	11/4/2008	13.52	2	13.00	15.00	13.52
●	2/4/2009	10.47	2	10.00	12.00	10.63
●	5/4/2009	11.24	2	11.00	12.00	11.48
■	5/19/2009		Lefebvre			
●	8/4/2009	13.35	2	12.00	13.00	13.35
●	10/22/2009	13.65	2	13.00	14.00	13.69
●	1/19/2010	15.29	2	15.50	16.50	15.52
●	2/1/2010	14.85	2	16.00	17.00	14.85
●	4/20/2010	16.39	2	16.50	17.50	16.46
●	8/3/2010	16.58	2	17.00	18.00	16.58
●	10/29/2010	17.29	2	18.00	20.00	17.31

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	❒	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

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- Wells Fargo Securities, LLC or its affiliates may have a significant financial interest in NiSource Inc.

NI: Risks to the shares achieving our valuation range over the next 12 months may include unexpected regulatory actions, operational execution of investment projects designed to grow earnings, and achievement of further operating cost savings.

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 3, 2011

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SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WUNDERLICH SECURITIES

Energy: Utilities/Power

NISOURCE INC. (NI: 18.73)

February 2, 2011

Raising Price Target
Rating: Hold
Price Target: Old - $17.00; New - $18.00

Market Data	
12-18 Month Price Target	$18.00
52-Week Range	18.93 - 14.13
ADTV - 90Day (MM)	2,504.3
Market Cap ($MM)	5,212.7
Shares Out (MM)	278.6
Public Market Float (MM)	276.0
Dividend	0.92
Dividend/Yield	4.91%

EPS ($)					
FY DEC	2010	2011		2012	
	Actual	Previous	Current	Previous	Current
Q1	$0.72A	-	$0.75E	-	-
Q2	$0.13A	-	$0.09E	-	-
Q3	$0.04A	-	$0.08E	-	-
Q4	$0.33A	-	$0.40E	-	-
YEAR	$1.22A	$1.30	$1.32E	$1.40	$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	15.4x	14.2x	13.2x
PEG	3.8x	3.5x	3.3x
EV/EBITDA	8.3x	8.3x	8.0x
Leverage Ratio	4.8x	4.9x	4.7x
EV/FCF	NM	138.6x	102.8x
FCF Yield	NM	1.7%	2.3%
P/FCF	NM	57.5x	42.7x
EV/S	2.0x	1.9x	1.9x

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

4Q in Line; Raising 2011 and 2012 Estimates; Increasing Target Price

Summary

NiSource, Inc. (NI) reported 4Q operating (non-GAAP) earnings yesterday of $0.33 versus $0.36 a year ago (our estimate was $0.32). The 4Q and full year earnings were as expected, driven by rate cases and improving sales, but offset partially by higher expenses. As we look forward, the combination of pending rate cases and capital spending in 2011 of $1.1 billion ($650 million of which is for growth or recovered via regulatory tracker) should drive earnings growth of about 7% over the next three years. However, the Indiana electric rate case is a critical portion of that growth. We are increasing our earnings estimates for NI and increasing our 12-month target price to $18 per share from $17.

Key Points

- **4Q earnings in line with expectations, led by electric business.** 4Q results were led by the electric business, which benefited from improving sales and margins. Industrial sales rose 13% over the same period a year ago. Gas transmission and storage (GT&S) was lower in 4Q, though driven by higher expenses. Infrastructure pipeline investments coupled with the Columbia Gulf rate case should drive 2011 earnings for GT&S. Though flat in 4Q, the gas distribution business benefited from rate increases for the full year 2010.
- **Rate increases continue to be important execution items.** Looking into 2011 and 2012, earnings growth should once again be driven by rate increases. The Columbia Gulf pipeline requested a $50mm rate increase from FERC. Columbia Gas of PA has requested a $38mm increase. NIPSCO has requested a $75.7mm electric rate increase (2nd case) in Indiana. Successful execution of these cases will be important to earnings growth for 2011 and 2012.
- **Marcellus shale infrastructure play continues.** NI's GT&S business continues to exploit its geographic footprint, essentially overlaying the Marcellus shale unconventional gas play. NI is targeting between $160mm and $250mm in growth initiatives in the business, including the Marcellus. The Majorsville gathering pipeline ($80mm investment) began operating in the third quarter and should provide EPS of about $0.02 in 2011.
- **Increasing EPS estimates slightly for 2011 and 2012.** Our 2011 EPS estimate is going up by $0.02 to $1.32, and our 2012 EPS estimate is going up by a similar amount to $1.42. Both changes reflect fine-tuning of our model and the inclusion of 2010 actual earnings. We are initiating a 2013 EPS estimate of $1.49. Our earnings estimates assume the equity forward is fully settled with stock by September 2012, and the company achieves reasonable regulatory outcomes in the various rate cases. Figures 1, 2 and 3 show our financial forecast for NI.
- **Increase target price to $18 from $17, but maintain Hold rating.** With our higher EPS estimates and the recent appreciation in comparables, we are increasing our target price on NI shares. Based on our DCF as well as a comparables analysis, our new $18 target implies a 12.1 times P/E based on our 2013 estimate, and compares with 12.2x for the sector. Based on a 6.8% discount rate and an 8.0 times exit multiple, our DCF supports a valuation of $17-$18 per share. We believe NI's valuation is also supported by its current 4.9% dividend yield.

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For Required Disclosures and Reg AC, please see page 6 of report

Figure 1 - NiSource (NI) - Income Statement, 2008-'13E

	2008	2009	2010	2011E	2012E	2013E
Net Revenues						
Gas Distribution	$5,171.3	$3,296.2	$3,094.0	$3,118.9	$3,168.1	$3,231.5
Gas Trans/Storage	1,132.4	1,239.5	1,261.4	1,291.3	1,319.7	1,349.4
Electric	1,357.0	1,213.2	1,386.7	1,400.6	1,444.6	1,467.7
Other	1,213.5	900.5	679.9	679.9	679.9	679.9
Sub-TOTAL	8,874.2	6,649.4	6,422.0	6,490.7	6,612.3	6,728.5
Cost of Goods Sold	5,631.6	3,318.0	2,974.1	3,011.3	3,044.4	3,077.9
TOTAL Net Revenues	3,242.6	3,331.4	3,447.9	3,479.5	3,567.9	3,650.6
Operating Expenses						
Oper & Maint	1,454.9	1,574.3	1,655.9	1,697.3	1,714.3	1,731.4
DD&A	567.2	589.0	596.3	552.7	564.3	578.4
Asset Sale Impair.	7.6	19.2	2.0	-	-	-
Taxes, OTI	307.5	283.9	287.4	290.3	293.2	296.1
TOTAL	2,337.2	2,466.4	2,541.6	2,540.3	2,571.7	2,605.9
Equity in Earnings, Affils	12.3	16.0	15.0	15.0	15.0	15.0
Other Income	17.6	(1.4)	3.8	2.0	3.0	5.0
Other Loss	-	-	-	-	-	-
EBIT	935.3	879.6	925.1	956.2	1,014.1	1,064.6
EBITDA	**$1,502.5**	**$1,468.6**	**$1,521.4**	**$1,508.9**	**$1,578.4**	**$1,643.1**
Interest Expense	(380.1)	(403.5)	(489.0)	(388.3)	(388.3)	(393.3)
Income Taxes	(185.4)	(165.8)	(141.5)	(197.0)	(210.0)	(220.0)
Tax Rate	16.5%	15.6%	13.7%	17.6%	17.6%	17.6%
Income from Cont Ops	369.8	310.3	294.6	370.9	415.8	451.3
Disc Ops - Income	(182.6)	(10.7)	(2.7)	-	-	-
Disc Ops - Net Proceeds	(108.2)	(2.8)	0.1	-	-	-
Accounting Change	-	-	-	-	-	-
NET INCOME	$79.0	$296.8	$292.0	$370.9	$415.8	$451.3
EPS Cont Ops, Diluted	1.27	0.84	1.05	1.32	1.42	1.49
EPS, Diluted	0.29	1.08	1.04	1.32	1.42	1.49
Non-GAAP Op EPS	**$1.28**	**$1.07**	**$1.22**	**$1.32**	**$1.42**	**$1.49**
Shares Out, Basic	274.0	275.1	277.8	279.6	281.6	283.6
Shares Out, Diluted	275.4	275.8	280.1	281.9	293.1	302.8

Source: Wunderlich Securities, Inc., NiSource, Inc.

Figure 2 - NiSource (NI) - Cash Flow Statement, 2008-'13E

	2008	2009	2010	2011E	2012E	2013E
Operating Activities						
Net Income	$79.0	$217.7	$292.0	$370.9	$415.8	$451.3
DD&A	567.2	589.0	596.3	552.7	564.3	578.4
Loss on Debt/PS	-	4.5	96.7	-	-	-
Chg in Risk Mgt Asset	25.7	(9.1)	(5.5)	-	-	-
Def'd Taxes	137.8	378.2	200.1	225.0	150.0	150.0
Affiliates	(25.3)	-	-	-	-	-
Disc Opers	290.8	-	2.6	-	-	-
AFUDC Equity	(5.4)	(5.4)	(6.1)	(8.0)	(8.0)	(8.0)
Other	0.8	44.5	20.9	-	-	-
Changes W/C	(483.1)	701.3	(419.8)	-	-	-
Disc Opers, other	(2.2)	(254.5)	(57.2)	-	-	-
TOTAL	$585.3	$1,666.2	$720.0	$1,140.6	$1,122.1	$1,171.8
Investing Activities						
Capital Expenditures	($969.9)	($777.2)	($803.8)	($1,050.0)	($1,000.0)	($1,000.0)
Sugar Creek Purch	(329.7)	-	-	-	-	-
Insurance Recov	46.7	62.7	5.0	-	-	-
Asset Sales	47.8	5.7	0.5	-	-	-
Restricted Cash	(228.8)	111.9	(28.2)	-	-	-
Other	(77.3)	(42.0)	(117.2)	-	-	-
Disc Opers	396.9	(15.9)	0.4	-	-	-
TOTAL	($1,114.3)	($654.8)	($943.3)	($1,050.0)	($1,000.0)	($1,000.0)
Financing Activities						
Issuance LT Debt	$959.3	$1,460.0	$250.0	$0.0	$0.0	$75.0
Retire LT Debt	(40.6)	(1,169.8)	(977.7)	-	-	-
Repurch LT Debt	(254.0)	-	-	-	-	-
Change ST Debt	102.5	(1,060.5)	1,279.5	-	-	-
Issue Common Stock	1.3	10.6	14.4	195.0	195.0	15.0
Dividends	(252.4)	(253.3)	(255.6)	(261.3)	(271.4)	(271.4)
Other	-	(2.6)	(94.5)	-	-	-
TOTAL	$516.1	($1,015.6)	$216.1	($66.3)	($76.4)	($181.4)
TOTAL CF	($12.9)	($4.2)	($7.2)	$24.3	$45.7	($9.6)
Beginning Cash	36.0	20.6	16.4	9.2	33.5	79.2
Ending Cash	$23.1	$16.4	$9.2	$33.5	$79.2	$69.6

Source: Wunderlich Securities, Inc., NiSource, Inc.

Figure 3 - NiSource (NI) - Balance Sheet, 2008-'13E

	2008	2009	2010	2011E	2012E	2013E
ASSETS						
Utility Plant	$18,356.8	$19,041.1	$19,494.9	$20,544.9	$21,544.9	$22,544.9
Accum Deprec	(8,080.8)	(8,387.1)	(8,492.6)	(9,045.3)	(9,609.6)	(10,188.0)
Net Plant	10,276.0	10,654.0	11,002.3	11,499.6	11,935.3	12,356.9
Other	112.1	34.0	94.7	94.7	94.7	94.7
Net PP&E	10,388.1	10,688.0	11,097.0	11,594.3	12,030.0	12,451.6
Disc Opers Assets	45.8	14.6	7.9	7.9	7.9	7.9
Uncons Affils	86.8	165.8	200.9	200.9	200.9	200.9
Other	117.9	129.2	139.7	139.7	139.7	139.7
TOTAL	250.5	309.6	348.5	348.5	348.5	348.5
Current ASSETS						
Cash and Equivs	20.6	16.4	9.2	33.5	79.2	69.6
Restricted Cash	286.6	174.7	202.9	202.9	202.9	202.9
A/R	1,142.5	808.6	1,079.3	1,079.3	1,079.3	1,079.3
Gas Inventory	511.8	384.8	298.2	298.2	298.2	298.2
UnderR gas/fuel costs	180.2	40.2	135.7	135.7	135.7	135.7
Materials and Supplies	95.1	102.3	83.8	83.8	83.8	83.8
Electric Prod Fuel	63.8	59.9	46.0	46.0	46.0	46.0
Risk Mgt Assets	150.4	173.3	159.5	159.5	159.5	159.5
Exchange Gas Rec'ble	393.8	72.5	62.7	62.7	62.7	62.7
Reg Assets	314.9	238.3	151.8	151.8	151.8	151.8
Assets held for sale	2.0	1.4	-	-	-	-
Prepayment & other	249.1	151.2	219.8	219.8	219.8	219.8
TOTAL	3,410.8	2,223.6	2,448.9	2,473.2	2,518.9	2,509.3
Other ASSETS						
Risk Mgt Assets	200.7	237.6	240.3	240.3	240.3	240.3
Reg Assets	1,640.4	1,644.1	1,650.4	1,735.4	1,820.4	1,905.4
Goodwill	3,677.3	3,677.3	3,677.3	3,677.3	3,677.3	3,677.3
Intangibles	330.6	319.6	308.6	308.6	308.6	308.6
PostRetire Assets	10.3	19.8	35.1	35.1	35.1	35.1
Def'd Chgs	123.5	152.1	132.7	132.7	132.7	132.7
TOTAL	5,982.8	6,050.5	6,044.4	6,129.4	6,214.4	6,299.4
TOTAL ASSETS	$20,032.2	$19,271.7	$19,938.8	$20,545.4	$21,111.9	$21,608.8

Source: Wunderlich Securities, Inc., NiSource, Inc.

Figure 3 - NiSource (NI) - Balance Sheet, 2008-'13E (con't)

	2008	2009	2010	2011E	2012E	2013E
CAP AND LIABS						
Common Equity	$4,728.8	$4,854.1	$4,923.2	$5,227.8	$5,567.3	$5,762.2
LT Debt	5,943.9	5,969.1	5,936.1	5,936.1	5,936.1	6,011.1
TOTAL	10,672.7	10,823.2	10,859.3	11,163.9	11,503.4	11,773.3
Current Liabs						
Current LT Debt	469.3	719.7	34.2	34.2	34.2	34.2
ST Debt	1,163.5	103.0	1,382.5	1,382.5	1,382.5	1,382.5
A/P	693.3	502.3	581.8	581.8	581.8	581.8
Customer Deposits	127.3	301.2	318.1	318.1	318.1	318.1
Taxes Accrued	206.5	212.9	221.1	221.1	221.1	221.1
Interst Accrued	120.1	125.4	114.4	114.4	114.4	114.4
OverR fuel costs	35.9	220.4	11.8	11.8	11.8	11.8
Risk Mgt Liabs	286.5	190.1	173.9	173.9	173.9	173.9
Exchange Gas Payable	555.5	222.2	266.1	266.1	266.1	266.1
Other	550.4	406.3	459.5	516.5	573.5	630.5
Legal & Enviro Resvs	375.1	146.1	86.0	86.0	86.0	86.0
TOTAL	4,583.4	3,149.6	3,649.4	3,706.4	3,763.4	3,820.4
Other Liabs						
Risk Mgt Liabs	188.5	170.2	181.6	181.6	181.6	181.6
Def'd Taxes	1,549.8	2,018.2	2,209.7	2,434.7	2,584.7	2,734.7
Def'd ITCs	46.1	39.6	33.7	33.7	33.7	33.7
Def'd Credits	76.7	72.4	68.6	68.6	68.6	68.6
Def'd Revs	6.2	8.5	0.3	0.3	0.3	0.3
PostRetirement	1,238.5	1,134.2	1,039.6	1,039.6	1,039.6	1,039.6
Reg Liabs	1,386.1	1,558.8	1,595.8	1,595.8	1,595.8	1,595.8
Other	284.2	297.0	300.8	320.8	340.8	360.8
TOTAL	4,776.1	5,298.9	5,430.1	5,675.1	5,845.1	6,015.1
TOTAL CAP & LIAB	$20,032.2	$19,271.7	$19,938.8	$20,545.4	$21,111.9	$21,608.8

Source: Wunderlich Securities, Inc., NiSource, Inc.

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 02/01/11.

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

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	96	61.50	11	11.46
Hold -rated	57	36.50	2	3.51
Sell -rated	3	1.90	0	0.00

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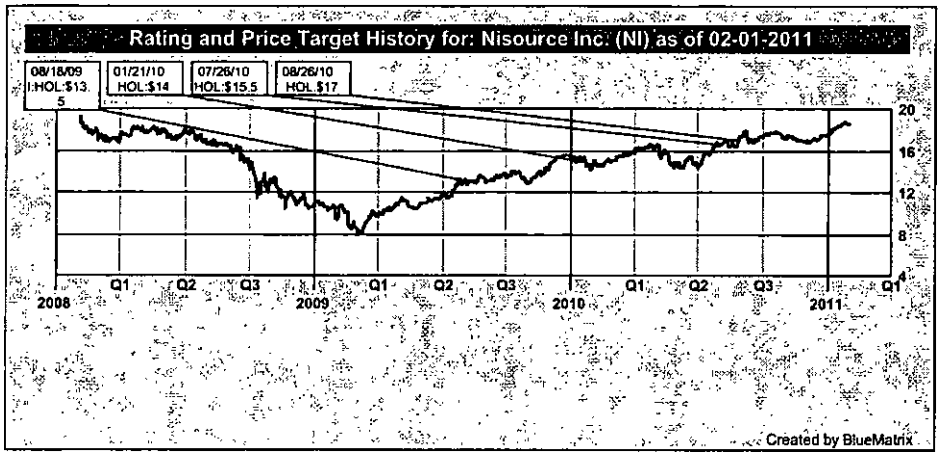
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Hold - a security which at the time the rating is instituted or reiterated indicates an expectation of a total return of plus or minus 5% over the next 12-18 months.

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BARCLAYS CAPITAL

EQUITY RESEARCH

Power & Utilities | U.S. Utilities | 22 November 2010

NISOURCE, INC.

NIPSCO Files Second Rate Case

NI's electric subsidiary NIPSCO filed its second rate case in Indiana on Friday: The company is requesting a $76M revenue increase based upon a test year ending 6/30/2010, a $2.7B rate base, and an 11.75% ROE. The rate case filing was expected by mid-month and is consistent with our current model (our estimates reflect $32.5M of relief), and is expected to be fully recognized in 2012.

Company is requesting an accelerated review process for the case: While a fully litigated case would be expected to conclude in 12 months, NI is pursuing other options, including settlement, that could resolve the regulatory proceedings in a timelier manner. We currently assume rate relief effective 1/1/2012, so to the extent that timing of relief is pushed forward, our estimates could prove to be conservative.

Tweaking 2012 EPS estimate, price target stay at $18: We are adjusting our 2012 EPS estimate to $1.41 from $1.42 due to revised expectations for the Gulf pipeline rate case (we now are embedding $20M of the $50M request) and our PT stays at $18.

NI: Quarterly and Annual EPS USD

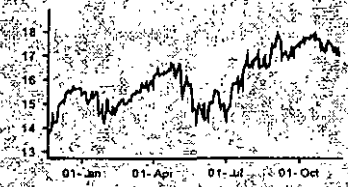
	2009	2010			2011			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	0.62A	0.72A	0.72A	0.72A	N/A	N/A	0.72E	16%	N/A
Q2	0.02A	0.13A	0.13A	0.13A	N/A	N/A	0.14E	550%	N/A
Q3	0.07A	0.04A	0.04A	0.04A	N/A	N/A	0.05E	-43%	N/A
Q4	0.35A	N/A	N/A	0.34E	N/A	N/A	0.35E	N/A	N/A
Year	1.07A	1.21E	1.21E	1.22E	1.32E	1.32E	1.32E	13%	9%
P/E			14.1			12.9			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT Unchanged
Sector View	1-POSITIVE Unchanged
Price Target	USD 18.00 Unchanged
Price (19-Nov-2010)	USD 17.02
Potential Upside/Downside	+6%
Tickers	NI
Market Cap (USD mn)	4737
Shares Outstanding (mn)	278.31
Free Float (%)	99.15
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	5.4
Return on Equity TTM (%)	6.96
Current BVPS (USD)	17.53

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 17.96-13.64



Link to Barclays Capital Live for interactive charting

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 19-Nov-2010, USD 17.02), 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

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

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.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

U.S. Utilities

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DTE Energy (DTE)	Duke Energy (DUK)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	National Grid Plc (NGG)
NiSource, Inc. (NI)	Northeast Utilities (NU)	NSTAR (NST)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	Progress Energy (PGN)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)	

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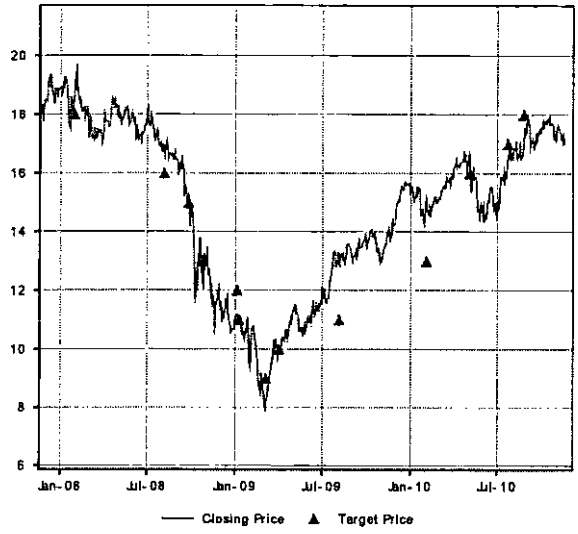
IMPORTANT DISCLOSURES CONTINUED

NiSource, Inc. (NI)

USD 17.02 (19-Nov-2010)

Stock Rating	Sector View
2-EQUAL WEIGHT	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 19-Nov-2010) — **Currency=USD**



Date	Closing Price	Rating	Price Target
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
01-Apr-2009	9.99		10.00
05-Mar-2009	7.86		9.00
09-Jan-2009	11.08		11.00
05-Jan-2009	11.17		12.00
24-Oct-2008	12.58		13.00
26-Sep-2008	14.98		15.00
05-Aug-2008	16.72		16.00
30-Jan-2008	18.61		18.00

Link to Barclays Capital Live for interactive charting

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Valuation Methodology: Our $18 price target is premised upon our '12E EPS of $1.41 and the '12 PE multiple of 12.8x.

Risks which May Impede the Achievement of the 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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BARCLAYS CAPITAL

EQUITY RESEARCH

Power & Utilities | U.S. Utilities | 26 August 2010

NISOURCE, INC.

NIPSCO Electric Order In Line, Most Importantly Removes Meaningful Overhang

Yesterday NIPSCO Electric received the long-awaited final order in its rate case: The company officially received a rate reduction of $49M, which when netted against the $55M rate credit expiration that had been given to customers, leaves us with what is effectively a $4M increase. We had previously been modeling a flat outcome from the case, and as such, we are leaving our estimates unchanged.

Final order removes overhang, gives blueprint for subsequent filing in Q4'10: Most importantly, the final order in this case clears up many of the contentious issues around rate design that caused the case to be as drawn out as it was, paving the way for a meaningfully simplified case that we expect to be filed in the next 6-8 weeks. In addition, the heightened level of uncertainty around the case has finally abated, removing the largest overhang currently faced by NI.

Estimates and $18 price target are unchanged: We were modeling a flat outcome in this case, and as a result, our 2010-12 EPS estimates are unchanged at $1.22/$1.34/$1.47 and our price target stays at $18.

NI: Quarterly and Annual EPS USD

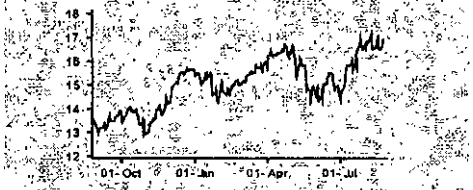
	2009	2010			2011			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	0.62A	0.72A	0.72A	0.72A	N/A	N/A	0.71E	16%	N/A
Q2	0.02A	0.13A	0.13A	0.13A	N/A	N/A	0.13E	550%	N/A
Q3	0.07A	N/A	N/A	0.07E	N/A	N/A	0.10E	N/A	N/A
Q4	0.35A	N/A	N/A	0.32E	N/A	N/A	0.31E	N/A	N/A
Year	1.07A	1.22E	1.22E	1.21E	1.34E	1.34E	1.27E	14%	10%
P/E			13.8			12.6			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT
	Unchanged
Sector View	1-POSITIVE
	Unchanged
Price Target	USD 18.00
	Unchanged
Price (25-Aug-2010)	USD 16.90
Potential Upside/Downside	+7%
Tickers	NI
Market Cap (USD mn)	4698
Shares Outstanding (mn)	277.98
Free Float (%)	99.12
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	5.4
Return on Equity TTM (%)	6.02
Current BVPS (USD)	17.62

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 17.15-12.83



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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 25-Aug-2010, USD 16.90), 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

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

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.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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U.S. Utilities

Alliant Energy (LNT)	American Electric Power (AEP)	CMS Energy (CMS)
Consolidated Edison (ED)	Dominion Resources (D)	DPL Inc. (DPL)
DTE Energy (DTE)	Duke Energy (DUK)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	NiSource, Inc. (NI)
Northeast Utilities (NU)	NSTAR (NST)	NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
Progress Energy (PGN)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

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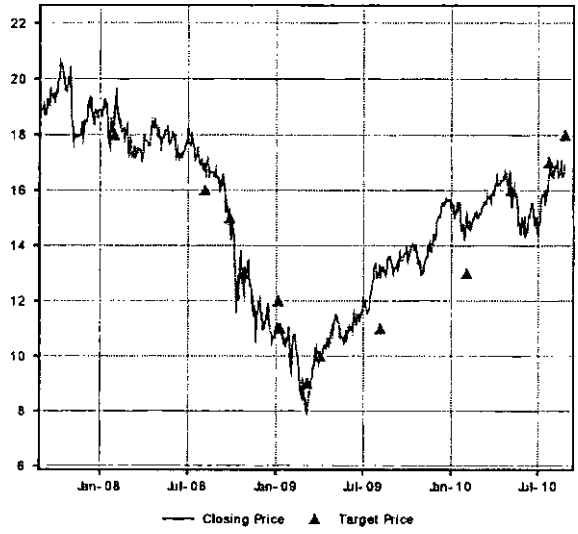
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NiSource, Inc. (NI)

USD 16.90 (25-Aug-2010)

Stock Rating	Sector View
2-EQUAL WEIGHT	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 25-Aug-2010) **Currency=USD**



Date	Closing Price	Rating	Price Target
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
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30 August 2010 | 8 pages

NiSource Inc (NI)

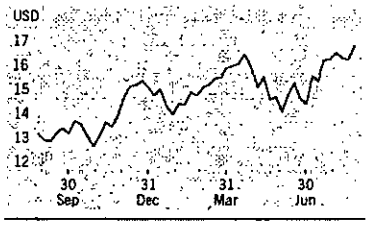
Equity

Key Conclusion from Electric Rate Case Decision

- **NIPSCo Electric Rate Situation** — Late last week, the Indiana Utility Regulatory Commission (IURC) released its decision in the long awaited NIPSCo Electric rate case. The case was filed on August 29th, 2008. The last time NIPSCo had a full rate case was 1987. Since 1987, NIPSCo has been operating under an old rate structure and a '02 settlement. The conclusion of this case sets NIPSCo up for a more constructive operating environment. Our key conclusion from the case are:
- 1) NIPSCo will have net rate base of $2.3 billion ($4.7 bn fair value rate base). See a detailed table in the back with our assumptions;
- 2) NIPSCo rates will be set based on an allowed equity ratio of 61%, which is the actual equity at the utility. The IURC stated that "NIPSCo is approaching the edge of what the Commission finds to be a reasonable capital structure" for a utility.
- 3) NIPSCo will have an allowed return on equity of 9.9% and overall return on rate base of 7.29%. The Commission noted that 9.9% is at the low-end of the range they were considering because NIPSCo's operating history has been less than average. If NIPSCo improved its operating metrics, the IURC might be willing to revisit the higher end of the allowed ROE range (10.5%).
- 4) Off system sales above $8.7 million in margin can be shared equally between customers and shareholders.
- 5) Authorized gross margins, DD&A and EBIT based on a 2007 test year are $899 mm, $193 mm and $284 mm. This is basically equal to what NIPSCo earned in 2007. We currently estimate NIPSCo will earn $189mm in EBIT in 2011. The current rate case outcome does not change our estimate for '11. Only another rate case (pending) or a massive increase in industrial volumes can bridge the gap.
- 6) NIPSCo will eventually remove the subsidized rates for industrial customers which currently amount to $80 mm a year. A large portion of this has already happened. Industrial volumes are still off 20% from the peak and represent 45% of total volumes.
- **Valuation & Rating** — While we believe there could be modest upside to our estimates based on both the electric rate case and recently settled gas rate case, we believe these outcomes are largely priced into the stock. NI has executed its regulated strategy well; however, we are not willing to assign a premium valuation for its execution at this point. Our valuation analysis ($17 target) continues to use a targeted 4% ten-year treasury yield. If interest rates continue to remain below 3% for a sustained time period, there could be more upside to all our utility valuations.

Hold/Medium Risk	**2M**
Price (27 Aug 10)	US$17.42
Target price	US$17.00
Expected share price return	-2.4%
Expected dividend yield	5.3%
Expected total return	**2.9%**
Market Cap	US$4,842M

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



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

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NiSource Inc (NI)
30 August 2010

Rate Calculations

Figure 1. Rate Base Calculations

Rate Base Calculation & Returns

Total Utility Plant	$5,388.3	
Accumulated D&A	($2,877.0)	
Other Adjustments	$21.9	
Supplies, Materials & Fuel	$106.0	
Gross Rate Base	$2,639.2	
Minus Deferred Taxes	($294.8)	
Other Adjustments	($42.5)	
Net Rate Base (2007 Test Year)	$2,301.9	
Fair Value of Rate Base	$4,707.0	
		Cost of Capital
Common Equity	$1,395.2	9.90%
Long-term Debt	$906.6	6.52%
Deposits	$63.7	6.00%
Deferred IT	$294.8	0.00%
Post Retirement	$102.6	0.00%
Other	$30.4	0.00%
Total Capital Invested	$2,793.3	7.29%

Allowed Income Statement Ammounts Based on 2007 Test Year

	Allowed	2007 Actual	CIRA 2011
Gross Margin	$899.4	$845.0	$846.5
O&M	$337.9	$297.6	$389.6
D&A	$221.7	$191.9	$210.3
Taxes Other Than Income	$55.4	$60.7	$49.6
Total Opex	$615.0	$550.2	$649.6
EBIT	$284.4	$294.8	$196.9

Source: Citi Investment Research and Analysis

Note: 2007 Actuals are based on adjusted CIRA estimates. Allowed rates are based on a 2007 test year.

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 $17 target.

Our NAV yields a value of $16.41. 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. For Millennium pipeline which is not has not yet contracted all of its capacity, we apply a 20% discount to the pipeline multiple.

Our DDM, which incorporates our rate base growth assumptions, values the company at $16.48.

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 13.0x and 13.5x 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 $18.49 and $17.66.

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.

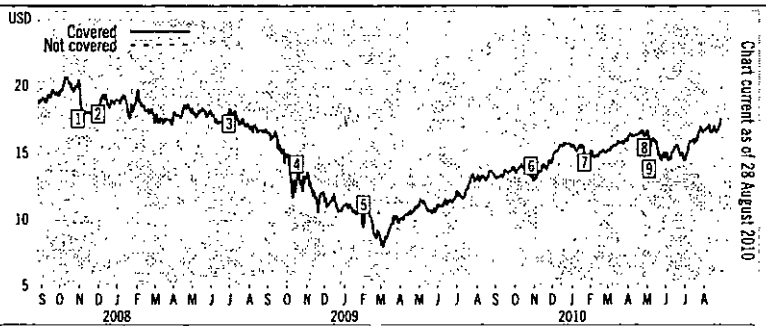
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NiSource Inc (NI)
Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	30-Oct-07	2M	*22.00	20.12
2	30-Nov-07	*2H	*21.00	18.51
3	30-Jun-08	2H	*20.00	17.92
4	16-Oct-08	*1H	*15.00	12.91
5	2-Feb-09	1H	*14.00	9.38
6	27-Oct-09	1H	*15.00	13.47
7	21-Jan-10	*2M	*16.00	14.87
8	27-Apr-10	2M	*16.50	16.27
9	5-May-10	2M	*17.00	16.20

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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% of companies in each rating category that are investment banking clients	47%	45%	40%

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NiSource Inc (NI)
30 August 2010

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

August 26, 2010
Quick Alert

KeyBanc
Capital Markets

NiSource, Inc. (BUY)

NI - Quick Alert: Initial Read of Order Details Suggests Balanced Regulation

KeyBanc Capital Markets Inc.,
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The Indiana Utility Regulation Commission issued its order in NI's two year-old electric rate case. The commission issued a release with sparse details regarding the order. While we do not at writing have the actual order to fully examine, our initial take is that the order appears balanced and essentially in line with our expectations of minimal changes in revenues.

The headline of a $49 million base revenue reduction should be considered in conjunction with the expiration of a $55 million annual credit implemented under the Company's 2002 rate settlement.

The order is premised upon a 9.9% ROE, which on first blush appears to be toward the lower end of expectations. However, the commission indicated that it would reconsider this level of return in NI's next rate proceeding if NI could improve service and reliability. Notably, the commission appears to have gone out of its way to indicate that it had seen improvement in these metrics under current management and would continue to monitor these trends. While the order directs NI to file another rate case by 2012, we expect NI will file sooner than this to address limited issues including load levels and pension costs, which have deteriorated since the 2007 test year incorporated in the recently resolved case. Indiana regulatory procedural constraints limit the opportunity to modify rate case assumptions for changes after the case has been filed.

Rate allocation among customer classes will be finalized after NI submits a revised cost of service study, which is due within 30 days.

In our view, the order suggests generally balanced ratemaking in NI's rates and appears to suggest that the adversarial relationship that NI's previous management had with the commission seems to have evolved into a much more collaborative relationship. After we have had an opportunity to more fully examine the actual order (which we expect to be quite voluminous, given that it has been over 20 years since NI's last fully litigated case), we will reassess our estimates for NI.

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

KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

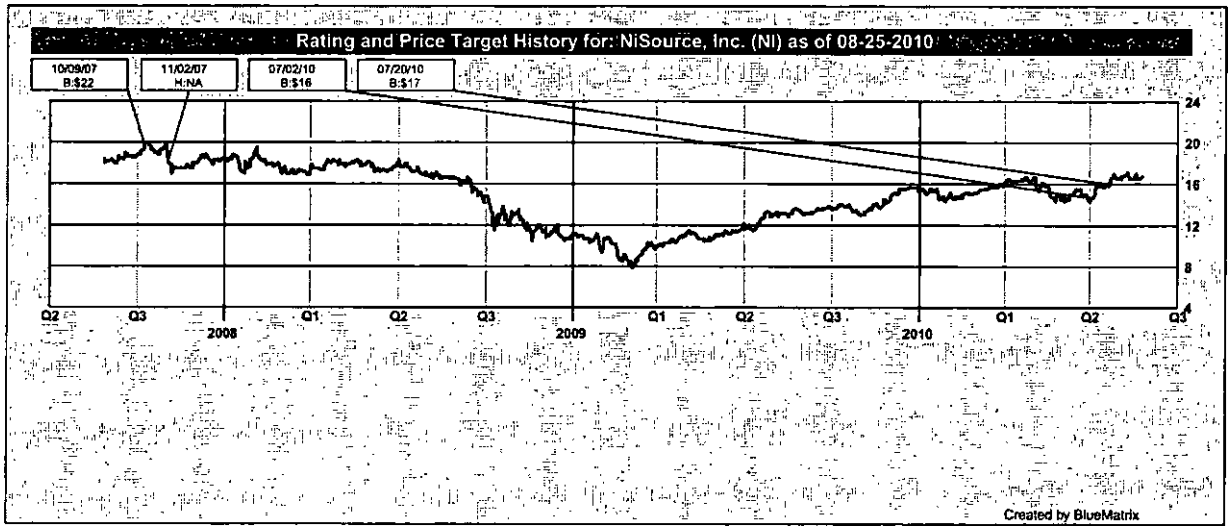
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Three-Year Rating and Price Target History



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]	188	47.80	44	23.40	BUY [BUY]	25	43.10	12	48.00
HOLD [HOLD]	197	50.10	50	25.38	HOLD [HOLD]	33	56.90	21	63.64
SELL [UND]	8	2.00	1	12.50	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

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

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UBS

Global Equity Research

Americas

Electric Utilities

UBS Investment Research

NiSource Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$17.00 *Prior: US$16.50*
Price	US$16.90

RIC: NI.N BBG: NI US

26 August 2010

Continued Progress on Regulatory Efforts

■ **IURC issues a decision on NIPSCO's 2008 electric case**

Last night, the Indiana Utility Regulatory Commission (IURC) issued a decision on NIPSCO's 2008 rate case. In its decision, the IURC decreased NIPSCO annual operating revenue by ~$49mm and removed a $55mm rate credit which had been in effect since 2002. We had not ascribed any impact for the NIPSCO case, so the net $6mm annual rate increase is better than expected. The IURC's decision paves the way for a second NIPSCO case to be filed, likely in 4Q10, and we note that the 9.9% ROE authorized by the commission likely sets a floor for the upcoming case.

■ **NIPSCO gas case also reaches a settlement**

The NIPSCO electric decision comes close on the heels of Tuesday's settlement in NIPSCO's gas utility rate case. The settlement, reached with the OUCC and key stakeholders, calls for a $77mm reduction in annual depreciation expense, offset by a $14.8mm reduction in rates. In addition, NIPSCO's rate design will be adjusted to support conservation efforts and reduce seasonal volatility in customer bills.

■ **Lifting 2010-2012 EPS estimates**

Due to the impact of these rate case outcomes, we are lifting our 2010-12 EPS ests. to $1.24, $1.33, and $1.45, from $1.20, $1.28, and $1.37, respectively. We note that the NIPSCO gas settlement, while beneficial to earnings, carries negative cash flow implications as the reduction in depreciation expense is a non-cash item.

■ **Valuation: Lifting price target to $17; maintain Neutral rating**

Given the combined impact of the recent rate cases, we are lifting our DCF & SOP derived price target to $17, from $16.50. We maintain our Neutral rating.

Trading data	
52-wk range	US$17.12-12.92
Market cap.	US$4.70bn
Shares o/s	278m (COM)
Free float	99%
Avg. daily volume ('000)	950
Avg. daily value (m)	US$14.9

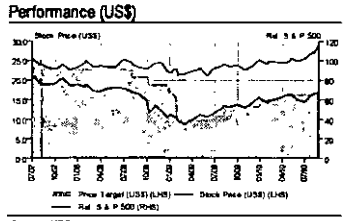
Balance sheet data 12/10E	
Shareholders' equity	US$4.91bn
P/BV (UBS)	1.0x
Net Cash (debt)	(US$7.01bn)

Forecast returns	
Forecast price appreciation	+0.6%
Forecast dividend yield	5.4%
Forecast stock return	+6.0%
Market return assumption	5.5%
Forecast excess return	+0.5%

EPS (UBS, US$)

	12/10E			12/09
	From	To	Cons.	Actual
Q1	0.71	0.71	0.72	0.62
Q2	0.10	0.10	0.13	(0.01)
Q3E	0.04	0.07	0.07	(0.02)
Q4E	0.35	0.35	0.32	0.36
12/10E	1.20	1.24	*1.22*	
12/11E	1.28	1.33	*1.28*	

Performance (US$)



Source: UBS

Highlights (US$m)	12/08	12/09	12/10E	12/11E	12/12E
Revenues	9,145.50	6,371.00	6,000.22	6,288.04	6,516.54
EBIT (UBS)	914.20	844.49	935.27	991.79	1,053.20
Net Income (UBS)	346.27	259.27	344.12	374.02	409.69
EPS (UBS, US$)	1.26	0.94	1.24	1.33	1.45
Net DPS (UBS, US$)	0.92	0.92	0.92	0.92	0.92

Profitability & Valuation	5-yr hist av.	12/09	12/10E	12/11E	12/12E
EBIT margin %	12.6	13.3	15.6	15.8	16.2
ROIC (EBIT) %	9.4	7.7	8.7	8.9	9.1
EV/EBITDA (core) x	8.5	8.2	8.6	8.5	8.2
PE (UBS) x	15.1	12.8	13.7	12.7	11.7
Net dividend yield %	4.5	7.7	5.4	5.4	5.4

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$16.90 on 25 Aug 2010 19:43 EDT

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■ Statement of Risk

Risks to our NI earnings estimates and price target include: 1) lower customer usage; 2) customer attrition; 3) mild 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 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	54%	41%
Neutral	Hold/Neutral	37%	32%
Sell	Sell	9%	24%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	22%
Sell	Sell	less than 1%	0%

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 30 June 2010.

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.

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).
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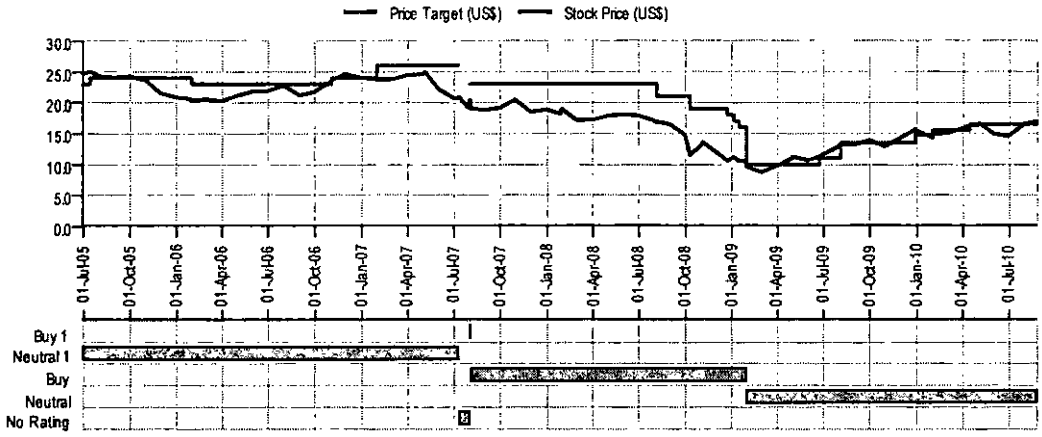
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
NiSource Inc.[2, 4, 6, 16]	NI.N	Neutral	N/A	US$16.90	25 Aug 2010

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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NiSource Inc. (US$)



Source: UBS; as of 25 Aug 2010

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Natural Gas Pipeline
NiSource Inc. (NI-NYSE)--Market Perform (2)
Positive -- NIPSCO Electric Rate Case Outcome "Straight Down The Fairway"
Price as of 8/26/2010: $17.03
FY 10 EPS: $1.22
FY 11 EPS: $1.31
Shares Out.: 273.1 MM
Market Cap.: $4,650.89 MM

Sector Rating: Natural Gas Pipeline, Market Weight

This morning the Indiana Utility Regulatory Commission (IURC) issued a press release and final decision on Northern Indiana Public Service Company's (NIPSCO) request for an increase in its electric rates and charges. It had been more than 20 years since the IURC last reviewed NIPSCO's base rates, and as expected, the Commission decreased NIPSCO's authorized operating revenue by approximately $49MM, which is modestly better than the $55MM credit that NIPSCO had been providing customers since 2002. This equates to $6.2MM (0.7%) net base rate increase premised upon a 9.9% ROE (based on a 50% regulatory equity structure) and a $2.64B original-cost rate base. Interestingly, the URC noted that the authorized equity return reflects the low end of the range of returns; however, the Commission stated that a higher return may be "appropriate" if NIPSCO is able to demonstrate improved performance in its next base rate proceeding, effectively putting a floor on the ROE for the next rate case, in our view. NiSource plans on filing its second NIPSCO electric rate case in Q4 2010; we would expect that this case will ultimately be settled in late 2011, in time for a full year of effective rates in 2012. If NI is successful in the second NIPSCO rate case it could add approximately $100MM to annualized operating earnings or roughly $0.24 to 2012 earnings per share; currently we include about half of this amount in our estimates.

To see a copy of the order please go to:
http://www.in.gov/iurc/files/Order_in_Cause_No._43526.pdf

To see a copy of the IURC press release please go to:
http://www.in.gov/iurc/files/The_IURC_Issues_a_Decision_on_the_NIPSCO_Electric_Rate_Case.pdf

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NI - Rating and Valuation Range Changes

Date	Publication Price	Rating	Valuation Range	Closing Price
08/21/07	NA	MARKET PERFORM	$20-$22	19.12
11/02/07	18.87	MARKET PERFORM	$19-$20	18.63
08/05/08	16.81	MARKET PERFORM	$18-$19	16.93
11/04/08	13.52	MARKET PERFORM	$13-$15	13.52
02/04/09	10.47	MARKET PERFORM	$10-$12	10.63
05/04/09	11.24	MARKET PERFORM	$11-$12	11.48
08/04/09	13.35	MARKET PERFORM	$12-$13	13.35
10/22/09	13.65	MARKET PERFORM	$13-$14	13.69
01/19/10	15.29	MARKET PERFORM	$16-$16	15.52
02/01/10	14.85	MARKET PERFORM	$16-$17	14.85
04/20/10	16.39	MARKET PERFORM	$16-$18	16.46
08/03/10	16.58	MARKET PERFORM	$17-$18	16.58

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Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
O = Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING
V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

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WUNDERLICH SECURITIES

Energy: Utilities/Power

NISOURCE INC. (NI: 16.90)

August 26, 2010

Estimate Changes
Rating: Hold
Price Target: Old - $15.50; New - $17.00

Market Data	
12-18 Month Price Target	$17.00
52-Week Range	17.15 - 12.83
ADTV - 90Day (MM)	2,899.5
Market Cap ($MM)	4,697.8
Shares Out (MM)	276.6
Public Market Float (MM)	275.7
Dividend	0.92
Dividend/Yield	5.44%

EPS ($)

FY DEC	2009	2010		2011	
	Actual	Previous	Current	Previous	Current
Q1	$0.62A	-	$0.70A	-	-
Q2	$0.02A	-	$0.13A	-	-
Q3	$0.07A	-	$0.09E	-	-
Q4	$0.35A	$0.27	$0.28E	-	-
YEAR	$1.07A	$1.19	$1.20E	$1.24	$1.30E

Valuation Ratio

	FY09	FY10	FY11
P/E	15.8x	14.1x	13.0x
PEG	3.9x	3.5x	3.2x
EV/S	1.7x	1.7x	1.7x
EV/EBITDA	7.9x	7.5x	7.4x
Leverage Ratio	4.6x	4.5x	4.5x
FCF Yield	18.9%	1.8%	2.3%
P/FCF	5.3x	56.6x	42.6x

Financial Data

	FY09	FY10	FY11
Revenue	6,649.4A	6,746.2E	6,860.9E
EBIT	$881.0A	$928.4E	$955.4E
EBITDA	1,470.0A	1,529.2E	1,568.2E
FCF(Mil)	$889.0A	$83.0E	$110.2E
Debt/Capital	58.3%A	58.5%E	58.2%E
BV/Share	$17.34A	$17.49E	$17.96E
CapEx	777.2A	900.0E	900.0E

Balance Sheet

	FY09	FY10	FY11
PPE	$10,683.9A	$10,983.1E	$11,270.3E
Total Assets	$19,271.7A	$19,637.1E	$19,966.0E
Total Debt	$6,787.4A	$6,937.4E	$7,012.4E
Long Term Debt	5,965.1A	6,115.1E	6,190.2E
Total SOE and Liab.	$19,271.7A	$19,637.1E	$19,966.0E

IN Rate Cases Drive Increase in Estimates; Maintain Hold; Best Yield Idea

Summary

Late yesterday, the Indiana Utility Regulatory Commission (IURC) issued an order in NiSource's (NI) pending electric rate case, originally filed on 6/27/08. The IURC announced a reduction in operating revenues of $49 million, but a modest base rate increase after adjusting for the elimination of a $55mm rate credit. Though lower than the $30mm increase we had in our forecast, NI expects to file another electric rate case shortly. A settlement in NI's pending gas rate case (announced 8/24) was more positive and drives our earnings estimate increases. We are maintaining our Hold rating on NI, but increasing our target price to reflect a sector average P/E multiple on our new '12 EPS estimate.

Key Points

- **Electric rate case decision based on 9.9% ROE.** The modest increase in base rates authorized by the IURC was premised upon a 9.9% allowed ROE, which the commission said was at the low end of the "reasonable" range to reflect below-average customer service and operations (though we believe these issues are being addressed). The IURC also adopted NI's proposed actual 60% equity ratio, but suggested the company work to reduce its "equity to debt" ratio at the utility.
- **Worse than expected, but on to the next case.** Though the roughly $6mm ($49mm less $55mm credit) rate increase is less than the $30mm we had in our model, the IURC rate order allows cost trackers for RTO and purchased capacity expenses, which should reduce earnings volatility. More importantly, NI expects to file another electric rate case in Indiana later this year to recover pension costs that were not included in the 2008 case. The '10 case should be litigated faster than the '08 proceeding -- we expect a decision by year-end '11.
- **Indiana gas settlement more positive.** On Tuesday, NI announced a settlement in its pending gas rate case in Indiana. Although the proposed settlement reduces revenues by about $15mm annually, it also allows the reduction of annual depreciation costs of about $77mm. Though slightly negative for cash flow, the proposed settlement should have a positive earnings impact for NI. If approved (NI requesting approval in 4Q), the proposed settlement is about $40mm better for operating income than we had assumed in our model.
- **Increase earnings estimates over forecast horizon.** Based on our expectation of IURC approval of the proposed gas settlement, and the outcome of the electric rate case, we are increasing our 2011 and 2012 EPS estimates to $1.30 and $1.40, respectively. The EPS changes are primarily driven by the proposed gas settlement, but also include some fine-tuning to our 2012 assumptions. Our '10 EPS estimate is increased to $1.20 from $1.19 previously.
- **Maintain Hold, but NI remains our best yield idea.** We are maintaining our Hold rating on NI. Based on our higher EPS estimate for '12 and the slightly lower uncertainty, we are increasing our target price to $17.00 per share, reflecting a sector average (12.0x) multiple on our $1.40 '12 EPS estimate. However, for investors seeking current income, we find NI's 5.4% yield attractive and secure.

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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 08/25/10.

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

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	116	67.80	15	12.93
Hold -rated	53	31.00	4	7.55
Sell -rated	2	1.20	0	0.00

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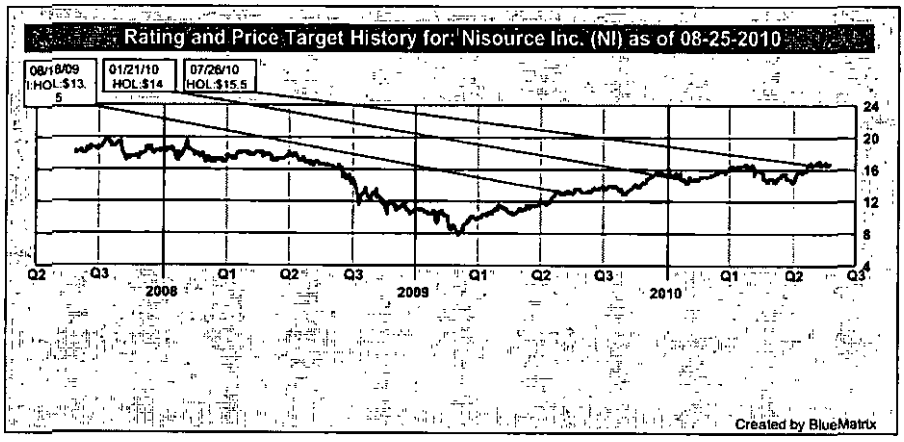
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Power & Utilities | U.S. Utilities | 9 September 2010

NISOURCE, INC.

Major Overhang Removed After Equity Deal

Yesterday NI executed a $400M equity offering: Yesterday, NI executed a $400M (including shoe) equity offering in the form of a two-year forward sale. These proceeds allow NI to reach its targeted $1B annual capex run rate and helps the company hit the higher end of its aspirational 3-5% LT EPS CAGR.

We see this move by NI as prudent considering the current environment: While some may disagree that NI executed the transaction too early or that it signaled a topping out of its stock price, we see the offering more as a means to lock down funding in an uncertain environment. While we would have preferred to have a specific project to point to for use of the proceeds, we believe management's guidance that there is a more than adequate growth pipeline for the funds to be put to use. In particular, the Gas infrastructure projects are especially attractive and generate mid-teen returns.

Adjusting 2011/2012 EPS estimates, price target stays at $18: We are tweaking our '11/'12 EPS estimates to $1.32/$1.43 from $1.34/$1.47, respectively, due to dilution from the offering. As an offset, we are increasing our capex projections by $100M (to $1B) in '11/'12. Due to the structure of the deal, NI is able to draw upon the funds as needed over the next two years, and as a result, is able to defer dilution until cash is received. We are embedding $200M of funds received in '11/'12 and incorporating a mid-year convention. As the growth projects are put in service, the cash flow generated mitigates the need for additional equity beyond the DRIP during our forecast period.

Attractive yield and fair valuation: While we would prefer a better entry point, NI offers a secure 5.4% dividend yield (vs. 4.8% for the group) while trading at a 5% discount to the regulateds on '12 PE. We see 12% total return potential to our $18 price target.

NI: Quarterly and Annual EPS USD

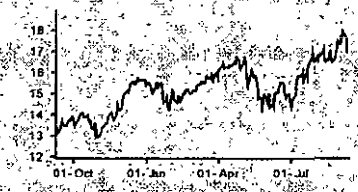
	2009		2010			2011		Change y/y	
FyDec	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	0.62A	0.72A	0.72A	0.72A	N/A	N/A	0.71E	16%	N/A
Q2	0.02A	0.13A	0.13A	0.13A	N/A	N/A	0.13E	550%	N/A
Q3	0.07A	N/A	N/A	0.07E	N/A	N/A	0.10E	N/A	N/A
Q4	0.35A	N/A	N/A	0.32E	N/A	N/A	0.31E	N/A	N/A
Year	1.07A	1.22E	1.22E	1.22E	1.34E	1.32E	1.30E	14%	8%
P/E			13.9			12.8			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT Unchanged
Sector View	1-POSITIVE Unchanged
Price Target	USD 18.00 Unchanged
Price (08-Sep-2010)	USD 16.93
Potential Upside/Downside	+6%
Tickers	NI
Market Cap (USD mn)	4706
Shares Outstanding (mn)	277.98
Free Float (%)	99.12
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	5.4
Return on Equity TTM (%)	6.02
Current BVPS (USD)	17.62

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 17.91-12.83



Link to Barclays Capital Live for interactive charting

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3.

ANALYST(S) CERTIFICATION(S)

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 08-Sep-2010, USD 16.93), 2-Equal Weight/1-Positive

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Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

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

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

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.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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U.S. Utilities

Alliant Energy (LNT)	American Electric Power (AEP)	CMS Energy (CMS)
Consolidated Edison (ED)	Dominion Resources (D)	DPL Inc. (DPL)
DTE Energy (DTE)	Duke Energy (DUK)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	NiSource, Inc. (NI)
Northeast Utilities (NU)	NSTAR (NST)	NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
Progress Energy (PGN)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

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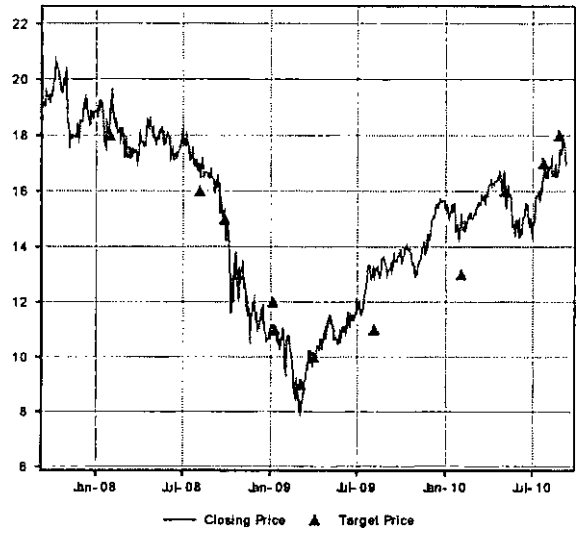
IMPORTANT DISCLOSURES CONTINUED

NiSource, Inc. (NI)

USD 16.93 (08-Sep-2010)

Stock Rating	Sector View
2-EQUAL WEIGHT	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 08-Sep-2010) — **Currency=USD**



Date	Closing Price	Rating	Price Target
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
01-Apr-2009	9.99		10.00
05-Mar-2009	7.86		9.00
09-Jan-2009	11.08		11.00
05-Jan-2009	11.17		12.00
24-Oct-2008	12.58		13.00
26-Sep-2008	14.98		15.00
05-Aug-2008	16.72		16.00
30-Jan-2008	18.61		18.00

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Valuation Methodology: Our $18 price target is premised upon our '12E EPS of $1.43 and the '12 PE multiple of 12.4x.

Risks which May Impede the Achievement of the 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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September 7, 2010
ENERGY: Utilities
Rating Change

KeyBanc
Capital Markets

NiSource, Inc.:

NI - Price Target Surpassed; HOLD Rating Appropriate

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689-0270 — pridzon@keybanccm.com
Timothy Yee: (216) 689-0385 — tyee@keybanccm.com

Rating	HOLD
Price	$17.91
12-Mo. Price Target	NA
Dividend	$0.92
Yield	5.1%
52-Wk. Range	$13-$18
Trading Volume	2,969
Market Cap. (mm)	$4,970.0
Shares Out. (mm)	277.50
Book Value/Share	$17.78
Fiscal Year End	December
2011E	$1.30
2010E	$1.25
2009A	$0.99
2011 P/E	13.8x
2010 P/E	14.3x
First Call 2011E	$1.30
First Call 2010E	$1.22
Next Quarter	September
Estimate	$0.06
Vs.	$0.01
First Call Estimate	$0.07

ACTION STATEMENT

We are reducing our rating on NiSource, Inc. (NI-NYSE) to **HOLD** from BUY as the stock has surpassed our previous $17 price target. The story has unfolded as envisioned, and shares have appreciated by nearly 25% since our July 2, 2010 upgrade, outperforming the UTY index by over 13%.

On August 25, 2010, the Indiana Utility Regulatory Commission (IURC) issued its final order in NI's electric rate case filing from June 2008. After a $49 million reduction in authorized operating revenues is more than offset by the expiration of $55 million per year in customer bill credits, we estimate the net base rate increase to be about $6 million.

KEY INVESTMENT POINTS

On August 25, 2010, the Indiana Utility Regulatory Commission (IURC) issued its final order in NI's electric rate case filing from June 2008. It has been more than 23 years since NI's last fully litigated rate case order in July 1987.

A headline $49 million reduction in authorized operating revenues is more than offset by the expiration of $55 million, for a net increase of $6 million.

The order is based upon a 9.9% ROE, which was at the low end of the IURC's determination of a reasonable 9.9-10.5% range. The Commission acknowledged that its ROE was intended to incentivize NI to improve operational performance and could be raised if management can demonstrate continued improvement.

While the final order directs NI to file another rate case no later than September 30, 2012, we expect NI will file before the end of this year to address limited issues including load delivery levels and pension/OPEB costs.

Given our view that shares are now close to fairly valued, we believe a HOLD rating is now appropriate. Shares have returned close to 25% since July 2, 2010, outperforming the UTY index by over 13%.

VALUATION

Based upon our 2011 estimate, shares trade at a 10% premium to the group average P/E of 12.5x. We believe this premium accurately reflects NI's above average 5.1% yield (vs. the group average of 4.6%) and potential to address underearning its authorized ROE through regulatory filings in Indiana.

RISKS

We believe the primary risks include any adverse unexpected regulatory outcomes or reversal of the Company's improving relationship with Indiana regulators during its next electric rate case proceeding or any significant persistent deterioration in the general economy affecting NI's service territories.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 3 - 4 OF THIS NOTE.

DISCUSSION

With shares having surpassed our previous $17 target, we now believe a **HOLD** rating is more appropriate than our prior BUY rating. Shares have responded favorably to management's strategic plan outlined at its investor day and to the recent Indiana gas case settlement and electric rate case order, which suggest NI will receive balanced regulatory treatment in Indiana.

INDIANA ELECTRIC RATE CASE ORDER OVERVIEW

On August 25, 2010, the Indiana Utility Regulatory Commission (IURC) issued its final order in NI's electric rate case filing from June 2008. It has been more than 23 years since NI's last fully litigated rate case order in July 1987.

A headline $49 million reduction in authorized operating revenues is more than offset by the expiration of $55 million per year in customer bill credits that were implemented under the Company's September 2002 rate settlement and an approximate 4% increase in base rates. We estimate the net base rate increase to be about $6 million.

The order is based upon a 9.9% ROE, which was at the low end of the IURC's determination of a 9.9-10.5% ROE range as reasonable. The Commission acknowledged that its ROE was intended to incentivize NI to improve operational performance, reliability and customer service metrics, and indicated a higher ROE may be appropriate in the next rate case proceeding if improvement is demonstrated.

Other aspects of the final electric order rejected NI's proposed reliability adjustment mechanism; rejected the removal of all fuel costs from base rates to be recovered through the fuel adjustment clause; credited $8.7 million of off-system sales (OSS) margins against base rates (50/50 sharing of OSS margins exceeding this level between ratepayers and shareholders); approved an "RTO tracker" to track MISO regional transmission organization non-fuel charges, and approved the tracking of emission allowance sales proceeds for ratepayer benefit through the existing environmental expense recovery mechanism.

While the final order directs NI to file another rate case no later than September 30, 2012, we expect NI will file before the end of this year to address limited issues, including load delivery levels and pension/OPEB costs, which have deteriorated since the 2007 test year used in this case. We believe NI's next rate case filing will have a 12-month test year ending March 2010.

INDIANA GAS RATE CASE SETTLEMENT OVERVIEW

On August 24, 2010, NI announced a settlement in its pending Indiana natural gas delivery rate case. Signatories include the Office of Utility Consumer Counsel, the Nipsco Industrial Group, the Nipsco Marketer Group and the Citizen Action Coalition. Under the settlement, NI will lower its deprecation rate, which should allow rate base growth during NI's infrastructure capital program. Rates will have a higher fixed cost component, reducing weather variability. NI has agreed to a $14.8 million rate reduction as well as supporting customer programs.

EPS (Net) Summary

	2009A	%CHG	2010E	%CHG	2011E	%CHG
1Q	$0.63	-10.0%	$0.72A	14.3%	–	–
2Q	$0.00	NM	$0.13A	NM	–	–
3Q	$0.01	0.0%	$0.06	500.0%	–	–
4Q	$0.35	-27.1%	–	–	–	–
YEAR	$0.99	-22.7%	$1.25	26.3%	$1.30	4.0%

Source: KeyBanc Capital Markets Inc. estimates

Company Note
September 7, 2010

KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

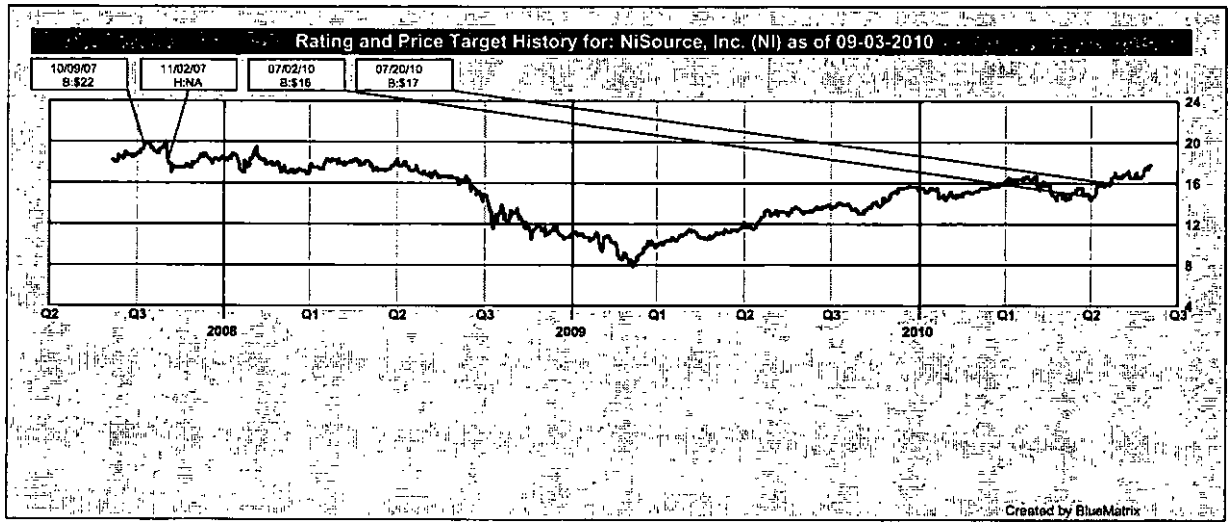
We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

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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					ENERGY				
			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	192	48.70	42	21.88	BUY [BUY]	25	43.10	11	44.00
HOLD [HOLD]	195	49.50	50	25.64	HOLD [HOLD]	33	56.90	21	63.64
SELL [UND]	7	1.80	1	14.29	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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BARCLAYS CAPITAL

EQUITY RESEARCH

Power & Utilities | U.S. Utilities | 25 August 2010

NISOURCE, INC.

Constructive Gas Settlement, All Eyes on NIPSCO Electric

NIPSCO Gas and the Indiana OUCC announced a settlement in the current rate case: The settlement, which is pending commission approval, calls for a reduction in annual depreciation expense of ~$77M ($26M of which will occur annually over the next four years, with $51M between an outright reduction in depreciation) partially offset by a rate reduction to consumers of ~$15M. Also included in the settlement was a movement in rate design towards Straight-Fixed-Variable (SFV), although there is still some limited volumetric exposure. We see this settlement as constructive for NI and especially appreciate the company's movement to generate goodwill in a jurisdiction where they will be active on the regulatory front over the next 12-18 months.

Focus is now on NIPSCO Electric's final order that is expected this afternoon: While there is no denying the constructiveness of the NIPSCO gas settlement, we are now focused on the NIPSCO Electric final order that is expected today after the close. The contentious case will likely have a discouraging headline number that will require several adjustments that may render it better than first look, regardless; we remain focused on the impacts from the subsequent electric case to be filed in the next 6-8 weeks rather than the interim impacts from the current case.

Raising estimates, price target goes to $18: We are adjusting our 2010-12 EPS estimates to $1.22/$1.34/$1.47 from $1.20/$1.33/$1.40 in light of the settlement agreement. Our price target moves to $18 based on our improved expectations for '12 earnings power and multiple expansion in the comp group.

NI: Quarterly and Annual EPS USD

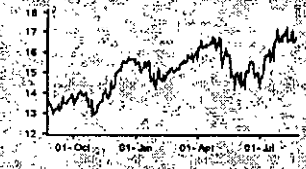
	2009		2010			2011		Change y/y	
FyDec	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	0.62A	0.72A	0.72A	0.72A	N/A	N/A	0.71E	16%	N/A
Q2	0.02A	0.13A	0.13A	0.13A	N/A	N/A	0.13E	550%	N/A
Q3	0.07A	N/A	N/A	0.07E	N/A	N/A	0.10E	N/A	N/A
Q4	0.35A	N/A	N/A	0.32E	N/A	N/A	0.31E	N/A	N/A
Year	1.07A	1.20E	1.22E	1.21E	1.33E	1.34E	1.27E	14%	10%
P/E			13.7			12.4			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT
	Unchanged
Sector View	1-POSITIVE
	Unchanged
Price Target	USD 18.00
	raised 6% from USD 17.00
Price (24-Aug-2010)	USD 16.68
Potential Upside/Downside	+8%
Tickers	NI
Market Cap (USD mn)	4637
Shares Outstanding (mn)	277.98
Free Float (%)	99.12
52 Wk Avg Daily Volume (mn)	2.6
Dividend Yield (%)	5.5
Return on Equity TTM (%)	6.02
Current BVPS (USD)	17.62

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 17.15-12.83



Link to Barclays Capital Live for interactive charting

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3.

Price Target Methodology

Our new $18 price target is premised upon our '12E for EPS of $1.47 and the '12 PE multiple of 12.2x. Our prior $17 price target was premised upon our previous '12E for EPS of $1.40 and our old '12 PE multiple of 11.8x.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 24-Aug-2010, USD 16.68), 2-Equal Weight/1-Positive

Guide to the Barclays Capital Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

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

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

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.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

U.S. Utilities

Alliant Energy (LNT)	American Electric Power (AEP)	CMS Energy (CMS)
Consolidated Edison (ED)	Dominion Resources (D)	DPL Inc. (DPL)
DTE Energy (DTE)	Duke Energy (DUK)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	NiSource, Inc. (NI)
Northeast Utilities (NU)	NSTAR (NST)	NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
Progress Energy (PGN)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

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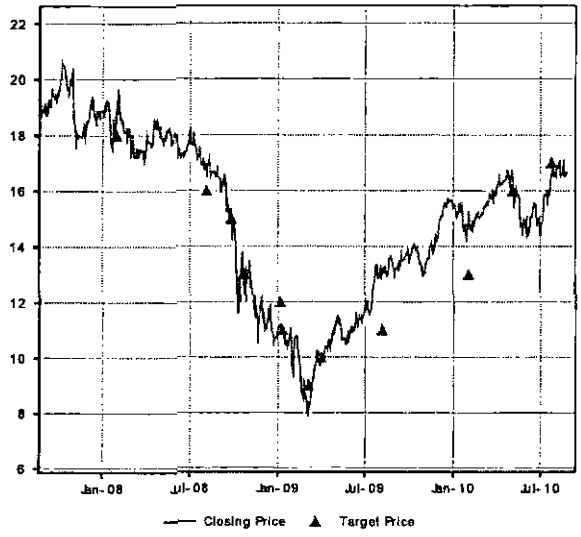
IMPORTANT DISCLOSURES CONTINUED

NiSource, Inc. (NI)

USD 16.68 (24-Aug-2010)

Stock Rating	Sector View
2-EQUAL WEIGHT	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 24-Aug-2010) — **Currency=USD**



Date	Closing Price	Rating	Price Target
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
01-Apr-2009	9.99		10.00
05-Mar-2009	7.86		9.00
09-Jan-2009	11.08		11.00
05-Jan-2009	11.17		12.00
24-Oct-2008	12.58		13.00
26-Sep-2008	14.98		15.00
05-Aug-2008	16.72		16.00
30-Jan-2008	18.61		18.00

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Valuation Methodology: Our $18 price target is premised upon our '12E for EPS of $1.47 and the '12 PE multiple of 12.2x.

Risks which May Impede the Achievement of the 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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North America | United States
Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
Company

25 August 2010 | 8 pages

NiSource Inc (NI)

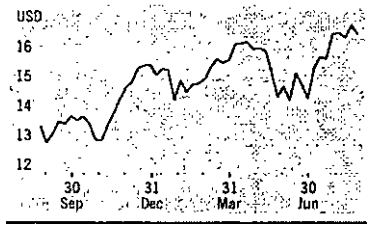
Equity

NIPSCo Gas Rate Case Settlement; Still Waiting on Electric Case

- **Rate Decrease Results in Higher EPS** — NIPSCo Gas, a local gas utility in Indiana reached a broad settlement on its rate case with major customer classes and interveners. A final approval is still needed by the IURC. While it may sound like a paradox, NIPSCo Gas will reduce rates by nearly $15 million; however, because of the adjustment that is made to depreciation (non-cash), we estimate earnings could actually increase by $0.12 per share in 2011. We had expected the net result to be $0.05 per share.
- **Valuation Impact** — Overall the settlement appears NPV neutral, however, current rates are now structured in a manner that make more sense for both the customers and the utility. We expect to see less volatility in earnings through a larger fixed billing component. Depreciation now appears to be aligned with capital expenditures and we estimate rate base will grow at a steady pace through a negotiated adjustment of $25 mm a year over the next four year. NIPSCo does give up the higher D&A expense in rates, which actually causes the overall settlement to be NPV neutral.
- **EPS Impact** — It appears our 2011 EPS estimate may be at least $0.05 per share too low based on this settlement; however, we are currently awaiting the outcome of NIPSCo's electric rate case. We currently expect a modest rate increase. At this point, our estimates remain unchanged pending the outcome of the electric case.

Hold/Medium Risk	2M
Price (24 Aug 10)	US$16.68
Target price	US$17.00
Expected share price return	1.9%
Expected dividend yield	5.5%
Expected total return	**7.4%**
Market Cap	US$4,637M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.63A	0.00A	0.02A	0.35A	1.00A	1.06A
2010E	**0.72A**	**0.10E**	**0.06E**	**0.33E**	**1.21E**	**1.21E**
Previous	0.72A	0.10E	0.06E	0.33E	1.21E	na
2011E	**0.73E**	**0.12E**	**0.07E**	**0.35E**	**1.27E**	**1.27E**
Previous	0.73E	0.12E	0.07E	0.35E	1.27E	na
2012E	**0.78E**	**0.14E**	**0.10E**	**0.38E**	**1.40E**	**1.38E**
Previous	0.78E	0.14E	0.10E	0.38E	1.40E	na

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

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

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NiSource Inc (NI)
25 August 2010

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	12.9	16.6	13.8	13.1	11.9
EV/EBITDA adjusted (x)	9.1	9.9	9.3	9.2	8.9
P/BV (x)	1.0	0.9	1.0	0.9	0.9
Dividend yield (%)	5.5	5.5	5.5	5.5	5.5
Per Share Data (US$)					
EPS adjusted	1.29	1.00	1.21	1.27	1.40
EPS reported	0.29	0.79	1.20	1.27	1.40
BVPS	17.14	17.57	17.53	17.86	18.32
DPS	0.92	0.92	0.92	0.92	0.92
Profit & Loss (US$M)					
Net sales	8,876	6,297	5,953	6,036	6,115
Operating expenses	-7,960	-5,457	-5,048	-5,091	-5,108
EBIT	**917**	**840**	**904**	**944**	**1,007**
Net interest expense	-375	-399	-401	-403	-403
Non-operating/exceptionals	13	19	21	11	4
Pre-tax profit	**555**	**459**	**525**	**553**	**608**
Tax	-199	-183	-189	-199	-219
Extraord./Min.Int./Pref.div.	-277	-59	-1	0	0
Reported net income	**79**	**218**	**334**	**354**	**389**
Adjusted earnings	356	277	335	354	389
Adjusted EBITDA	1,484	1,429	1,501	1,544	1,610
Growth Rates (%)					
Sales	11.3	-29.1	-5.5	1.4	1.3
EBIT adjusted	-7.9	-8.4	7.7	4.4	6.6
EBITDA adjusted	-4.5	-3.7	5.0	2.9	4.3
EPS adjusted	-7.1	-22.4	20.5	5.3	10.0
Cash Flow (US$M)					
Operating cash flow	**588**	**1,905**	**830**	**942**	**974**
Depreciation/amortization	567	589	596	599	603
Net working capital	-483	686	-101	-11	-19
Investing cash flow	**-1,114**	**-655**	**-901**	**-790**	**-790**
Capital expenditure	-970	-777	-845	-790	-790
Acquisitions/disposals	216	6	0	0	0
Financing cash flow	**515**	**-1,000**	**14**	**-256**	**-256**
Borrowings	767	-770	267	0	0
Dividends paid	-252	-253	-255	-256	-256
Change in cash	**-14**	**-4**	**-88**	**-104**	**-72**
Balance Sheet (US$M)					
Total assets	**20,032**	**19,272**	**19,752**	**19,965**	**20,170**
Cash & cash equivalent	307	191	221	221	221
Accounts receivable	1,143	809	845	857	867
Net fixed assets	10,388	10,684	10,957	11,148	11,334
Total liabilities	**15,303**	**14,418**	**14,878**	**14,993**	**15,065**
Accounts payable	693	502	569	574	574
Total Debt	7,577	6,787	7,130	7,233	7,306
Shareholders' funds	**4,729**	**4,854**	**4,874**	**4,972**	**5,105**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	16.7	22.7	25.2	25.6	26.3
ROE adjusted	7.3	5.8	6.9	7.2	7.7
ROIC adjusted	4.6	4.0	4.3	4.4	4.6
Net debt to equity	153.7	135.9	141.7	141.0	138.8
Total debt to capital	61.6	58.3	59.4	59.3	58.9

For further data queries on Citi's full coverage universe please contact CIRA Data Services Americas at CIRADataServicesAmericas@citi.com or +1-212-816-5336

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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 $17 target.

Our NAV yields a value of $16.41. 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. For Millennium pipeline which is not has not yet contracted all of its capacity, we apply a 20% discount to the pipeline multiple.

Our DDM, which incorporates our rate base growth assumptions, values the company at $16.48.

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 13.0x and 13.5x 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 $18.49 and $17.66.

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

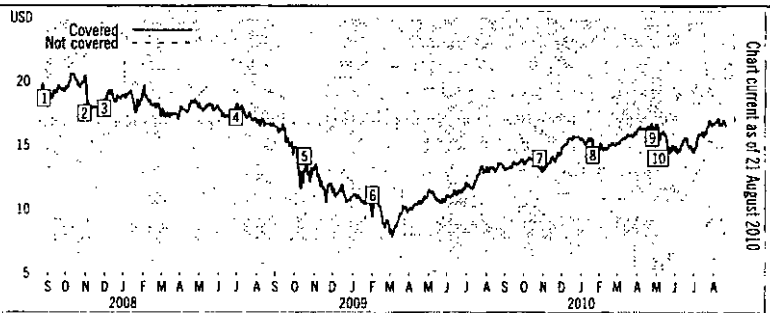
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IMPORTANT DISCLOSURES

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	21-Aug-07	*2M	*21.00	19.12
2	30-Oct-07	2M	*22.00	20.12
3	30-Nov-07	*2H	*21.00	18.51
4	30-Jun-08	2H	*20.00	17.92
5	16-Oct-08	*1H	*15.00	12.91
6	2-Feb-09	1H	*14.00	9.38
7	27-Oct-09	1H	*15.00	13.47
8	20-Jan-10	*2M	*16.00	15.46
9	26-Apr-10	2M	*16.50	16.60
10	5-May-10	2M	*17.00	16.20

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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NiSource Inc (NI)
25 August 2010

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August 25, 2010
ENERGY: Utilities
Estimates Change

KeyBanc
Capital Markets

NiSource, Inc.:

NI: Balanced Settlement in Gas Case; Raising Estimates, Awaiting Electric Order

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Rating	BUY
Price	$16.68
12-Mo. Price Target	$17.00
Dividend	$0.92
Yield	5.5%
52-Wk. Range	$13-$17
Trading Volume	2,888
Market Cap. (mm)	$4,628.7
Shares Out. (mm)	277.50
Book Value/Share	$17.78

Fiscal Year End	December
2011E	$1.30
2010E	$1.25
2009A	$0.99
2011 P/E	12.8x
2010 P/E	13.3x
First Call 2011E	$1.27
First Call 2010E	$1.21

Next Quarter	September
Estimate	$0.06
Vs.	$0.01
First Call Estimate	$0.07

ACTION STATEMENT

On August 24, 2010, NiSource (NI-NYSE) announced a settlement in its pending Indiana natural gas delivery rate case. Signatories include the Office of Utility Consumer Counsel, the Nipsco Industrial Group, the Nipsco Marketer Group and the Citizen Action Coalition. Under the settlement, NI will lower its deprecation rate, which should allow rate base growth during NI's infrastructure capital program. Rates will have a higher fixed cost component, reducing weather variability. NI has agreed to a $14.8 million rate reduction as well as supporting customer programs. We have increased our 2010 and 2011 estimates by $0.05 to $1.25 and $1.30, respectively. We believe our 2011 estimate will prove conservative, but are awaiting the upcoming order in NI's Indiana electric rate case.

KEY INVESTMENT POINTS

NI announced a settlement with major interveners in its pending Indiana natural gas rate case. We view the settlement as balanced with regards to investors and ratepayers.

The settlement accepts NI's new depreciation study, which had proposed a ~$51 million reduction in depreciation expense. Additionally, the settlement calls for $25 million negative amortization of depreciation expense. We believe this reduced depreciation level will allow NI to build its Indiana gas rate base as it spends money on infrastructure reliability in the coming years.

NI has agreed to an overall rate reduction of $14.8 million across all of its customer classes (combined). Additionally, NI will make contributions toward social programs.

The settlement also allows more levelized ratemaking with a higher fixed rate component, which will take a level of volumetric weather sensitivity out of earnings.

We believe on the whole, the settlement could have a positive EPS impact of $0.10 per year through its four-year term. NI has asked for approval timing such that the settlement could take effect November 1, 2010.

We are raising our 2010 estimate from $1.20 to $1.25 given strong results through June 30 and in anticipation of an approval of the settlement, given the support of major parties. We are also raising our 2011 estimate by $0.05 to $1.30 per share. We believe this will prove conservative. However, as we expect that an order will be issued on NI's pending electric rate case today (August 25, 2010), we prefer to leave some allowance for concessions to ratepayers in light of the difficult economy.

VALUATION

Based upon our 2011 estimate, shares trade at the average P/E of the larger regulated subset of companies. However, we do not believe this valuation accounts for the potential to capture $0.20-$0.25 per share of pension costs that should be recoverable from ratepayers after appropriate rate filing. Giving credit for $0.10 of these potential earnings and the group average P/E of 12.2x, we arrive at a $17 price target. We believe the above-average yield balances regulatory risk. This price target represents 13.1x 2011E earnings vs. the current P/E of 12.8x.

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RISKS

We believe the primary risk that could impede the stock from achieving our price target is the pending uncertainty around the Indiana electric rate case, which has been ongoing since August 2008. A negative outcome would not bode well for future rate cases we envision in the coming years.

EPS (Net) Summary

	2009A	%CHG	2010E	%CHG	2011E	%CHG
1Q	$0.63	-10.0%	$0.72A	14.3%	--	--
2Q	$0.00	NM	$0.13A	NM	--	--
3Q	$0.01	0.0%	$0.06	500.0%	--	--
4Q	$0.35	-27.1%	--	--	--	--
YEAR	$0.99	-22.7%	$1.25	26.3%	$1.30	4.0%

Source: KeyBanc Capital Markets Inc. estimates

Company Note
August 25, 2010

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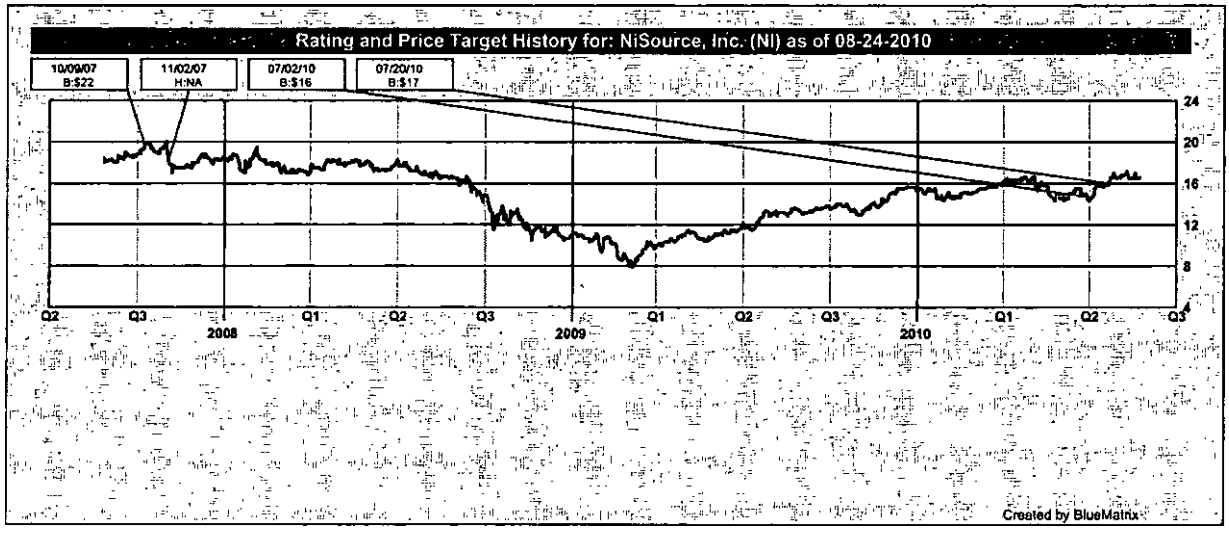
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HOLD [HOLD]	196	50.00	50	25.51	HOLD [HOLD]	33	56.90	21	63.64
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Natural Gas Pipeline
NiSource Inc. (NI)--Market Perform (2)
Price as of 8/25/2010: $16.81
FY 10 EPS: $1.22
FY 11 EPS: $1.27
Shares Out.: 273.1 MM
Market Cap.: $4,590.81 MM
Sector Rating: Natural Gas Pipeline, Market Weight

Last night (8/24), NiSource (NI) announced that Northern Indiana Public Service Company (NIPSCO), the Indiana Office of Utility Consumer Counselor (OUCC) and other key customer stakeholders reached a settlement agreement in NIPSCO's natural gas rate case. Key provisions of the settlement include various funding-related provisions pertaining to the company's low-income energy assistance program, an increase to its fixed monthly residential customer charge, with a corresponding reduction to the volumetric charge, and energy efficiency and conservation programs.

More importantly, the case calls for NIPSCO to reduce rates by roughly $14.8MM per year, which is more than offset by a $51MM reduction in depreciation expense and a $25.7MM per year accumulated depreciation reserve. After netting these items, we estimate that NI achieved its goal of creating more than $40+MM per year in (regulatory) operating earnings or $0.10+ per share in annualized earnings. In addition, NI has asked for an expedited settlement hearing so that rates are effective as soon as November 1, 2010. This is sooner than our year-end effective date expectation; however, we believe that our FY 2010 estimate which is already $0.02 above NI's FY 2010 EPS guidance range of $1.10 to $1.20, properly captures this modest earnings potential upside. Meanwhile, our FY2011 estimate only includes about $0.05 of the NIPSCO gas case and therefore should be revised higher on this positive outcome.

On another note, NIPSCO Electric is scheduled to finally receive its much anticipated rate case outcome tonight (8/25, 4pm ET); we expect the outcome to be neutral but, of course, anything is possible when you're dealing with regulators. We caution investors not to read too much into the headline numbers as it may read as if there will be a large reduction in rates when NIPSCO has already been crediting customer accounts by around $55MM per year since 2002; this case would likely just make these credits permanent, assuming all else equal. Other items in the case should deal with rate design, rate allocation by customer class, and MISO deferrals, among other issues. Once we have had a chance to review the case and talk to the company, we will likely follow-up with additional commentary and analysis, so stay tuned.

Regards,

Jonathan

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2) No part of my compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed by me in this research report.

NI - Rating and Valuation Range Changes

Date	Publication Price	Rating	Valuation Range	Closing Price
08/21/07	NA	MARKET PERFORM	$20-$22	19.12
11/02/07	18.87	MARKET PERFORM	$19-$20	18.63
08/05/08	16.81	MARKET PERFORM	$18-$19	16.93
11/04/08	13.52	MARKET PERFORM	$13-$15	13.52
02/04/09	10.47	MARKET PERFORM	$10-$12	10.63
05/04/09	11.24	MARKET PERFORM	$11-$12	11.48
08/04/09	13.35	MARKET PERFORM	$12-$13	13.35
10/22/09	13.65	MARKET PERFORM	$13-$14	13.69
01/19/10	15.29	MARKET PERFORM	$16-$16	15.52
02/01/10	14.85	MARKET PERFORM	$16-$17	14.85
04/20/10	16.39	MARKET PERFORM	$16-$18	16.46
08/03/10	16.58	MARKET PERFORM	$17-$18	16.58

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Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
O = Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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BARCLAYS CAPITAL

EQUITY RESEARCH

Power & Utilities | U.S. Utilities | 23 July 2010

NISOURCE, INC.

Solid Utility and Gas Infrastructure Story

Yesterday's analyst day was focused on NI's low-risk, regulated utility and gas infrastructure growth strategy: While the analyst day didn't have any big surprises, the company's reiteration of 3-5% in long-term annual EPS growth (after larger incremental increases in 2010-12) and greater detail on the longer-term opportunities for the gas transmission and storage segment (particularly around the Marcellus Shale play) were encouraging.

Rate relief and continued investment in gas infrastructure drive growth: While we believe that much of NI's medium-term EPS growth is relatively easy to capture through rate case proceedings at the gas LDCs and continued investment in gas infrastructure, we are more cautious around the electric utility. NIPSCO electric is still waiting for the final order in its Indiana rate case (filed 8/08) and while the company expects an outcome shortly, we think that there may be some timing risk associated with this case and the second case to be filed this fall (with rates effective for full year '12).

We are updating our estimates and raising our target to $17: We are updating our '10/'11/'12 EPS estimates to $1.20/$1.33/$1.40 from $1.17/$1.30/$1.35 after incorporating the lower cost of the revolver (to be renewed 3/2011), the settlement at Columbia Gas of PA, and higher targeted returns for capital deployed in the gas infrastructure segment. Our price target moves up to $17 on our revised estimates and updated group multiples. Our '10 EPS estimate rests at the high end of the company's guidance range of $1.10-$1.20.

NI: Quarterly and Annual EPS USD

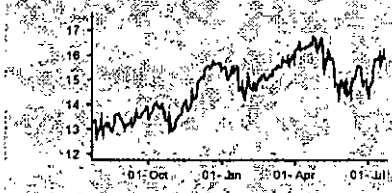
	2009	2010			2011			Change y/y	
FYDec	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	0.62A	0.72A	0.72A	0.72A	N/A	N/A	N/A	16%	N/A
Q2	0.02A	0.13E	0.13E	0.08E	N/A	N/A	N/A	550%	N/A
Q3	0.07A	N/A	N/A	0.05E	N/A	N/A	N/A	N/A	N/A
Q4	0.35A	N/A	N/A	0.36E	N/A	N/A	N/A	N/A	N/A
Year	1.07A	1.17E	1.20E	1.17E	1.30E	1.33E	1.24E	12%	11%
P/E			13.6			12.3			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT Unchanged
Sector View	1-POSITIVE Unchanged
Price Target	USD 17.00 raised 6% from USD 16.00
Price (22-Jul-2010)	USD 16.32
Potential Upside/Downside	+4%
Tickers	NI
Market Cap (USD mn)	4523
Shares Outstanding (mn)	277.13
Free Float (%)	99.12
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	5.8
Return on Equity TTM (%)	5.28
Current BVPS (USD)	17.77

Source: FactSet Fundamentals

Price Performance — Exchange-NYSE
52 Week range — USD 16.80-12.55



Link to Barclays Capital Live for interactive charting

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3.

Meaningful Growth Opportunities in Gas Infrastructure...

The largest takeaway from the analyst day, in our view, was the greater articulation of growth opportunities the company has in its Gas Transmission and Storage segment. The company is targeting more than 20 projects through 2014 that are $900-$950M in total spend. The company is targeting returns on invested capital in the 12-15% range with the broad strategy being focused on generating predictable earnings and cash flow.

...Supported by Consistent Performance at the Gas Utilities

We see few issues that could cause NI's gas utilities to stumble. With decoupling or straight-fixed-variable rate design, uncollectible, pension and OPEB, and infrastructure trackers present in most jurisdictions, the utilities should continue to be able to have a reasonable opportunity to earn their authorized ROEs. In addition, NIPSCO gas is likely to settle their current rate case (the company is requesting a ~$50M reduction/deferral in annual depreciation), which we are modelling to be $25M (~$0.06) incremental in '11.

Price Target Methodology

Our $17 price target is premised upon our '12E EPS of $1.40 and the '12 PE multiple of 11.8x. Our prior $16 price target was premised upon our prior '12E EPS of $1.35 and the '12 PE multiple of 12.0x.

ANALYST(S) CERTIFICATION(S)

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 22-Jul-2010, USD 16.32), 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.

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2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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DTE Energy (DTE)	Duke Energy (DUK)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	NiSource, Inc. (NI)
Northeast Utilities (NU)	NSTAR (NST)	NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
Progress Energy (PGN)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

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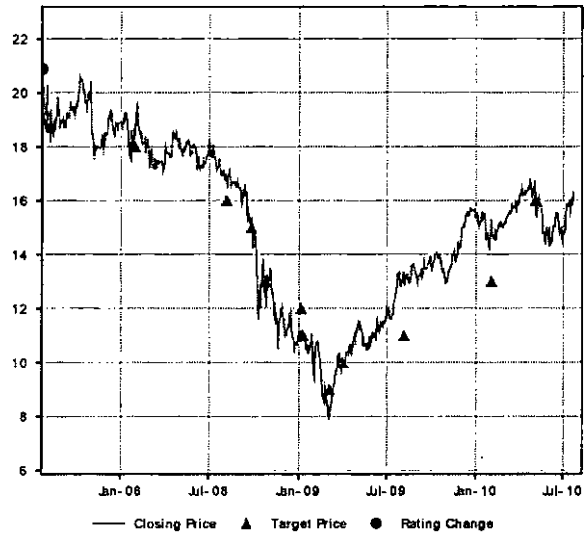
IMPORTANT DISCLOSURES CONTINUED

NiSource, Inc. (NI)

USD 16.32 (22-Jul-2010)

Stock Rating	Sector View
2-EQUAL WEIGHT	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 22-Jul-2010) **Currency=USD**



Date	Closing Price	Rating	Price Target
04-May-2010	16.60		16.00
02-Feb-2010	15.17		13.00
05-Aug-2009	12.97		11.00
01-Apr-2009	9.99		10.00
05-Mar-2009	7.86		9.00
09-Jan-2009	11.08		11.00
05-Jan-2009	11.17		12.00
24-Oct-2008	12.58		13.00
26-Sep-2008	14.98		15.00
05-Aug-2008	16.72		16.00
30-Jan-2008	18.61		18.00
09-Aug-2007	18.89	2-Equal Weight	
24-Jul-2007	21.18	3-Underweight	19.00

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Valuation Methodology: Our $17 price target is premised upon our '12E for EPS of $1.40 and the '12 PE multiple of 11.8x.

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BMO Capital Markets

July 26, 2010

NiSource

(NI-NYSE)

Stock Rating: Market Perform
Industry Rating: Market Perform

North American Pipelines

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The New NI: Lower Risk and More Opportunity

Event

Last week NiSource held its first annual analyst meeting in five years—a coming out party of sorts given the rise to the challenges of that time. While several major hurdles still need to be crossed—namely the regulatory decisions associated with the 2008 and pending 2010 NIPSCO electric rate cases—we came out of the meeting feeling more positive about NI's future growth prospects, and the risks therein, than we did going into it. Key highlights: 1) a regulatory reset in EPS power is underway through 2012 (the NIPSCO decisions being the most critical), 2) secular EPS growth of 3%-5%, more in line with utility norms, seems very achievable to us with the variance related to balance sheet constraints rather than opportunity set (*thus allowing for the possibility of common equity to stimulate growth after the next NIPSCO decision in mid-2011*), and 3) we see lower risk in returns given the utility spend is covered by regulatory trackers already in place.

Impact

Positive

Forecasts

We reiterate our 2010 EPS of $1.18 (weather normalized $1.20, the high end of $1.10-$1.20 guidance), although we are moving higher our 2011 EPS slightly to $1.29 from $1.26, and more materially in 2012 to $1.42 from $1.31. The uplift comes from a greater-than-expected spend on tracker-based programs at the utilities.

Valuation

Our $17 price target is unchanged based on our 2011 outlook. We recognize, however, that as the market eventually shifts to 2012 and regulatory risk is removed, we see upside to the $19 range over the next 18+ months. This lends a more positive bias to our outlook relative to our more heavily cautious bias prior.

Recommendation

Given NI's 8% outperformance to the utility index since July 1 and capital appreciation potential of less than 10%, we maintain a rating of **MARKET PERFORM.**

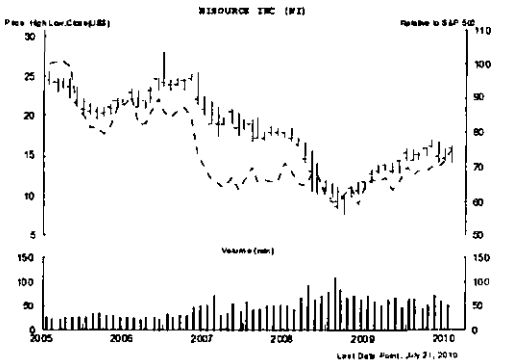
Securities Info

Price (23-Jul)	$16.49	Target Price	$17
52-Wk High/Low	$17/$13	Dividend	$0.92
Mkt Cap (mm)	$4,575	Yield	5.6%
Shs O/S (mm, BASIC)	277.4	Float O/S (mm)	275.2
Options O/S (mm)	na	ADVol (30-day, 000s)	2,925

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
NiSource 6.8% '19	113	Baa3 / BBB-	4.93%	252bp
NiSource 6.4% '18	111	Baa3 / BBB-	4.72%	232bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2008A	2009A	2010E	2011E
EPS Pro Forma	$1.25	$1.01	$1.18	$1.29†
P/E			14.0x	12.8x
First Call Cons.			*$1.16*	*$1.23*
EPS GAAP	$0.29	$0.79	$1.18	$1.29
OCF	$3.87	$4.45	$3.42	$3.65†
P/OCF			4.8x	4.5x
EBITDA ($mm)	$1,503	$1,383	$1,518	$1,563
EV/EBITDA			7.5x	7.2x
Rev. ($mm)	$8,876	$6,299	$5,621	$5,749
EV/Rev			2.0x	2.0x
Quarterly EPS	**1Q**	**2Q**	**3Q**	**4Q**
2009A	$0.63	$0.01	$0.02	$0.35
2010E	$0.72A	$0.08	$0.06	$0.33

Balance Sheet Data (03/31/10)

Net Debt ($mm)	$6,740	Total Debt/EBITDA	4.6x
Total Debt ($mm)	$6,988	EBITDA/IntExp	3.7x
Net Debt/Cap.	138.3%	Price/Book	0.9x

Notes: All values in US$.

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

Changes	Annual EPS	Annual OCF
	2011E $1.26 to $1.29	2011E $3.61 to $3.65

Please refer to pages 8 to 10 for Important Disclosures, including the Analyst's Certification.

Analyst Meeting Update

Last Thursday, NiSource held its first annual analyst meeting in five years—a coming-out party of sorts, given management's successful rise to the challenges over that time. While several major hurdles still need to be crossed, we came out of the analyst meeting feeling more positive about NI's future growth prospects, and the associated risks, than we did going in.

The upshot: there is a fundamental reset of earnings power underway through 2012, largely dependent on the outcome of both the 2008 and pending 2010 NIPSCO electric rate cases (among others). From 2012 forward, we see a sustainable return to secular EPS growth in the 3%-5% range, more in line with utility norms compared with the flat/declining outlook of years past. We see the difference in CAGR as mainly owing to balance sheet constraints and spending limitations rather than to opportunity set. On the latter, NI detailed over $600mm in environmental investment in the electric utility, over $4B of investment in the gas utilities, and over $2B in the pipeline space. While we had a strong appreciation for the latter already, the size of the first two was more surprising to us. And while such utility-related spend will occur over a 10-20 year time frame—thus having only a limited upfront EPS impact—the tracker-based investment creates transparent rate base growth with low-regulatory risk, providing sustainable earnings growth over the long term.

Key take-aways from each of NI's three business units follow.

Electric

- The 2008 NIPSCO electric rate case decision is pending, and we are assuming a neutral outcome, with a partial reallocation/weighting of unit tariffs to the industrial customer (we suspect placing the industrials somewhere around 40% of net revenues, up from 1/3 today, but below the 50% requested based on usage).
- The more important rate case will be the follow-on case NIPSCO will file likely 60 days after receiving the 2008-case decision, with a goal of doing so by September 30. While the company has until October to file and still retain a March 31, 2010 test year, management was clear that even should the test year roll to June 30 (thus picking up more recovery in industrial volumes), it was not expected to have a meaningful impact on the dollars requested to offset the dramatic overall volume decline and pension expense increase, which has occurred since the last 2007 test year. We estimate the actual negative impact to EBIT is ~$100mm ($60mm of which is pension). We have taken a conservative approach by assuming a $100mm rate request which will be settled at 50% (even though NI should be entitled to the whole recovery), with a decision mid 2011. Should NI's 2010 rate case request prove to be well in excess of $100mm—thus increasing the amount of the possible outcome—investors could see upside in both the stock and in 2012 EPS power, but that will remain an uncertainty until a regulatory decision next summer.
- Beyond the regulatory reset of earnings, electric plans to grow levered net income on a secular basis by 3% per annum driven by over $600mm in environmental-related

investments. Earnings recovery should be low risk as the tracker already exists (and will be driven by the capital structure outcome of the 2008 rate case), although we note the planned spend is through 2020, and is somewhat back-end weighted.

Gas Distribution

- Over the last few years, NI has significantly reduced the risk associated with its gas utility earnings by achieving a combination of levelized rates (decoupling) and an assortment of trackers (uncollectible gas cost, infrastructure, pension, etc.) across its seven jurisdictions.
- Over the last three years, NI has deployed $500mm in infrastructure related investment, and at over $4B over the next 20 years, the amount of future tracker-related investment is no small number. Like NIPSCO's environmental spend on its generation, the long-term nature of this may only make for a moderate EPS impact up front, it should generate sustainable earnings growth from this unit in the 3% range over the next 10+ years even with limited customer growth and usage.

Pipeline

- Better to be lucky than good any day of the week, but NI has proven in its execution of growth projects in the Marcellus that it can be both. While the company has been blessed with a majority of its pipeline assets overlying what will become arguably the most prolific gas basin in North America, it has taken a low risk approach by targeting a large number of small projects where it has a regional competitive advantage, versus pursuing large scale infrastructure in a highly competitive market. Since 2007, the company has deployed $450mm in growth capital at a return of 5x EBITDA (compared to 8x-9x typical of large scale pipelines over that time), and sees another $250mm of similar return potential projects. Beyond this, NI sees long-term investment potential of as much as $2B over the next 5 years as it strategically looks to build a giant "header" system—adding storage and new interconnections to both source and send natural gas to new markets, and thus providing new services to both its utility and increasingly producer customer base. NI is targeting long-term growth of 4%-6% from this unit, a goal we think is attainable at least in the near term, although we are more cautious longer term as more fierce competition is expected long term beyond the initial $250mm of low hanging fruit immediately available.
- We see lower overall risk in NI's pipes than we previous thought. With the long-term growth of the Marcellus Shale will also come long-term pressure on Appalachia basis on commodity prices, and thus potentially on pipeline tariffs. NI operates two major pipelines, Columbia Gas in the Northeast, and Columbia Gulf, which transports natural gas from the Gulf of Mexico; it is this latter system which is potentially at risk. While we knew the relative contribution from Gulf had been shrinking since 2005, we note its contribution has fallen to less than 14% of net pipeline revenues, and only 10% of the unit's $400mm in operating EBIT. Consequently, with the added dynamic of utility anchor customers on the system (which are not impacted by geographic basis in their aim to diversify supply), we believe the actual long term EPS risk presented by basis compression to be low.

Exhibit 1: NiSource Valuation

Sum-of-the-Parts Valuation Analysis

	2011E	Valuation Multiple		Notes:
EBITDA by Segment				
Gas Distribution	$825	7.5x	$4,687	
Gas Pipelines	$549	9.0x	$4,945	
Electric	$404	7.0x	$2,830	
Other	$10	5.0x	$51	- Plus pension expense (analogous to interest) risked at 50% (net of NIPSCO recovery)
Value of Operations			$12,513	
Net Debt (year-end 2010E)			($6,996)	
Preferred & Minority Interests			—	
Pension/OPEB Underfunded Obligation	($1,182)	50%	($591)	- Projected 2010 Obligation, assumes partial recovery in rates
Net Equity Value			$4,927	
Diluted Shares Outstanding			277	
$/sh			**$17.80**	
P/E by Segment*				
Gas Distribution	$0.52	12.0x	$6.19	
Gas Pipelines	$0.56	15.0x	$8.33	
Electric	$0.26	11.0x	$2.86	
Other	($0.04)	10.0x	($0.43)	
Consolidated EPS	$1.29	13.2x	$16.95	
*based on EBIT % as proxy				
Average Target Price:			$17.38	
Valuation Summary:				
Current Price			$16.49	
Current Dividend			$0.92	
Appreciation Potential			5.4%	
Current Yield			5.6%	
Total Return Potential			11.0%	

Source: BMO Capital Markets estimates, company data.

Exhibit 2: NiSource (NI) Income Statement

NiSource Inc.

Consolidated Earnings ($ Millions Except Per Share Data)	2005A	2006A	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Operating Revenues:												
Gas Distribution	$4,600	$4,189	$4,447	$5,171	$3,303	$1,340	$566	$337	$1,001	$3,244	$3,533	$3,576
Pipelines & Storage	1,000	1,033	1,090	1,132	1,241	370	213	223	259	1,065	948	952
Electric	1,249	1,299	1,358	1,357	1,213	318	296	325	329	1,269	1,325	1,371
Other	1,050	968	1,045	1,216	542	22	(45)	(44)	110	42	(57)	(58)
Revenues	7,899	7,490	7,940	8,876	6,299	2,051	1,031	841	1,698	5,621	5,749	5,841
Operating Expenses:												
Cost of Sales	4,749	4,365	4,676	5,632	2,978	981	326	134	771	2,212	2,250	2,249
Operation & Maintenance	1,328	1,390	1,468	1,456	1,650	436	371	369	462	1,638	1,677	1,703
DD&A	545	549	559	567	589	150	151	152	152	603	595	595
Loss (gain) on asset sales	22	4	11	8	16	0	0	0	0	0	0	0
Taxes and Other	301	290	303	308	283	86	55	63	75	278	284	289
Total Operating Expenses	6,946	6,598	7,017	7,971	5,516	1,653	902	717	1,459	4,731	4,805	4,836
Operating Income	953	892	923	906	783	398	128	124	239	889	944	1,005
Other:												
Equity In Earnings		(12)	9	12	16	7	5	5	5	22	24	24
Minority Interests	0	0	0	0	0	0	0	0	0	0	0	0
Other	(95)	(7)	(47)	18	(6)	3	0	0	0	3	0	0
Total Other Income	(95)	(20)	(38)	30	10	10	5	5	5	25	24	24
Reported EBIT	**$858**	**$873**	**$885**	**$936**	**$793**	**$408**	**$133**	**$129**	**$244**	**$914**	**$968**	**$1,029**
EBITDA	**$1,403**	**$1,422**	**$1,444**	**$1,503**	**$1,383**	**$558**	**$284**	**$280**	**$396**	**$1,518**	**$1,563**	**$1,625**
EBIT Composition												
Gas Distribution	368	290	333	336	328	235	18	(7)	101	346	387	412
Pipelines & Storage	344	354	370	367	389	126	87	94	111	418	417	426
Electric	739	310	261	219	117	46	36	50	41	173	195	223
Corporate & Other	(593)	(81)	(79)	14	(40)	1	(8)	(8)	(8)	(23)	(32)	(32)
Total EBIT	**$858**	**$873**	**$885**	**$936**	**$793**	**$408**	**$133**	**$129**	**$244**	**$914**	**$968**	**$1,029**
Interest Expense	421	387	401	380	399	99	100	101	100	399	399	400
Preferred Distributions of Subsidiaries	4	1	0	0	0	0	0	0	0	0	0	0
Financing Expense	425	389	401	380	399	99	100	101	100	399	399	400
Income Before Taxes	433	484	484	556	394	309	33	28	145	515	570	629
Income Taxes												
Current	166	295	159	53	(214)	83	8	7	34	132	137	151
Deferred	(17)	(125)	13	132	378	27	4	4	18	54	74	81
Total Income Taxes	149	171	172	186	165	111	12	10	53	186	211	233
Effective Inc. Tax Rate (%)	35%	35%	36%	33%	42%	36%	37%	37%	37%	36%	37%	37%
Net Income From Continuing Operations	284	314	312	370	229	199	21	18	92	330	359	396
Discontinued Operations, net	23	(32)	9	(291)	(12)	0	0	0	0	0	0	0
Change in Accounting	(0)	0	0	0	(0)	0	0	0	0	0	0	0
GAAP Net Income to Common	**$307**	**$282**	**$321**	**$79**	**$218**	**$199**	**$21**	**$18**	**$92**	**$330**	**$359**	**$396**
Adjustments to Core												
Asset Impairment	0	(16)	(3)	0	0	0	0	0	0	0	0	0
Gain (Loss) From Disposal	(11)	2	0	13	(8)	0	0	0	0	0	0	0
Other Non-Recurring Gains (Loss)	(180)	(36)	(16)	13	(40)	0	0	0	0	0	0	0
Total Adjustments	(190)	(50)	(19)	26	(49)	0	0	0	0	0	0	0
Non-GAAP Core Earnings	**$388**	**$346**	**$324**	**$344**	**$278**	**$199**	**$21**	**$18**	**$92**	**$330**	**$359**	**$396**
Shares Outstanding (mm)												
Avg. Diluted Shares Out	273	273	275	275	276	278	278	278	278	278	278	278
Avg. Basic Shares Out	271	273	274	274	275	277	277	277	277	277	277	277
Period-end basic Shares Out	273	274	274	277	276	277	277	277	277	277	277	277
Earnings Per Share (Diluted)												
GAAP EPS	**$1.12**	**$1.04**	**$1.17**	**$0.29**	**$0.79**	**$0.72**	**$0.08**	**$0.06**	**$0.33**	**$1.18**	**$1.29**	**$1.42**
Core EPS	**$1.42**	**$1.27**	**$1.18**	**$1.25**	**$1.01**	**$0.72**	**$0.08**	**$0.06**	**$0.33**	**$1.18**	**$1.29**	**$1.42**
EPS Growth (core)	-11.8%	-10.7%	-7.0%	6.0%	-19.4%	13.7%	1397.6%	320.2%	-6.9%	17.5%	8.7%	10.5%
Dividends												
Cash per share	$0.92	$0.92	$0.92	$0.92	$0.92	$0.23	$0.23	$0.23	$0.23	$0.92	$0.92	$0.92
Payout Ratio (%)	82.0%	88.8%	78.6%	320.7%	116.6%					77.6%	71.4%	64.6%

Source: BMO Capital Markets estimates, Company Data.

Exhibit 3: NiSource (NI) Cash Flow Statement

Cash Flow Statement ($ Millions Except Per Share Data)	2005A	2006A	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Operating Activities												
GAAP Net Income from Cont. Ops	307	282	321	79	218	197	21	18	92	328	359	396
DD&A	545	549	559	567	589	150	151	152	152	603	595	595
Deferred income tax benefit	(17)	(113)	13	132	378	27	4	4	18	54	74	81
Deferred Revenues	(7)	(34)	(39)	(24)	4	(16)	0	0	0	(16)	0	0
Amortization of premium on debt	16	8	7	8	13	0	0	0	0	0	0	0
Less Gain or Loss on assets	0	(1)	11	8	(4)	(0)	0	0	0	(0)	0	0
Less Equity Earnings plus Cash Distributions	(5)	8	(14)	(25)	(15)	(7)	(3)	(3)	(3)	(15)	(12)	(12)
Other non-cash income items	111	(1)	43	321	36	(4)	0	0	0	(4)	0	0
OCF (pre-working capital)	**$952**	**$699**	**$902**	**$1,065**	**$1,219**	**$347**	**$174**	**$170**	**$259**	**$950**	**$1,015**	**$1,061**
OCF per share	**$3.49**	**$2.55**	**$3.28**	**$3.87**	**$4.42**	**$1.25**	**$0.62**	**$0.61**	**$0.93**	**$3.42**	**$3.65**	**$3.81**
Working Capital:												
Accounts and notes receivable	(359)	408	(3)	(206)	259	(138)				(138)	0	0
Inventory	(71)	(72)	94	(82)	129	333				333	0	0
Less Change of Price Risk Management Activities	(43)	0	0	0	0	0				0	0	0
Accounts payable	206	(176)	(65)	(27)	(192)	(103)				(103)	0	0
Customer deposit, net	10	6	6	15	25	(125)				(125)	0	0
Other assets	34	381	(128)	(237)	83	(176)				(176)	0	0
Other Liabilities	2	(123)	(39)	40	382	(24)	(100)	(200)	500	177	0	0
Changes in Working Capital	(223)	424	(135)	(499)	686	(233)	(100)	(200)	500	(33)	0	0
Discontinued Operations	(17)	37	(9)	(2)	(255)	(31)	0	0	0	(31)	0	0
Cash Flow From Operations	712	1,159	757	564	1,651	83	74	(30)	759	886	1,015	1,061
Investing Activities												
Capital Spending (to PP&E)	(590)	(640)	(788)	(970)	(777)	(139)	(225)	(225)	(225)	(814)	(910)	(910)
Purchases of equity investments	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	(330)	0	0	0	0	0	0	0	0
Proceeds from asset sales	8	22	4	48	6	0	0	0	0	0	0	0
Other	11	(117)	103	(238)	109	(56)	0	0	0	0	0	0
Cash Used in Investing	(572)	(735)	(681)	(1,490)	(662)	(195)	(225)	(225)	(225)	(814)	(910)	(910)
Discontinued Operations	(0)	0	0	397	8	0	0	0	0	0	0	0
Investing Cash Flow	(572)	(735)	(681)	(1,093)	(655)	(195)	(225)	(225)	(225)	(814)	(910)	(910)
Financing Activities												
Sale of Common Stock	40	22	8	1	26	4	0	0	0	4	0	0
Sale of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0
Sale of L.T. Debt	1,908	1	804	959	1,460	0	0	0	750	750	0	0
Redemption of Common Stock	(2)	(6)	(2)	0	(3)	(1)	0	0	0	(1)	0	0
Redemption of Preferred Stock	0	(81)	0	0	0	0	0	0	0	0	0	0
Redemption of L.T. Debt	(2,373)	(439)	(499)	(295)	(1,170)	(1)	0	0	(682)	(683)	0	0
Change in Notes Payable, LC, ST Debt	590	295	(132)	103	(1,061)	268	200	250	(500)	218	25	100
Payments to Minority Interests	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	(250)	(252)	(252)	(252)	(253)	(64)	(59)	(59)	(59)	(240)	(235)	(235)
Other	(14)	0	0	0	0	0	0	0	0	0	0	0
Cash From (For) Financing	(100)	(460)	(73)	516	(1,000)	205	141	191	(491)	46	(210)	(135)
Discontinued Operations	0	0	0	(1)	0	0	0	0	0	0	0	0
Financing Cash Flow	(100)	(460)	(73)	515	(1,000)	205	141	191	(491)	46	(210)	(135)
Change in Cash	$40	($36)	$3	($14)	($4)	$94	($10)	($64)	$43	$119	($105)	$16
Cash & Temp. Inv. Beginning of Yr.	$30	$69	$33	$35	$21	$16	$110	$100	$36	$16	$136	$31
Cash & Temp. Inv. End of Yr.	$69	$33	$36	$21	$16	$110	$100	$36	$80	$136	$31	$47

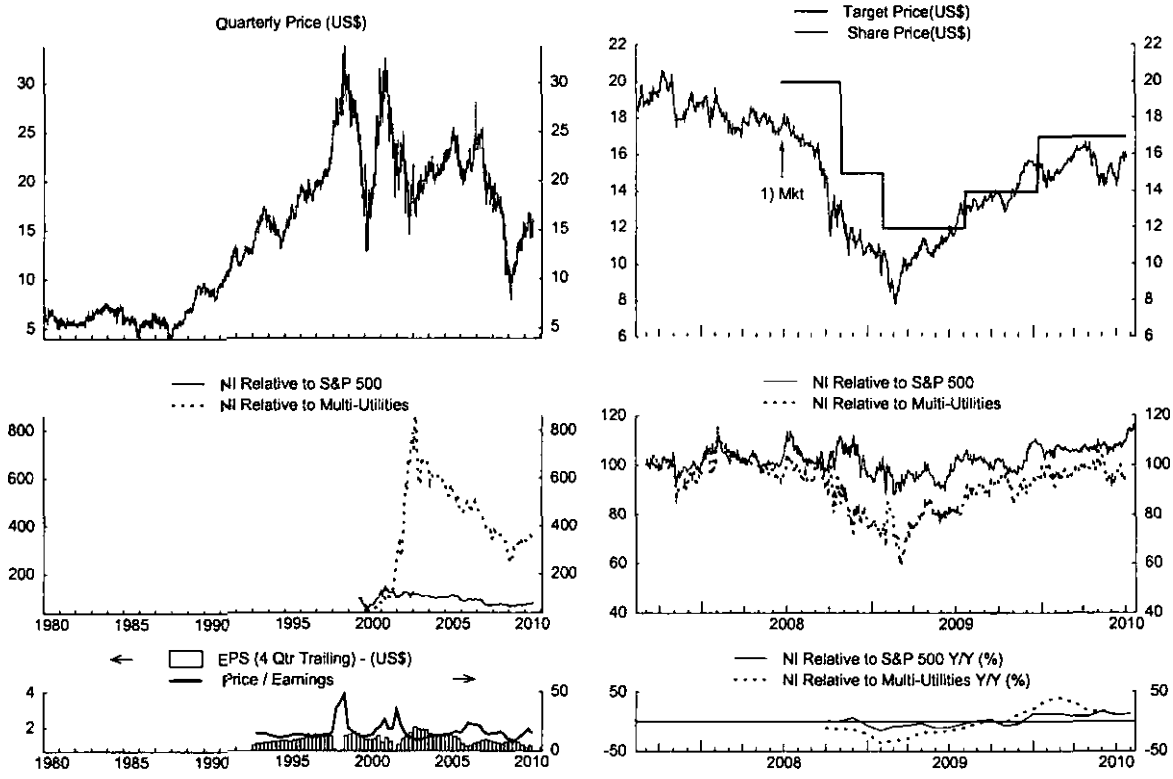
Source: BMO Capital Markets estimates, Company Data.

Exhibit 4: NiSource (NI) Balance Sheet

Balance Sheet ($ Millions Except Per Share Data)	2005A	2006A	2007A	2008A	2009A	Q1	Q2	Q3	Q4	2010E	2011E	2012E
Assets:												
Cash & Equivalent	69	33	36	21	16	111	100	36	80	80	31	47
Restricted Cash	34	143	59	287	175	221	221	221	221	221	221	221
Receivables	1,323	908	974	1,188	848	1,019	1,019	1,019	1,019	1,019	1,019	1,019
Allowance for Uncollectable Acts.	(68)	(42)	(38)	(45)	(40)	(69)	(69)	(69)	(69)	(69)	(69)	(69)
Unbilled Revenues	0	0	0	0	0	0	0	0	0	0	0	0
Underrecovered gas & fuel costs	422	163	162	180	40	114	114	114	114	114	114	114
Inventories	624	703	605	671	385	230	230	230	230	230	230	230
ST Assets Price Risk Management	183	238	102	150	173	190	190	190	190	190	190	190
Regulatory Assets	195	273	218	315	238	170	170	170	170	170	170	170
Other Current Assets	279	364	337	645	387	212	212	212	212	212	212	212
Total Current Assets	3,061	2,783	2,455	3,411	2,224	2,197	2,187	2,123	2,166	2,166	2,117	2,133
Plant & Equipment (Gross)	17,111	17,545	17,882	18,469	19,038	19,141	19,366	19,591	19,816	19,816	20,726	21,636
Accumulated DD&A	(7,557)	(7,850)	(7,851)	(8,081)	(8,354)	(8,444)	(8,594)	(8,746)	(8,897)	(8,897)	(9,492)	(10,087)
Plant & Equipment, Net	9,554	9,695	10,032	10,388	10,684	10,697	10,772	10,845	10,919	10,919	11,234	11,549
Investments	224	219	231	205	295	309	309	309	309	309	309	309
LT Assets Price Risk Management	193	50	25	201	238	271	271	271	271	271	271	271
Regulatory Assets	586	1,127	881	1,640	1,644	1,720	1,720	1,720	1,720	1,720	1,720	1,720
Goodwill	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677	3,677
Intangible Assets	496	436	422	331	320	317	317	317	317	317	317	317
Other Long Term Assets (& flywheel)	167	170	281	180	53	163	216	368	(179)	(104)	(148)	(136)
Total Assets	17,959	18,157	18,005	20,032	19,134	19,352	19,468	19,631	19,200	19,275	19,497	19,840
Liabilities & Equity:												
Short Term Debt	1,339	1,286	1,095	1,633	800	1,094	1,294	1,544	1,044	1,044	1,069	1,169
Accounts Payables	867	713	720	693	502	407	407	407	407	407	407	407
ST Liabilities Price Risk Management	72	259	80	287	190	211	211	211	211	211	211	211
Regulatory Liabilities	46	41	90	40	44	52	52	52	52	52	52	52
Other	1,519	1,522	1,408	1,930	1,575	1,234	1,234	1,234	1,234	1,234	1,234	1,234
Total Current Liab	3,843	3,821	3,393	4,583	3,111	2,997	3,197	3,447	2,947	2,947	2,972	3,072
Long Term Debt	5,271	5,146	5,594	5,944	5,988	5,964	5,964	5,964	6,032	6,032	6,032	6,032
LT Liabilities Price Risk Management	22	38	2	189	170	201	201	201	201	201	201	201
Accumulated Deferred Taxes	1,592	1,554	1,563	1,550	2,018	2,053	2,058	2,061	2,080	2,080	2,153	2,235
Regulatory Liabilities	1,196	1,254	1,353	1,386	1,559	1,571	1,571	1,571	1,571	1,571	1,571	1,571
Other Liabilities	1,020	1,330	1,023	1,652	1,572	1,636	1,636	1,636	1,636	1,636	1,636	1,636
Total Liabilities	12,944	13,143	12,928	15,303	14,418	14,423	14,627	14,881	14,467	14,467	14,565	14,747
Preferred Equity/Securities of Consolidated Subsidiaries	81	0	0	0	0	0	0	0	0	0	0	0
Common Equity	4,933	5,014	5,077	4,729	4,717	4,929	4,841	4,750	4,733	4,808	4,932	5,093
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total Liab & Equity	17,959	18,157	18,005	20,032	19,134	19,352	19,468	19,631	19,200	19,275	19,497	19,840

Source: BMO Capital Markets estimates, Company Data.

NISOURCE INC (NI)



NI - Rating as of 9-Aug-07 = NR

	Date	Rating Change	Share Price
1	26-Jun-08	NR to Mkt	$17.57

Last Daily Data Point: July 21, 2010

Important Disclosures

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Company Specific Disclosure

Methodology and Risks to Our Price Target/Valuation

Methodology: Our target price for NI is based on a sum-of-the parts valuation. We individually value each one of NI's business segments using a target EV/EBITDA multiple approach. Our target multiple for each segment is derived from analyzing historical multiple trading ranges, peer multiples, and adjusting for any expectation of future changes in investor sentiment, which would lead to multiple expansion/contraction. We next add together the segment valuations to reach an operating enterprise value, which is then adjusted for net debt, off-balance sheet items, operating leases, pension costs, and any other non-operating obligations. After adjustments, we then have our net equity value, which is divided by fully diluted shares outstanding to arrive at our target price.

Risks: Risks to our 12-month price target for NI include: 1) Conservation - conservation and bad debt expense from high commodity prices could impact earnings more than the base level we have accounted for; 2) Weather; 3) Interest rates; 4) Regulatory risk - rulings counter to assumptions and guidance could negatively impact our valuations going forward.

Distribution of Ratings (June 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.1%	13.7%	43.6%	40.9%	51.0%	54.4%
Hold	Market Perform	59.3%	10.4%	52.7%	54.8%	45.4%	40.2%
Sell	Underperform	3.6%	11.8%	3.6%	4.3%	3.6%	5.4%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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OP = Outperform - Forecast to outperform the market;
Mkt = Market Perform - Forecast to perform roughly in line with the market;
Und = Underperform - Forecast to underperform the market;
(S) = speculative investment;
NR = No rating at this time;
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July 20, 2010
ENERGY: Utilities
Price Target Change

KeyBanc
Capital Markets

NiSource, Inc.:

NI: Preview of Analyst Day

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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Rating	BUY
Price	$15.93
12-Mo. Price Target	$17.00
Dividend	$0.92
Yield	5.8%
52-Wk. Range	$13-$17
Trading Volume	3,088
Market Cap. (mm)	$4,420.6
Shares Out. (mm)	277.50
Book Value/Share	$17.78
Fiscal Year End	December
2011E	$1.25
2010E	$1.20
2009A	$0.99
2011 P/E	12.7x
2010 P/E	13.3x
First Call 2011E	$1.24
First Call 2010E	$1.17
Next Quarter	June
Estimate	$0.13
Vs.	$0.00
First Call Estimate	$0.08

ACTION STATEMENT

We expect NiSource's (NI-NYSE) analyst day on July 22 to be well received by investors. We expect management to give a regulatory overview and highlight the earnings opportunity around addressing Indiana regulation, which would be on top of an underlying 3-5% growth trajectory related to capital deployment. We look for management to give incremental detail on its strategy of leveraging its existing presence and relationships to make infrastructure investments in the Marcellus shale region.

KEY INVESTMENT POINTS

On July 22, NI will host an analyst day in New York City to update investors on regulatory items and investment opportunities in the natural gas delivery segments and the pipeline and storage segment.

We expect the presentation to be well received, as management outlines growth drivers we expect to deliver 3-5% earnings growth beyond an earnings step-up we anticipate as underearning is addressed at the regulated Indiana electric utility, NIPSCO Electric.

At the LDC segment, regulatory trackers offer the opportunity to generate earnings growth as NI deploys capital to upgrade an aging infrastructure system without the need for frequent rate cases.

At the Gas Transmission and Storage segment, we expect NI will discuss a strategy to build upon its presence and relationships in the Marcellus by investment in smaller, higher return investments with initial investment upstream, and moving further downstream over a period of three to five years.

With recent multiple expansion within the group, we have updated our price target on NI shares to $17 from $16. Shares have outperformed the UTY index by 3.6% since our July 2 upgrade.

VALUATION

Based upon our 2011 estimate, shares trade at the average P/E of the larger regulated subset of companies. However, we do not believe this valuation accounts for the potential to capture $0.20-$0.25 per share of pension costs that should be recoverable from ratepayers after appropriate rate filing. Giving credit for $0.10 of these potential earnings and the group average P/E of 12.7x, we arrive at a $17 price target. We believe the above-average yield balances regulatory risk. This price target represents 13.6x 2011E earnings. We have raised our price target from $16 to reflect multiple expansion within NI's peer group.

RISKS

We believe the primary risk that could impede the stock from achieving our price target is the pending uncertainty around the Indiana electric rate case, which has been ongoing since August 2008. A negative outcome would not bode well for future rate cases we envision in the coming years.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 3 - 4 OF THIS NOTE.

DISCUSSION

On July 22, NI will be hosting an analyst meeting to provide a business update to investors. We expect NI to discuss strategies along three lines of discussion, as outlined below:

Regulatory Update in Indiana – Unfortunately, the Indiana Utility Regulatory Commission has not yet issued an order in the pending electric rate case, and one may not be issued before NI's meeting. Therefore, management may not be in a position to discuss salient points surrounding the order. We continue to believe that the ultimate order will have little rate impact, but that NI will file a new rate case to address underearning brought on by the dual impacts of higher pension costs and reduced load not reflected in the test year of the pending case. We believe NI is currently earning on the order of a 6-7% ROE at NIPSCO Electric. We expect each 100 bps of ROE improvement could benefit earnings per share by $0.04-$0.05, offering a decent growth opportunity in overall earnings (before growth capital is deployed). NI also has a pending Indiana natural gas rate case. We believe this case is not controversial and could be ripe for settlement. NI is seeking to bring depreciation rates lower and more in line with capex. Because this has no immediate revenues, we believe the case is not controversial and could be settled in the near term. In our view, the upside from such a settlement could be up to $0.10 per share.

Regulated Gas Distribution – NI has put in place constructive regulatory mechanisms to recover investment in rebuilding its aging infrastructure. NI has mechanisms in place in most of its jurisdictions except Pennsylvania, which will require legislation before any such tracking mechanism could be implemented. We view these trackers favorably as they allow timely recovery of and return on investment without the lag and potential risk of frequent rate cases. This program could run 20 plus years, given that NI is in large part rebuilding distribution systems to improve reliability and safety. We believe that the duration of the project allows flexibility in the timing of capital deployment in the event that other investment opportunities could arise that offer better returns, but could be more time sensitive.

Natural Gas Transmission & Storage – We expect NI to pursue increased investment to build out Marcellus infrastructure, given overlap of existing assets and relationships with parties involved in developing the play. With meaningful competition expected for larger capital projects, we expect that NI will likely focus on smaller upstream projects, with an initial focus on gathering and processing, and getting gas to local markets. As relationships are strengthened, NI could move its investment further downstream toward storage and transmission. We expect NI would focus on projects that operate under negotiated rates, which tend to be more attractive than rates set by FERC. We would not expect NI to deploy capital without contracts with creditworthy counterparts.

Financing – We believe with NI's credit still being closely monitored by the agencies, the Company will be protective of its balance sheet. Any sizable investment in the Marcellus is likely to require external equity. We believe investors will be supportive of investment with favorable returns on contracted projects, which could offer favorable risk/reward dynamics.

EPS (Net) Summary

	2009A	%CHG	2010E	%CHG	2011E	%CHG
1Q	$0.63	-10.0%	$0.72A	14.3%	--	--
2Q	$0.00	NM	$0.13	NM	--	--
3Q	$0.01	0.0%	--	--	--	--
4Q	$0.35	-27.1%				
YEAR	$0.99	-22.7%	$1.20	21.2%	$1.25	4.2%

Source: KeyBanc Capital Markets Inc. estimates

Company Note
July 20, 2010

KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

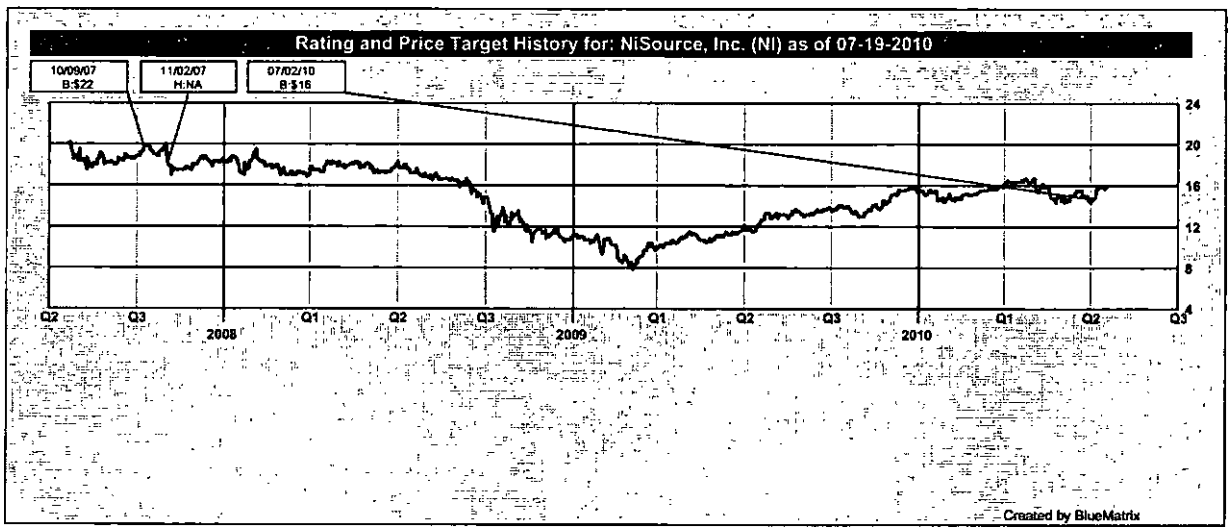
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Three-Year Rating and Price Target History



Rating Disclosures

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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]	191	48.70	45	23.56	BUY [BUY]	25	43.10	11	44.00
HOLD [HOLD]	193	49.20	52	26.94	HOLD [HOLD]	33	56.90	22	66.67
SELL [UND]	8	2.00	1	12.50	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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WUNDERLICH SECURITIES

Energy: Utilities/Power

NISOURCE INC. (NI: 16.49)

July 26, 2010

Raising Price Target
Rating: Hold
Price Target: Old - $14.00; New - $15.50

Market Data	
12-18 Month Price Target	$15.50
52-Week Range	16.80 - 12.55
ADTV - 90Day (MM)	3,132.6
Market Cap ($MM)	4,575.0
Shares Out (MM)	276.6
Public Market Float (MM)	275.2
Dividend	0.92
Dividend/Yield	5.58%

EPS ($)					
FY DEC	2009	2010		2011	
	Actual	Previous	Current	Previous	Current
Q1	$0.62A	–	$0.70A	–	–
Q2	$0.02A	$0.04	$0.11E	–	–
Q3	$0.07A	–	$0.02E	–	–
Q4	$0.35A	–	$0.35E	–	–
YEAR	$1.07A	$1.10	$1.17E	$1.15	$1.22E

Valuation Ratio			
	FY09	FY10	FY11
P/E	15.4x	14.1x	13.5x
PEG	3.9x	3.5x	3.4x
EV/S	1.7x	1.7x	1.7x
EV/EBITDA	7.9x	7.5x	7.4x
Leverage Ratio	4.6x	4.5x	4.5x
FCF Yield	19.4%	1.8%	2.4%
P/FCF	5.1x	55.1x	41.5x

Financial Data			
	FY09	FY10	FY11
Revenue	6,649.4A	6,746.2E	6,860.9E
EBIT	$881.0A	$928.4E	$955.4E
EBITDA	1,470.0A	1,529.2E	1,568.2E
FCF(Mil)	$889.0A	$83.0E	$110.2E
Debt/Capital	58.3%A	58.5%E	58.2%E
BV/Share	$17.34A	$17.49E	$17.96E
CapEx	777.2A	900.0E	900.0E

Balance Sheet			
	FY09	FY10	FY11
PPE	$10,683.9A	$10,983.1E	$11,270.3E
Total Assets	$19,271.7A	$19,637.1E	$19,966.0E
Total Debt	$6,787.4A	$6,937.4E	$7,012.4E
Long Term Debt	5,965.1A	6,115.1E	6,190.2E
Total SOE and Liab.	$19,271.7A	$19,637.1E	$19,966.0E

Analyst Meeting Highlights Recovery, But Valuation Remains Fair; Maintain Hold

Summary

Nisource (NI) made a compelling case at its analyst meeting last week for the earnings recovery it's experiencing, and the investment opportunities it has as a result of its gas infrastructure asset base over the developing Marcellus shale region. However, the company was unexpectedly vague about its financing plans, which likely include some equity as the capital spending rises to meet the various environmental and natural gas infrastructure investment opportunities. This along with the uncertainty over the Indiana rate case, and the premium multiple on our revised '12 EPS estimate leaves us with a Hold rating on the stock. We are increasing our earnings estimates and target for the stock.

Key Points

- **Clarity on financing plan is preferable.** NI made a good case for the earnings recovery the company is experiencing, but the rising capital budget likely requires some equity. With the attractive returns management was suggesting, we expect the equity could be accretive to long-term value, but management would only admit that financing plans were being considered. With only an MLP or straight common as likely equity alternatives, we believe NI could have been clearer on this point. NI suggested the MLP option is on the "back burner".
- **Attractive investment opportunities exist.** NI's Columbia gas assets are located directly over the Marcellus shale formation. This provides NI's gas pipeline operations with investment opportunities in gas infrastructure, like gathering pipe and gas headers, among other things. NI is well positioned for this opportunity, in our view, but capital spending has been ramping slowly. With financial risk declining as cash flow improves, this could accelerate, but will likely require equity financing to support these efforts.
- **Indiana rate case outcome remains uncertain, with another to follow.** NI's 2008 electric rate case in Indiana is still pending. Although a decision is expected in 3Q, the case has been pending for almost 24 months. As NI needs to file another Indiana electric rate case immediately upon completion of the pending case, this uncertainty is likely to continue. We are assuming a $35 million rate increase in the pending case -- filed in August of 2008, NI is requesting an $85.7 million increase.
- **Increase earnings estimates over forecast horizon.** We are increasing our 2010, 2011, and 2012 earnings estimates for NI. Our 2010 EPS estimate is $1.17, up from $1.10. Our 2011 estimate is $1.22, up from $1.15. Our 2012 estimate is $1.30, up from $1.25 previously. NI will report 2Q earnings on Tuesday, August 3. NI maintained its 2010 EPS guidance of $1.10-$1.20 at the analyst meeting.
- **Increase target price; maintain Hold, but becomes our best yield idea.** We are increasing our target price on NI to $15.50 per share, from $14.00 previously to reflect our higher earnings and cash flow estimates, based on a sector average '12 P/E. However, we are maintaining our Hold rating on the stock. For investors seeking current income, we find NI's 5.6% yield attractive and secure. Additional earnings growth is likely required before dividend growth resumes.

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

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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 07/23/10.

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

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	114	66.70	14	12.28
Hold -rated	56	32.70	5	8.93
Sell -rated	1	0.60	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.*

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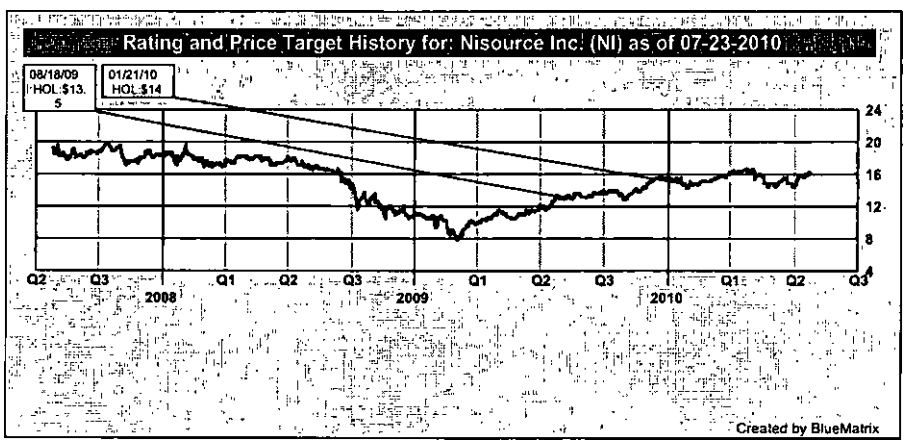
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